Georgia Personal Lines Agent Content Outline

What You Need to Know to Pass the State Exam

Examination Content Outline provided by GA DOI

I. Types of Property Policies
II. Types of Casualty Policies
III. Property & Casualty Insurance Terms and Related Concepts
IV. Property and Casualty Policy Provisions and Contract Law
V. State Laws, Rules, and Regulations

On-Demand Training Series

Key Points: P&C INSURANCE TERMS AND RELATED CONCEPTS
What You Need to Know to Pass the State Exam

A. Insurance

1. Law of Large Numbers

- In the insurance industry, the law of large numbers produces its axiom. As the number of exposure units (policyholders) increases, the probability that the actual loss per exposure unit will equal the expected loss per exposure unit is higher.To put it in economic language, there are returns to scale in insurance production.
- In practical terms, this means that it is easier to establish the correct premium and thereby reduce risk exposure for the insurer as more policies are issued within a given insurance class. An insurance company is better off issuing 500 rather than 150 fire insurance policies, assuming a stable and independent probability distribution for loss exposure.

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B. Insurable Interest – To have an insurable interest means you are in a position to lose money; you are at risk for suffering a financial loss.

You cannot buy insurance if you do not have an insurable interest and the insurance company will not pay for a loss unless you have an insurable interest at the time of loss.

For example, you can't insure your neighbor's home but you can insure your own home.

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C. Risk

1. Pure vs Speculative

- **Pure Risk**: There are only two possibilities; something bad happening or nothing happening. It is unlikely that any measurable benefit will arise from a pure risk. The house will enjoy a year with nothing bad occurring or there will be damage caused by a covered cause of loss (fire, wind, etc.). Predicting the outcomes of a pure risk is accomplished (sometimes) using the law of large numbers, a priori data or empirical data. Pure risk, also known as absolute risk, is insurable.
- **Speculative Risk**: Three possible outcomes exist in speculative risk: something good (gain), something bad (loss) or nothing (staying even). Gambling and investing in the stock market are two examples of speculative risks. Each offers a chance to make money, lose money or walk away even. Again, do not equate gambling and investing on any other level than as both being a speculative risk. Gambling is designed to enrich one party (the house); the odds are always in its favor. Investing is designed to enrich all involved, the house that set up the "game" AND those that chose to place money in the game - all participants with "skin in the game" win or lose together. Speculative risk is not insurable in the traditional insurance market; there are other means to hedge speculative risk such as diversification and derivatives.

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D. Hazard is a circumstance which tends to increase the probability or severity of a loss from a covered peril.

Physical Hazard is an agent, factor or circumstance that can cause harm with contact. For example, not taking care of ice-covered or loose steps

Moral Hazard is personality characteristics that increase probability of losses. For example, intentionally burning down house to collect insurance.

Morale Hazard is negligence or disregard on the part of the insured which could lead to probable loss. For example, Insured drives recklessly because that's what insurance is for.

Legal Hazard increases the likelihood and severity of a loss due to a condition imposed by the legal process that forces an insurer to cover a risk that it would otherwise deem uninsurable. For example, the American legal system motivates many people to bring litigation suits in order to realize the potentially lucrative profits in doing so. Anything that might prompt a lawsuit involving an insurer can be considered a legal hazard.

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E. Causes of Loss (Perils)

“Peril” is a contingency that may cause a loss

There are three types of coverage forms:

- Basic
- Broad
- Special

This short video explains it better than any I’ve seen!

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Named Perils versus Special (Open) Perils

Open Perils provides insurance coverage for any reason not specifically excluded. In other words … if it's not excluded, it's covered.

Named Perils provides coverage only for those perils listed in the policy, such as fire, theft, falling objects and vandalism. In other words … if it's not listed, it's not covered.

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F. Loss

1. Direct Loss - Damage to covered real or personal property caused by a covered peril.

2. Consequential or Indirect Loss - Commonly, consequential damages include property damage, personal injury, attorneys' fee, lost profits, loss of use, liability of buyer to customers, loss of goodwill, interest on money withheld by customers, and damages related to third party claims.

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G. Loss Valuation - A valuation of loss refers to the process of establishing a monetary value to property loss. After a policyholder files a claim, the valuation helps insurers determine the appropriate compensation to repair or replace damaged property within the limits of the policy.

