

Test Alert!

Maryland Property and Casualty Insurance

License Exam Manual

6/28/07

P&C

The information included in this release, in addition to your other Kaplan Financial materials, is designed to assist you in preparing for concepts that your exam may include. We urge you to read it carefully and take time to review the sample questions and rationale.

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KAPLAN FINANCIAL

Part I

Changes Since the Previous Edition

Effective June 1, 2007, Maryland has switched providers from Promissor to PSI. The following content appears on the PSI exam outline and will be included in the Maryland Property and Casualty Insurance License Exam Manual, 3rd Edition.

I. INSURANCE BASICS

A. PRINCIPLES AND CONCEPTS

- 1. Self-insurance** Business organizations that set up their own reserves for the purpose of insuring themselves
- 2. Risk retention group** Insurance company owned by the policyowners of the same business group; only companies within the business group qualify (e.g., car dealers)
- 3. Risk purchasing group** Company that buys liability insurance from a risk retention group, not an insurance company
- 4. Joint underwriting association (JUA)** Association of insurers authorized by its members to act on their behalf in joint underwriting or issuing syndicate policies of insurance; must be licensed
- 5. Adverse selection** The tendency of people with a greater-than-average exposure to loss to purchase insurance

B. INSURANCE OCCUPATIONS

- 1. Underwriter** Underwriters are responsible for the selection, classification, and acceptance or rejection of a proposed insured; underwriters do not make proposals
 - $\text{Loss ratio} = \frac{\text{incurred losses} + \text{loss adjustment expenses}}{\text{earned premium}}$
- 2. Actuary** Determines the premiums charged for different risk exposures
- 3. Adjuster** Settles losses that are incurred by insureds. Adjusters look for an insurable interest at the time of loss. An adjuster may be a(n):
 - staff adjuster (works for one insuring company);
 - independent adjuster (works for more than one insuring company); or
 - public adjuster (works on behalf of the insured).

C. RATING ORGANIZATIONS Companies that rate the financial strength of insurance carriers on the basis of an analysis of company claim experience, investment performance, management, and other factors. The length of time in business is not a factor. These ratings are one of the widely used indicators of financial health in the insurance industry. AM Best (Best's Rating) publishes the following company ratings:

- A++, A+ Superior
- A, A- Excellent
- B++, B+ Very good
- B, B- Good
- C++, C+ Fair
- C, C- Marginal
- D Below minimum standards
- E Under state supervision
- F In liquidation

D. BASIC TYPES OF CONSTRUCTION Underwriters use many factors to determine the rating and eligibility of property risks, including:

- types of materials used in the building;
- roof of the insured structure;
- interior finish and insulation;
- number of fire divisions in the building;
- adequacy of electrical circuits;
- number of stories;
- building's age; and
- type of heating system.

Six classifications:

- 1. Class #1** frame Structures have outside support walls, roof, and floors constructed of wood or other combustible materials; exterior walls may be covered with stucco or brick veneer, and the interior walls are typically lath and plaster
- 2. Class #2** joisted masonry Structures have outside support walls made of non-combustible masonry materials (concrete, brick, hollow concrete block, stone, or tile) and a roof and floor made of combustible materials (e.g., wood)
- 3. Class #3** noncombustible A degree of fire safety is attained by the use of non-combustible materials that is, any material that will neither ignite nor actively support combustion in air at a temperature of 1,200°F when exposed to fire
- 4. Class #4** masonry noncombustible Exterior walls are made of masonry materials, such as adobe, concrete, stone, tile, or gypsum block; the floors and the roof are constructed of noncombustible or slow-burning materials
- 5. Class #5** modified fire resistive Exterior walls, floors, and roof are constructed of masonry or fire-resistant material, with a fire-resistant rating of one hour or more, but less than two hours

- 6. Class #6** fire resistive Structures are constructed of fire-resistive materials to reduce the severity of a potential fire; lower fire insurance rates apply

