

Your answers are shown below:

1. Professional liability suits differ from general liability suits in that professional liability suits often rely on:

- A. Criminal law concepts.
- **B. Testimony of expert witnesses.**
- C. Punitive damages.
- D. Compliance with a code of ethics.

B is correct. (Obj 1 – Type A).

Plaintiffs often rely on the use expert witness testimony in professional liability suits.

2. Which of the following represents one of the types of damages recoverable under professional liability coverage for breach of contract?

- A. Regulatory damages.
- B. Tort damages.
- C. Excessive damages.
- **D. Consequential damages.**

D is correct. (Obj 1 – Type A).

Breach of contract damages include:

- Compensatory damages.
- Consequential damages.
- Liquidated damages.
- Nominal damages.

3. An amount of damages for breach of contract that is specifically stipulated in the contract as a reasonable amount to be recovered is known as:

- **A. Liquidated damages.**
- B. Consequential damages.
- C. Compensatory damages.
- D. Nominal damages.

A is correct. (Obj 1 – Type A).

B is incorrect. Consequential damages are damages awarded in a breach of contract suit awarded by a court to an injured party.

Consequential damages can include loss of profits.

C is incorrect. Compensatory damages are damages awarded in a breach of contract suit that are generally limited to the monetary loss sustained.

D is incorrect. Nominal damages are damages awarded in a breach of contract suit that are small in amount, such as \$1.

4. Which one of the following statements is correct regarding the legal foundations of professional liability?

- A. The distinguishing characteristic of tort actions against professionals is that malpractice must be proven.
- B. A professional can be held liable under tort law merely as a result of an unfavorable outcome.
- **C. Tort claims and contract claims may be subject to different statutes of limitations, making one type of claim preferable to the other.**
- D. Compensatory damages recoverable by a party alleging a breach of contract are generally limited to loss of profits.

C is correct. (Obj 1 – Type A).

A is incorrect. The distinguishing characteristic of tort actions against professionals is the need for testimony of expert witnesses.

B is incorrect. To be held liable under tort law, a professional must be found to have made an error that a reasonably competent professional would not have made.

D is incorrect. Compensatory damages recoverable by a party alleging a breach of contract are generally limited to monetary loss sustained.

5. Attorneys are permitted to challenge the testimony of experts and have their testimony excluded from a case as a result of:

- A. The doctrine of promissory estoppel.

- **B. The Daubert v. Merrell Dow Pharmaceuticals court case.**
- C. Statutory authority.
- D. Civil law injunctions.

B is correct. (Obj 1 – Type A).

The Daubert v. Merrell Dow Pharmaceuticals court case instructed courts to act as gatekeepers for scientific testimony. The case permitted attorneys to challenge the testimony of experts and have their testimony excluded from a case.

6. Rochon Electronics builds and ships Blu-Ray players among its various products. Each Blu-Ray player shipped by Rochon includes an HDMI cable. Rochon had a contract with Glutine Wiring to purchase 10,000 HDMI cables at \$5 per cable. Glutine failed to make delivery on schedule, and Rochon was forced to purchase HDMI cables on the open market for \$7 per cable. All 10,000 Blu-Ray players were sold, and were delivered with a free HDMI cable in each box. Rochon sued Glutine for breach of contract and was awarded \$20,000. This award is most likely an example of:

- A. Compensatory damages.
- **B. Consequential damages.**
- C. Liquidated damages.
- D. Nominal damages.

A is correct. (Obj 1 – Type B).

Compensatory damages would include the difference between the contract price agreed upon and the market price that Rochon had to actually pay.

Difference in price = (\$7 - \$5) x 10,000 = \$20,000

7. Koen Wiring entered into a contract with Don to install a new electrical wiring system on his property. Under the terms of the contract, the wiring would be completed within two weeks; otherwise, Koen would be required to pay a penalty of \$100 per day. Koen did not complete the wiring until three weeks later, resulting in a \$700 penalty. The penalty would fall under the category of:

- A. Nominal damages.
- B. Special damages.
- **C. Liquidated damages.**
- D. Consequential damages.

C is correct. (Obj 1 – Type B).

Liquidated damages are a specified amount of money that is stipulated in the contract as damages if the contract is breached.

8. Which one of the following statements is correct regarding professional liability coverage under commercial general liability policies?