1. Actual Cash Value - Actual cash value (ACV) is the amount equal to the replacement cost minus depreciation of a damaged or stolen property at the time of the loss. The actual value for which the property could be sold, which is always less than what it would cost to replace it.

2. Replacement Cost - Replacement cost (RC) is the amount of money required to replace an existing asset with an equally valued or similar asset at the current market price. In other words, it is the cost of purchasing a substitute asset for the current asset being used by a company.

Check out this short video tutorial on RV vs ACV

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2. Functional Replacement Cost - Functional replacement cost in property insurance refers to the cost of constructing a building that is able to serve the same functions as the one that is to be replaced.

Sometimes, because of the architecture or other features of a building, it cannot be adequately replaced with a totally similar building.

This could be cause of technology, materials, and even the location, etc.

In such cases, due to the endorsement for loss settlement, insurers might compensate the insured with the amount required to build a new building that is able to serve the same functions of the one that is to be replaced.

This means that this new building might not look the same or even remotely resemble the original building. But it is able to do the things which the original building could do.

For example, an old factory complex suffering a total loss might be replaced with a modern one with latest technology capable of manufacturing the same products. This factory might be less costly to build and might even have a smaller floor area. But it still retains its functions.

This should not be confused with replacement cost as the valuation method is different.

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3. Market Value - the amount for which something can be sold on a given market. Often contrasted with book value. Example: "insurance may only cover the current market value of your car"

Agreed Value - As its name suggests, agreed value is a property value that you and your insurer agree upon at the beginning of your policy period. To obtain coverage based on an agreed value, you must submit a statement of values to your insurer before your policy begins or renews.

4. Stated Amount - The amount shown on an insurance policy. It is the amount both parties to the contract have agreed is the starting point should a total loss occur. You never get more but you could get less if the appraised value has decreased.

5. Salvage Value — the amount for which an asset can be sold at the end of its useful life. In insurance circles, this term commonly refers to the scrap value of damaged property. In property insurance, salvage value (e.g., scrap value) will be subtracted from any loss settlement if the insured retains the damaged property.

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H. Proximate Cause

- Proximate cause is an act, whether intentional or negligent, that is determined to have caused someone else's damages, injury, or suffering. It is important that courts establish proximate cause in personal injury cases because not everyone nor everything that causes an injury can be held legally liable.
- Suppose a driver loses control of his car after slipping on a patch of wet leaves and crashes into another car, injuring its driver. The leaves are considered the "but-for" in this situation, meaning that "but for" the leaves, the crash would not have occurred, and the driver would not have been hurt. However, this is not an example of proximate cause because, even though the leaves were the catalyst for the accident, they cannot be sued in a court of law, nor can they be required to pay for the damages they caused.

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I. Deductibles are the specified amounts an insured must pay for each loss. Higher deductibles reduces premiums and the submission of small claims.

It is sometimes referred to as "Retention"

Other Insurance – It's possible for someone to buy two policies of the same type for the same vehicle or property. In the event of a loss, each carrier pays their proportionate share. This clause also prevents a policyholder from profiting from a loss. There's no double-dipping in insurance.

J. Indemnity

Indemnity is a contractual obligation of one party to compensate the loss incurred to the other party due to the acts of the indemnitor or any other party.

The duty to indemnify is usually, but not always, coextensive with the contractual duty to "hold harmless" or "save harmless".

In contrast, a "guarantee" is an obligation of one party assuring the other party that guarantor will perform the promise of the third party if it defaults.

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K. Limits of Liability are shown on the Dec page specifying the most that will be paid for any one loss or total number of losses regardless to the number of insureds or parties making claims.

Per Occurrence (Accident) is the most that will be paid for all losses from any one occurrence.

Per Person is the most that will be paid for any one claimant injured in one loss.

Split Limits is the most that will be paid for different types of loss. For example, Bodily Injury limits could be different than Property Damage.

Combined Single Limit is the most that will be paid for a combination of losses from one loss.

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L. Coinsurance / Insurance to Value -

Coinsurance is the amount, generally expressed as a fixed percentage, an insured must pay against a claim after the deductible is satisfied. Some property insurance policies contain coinsurance provisions.