II. DWELLING POLICY

Selected endorsements to dwelling policies

- A. AUTOMATIC INCREASE IN INSURANCE** This endorsement provides an annual increase in the Coverage A amount of 4%, 6%, or 8%
- B. BROAD THEFT COVERAGE** Broad theft coverage is available only if the insured is an owner-occupant of the dwelling. Coverages include theft, attempted theft, and vandalism/malicious mischief as a result of a theft or attempted theft. Coverage is available for both on- and off-premises exposures. Persons covered include the named insured, resident family members, and anyone under 21 in the care of the insured.
- C. LIMITED THEFT COVERAGE** Limited theft coverage is available when the insured is not an owner-occupant. The causes of loss are the same as the broad theft endorsement, but coverage is provided for on-premises exposures only.
1. Property covered is limited to a specific dollar amount
 2. Exclusions are included to identify the many items of property not covered
- D. PERSONAL LIABILITY** Personal liability is available if the owner cannot attach coverage to a homeowners policy; this endorsement is the same as Section II of a homeowners policy discussed in a later unit
- E. DWELLING UNDER CONSTRUCTION** Dwelling under construction covers a structure while it is under construction; the limit of liability is provisional on the basis of the completion date
- F. SPECIAL PROVISIONS** Notice to the mortgagee of policy cancellation or nonrenewal is changed from 10 to 15 days for new policies in effect for fewer than 45 days; the cancellation provisions are amended to conform to state law

III. HOMEOWNERS POLICY

Selected endorsements to homeowners policies

A. EARTHQUAKE

1. Earth movement is excluded from coverage under all forms; however, an endorsement for earthquake coverage may be purchased

2. Deductible is written as a percentage of the policy limit
3. The insured will incur only one deductible every 72 hours (one week), which allows for coverage of earthquake aftershocks

B. BUSINESS PURSUITS

1. For people engaged in sales, teaching, or clerical work
2. Provides liability protection for incidental business activities
3. Does not apply if the insured owns or is a partner of the business

C. PERSONAL INJURY

1. Adds personal injury peril to the coverage provided under Coverage E
2. Personal injury includes libel, slander, invasion of privacy, wrongful entry, malicious prosecution, eviction, and false arrest
3. Discrimination of any kind is excluded

D. PERSONAL PROPERTY REPLACEMENT COST Allows losses under Coverage C to be settled for replacement cost rather than ACV; under this endorsement, the insurer will pay the smaller of the following amounts:

- Replacement cost at the time of loss
- The full repair cost

E. HOME DAY CARE

1. Deletes Coverage B exclusion for business use
2. Eliminates the \$2,500 restriction on Coverage C business property
3. Coverage E limit changed from occurrence limit to annual aggregate; corporal punishment is excluded

F. PERMITTED INCIDENTAL OCCUPANCIES

1. Deletes or modifies the exclusions pertaining to business property and liability coverages (other structures and business pursuits exclusions and \$2,500 limitation for business property removed)
2. Business conducted on residence premises only

G. SCHEDULED PERSONAL PROPERTY

1. Provides broader coverage for personal jewelry, furs, cameras, musical instruments, silverware, fine art, and collectibles

2. Eliminates the need for a separate personal floater

3. Articles insured must be itemized and described

H. WATERCRAFT Adds additional liability coverage for personal watercraft exceeding the limits of the unendorsed homeowners policy

I. SPECIAL COMPUTER COVERAGE Adds coverage for computers, peripherals, data and software; exclusions include the following:

- Freezing
- Theft to a building under construction
- Mold
- V&MM
- Acts and decisions
- Renovations
- Collision
- Birds, animals, or insects
- Equipment breakdown
- Industrial smoke/smog
- Wear and tear

J. SPECIAL PROVISIONS Maryland

1. Notice to the mortgagee of policy cancellation or nonrenewal is changed from 10 to 15 days for new policies in effect for fewer than 45 days
2. The cancellation provisions are amended to conform to state law

