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I. Specialty Liability Insurance

A. Directors and Officers (D & O) of corporations need liability coverage insurance because they can be sued as individuals by the stockholders. The coverage is necessary because general liability coverage of the business will **not** cover their personal liability and personal liability will **not** cover their exposure related to business activity.

- D & O insurance is written on a ***claims-made basis***. The insuring agreement covers the directors and officers of the insured corporation for their personal liability that results from a ***"wrongful act"* as directors or officers.**
- **D & O coverage is similar to *personal injury liability coverage*. D & O policies exclude bodily injury and damage to tangible property** (covered under General Liability contracts).

B. Professionals such as doctors lawyers, insurance agents, accountants, etc., are held to a higher standard of performance because of their education and skills. Professional *recommendations* expose the professional to lawsuits for errors and/or omissions to clients or to an insured.

- This is called ***Malpractice Insurance*** for medical professionals or called ***Errors and Omissions Insurance*** for other professionals.
- Most professional liability policies today are written on a "**claims made**" basis. **Claims made** coverage obligates the carrier of the policy in effect when a claim is made to cover the claim even if the negligent act or error occurred many years before.
- Most professional liability policies provide for the ***consent of the insured before the settlement* of a claim.**
- **Professional liability insurance** *covers the liability of rendering or failing to render professional services*. It does not cover fraudulent, dishonest, or criminal acts.

C. Employment Practices Liability Insurance (EPLI) is a recent form of *personal injury liability insurance*. It provides protection for an employer against claims made by employees, former employees, or potential employees.

It covers discrimination (age, sex, race, disability, etc.), wrongful termination of employment, sexual harassment, and other employment-related allegations. It covers the company, including its Directors and Officers. This is a type of ***Personal Injury*** coverage.

D. Employee Benefits Liability Insurance (EBLI) - The employer may be liable for an error or omission in the administration of an employee benefit program, such as failure to advise employees of benefit programs. This exposure, or ***personal injury***, is NOT covered by the General Liability policy. Coverage of this employer exposure is usually provided by the Employee Benefits Liability Policy or by an Employee Benefits Liability endorsement to the General Liability policy.

E. Cyber Liability and Network Protection Insurance - Network Security Insurance (sometimes referred to as Cyber Liability or Internet Liability) has been available since nearly the turn of the 21st century. It was created to protect companies where technologies and the internet play a significant role in basic day-to-day operations. Such as having a network connected to the internet or a website, using e-mails for communications, storing private customer data on your computers, and/or holding files with personal information on your employees and customers.

Most companies carry a general liability policy, coverage protecting against suits from third parties alleging bodily injury or property damage. The growing dependence upon the internet has given rise to incredibly significant loss potentials related to privacy, intellectual property, network security, and digital content disputes. These claims involve economic losses, not bodily injury. Traditional insurance policies do not provide sufficient coverage concerning network liability, failure to protect, or wrongful disclosure of, personally identifiable information and therefore, specific Cyber Liability policies should be considered as part of a comprehensive risk management program.

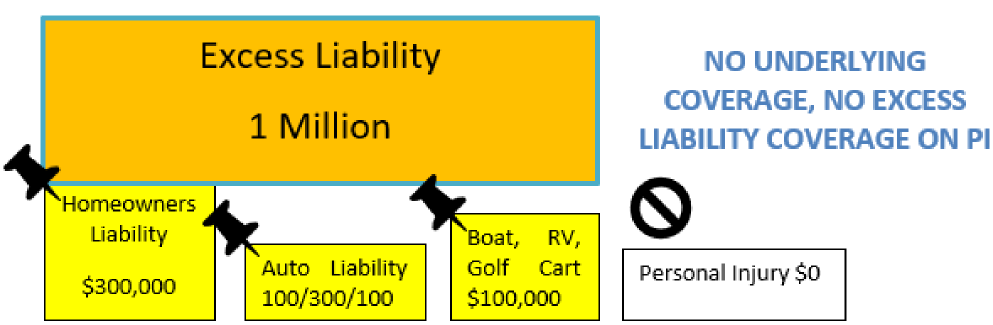
II. Personal, Commercial Umbrella, and Excess Policies

A. An Excess Liability Policy offers coverage over and above the limits of an underlying personal insurance policy. The common limit is $1,000,000. The underlying limits can be requested to be 300/500/100 for car policies and $300,000 for homeowner policies by the carrier.

If the loss is covered under the underlying policy, then this **excess** policy is "triggered" when the underlying limits have been exhausted. If the loss is not covered under the underlying policy, then there is no coverage. ***A straight excess policy tracks the primary insurance policy in all respects such as coverage, conditions, definitions, exclusions, etc***.

Excess Liability Example: John rents a large van to move his furniture to a new house. He runs into a car causing $400,000 in injuries and damage. His auto policy does not cover vans of the size he was driving, and he did not purchase the optional insurance offered by the rental store. Therefore, he has no coverage under this excess policy.