This short video tutorial will help you understand it better.

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M. Occurrence

- An occurrence is an event that leads to an insurance claim.
- Coverage limits and deductibles apply separately to each occurrence.

N. Cancellation means a policy is going to end before its expiration date. Insurance companies have state laws that outline the permitted reasons and notification requirements.

Insureds, on the other hand, can cancel whenever and for whatever reason they wish.

O. Nonrenewal means the company does not wish to continue offering coverage at the expiration date. Nonrenewals are not as restricted by state law as cancellations.

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P. Vacancy and Unoccupancy

An insured structure in which no people have been living or working and no contents have been stored for the period of time required, as stated in the policy (usually 60 days), constitutes vacancy.

Unoccupancy refers to an insured structure in which no people have been living or working within the required period of time, but the structure contains contents.

Why is vacancy or unoccupancy bad?

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Q. Liability

1. Absolute liability, also called **2. Strict Liability**, is imposed on individuals whose specific actions, or failures to act, result in third-party losses, such as bodily injury or property damage.

3. Vicarious liability refers to situations in which your business could be held responsible for the actions and omissions of your employees, contractors, or partners. It can apply to anything from injuries and damages to sexual harassment in the workplace or hiring discrimination.

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R. Negligence

Elements of a Negligent Act

- The United States generally recognizes four **elements** to a **negligence** action: duty, breach, proximate causation and injury.

Defenses against Negligence

- To successfully defend against a negligence suit, the defendant will try to negate one of the elements of the plaintiff's cause of action. In other words, the defendant introduces evidence that he or she did not owe a duty to the plaintiff; exercised reasonable care; did not cause the plaintiff's damages; and so forth. In addition, a defendant may rely on one of a few doctrines that may eliminate, or limit liability based on alleged negligence.
- Three of the most common doctrines are contributory negligence, comparative fault, and assumption of risk. For instance, you may not be found entirely liable if the other party also was negligent.

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S. Binders

Definition of Insurance Binder. An Insurance Binder is a temporary document issued by an authorized insurance representative that serves as proof of insurance for your home insurance, property or car. Your binder of insurance will outline the basic conditions, coverages, deductibles and named insureds that will appear in your insurance contract.

T. Endorsements

Endorsements are also referred to as riders. They can be used to add, delete, exclude, or otherwise alter coverage. They can be issued during your policy term, at the time of purchase, or at renewal and they're legally binding amendments to an insurance contract.

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Basics of an Insurance Endorsement

Add to the coverage of an insurance policy

Limits or deletes coverage of a policy

May be added mid-term

Adds or deletes people and locations on an insurance policy

Premiums may be adjusted as a result of an insurance endorsement

the balance

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U. Blanket versus Specific Insurance - Blanket limit coverage provides a total limit of insurance which can be applied to multiple locations or buildings.

By contrast, a specific limit of insurance defines separate limits which are applied to each individual property.

V. Burglary, Robbery, Theft, and Mysterious Disappearance

Burglary - Forcible entry into or exit out of the premises of another with the intent to steal property. There must be visible signs of forced entry or exit.

Robbery - The taking or attempting to take anything of value from the care, custody, or control of a person or persons by force or threat of force or violence and/or putting the victim in fear.

Theft - Any illegal act of taking or stealing, or attempting to take or steal, of someone else's property, including such crimes as larceny, burglary, and robbery.

Mysterious disappearance - The disappearance of insured property in an unexplained manner. For example, if a ring is left in a public place and the owner returns later to find the ring gone, it is reasonable to assume that the ring has been stolen. However, there is no direct evidence that this is in fact what happened. ...

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W. Warranties - Literal promise and guarantee, either expressed or implied (i.e., concerning the condition of property to be insured), made for the purpose of risk evaluation by the insurance company; if found to be untrue, may provide the basis for voidance of the policy.

X. Representation — a statement made in an application for insurance that the prospective insured represents as being correct to the best of his or her knowledge. If the insurer relies on a representation in entering into the insurance contract and if it proves to be false at the time it was made, the insurer may have legal grounds to void the contract.

Y. Concealment is the omission of information which would affect the issuance or the rate of an insurance contract. If the insurer has no access to the nondisclosed information and that information is material to the decision-making process, the insurer can nullify the insurance contract.