IV. BUSINESSOWNERS POLICY (BOP)

A. OPTIONAL COVERAGES (ADDED FOR AN ADDITIONAL PREMIUM)

1. Outdoor signs Covers signs owned by the insured and the signs of others that are in the care, custody, or control of the insured; exclusions include wear and tear, hidden or latent defect, rust and corrosion, and mechanical breakdown

2. Money and securities Combines the following coverages:

- Inside the premises theft of money and securities
- Outside the premises theft, disappearance, and destruction

3. Employee dishonesty

4. Mechanical breakdown

B. SELECTED ENDORSEMENTS

1. **Hired and nonowned auto liability** Provides liability protection for businesses whose employees use personal autos for business or rent autos while on business trips; provides liability protection only and is not designed for businesses that own or operate their own autos
2. **Protective safeguards** Requires the insured to maintain protective safeguards in the insured building such as fire alarms, smoke detectors, and fire extinguishers; if the fire sprinkler system is shut off or malfunctions, the insured has 48 hours to notify the insurer; otherwise, losses caused by fire will not be covered
3. **Utility services** direct damage Covers direct physical loss or damage to off-premises properties providing water, communication, and power supply services and overhead transmission and overhead communication lines (e.g., lightning hits a transformer and causes a power surge resulting in damage to telephone service or computer systems)
4. **Utility services** time element Covers loss from failure of utility property located outside the covered building, whether or not the property is located on the insured premises (e.g., lightning hits a transformer and causes a blackout, resulting in a loss of use claim)

V. COMMERCIAL AUTO POLICIES

- A. **TRUCKERS COVERAGE FORM** Provides liability and physical damage coverage for trucking companies; owner-operator arrangement trailer interchange coverage (bailee coverage): provides coverage for damage when pulling someone else's trailer.
- B. **MOTOR CARRIER ACT OF 1980** Truckers must file proof of pollution liability insurance; financial responsibility requirements:
 - Type 1: for hire transportation of nonhazardous property in interstate or foreign commerce; minimum limit \$750,000
 - Type 2: for hire or private transportation (interstate or intrastate) of hazardous substances, including compressed gas, explosives, poison gas, and radioactive materials (minimum limit of \$5 million)
 - Type 3: for hire and private transportation of any hazardous waste or substances not included in Type 2; minimum limit of \$1 million
- C. **ENDORSEMENT FOR MOTOR CARRIER POLICIES OF INSURANCE OF PUBLIC LIABILITY (MCS-90)**
 1. Amends the policy to ensure compliance with the act by the insured as a motor carrier of property
 2. Remains continuously in effect unless canceled with appropriate notice or replaced by a new policy
 3. 35 days' notice required for cancellation by insurer or insured

4. 30 days' notice if insured is under DOT jurisdiction

VI. FARM INSURANCE

A. FARM PROPERTY COVERAGE FORM

1. **Coverage A** Dwellings
2. **Coverage B** Other structures (e.g., well house)
3. **Coverage C** Household personal property coverage form
4. **Coverage D** Loss of use (residence premises)
5. **Coverage E** Scheduled farm personal property
 - a. **Property covered**
 - Grain/hay
 - Farm products
 - Poultry
 - Livestock
 - Machinery
 - Vehicles and equipment incidental to farm use (e.g., tractors)
 - b. **Special limits**
 - \$10,000 for hay, straw, or fodder in the open
 - \$2,000 per head of livestock, or ACV
 - Market value per bird for loss of poultry
6. **Coverage F** Unscheduled farm personal property
7. **Coverage G** Barns, outbuildings, and other farm; covers barns, silos, fences, radio equipment, and other farm buildings and structures that are not dwellings
8. **Exclusions** trees, plants, shrubs, lawns and growing crops beyond 250 feet of the residence; those within 250 feet of the residence can be covered for certain perils

B. CAUSES OF LOSS AND OTHER PROVISIONS

1. **Basic**
 - Fire
 - Lightning
 - Windstorm or hail
 - Explosion

- Riot or civil commotion
- Aircraft
- Earthquake or flood loss to livestock
- Vehicles
- Smoke
- Vandalism
- Theft
- Volcanic action
- Sinkhole
- Collision to farm machinery and livestock (E and F only)