- A. Many insurers are unwilling to expand their claim departments to include personnel needed to handle professional liability claims.
- B. Professional liability coverage requires less underwriting expertise than commercial general liability coverage.
- **C. Professional liability losses are excluded from coverage under the commercial general liability policy and must be purchased separately.**
- D. The professional liability loss exposures associated with most professions require just cursory underwriting treatment.

A is correct. (Obj 2 – Type A).

B is incorrect. Professional liability coverage often requires more underwriting skills than commercial general liability coverage.

C is incorrect. Some professional liability losses are covered under the CGL form. Professional liability losses may end up being excluded from coverage under the CGL if they do not fit the definition of bodily injury, property damage, or personal and advertising injury.

D is incorrect. Few professional liability loss exposures warrant cursory underwriting treatment. In many cases, the loss exposures require specific technical underwriting skills.

9. Which one of the following businesses would most likely have professional liability excluded from coverage in its commercial general liability (CGL) policy?

- A. Arts and crafts shop.

- B. Hardware store.
- **C. Barber shop.**
- D. Grocery store.

C is correct. (Obj 2 – Type A).

Certain organizations have significant professional liability loss exposures, and they require professional service exclusions in their CGL policies. Barber shops, beauty salons, and hair styling salons would all be considered organizations with significant professional liability loss exposures.

10. Which one of the following businesses would most likely have professional liability excluded from coverage in its commercial general liability (CGL) policy?

- **A. Gas station.**
- B. Storage facility.
- C. Restaurant.
- D. Internet service provider.

D is correct. (Obj 2 – Type A).

Certain organizations have significant professional liability loss exposures, and they require professional service exclusions in their CGL policies. Internet service providers would be considered organizations with significant professional liability loss exposures.

11. Tom got a tattoo on his forearm from SoSo Tattoo Shop. While he was paying for the tattoo, a framed picture fell off the wall of the shop, striking Tom and injuring his knee. Tom was transported to the hospital as a result of his knee injury. Later that day, Tom's tattooed area started swelling, and pus began oozing out, because the tattoo shop failed to properly clean the needle before applying Tom's tattoo. Which of the following represents the coverage provided by the shop's commercial general liability (CGL) policy?

- A. The CGL will most likely provide no coverage.
- **B. The CGL will most likely cover the injury to Tom's knee, but not the infection caused by the tattoo.**
- C. The CGL will most likely cover the infection caused by the tattoo, but not the injury to Tom's knee.
- D. The CGL will most likely cover both the injury to Tom's knee and the infection caused by the tattoo.

B is correct. (Obj 2 – Type B).

The shop's CGL policy will provide coverage for the injury to Tom's knee, but it will most likely exclude coverage for the infection because this is a professional liability exposure.

12. An insurance agent is covered under the following policies:

Directors and officers (D&O) coverage.

Commercial general liability (CGL) policy with a professional liability exclusion.

Professional liability policy.

A customer trips over a magazine rack in the agent's office and breaks his arm. The injury would be covered by:

- **A. The CGL policy only.**
- B. The CGL policy and the professional liability policy equally.
- C. The D&O policy only.
- D. The professional liability policy and the D&O policy equally.

A is correct. (Obj 2 – Type B).

The injury would be covered only under the CGL policy, as the loss is related to premises liability.

13. Which one of the following statements is correct regarding professional liability insurance policies?

- A. They typically limit coverage to those acts committed in the U.S. or Canada.
- B. They prohibit the insurer from appointing their own defense counsel.
- C. They all provide for the same coverage territories and policy exclusions.
- **D. They often limit their coverage to negligent acts, errors, or omissions.**

D is correct. (Obj 3 – Type A).

A is incorrect. Most policies provide coverage for acts committed anywhere in the world, as long as the suit is brought in the U.S. or Canada.

B is incorrect. Under the policy, an insurer may assume the right and duty to defend a claim. This provision would allow the insurer to appoint defense counsel.

C is incorrect. Professional liability insurance policies all provide for coverage for rendering or failing to render professional services. However, coverage territories and policy exclusions differ among the policies.

14. Which one of the following statements is correct regarding professional liability insurance policies?

- A. Defense costs are typically excluded from coverage.
- B. Coverage is typically limited to claims involving bodily injury and property damage.
- **C. All professional liability policies cover the individual professional named in the policy**
- D. Insurers prefer to use occurrence basis policies because they closely match claims with policies in force.

C is correct. (Obj 3 – Type A).

A is incorrect. Most policies pay for defense costs as long as they fall within the limits of the policy.

B is incorrect. Professional liability policies are designed to cover claims arising from rendering or failing to render professional services.