Z. Deposit/Premium Audit

An insured’s policy is issued based on estimated exposures. These are typically payrolls and classifications. The advance or deposit premium is calculated based on these estimated and projected exposures. The final premium is determined, through the premium audit, after a policy ends by using the actual, not the estimated, exposures to make sure that the insured’s final policy premium is proportionate to the actual exposures realized throughout the term of their policy.

At the end of the insured’s policy term, an audit professional will contact them to perform a review of their operations, records and books of account. Based on the outcome of the premium audit, an adjustment may be made resulting in either an increase or decrease to their deposit premium.

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AA. Certificate of Insurance (COI)

What is a COI? It's like an auto insurance ID card, with one key difference: It summarizes your business insurance coverage, and contains important basics like policy expiration date, individuals covered, and dollar amount of coverage.

Some COIs also include the type of policy, such as professional or general liability.

So rather than showing a multi-page insurance contract for your client, a COI—which can be included with proposals or affixed to the clipboard you carry—is an easy shortcut to prove you're insured.

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BB. Damages are a remedy in the form of a monetary award to be paid to a claimant as compensation for loss or injury. To warrant the award, the claimant must show that a breach of duty has caused foreseeable loss. To be recognized at law, the loss must involve damage to property, or mental or physical injury; pure economic loss is rarely recognized for the award of damages.

Compensatory – Special versus General

1. Compensatory damages are further categorized into **(b.) special** damages, which are economic losses such as loss of earnings, property damage and medical expenses, and **(a.) general** damages, which are non-economic damages such as pain and suffering and emotional distress.

2. Punitive damages are meant to punish and to deter similar wrongful or repugnant conduct. For example, suppose that Mark intentionally sideswiped Tom's car after he thought that Tom cut him off on the highway. Mark engaged in intentional misconduct and purposely hit Tom's car.

CC. Compliance with Provisions of Fair Credit Reporting Act

- The Act (Title VI of the Consumer Credit Protection Act) protects information collected by consumer reporting agencies such as credit bureaus, medical information companies and tenant screening services.
- Information in a consumer report cannot be provided to anyone who does not have a purpose specified in the Act.
- Companies that provide information to consumer reporting agencies also have specific legal obligations, including the duty to investigate disputed information.
- In addition, users of the information for credit, insurance, or employment purposes must notify the consumer when an adverse action is taken on the basis of such reports.
- The Fair and Accurate Credit Transactions Act added many provisions to this Act primarily relating to record accuracy and identity theft.

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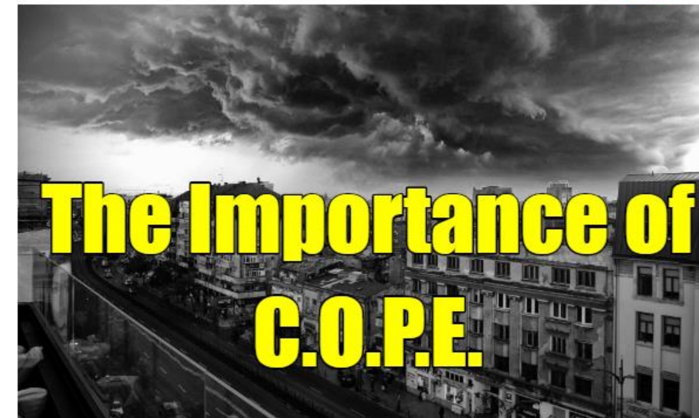
Basic Types of Construction - Buildings can be categorized into five different types of construction:

1. fire-resistive
2. non-combustible
3. Ordinary
4. heavy timber
5. wood-framed.



Construction, Occupancy, Protection, Exposure

Check out this short video tutorial on C.O.P.E.

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Policy Provisions

Declarations a/k/a “DEC” page. All of the unique information on one easy to read page. It includes who, what, where, how much, loans, endorsements, etc.

Definitions — in defining the scope of coverage, insurance policies rely on terms and phrases that have very special and often very specific meanings. Since these terms and phrases are usually repeated many times in the insurance policy, a single definition of the term or phrase is included in the definitions section of the policy instead of being repeated whenever the term is used. The reader is alerted when a defined term is used in the insurance policy, usually by its placement within quotation marks. Since definitions may have a significant impact on the scope of coverage, they must be carefully reviewed when interpreting the policy's coverage intent.