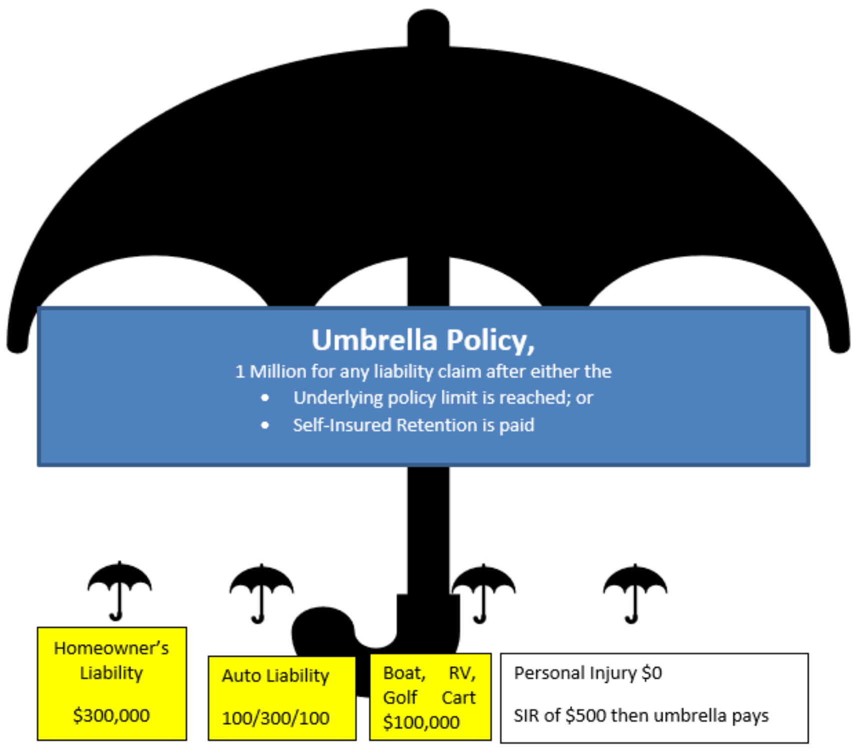
Excel Liability Example: John is driving to work and swerves to avoid a squirrel, not realizing another car had just turned onto the street. This results in a head-on collision that John is liable for. His auto policy will pay until the limits are exhausted, then the excess liability kicks in and covers the balance until the judgment is paid out or the policy limit has been met.



B. A Personal Umbrella Policy gives an individual greater protection against liability than that afforded by their homeowner or auto policy. Umbrella liability policies offer higher limits, usually $1,000,000 or higher, as well as expanded coverage. At the time of purchase, the insured must identify any underlying liability coverage he has. The umbrella is coverage over and above those underlying limits.

Personal Umbrella Example: *Harriet is ordered to pay $450,000 to a man permanently injured when her dog crashed through her screened-in porch as the man approached the house to make a delivery. Her homeowner policy will pay the underlying limit of $300,000. The balance of $150,000 will be paid by the umbrella policy.*

Personal Umbrella Example: *John rents a large van to move his furniture to a new house. He runs into a car causing $400,000 in injuries and damage. His auto policy does not cover vans of the size he was driving, and he did not purchase the optional insurance offered by the rental store. John pays his deductible (SIR) and the umbrella policy pays until the judgment is satisfied or the policy limits have been met.*



C. Self-Insured Retention… When an umbrella policy provides coverage for circumstances that are excluded by an underlying policy (such as Personal Injury under a Homeowner policy), the insured pays a selected **retention limit**, typically between $250 and $10,000, ***which acts like a deductible, and the insurance company pays the loss over that amount.***

D. Commercial Umbrella Liability coverage is the same as the personal umbrella and personal excess policy but used for business exposures. Umbrellas are written to provide insurance on an excess basis, above the underlying insurance or self-insured retention. Usually, commercial umbrella forms provide a minimum of one million dollars of insurance, but they are frequently written with limits of $10 - $50 million or more.

- There must be an underlying policy providing commercial liability coverage. The Umbrella Policy pays ***after the underlying limit has been used***.
- **Self-Insured Retention** in an Umbrella Policy is the deductible that the insured will pay when the ***underlying policy will not cover the loss*** but the Umbrella will.
- **Straight Excess Liability** policies ***only pay if the underlying policy covers the loss***.

E. **Duty to Defend** A supplemental coverage at no additional charge, the liability policy includes the duty to defend. It is the obligation of the insurance company to provide an insured with defense made to claims arising under a policy. It covers all legal costs relating to a lawsuit against covered items in the policy, this does not infer the obligation to pay. Duty to defend may **end** when the company has paid out the limit of the policy through judgments or settlements.

III. Surety Contracts

Surety and Fidelity Bonds (a.k.a. Suretyship)… Suretyship is the means by which one person or entity, the ***surety*** (a.k.a. guarantor), guarantees another entity, the ***obligee***, that a third entity, the ***principal (obligor)***, <u>will do or will NOT do something</u>.