D is incorrect. Insurers prefer to use claims-made policies because they closely match claims with policies in force.

15. Which one of the following statements is correct regarding professional liability insurance policies?

- A. They all provide coverage for employees of the professional organization.
- **B. They typically contain a provision requiring the insurer to obtain the insured's consent to a settlement.**
- C. They allow an insurer to turn over the claim to an arbitrator if the claim is not settled within the policy period.
- D. They typically limit coverage to those acts committed in the U.S. or Mexico.

B is correct. (Obj 3 – Type A).

A is incorrect. Some policies do provide coverage for employees, but not all policies.

C is incorrect. Some policies require the claim to be submitted to an arbitrator if the insurer and insured cannot agree on a proposed settlement.

D is incorrect. Most policies provide coverage for acts committed anywhere in the world, as long as the suit is brought in the U.S. or Canada.

16. A physician travelled to a third-world country to provide aid after a tsunami. A patient helped by the physician develops an infection, and plans to sue the physician. Will the loss generally be covered by the physician's professional liability policy?

- A. No, because the loss occurred outside the U.S.
- B. No, because the physician was performing volunteer work.
- **C. Yes, but only if the patient files a lawsuit in the U.S. or Canada.**
- D. Yes, but only if the policy specifically lists the third-world country in the declarations page.

C is correct. (Obj 3 – Type B).

In order for the loss to be covered under a typical professional liability policy, the patient must file suit in the United States or Canada.

17. Which one of the following statements is correct regarding liability exposures of healthcare professionals?

- **A. Some entities can be protected from professional liability claims through the use of charitable and sovereign immunity defenses.**
- B. A hospital can only be liable for the acts of a nonemployee physician if express authority exists in the contract between the physician and the hospital.
- C. Most courts in the U.S. adhere to the locality rule, which requires any expert witnesses to possess local experience.
- D. Unlike other employers, medical practitioners cannot be held vicariously liable for the negligent acts of their employees.

A is correct. (Obj 4 – Type A).

B is incorrect. A hospital can be liable for the acts of a nonemployee physician if apparent authority exists for the physician to act on the hospital's behalf.

C is incorrect. Most courts in the U.S. have abandoned the locality rule, effectively establishing a national standard of care.

D is incorrect. Like other employers, medical practitioners can be held vicariously liable for the negligent acts of their employees.

18. Which one of the following statements is correct regarding liability exposures of healthcare professionals?

- A. Healthcare risk management emphasizes root-cause analysis, which focuses on reasonable care standards.
- **B. Some of the highest-risk professional liability classifications fall within the field of healthcare.**
- C. Sovereign immunity involves a physician disclosing required information to a patient prior to performing surgery.
- D. The medical professional is required to establish the standard of care applicable to the medical treatment provided.

B is correct. (Obj 4 – Type A).

A is incorrect. Healthcare risk management emphasizes root-cause analysis, which focuses on processes and systems.

C is incorrect. Informed consent involves a physician disclosing required information to a patient prior to performing surgery.

D is incorrect. A plaintiff in a lawsuit must establish the standard of care applicable to the medical treatment provided. Most courts require the use of expert witnesses to help establish this standard.

19. Which one of the following statements is correct regarding liability exposures of healthcare professionals?

- A. Good Samaritan laws may protect a hospital from liability associated with gross negligence.
- **B. The present national standard of care rule presumes all patients have the same availability of medical facilities.**
- C. Healthcare professionals have a duty to consult with or refer a patient to other specialists on a timely basis.
- D. Root-cause analysis is used by hospitals to determine whether charitable immunity can be claimed in the aftermath of a loss.

C is correct. (Obj 4 – Type A).

A is incorrect. Good Samaritan laws do not extend to acts of gross negligence.

B is incorrect. The present national standard of care rule implies that rural practitioners have the same training and judgment as urban practitioners.

D is incorrect. Root-cause analysis is used by hospitals to evaluate systems and processes to identify improvements.

20. To obtain informed consent, the physician is required to disclose to the patient information regarding:

- A. Available insurance to cover hospital or clinic charges.
- B. The costs associated with the proposed procedure or treatment.
- C. The patient's legal rights and remedies if the treatment is unsuccessful.
- **D. The nature of the patient's condition or problem.**

D is correct. (Obj 4 – Type A).

To obtain informed consent, the physician is required to disclose to the patient information regarding:

-The nature of the patient's condition or problem.

-Alternatives to the proposed procedure.

-Anticipated benefits of the proposed treatment.