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Policy Provisions

Insuring Agreement or Clause – the insuring agreement is the company's promise to pay claims. It also defines the pronouns used in the policy. For example, YOU and YOURS = Insured. WE, US and OUR = Insurance Company

Additional / Supplementary Coverage are automatically included without an additional charge. For example, in homeowners it could be debris removal, collapse, and fire department services.

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Policy Provisions

Conditions are the ground rules for how the client and the insurance company are going to interact with each other. For example, Loss Conditions require the insured to notify the insurance company promptly after a loss, protect the property from further damage, notify the police if a crime has been committed, etc.

Exclusions are simply things and situations not covered and fall into three general categories: (1) Catastrophic, (2) Better Covered Elsewhere, (3) Predictable Losses

Endorsements are policy forms that alters or adds to the provisions in a P&C contract.

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Common Policy Provisions

Insureds –

Named is the person designated on the Declarations page and should be the owner. For example, if vehicles are being insured, the named insured should be the one to which the vehicles are titled and registered.

First Named is the person whose name appears first on the DEC page and has rights / responsibilities not given to other insureds.

Additional is a person or organization not usually protected but is granted insured status by endorsement. Think “Lienholder” or “Mortgagee”.

Common Policy Provisions

Policy Period refers to the duration for which the plan provides coverage to the policyholder. It encompasses the time between the exact date of policy inception and the date of expiration. It also appears on the Declarations page.

Policy Territory — specifies the geographic area in which the property must be damaged (inland marine policies) or where injury or damage must occur (liability policies) for coverage to apply.

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Common Policy Provisions

Nonconcurrency — the condition created by two or more policies covering the same loss exposure that do not have identical inception and expiration dates.

Nonconcurrency of an insured's umbrella policies and the liability policies required by the umbrella as underlying insurance is a problem because the nonconcurrent policy terms make it possible for a loss under an underlying policy's annual aggregate limit to use up part of the limit required by the umbrella and thus violate its underlying limits requirement.

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Common Policy Provisions

Primary and Excess

Primary insurance is the policy that covers a financial liability for the policyholder as a result of a triggering event. Primary insurance kicks in first with its coverage even if there are other insurance policies.

Excess insurance covers a claim after the primary insurance limit has been exhausted or used up.

For example, I loan my car to Joe who causes an accident. My policy is primary and if my coverage is used up, Joe's personal auto policy kicks in.

Pro Rata: A **pro rata** "**Other Insurance**" clause provides that if there is **other** valid **coverage** for a loss, each **insurer** is liable only for its **pro rata** share of the loss, calculated as the proportion that its policy limit bears to the total of all policies' limits of liability.

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Common Policy Provisions

- Policy Limits - A typical insurance policy is a collection of coverages — and each coverage has a limit. So, you'll likely have multiple limits within one policy.
- For example, a car insurance policy that includes liability coverage, collision coverage and comprehensive coverage will have three separate limits.

Check out this short video tutorial

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Common Policy Provisions

Restoration / Nonreduction of Limits - This feature may be referred to as the restoration or nonreduction of limits. Then the process starts over again. There is usually no limit to the number of occurrences that an insured can report under a policy. If the policy comes with an aggregate limit, the per occurrence limit is restored after paying the claim.

Enjoy this short Quizlet on Policy Limits

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Common Policy Provisions

Named Insured Provisions - Named Insured has certain rights and responsibilities that the others do not. The rights include receiving notices of cancellation, invoices, and other communications regarding the policy. The responsibilities include payment of premium, compliance with audit or inspection requests (if required by the policy's conditions), and reporting of claims in a timely fashion.

Assignment – a policy owner cannot transfer policy ownership without the insurer's written consent

Abandonment — a clause in property insurance policies prohibiting the insured from abandoning damaged property to the insurer for repair or disposal. Arranging for repair or disposal is the insured's responsibility, unless the insurer elects otherwise.

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Common Policy Provisions

Duties After Loss - Protect the property from further damage. If repairs to the property are required, you must make reasonable and necessary repairs to protect the property; and keep an accurate record of repair expenses

Cooperate with us in the investigation of a claim

Prepare an inventory of damaged personal property showing the quantity, description, actual cash value and amount of loss. Attach all bills, receipts and related documents that justify the figures in the inventory

These are just a few of the Duties After Loss.