E.g., I need a new roof (the obligee is me). The roofing company will have a bond to ensure the completion of the job. If the roofing company (the obligor) does not complete the job the company that issued the bond (the guarantor) will pay another company to complete the work. They will then subrogate to the original company to be reimbursed for what they paid.

1. Difference Between Suretyship and Insurance:

- Bonds are contracts between **three** parties; insurance is between **two** parties (the insured is the first party and the insurer is the second party).
- **<u>Subrogation rights</u>**:
  - Sureties can go after the principal to recover any losses. *For example, a parent may co-sign a loan for a child. The bank can go to the parent for payment if the child misses one.*
  - Insurance companies <u>cannot</u> go after the insured for recovery of paid losses. *For example, if Travelers pays a liability claim to the third party because of the insured's negligent act, Travelers cannot sue the insured for recovery of the amount paid to the claimant.*
- Insurance protects <u>items</u> against covered perils. It covers the present. Surety protects the promise of <u>actions</u> to be completed. It covers the future.
- *For example, Miss Janie owns a home. There is covered damage to the roof from fireworks. Insurance was paid out to fix the roof. The company that performed the work needed a bond promising Miss Janie that the work would be completed. This situation utilizes both insurance and suretyship.*

2. Three Parties to the Contract of Suretyship:

- **The <u>Principal</u>** (a.k.a. Obligor) - the person or business on whom the bond is written and whose performance is guaranteed.
- **The <u>Surety</u> (Guarantor) -** the party that guarantees the performance or faithfulness of another.
- **The <u>Obligee</u>** - the person or business who is protected by the bond. The obligee under a bond is the same as the insured under an insurance contract. In the case of a construction bond, the person for whom the building is being built is the obligee, and the builder is the principal.

A. A Surety Bond *guarantees* that the principal ***will do something***. For example, a **Contract Bond** guarantees the fulfillment of contractual obligations. The following are types of Contract Bonds: Performance Bonds, Bid Bonds, Supply Bonds, Payment Bonds, and Maintenance Bonds.

Surety, whether personal or corporate, is a guarantee that you will do something!

A Personal Bond (sometimes referred to as a signature bond) is where you merely put up a promise to appear, or guarantee the bail with personal assets. Fail to appear in court and you will owe the money for the bond. A Personal bond is just a signature for a specific amount. The court wants a guarantee that you, as an individual, will properly administer the estate. A personal bond will need to be procured.

Corporate Suretyship was first formed in the 1800s. Prior to that time, individual arrangements were risky and there were no guarantees that the assets of a backer would satisfy the obligation. Once organizations began to specialize in issuing surety bonds, formal contracts backed up by corporate assets became available to meet individual and business needs. Bonds are usually issued by insurance companies.

A corporate surety is a company that charges for the guarantee; and

A personal surety is a person(s) who the court would accept as a guarantor (almost like a co-signor).

B. A Fidelity Bond **protects an employer against the <u>dishonest acts of employees</u>**. It guarantees that the ***principal will <u>NOT</u> do something***. Fidelity bonds are similar to Surety Bonds with the Parties to the Contract, the Promise-to-Pay Agreement, and subrogation rights.

They also are similar to Employee Dishonesty Insurance under crime coverage.

- A **Fidelity Bond** guarantees to the Obligee (like a bank) that something **won't happen** (like a bank teller steals money). A teller steals money, the bank is paid by the bonding company the amount stolen. The bonding company then will go after (subrogate) the teller for reimbursement.

Common Property and Casualty Abbreviations

ACV	Actual Cash Value
AIP	Auto Insurance Policy
BI	Bodily Injury
BOP	Business Owners' Policy
BAP	Business Auto Policy
CAP	Commercial Auto Policy
CPP	Commercial Package Policy
CGL	Commercial General Liability
CPL	Comprehensive Personal Liability
D &O	Directors and Officers
DOC	Drive Other Car
DP	Dwelling Property
EC	Extended Coverage
ERP	Extended Reporting Period
E & O	Errors and Omissions
MV	(Fair) Market Value
FAIR Plan	Fair Access to Insurance Requirement (WA)
FCRA	Fair Credit Reporting Act
GL	General Liability
HO	Homeowner
ISO	Insurance Services Office
NAIC	National Association of Insurance Commissioners
OIC	Office of Insurance Commissioner
OTC	Other Than Collision (Comprehensive – Auto)
PAF	Personal Article Floater
PAP	Personal Auto Policy
PI	Personal Injury (3rd Party - Liability)
PIP	Personal Injury Protection (1st Party Auto)
PD	Property Damage (Liability)
SIR	Self-Insured Retention (Umbrella)
UM	Uninsured Motorist
UIM	Underinsured Motorist
V & MM	Vandalism and Malicious Mischief
WA	State of Washington
WAIP	Washington Auto Insurance Plan