2. Broad includes basic form coverage and the following perils

- Electrocutation of covered livestock
- Attacks on covered livestock by dogs or wild animals
- Accidental shooting of covered livestock
- Accidents involving loading or unloading (not transporting)
- Drowning of covered livestock
- Glass
- Falling objects
- Weight of ice sleet or snow
- Freezing
- Rupture of water system
- Accidental discharge
- Artificial current (A, B, C, D only)

3. Special Open perils coverage; exclusions include the following:

- Fire loss to tobacco being cured
- Weather damage
- Inventory shortage
- Electrical current

C. FARM LIABILITY COVERAGE FORM Coverage for liability arising out of farming operations or personal activities; includes supplementary payments (BAILED)

1. Coverages

- Coverage H Bodily injury and property damage liability
- Coverage I Personal and advertising injury liability
- Coverage J Medical payments

2. Exclusions

- Pollutants
- Injury to compensated farm employees

- Motor vehicles except those specifically described in the policy
- Custom farming
- Crop dusting
- Rides or racing

VII. INLAND MARINE POLICIES

A. TRANSPORTATION COVERAGE

1. **Bill of lading** The bill of lading is a contract of carriage and can be structured one of the following ways
 - a. **Cost, insurance, and freight (CIF)** The seller is responsible for insuring the shipment
 - b. **Cost and freight (CF)** The buyer is responsible for insuring the shipment
 - c. **Free on board (FOB)** The seller is responsible for insuring the shipment until it reaches a designated point; once the point has been reached, the buyer becomes responsible for insuring the shipment

B. TRANSIT COVERAGE Coverage for businesses that ship or receive merchandise

1. **Annual transit policy** Insures all incoming or outgoing shipments for 1 year; used by businesses that send or receive shipments on a regular basis.
2. **Trip transit policy** Insures a specific shipment (one time, one way); used by businesses that send or receive shipments infrequently

VIII. CRIME POLICIES

- A. **FORGERY OR ALTERATION** Losses caused by outside parties who forge or alter the named insured's checks, drafts, promissory notes, orders, or directions to pay money; employee acts are excluded
- B. **COMPUTER FRAUD** Involves the use of any computer to fraudulently transfer covered property from the insured premises or a bank premises to somewhere else outside of the insured or bank premises
- C. **FUND TRANSFER FRAUD** Pays for losses resulting from fraudulent instructions received by a financial institution to pay money from the insured's transfer account to someone else

- D. MONEY ORDERS AND COUNTERFEIT PAPER CURRENCY** Losses related to the acquisition of money orders and counterfeit paper currency resulting from a covered cause of loss; coverage for any international currencies accepted in good faith

IX. PROFESSIONAL LIABILITY POLICIES

A. DIRECTORS AND OFFICERS LIABILITY COVERAGE (D & O)

1. Provides coverage to the directors and officers of a corporation for:

- acts, errors, and omissions related to their job duties; and
- neglect or breach of duty related to their job duties.

The insurance company may settle a claim without the consent of the insured

2. Exclusions

- Liability related to the company's benefit plan
- Dishonest, criminal, or fraudulent acts
- Racketeering

3. Defense costs count against the limit of liability

4. Written on a claims-made basis

- B. ERRORS AND OMISSIONS** Protects an insurance producer against legal liability arising from failure to perform promised services

- C. FIDUCIARY LIABILITY** Protects employee benefit plan administrators against claims of negligence or against errors and omissions in the handling of funds (e.g., 401(k))

X. WORKERS' COMPENSATION

A. FEDERAL WORKERS' COMPENSATION LAWS

- 1. US Longshoremen and Harbor (USL&H) Workers' Compensation Act** A federal workers' compensation law that applies to workers in maritime employment, including longshoremen, harbor workers, shipbuilders, ship breakers, ship repairers, and stevedores; does not apply to masters or crews of vessels or persons unloading vessels under 18 tons at port