Want to know more? Click here

Key Points: P&C INSURANCE TERMS AND RELATED CONCEPTS

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Common Policy Provisions

Insurer Provisions – outlines the duties of the carrier in an insurance contract. It can include such details as coverage periods, exclusions, riders, start dates, and other important information. As it determines whether coverage applies and for what amount, it is important for policyholders to carefully read the details of their policy and understand them. Otherwise, they risk not taking advantage of the protection their policy provides or potential unexpected financial hardships due to losses that are not covered but assumed to have been.

Liberalization – occasionally insurers will broaden coverage under a particular form of insurance without an additional premium and applies to all policies currently in effect.

Subrogation – when an insurer pay a claim to its policyholder, the policyholder grants his rights to seek recovery from the person who responsible for the loss.

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Common Policy Provisions

Insurance Salvage Provisions - When the insured receives payment of an adjusted claim, the property that is damaged becomes the property of the insurance company. Often that damaged property is of little value. However, particularly in the case of a "totaled" automobile, the car may be salvaged, and the insurance company may realize part or all of the adjusted claim payment.

Duty To Defend — a term used to describe an insurer's obligation to provide an insured with defense to claims made under a liability insurance policy. As a general rule, an insured need only establish that there is potential for coverage under a policy to give rise to the insurer's duty to defend.

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Claim Settlement Options - Making a claim on your homeowner's or auto insurance can be a frustrating process. You want to be compensated fairly for your damages. It is the insurance company's responsibility to indemnify you, or in other words, put you back to a pre-loss condition.

However, your definition of indemnity and the insurance company's definition may differ. It's fairly common for the insured to disagree with their initial settlement given by their claim's adjuster, but you have the right to dispute your settlement.

Typically, you have three different options when it comes to disputing an initial settlement of a homeowner's or auto insurance claim. They are mediation, appraisal, and lawsuit.

Want to know more? Click here

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Common Policy Provisions

Third Party Provisions - Liability insurance purchased by an insured (first-party) from an insurer (second party) for protection against the claims of another (third party). The first party is responsible for their damages or losses caused by the insured or other covered parties.

Standard Mortgage Clause – states that a mortgage holder added to a policy has an insurable interest. If an insured's claim is denied, the mortgage holder still gets paid up to their insurable interest.

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Common Policy Provisions

Loss Payable Clause – if the lender had been added as a “Loss Payee” and the insured’s claim was denied, it is also denied to the Loss Payee.

No Benefit to the Bailee – A bailee is someone who has possession of your property for purposes of doing some work on it. For example, TV repair or dry cleaners. Fire breaks out at bailee’s shop. Your insurance company pays for your loss. Then subrogation allows your insurance company to seek repayment from bailee.

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Underwriting is the process by which an insurance company examines risk and determines whether the insurer will accept the risk or not, classifies those accepted and determines the appropriate rate for coverage provided.

Creating a fair and stable market for financial transactions is the chief function of an underwriter.

Loss Ratio is the percentage of incurred losses to earned premiums. For example, losses equal $1,000,000 and earned premiums equal $2,000,000. That is a 50% loss ratio.

Key Points: P&C INSURANCE TERMS AND RELATED CONCEPTS
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Rate - value of insured losses expressed as a cost per unit of insurance.

Loss Adjustment Expense (LAE) - expected payments for costs to be incurred in connection with the adjustment and recording of losses.

Can be classified into two broad categories: Defense and Cost Containment (DCC) and Adjusting and Other (AO).

Can also be separated into (Allocated Loss Adjustment Expense) and (Unallocated Loss Adjustment Expense for ratemaking purposes.

III. P&C Insurance Terms & Related Concepts

What You Need to Know to Pass the State Exam

III. P&C Insurance Terms & Related Concepts

Now is time to test your understanding of all you have studied in this section of the state exam.

- **Click the link below after reading these instructions**
- **Then click "Options" in the lower left side**
- **Check "Multiple Choice" and Uncheck "Flashcards & Written Answers"**
- **Then check "Audio" to "On"**

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