ANSWERS TO THE
QUESTIONS IN THE
COURSE GUIDE

AIC 32
Liability Claim Practices
1st Edition
2016

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Assignment 1

Overview of Liability Claims

Educational Objective 1

The three parties involved in liability claims are the insurer, the insured, and the third party. The relationship between the insurer and insured is a contractual relationship based on the insurance policy. The relationship between the third party and the insured is one that is based on legal liability.

Key Words and Phrases

1. Claimant is a person or an entity who brings a claim, based on the legal liability of the insured.

2. Third-party claims are claims brought against an insured, arising from the legal liability of the insured to the third party.

Review Questions

1-1. The three parties to a liability claim are the insurer, the insured, and the third party, who is also called the claimant.

1-2. The insurer agrees to: (1) settle the claim by the third party on the insured’s behalf, and (2) provide the insured with a legal defense.

Educational Objective 2

In liability claims, a third party makes claim against the insured for damages that are the fault of the insured. Typical liability claims include:

- Auto liability – Liability claims can be brought by occupants of the insured’s vehicle and by drivers and passengers of other vehicles for injuries and property damage.
- Premises liability – Liability claims can be brought by those who receive injuries on the insured’s property. For example, a guest slips and falls on a loose piece of carpeting in the insured’s home and is injured.
- Product liability – Liability claims can be brought by those who are injured by a product manufactured by the insured.
- Professional liability – Liability claims can be brought against professionals who failed to perform with the skill and care required by their profession, resulting in injury to the patient or client.
- Directors and officers liability – Claims can be brought against those responsible for mismanaging a corporation, such as directors and officers.
- Personal and advertising liability – Personal injury claims under the CGL policy refer to a group of liability claims such as defamation of character, invasion of privacy, false imprisonment, and similar torts. Advertising injury claims are for false advertising, unfair competition, and copyright and trademark infringement.
- Intellectual property rights claims – Claims can be brought for misappropriation or other forms of infringement upon intellectual property. This includes copyrights and trademarks.
- Environmental liability – Claims can be brought for cleanup of pollutants and/or bodily injury and property damage arising from discharge of pollutants.

Key Word or Phrase

1. Consent-to-settle clause is a clause generally found in professional liability policies, requiring the insurer to get the permission of the insured to settle a claim.

Review Questions

2-1. Three other types of liability claims are:
(a) Professional liability – This type of claim seeks damages from a professional who does not properly practice his/her profession and injures the claimant.

(b) Personal and advertising liability – These claims are for defamation of character and/or infringement upon copyrights or trademarks.

(c) Employer liability – These claims can still be made against employers, despite the enactment of workers compensation statutes, e.g., discrimination.

2-2. Professional liability policies contain consent to settle clauses. This means that the insurer must get the permission of the professional to settle a liability claim. Professionals prefer this clause because it allows them to determine whether a claim should be settled. This is important to professionals because a liability claim is damaging to the professional’s reputation.
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Assignment 1

Overview of Liability Claims

1. Which of the following actions must be performed by the insurer when a liability claim is made against the insured? (Text 1.3)
   (A) Deny the claim.
   (B) Renew the insured’s policy.
   (C) Provide the insured with a defense.
   (D) Issue a reservation of rights letter.

2. All of the following are professional liability claims, EXCEPT: (Text 1.6)
   (A) A physician incorrectly diagnoses a patient’s condition.
   (B) An accountant improperly reports the income of a client.
   (C) A licensed driver runs a red light.
   (D) An insurance agent improperly advises an insured on appropriate coverage limits.

3. Why do malpractice policies have consent to settle clauses? (Text 1.6 – 1.7)
   (A) Settlement of malpractice claims affects a professional’s reputation.
   (B) Professionals know whether the claim should be paid.
   (C) Insurance regulations require them.
   (D) All of the above.

4. What percentage of claims (other than malpractice claims) do insurance companies try to a conclusion? (Text 1.6 – 1.7)
   (A) Fewer than 20%
   (B) Fewer than .2%
   (C) Fewer than 2%
   (D) Greater than 20%

5. Coverage for personal and advertising injury claims is combined in which of the following policies? (Text 1.7)
   (A) Workers’ compensation
   (B) Employers liability
   (C) Employment practices liability
   (D) Commercial general liability

6. Liability claims can be brought against an employer because: (Text 1.9)
   (A) Not all employment-related claims fall within the workers’ compensation statute.
   (B) Employment contracts explicitly permit them.
   (C) Federal law permits them and overrules state workers’ compensation statutes.
   (D) All of the above.

7. All of the following federal statutes protect the rights of workers, EXCEPT: (Text 1.10)
   (A) Title VII of the Civil Rights Act of 1964
   (B) Comprehensive Workplace Injury Act of 1987 (CWIA)
   (C) Civil Rights Act of 1991
   (D) Equal Pay Act of 1963

8. Under the Age Discrimination in Employment Act of 1967 (ADEA), employees are protected from discrimination in hiring, termination, promotion, and compensation on the basis of age, beginning at what age? (Text 1.10)
   (A) 20 years old
   (B) 25 years old
   (C) 40 years old
   (D) 45 years old
Assignment 1

Overview of Liability Claims

1. C is the answer. The insurer is required to provide the insured with a defense and settle the claim on the insured’s behalf. A and B are obviously incorrect answers. D is also an incorrect answer because sending a reservation of rights letter is not required on all claims, and it is not a contractual policy requirement.

2. C is the answer. Malpractice claims arise out of not properly practicing a profession. No professional license is required to be a licensed driver, and, therefore, this is not a malpractice claim.

3. A is the answer. Payment of a malpractice claim affects the reputation of a professional, and, therefore, the professional’s consent is required to settle the claim.

4. C is the answer. Fewer than 2% of all non-malpractice claims are tried to a conclusion. Conversely, a very high percentage of malpractice claims are tried to a conclusion.

5. D is the answer. The commercial general liability policy combines personal and advertising injury coverage.

6. A is the answer. Employer liability claims can be made because not all work-related claims fall within the state workers compensation statute. Additionally, employer liability claims can arise from poor employment practices that violate workers’ rights.

7. B is the answer. There is no federal law called the Comprehensive Workplace Injury Act of 1987 (CWIA).

8. C is the answer. The Age Discrimination in Employment Act of 1967 (ADEA) creates a protected class of workers who are age 40 and older.