- 2. Outer Continental Shelf Lands Act** Makes the USL&H Act apply to work involving the development of the natural resources of the Outer Continental Shelf (off-shore oil rig workers)

- 3. Federal Employers Liability Act** Provides a remedy for injuries sustained by employees of interstate railroads; railroad workers' compensation
- 4. Jones Act** Covers merchant marine masters and crew members of ocean-going vessels in international waters; permits a seafarer injured at sea in the course and scope of employment by the negligence of the ship owner, master, or other crewmember to recover damages for injuries; remedy is in the federal court

XI. MARYLAND LAW

- A. WARRANTY FOR AFTERMARKET PARTS [INS. S 27-906]** An insurer that delivers a policy of motor vehicle liability insurance that provides physical damage coverage must provide, on request of the insured, a copy of the warranty for aftermarket crash parts, if available
- B. DISABLED PERSONS: RENTAL VEHICLE REIMBURSEMENT [INS. S 19-516]** If an auto policy issued a disabled person provides for reimbursement of the costs of a rental car, the insurer must provide a reimbursement rate of up to \$100 per day, with a maximum of \$1,500 per policy period
- C. JOINT UNDERWRITING OR JOINT REINSURANCE [INS. S 11-222]** If, after a hearing, the Commissioner finds that an activity of an organization that engages in joint underwriting or joint reinsurance is unfair, unreasonable, or otherwise inconsistent with Maryland law, the Commissioner may issue a written order that specifies the ways in which the practice is illegal and requires that the activity be discontinued
- D. FLOOD DISCLOSURE REQUIREMENT [INS. S 19-206]**
1. An insurer or producer that transacts homeowners insurance in Maryland must provide an applicant, at the time a policy of homeowners insurance is initially purchased, with a written notice that states that a standard homeowners insurance policy does not cover losses from flood
 2. The notice must do the following:
 - State that flood insurance may be available through the national flood insurance program (NFIP) or other sources
 - Provide the applicant with the contact information for the national flood insurance program
 - Advise the applicant to confirm the need for flood insurance with the national flood insurance program or the applicant's mortgage lender
 - Advise the applicant to contact the NFIP, the applicant's insurer, or the applicant's insurance producer for information about flood insurance
 - Advise the applicant that flood insurance may be available for covered structures and their contents
 - Advise the applicant that a claim under a flood insurance policy may be adjusted and paid on a different basis than a claim under a homeowner's insurance policy
 - Advise the applicant that a separate application must be completed to purchase flood insurance

E. LEAD HAZARD COVERAGE [INS. S 19-704] As used below, affected property means any residential rental property constructed before 1950, or for which the owner makes an election under the Maryland Environmental Article

1. Whenever an authorized insurer issues or renews a policy for an affected property, the insurer may include in the policy a lead hazard coverage exclusion
2. If a policy contains a lead hazard coverage exclusion, the insurer must waive the exclusion to the extent of a qualified offer made under the Environment Article if:
 - the owner of the affected property complies with Title 6, Subtitle 8, Part III of the Environment Article;
 - the affected property:
 - passes the test for lead-contaminated dust; or
 - has undergone the lead hazard reduction treatments and complies with the risk reduction standard under the Environment Article; and
 - the insured submits a current verified report completed by an accredited inspector certifying that this complies with the standards set forth under this statute.
3. Instead of waiving a lead hazard coverage exclusion, an authorized insurer may offer an alternative form of coverage for a qualified offer made under the Environment Article
4. An authorized insurer may exclude lead hazard coverage for an affected property in excess of the amount of a qualified offer made under the Environment Article
5. An authorized insurer may cancel or nonrenew lead hazard coverage or reimpose a lead hazard coverage exclusion in a policy for an affected property only if:
 - the insured fails to:
 - pay the applicable premium;
 - provide the authorized insurer or the authorized insurer's designee reasonable access to the affected property to inspect for the presence or condition of lead;
 - comply with the terms or conditions of the policy; or
 - perform lead hazard reduction treatments; or
 - the affected property fails to comply or maintain compliance with the risk reduction standard under § 6-815(a)(2) of the Environment Article.
6. Before terminating lead hazard coverage, the authorized insurer must
 - mail written notice to the insured that the insurer intends to cancel or nonrenew the coverage or to reimpose the exclusion; and
 - provide an opportunity to the insured to correct the violation within 30 days after the notice is mailed.
7. Coverage is automatically reinstated if the violation is corrected within 30 days after the notice is mailed

8. Within 45 days after mailing a notice of cancellation or nonrenewal of coverage or reimposition of an exclusion under this paragraph, the authorized insurer must send a copy of the notice to the Secretary of the Environment and include the results of any inspection of the affected property
9. **Triggering claim [Ins. s 19-706]** The notice provided to an insured that a person at risk has an elevated blood lead level shall be deemed a claim against the insured for the purpose of triggering the authorized insurer's duty to respond on behalf of the insured in accordance with the Environment Article

XII. FEDERAL LAW

A. FAIR CREDIT REPORTING ACT [15 USCS 1681, 1681D]

1. The federal Fair Credit Reporting Act requires consumer reporting agencies to adopt reasonable procedures for exchanging information on credit, personnel, insurance, and other subjects in a manner that is fair and equitable to the consumer with respect to the confidentiality, accuracy, relevancy, and the proper use of this information.
 - a. Reports on consumers are prohibited unless the consumer is made aware that an investigate consumer report on her may be made. This notice must
 - advise the consumer that such report may contain information about the person's character, reputation, personal characteristics, and lifestyle; and
 - be given to the consumer no later than three days after a report was requested.
 - b. A consumer may make a written request for a complete disclosure of the nature and scope of the investigation underlying the report. Disclosure must be made in writing within five days after the date on which the consumer's request was received.

B. FRAUD AND FALSE STATEMENTS ACT [18 USCS 1033, 1034]

1. A person who transacts insurance in interstate commerce and who intentionally makes false material statements in connection with financial documents presented to insurance regulators or their deputies appointed to investigate the person, and to influence the actions of such officials, is subject to the following penalties:
 - a fine;
 - imprisonment for up to 10 years; or
 - both
2. Imprisonment can be ordered for up to 15 years if the false statements jeopardized the safety and soundness of an insurer and were a significant cause of the insurer being placed in conservation, rehabilitation, or liquidation by the courts.
3. Officers, directors, agents, and employees of an insurance company who willfully embezzle or misappropriate funds are subject to the same consequence described above.

- a.** However, if these actions jeopardized an insurer and significantly caused it to enter conservation, rehabilitation, or liquidation by the courts, imprisonment can be ordered for up to 15 years.
 - b.** If the amount embezzled does not exceed \$5,000, the perpetrator will be fined as noted above or imprisoned for up to one year, or both.
- 4.** The Attorney General may also prosecute such offenders. Upon conviction, they are subject to a penalty of up to \$50,000 for each violation or the amount of compensation that the person received or offered for the prohibited conduct, whichever is greater.

Part II
New Sample Questions

No new sample questions at this time.

Part III
Answers and Rationales

No new answers at this time.

Part IV

Errata

1. Unit 2 Quiz, Question #7
The answer is listed as **A**. The correct answer is **B**.
2. Unit 4 Quiz, Question #1
Question should read “which of the following statements concerning the Commercial Package Policy are NOT correct?”
3. Unit 4 Quiz, Question #4
This question applies to the businessowners policy and should appear in Unit 8.
4. Unit 8 Quiz, Question # 9
The correct answer is **B**. The rationale is incorrect. Employee vandalism, weather conditions, and negligent work are excluded on the BOP.
5. Unit 10 Quiz, Question #1
The answer is listed as **A**. The correct answer is **B**.

To submit comments or suggestions, please send an email to errata@kaplan.com.

KAPLAN FINANCIAL

www.kaplanfinancial.com
30 S. Wacker Drive, Ste. 2500, Chicago, IL 60606
800-824-8742