-The purpose of the proposed procedure.

-Any risks associated with the proposed treatment.

21. Which one of the following statements is correct regarding healthcare professional liability insurance?

- A. The coverage territory is typically limited to procedures performed in the United States.
- B. Policies for physicians generally split coverage into two insuring agreements so medical incident and professional services can be combined into one definition.
- **C. It is common for the aggregate limit in policies to be triple the per incident or per person limit.**
- D. Hospitals can avoid coverage disputes by choosing either the commercial general liability policy or the professional liability policy, but not both.

C is correct. (Obj 4 – Type A).

A is incorrect. The coverage territory is typically worldwide, provided the suit is brought about in the U.S. or Canada.

B is incorrect. Policies for physicians generally split coverage into two insuring agreements. The split is necessary if the insurer does not provide coverage for all the individuals who are part of the entity.

D is incorrect. Hospitals can avoid coverage disputes by using the same insurer to provide both commercial general liability insurance and professional liability insurance.

22. A surgeon can be held liable for the negligence of a hospital employee working under his or her direction based on the legal theory of:

- A. Habeas corpus.
- B. Expanded liability.
- C. Implied authority.
- **D. Captain of the ship.**

D is correct. (Obj 4 – Type A).

Under the legal theories of "borrowed servant" or "captain of the ship," hospital employees are considered temporary servants of the operating surgeon, and therefore the surgeon can be held liable.

23. Jim was stabbed three times in the shoulder when he was robbed. He was rushed to the hospital in an unconscious state. The physician performed emergency surgery, removing his arm in order to save Jim's life. Jim files a suit against the physician because the physician failed to obtain informed consent. Will the physician be held liable for failing to obtain informed consent?

- A. No, because emergency conditions are an exception to the informed consent requirement.
- B. No, because the procedure took place in a hospital while Jim was unconscious.
- C. Yes, because all surgery requires informed consent from either the patient or a family member.
- **D. Yes, because the surgery was life-changing.**

A is correct. (Obj 4 – Type B).

Informed consent is required, except in the case of emergency conditions or unanticipated situations.

24. Claims against financial and legal professionals and the firms to which they belong can be based on all of the following EXCEPT:

- A. Tort principles.
- B. Statutes.
- **C. Property damage.**
- D. Breach of contract.

C is correct. (Obj 5 – Type A).

Claims against financial and legal professionals and the firms to which they belong can be based on:

-Tort principles.

-Statutes.

-Breach of contract.

25. The Sarbanes-Oxley Act of 2002:

- A. Enhanced financial disclosure requirements for privately-held corporations.
- **B. Created a regulatory organization that audits publicly-traded corporations.**
- C. Requires corporate officers to guarantee financial statements do not contain errors.
- D. Subjects officers to criminal penalties for failing to fulfill its requirements.

D is correct. (Obj 5 – Type A).

A is incorrect. Sarbanes-Oxley placed enhanced financial disclosure requirements for publicly-traded companies.

B is incorrect. Sarbanes-Oxley created a regulatory organization that regulates public accounting firms that audit publicly-traded companies.

C is incorrect. Sarbanes-Oxley requires principal officers to certify that they have reviewed the QUARTERLY and ANNUAL financial reports and that, to the best of their knowledge, the reports contain no untrue statements of material fact.

26. Which one of the following statements is correct regarding statutory liability relating to financial and legal professionals?

- **A. The Employee Retirement Income Security Act imposes fiduciary responsibilities on administrators of private-industry pension plans.**
- B. The Investment Advisers Act of 1940 increased the regulation of hedge funds and other derivative securities.
- C. A significant provision of the Dodd-Frank Act was the requirement of certification of corporate financial statements by the company executives.

- D. The Sarbanes-Oxley Act led to the abolishment of the Troubled Asset Relief Program (TARP), which provided for government bailouts.

A is correct. (Obj 5 – Type A).

B is incorrect. The Dodd-Frank Act increased the regulation of hedge funds and other derivative securities.

C is incorrect. A major provision of the Dodd-Frank Act was the abolishment of the Troubled Asset Relief Program (TARP), which provided for government bailouts.

D is incorrect. The certification of corporate financials by the company CEO and CFO is a requirement of the Sarbanes-Oxley Act.

27. Which one of the following statements is correct regarding financial and legal professional liability loss exposures?

- A. Extra-contractual damages are those damages that are awarded to pay attorney's fees.
- **B. In certain circumstances, a third party can assert a breach of contract against a financial or legal professional.**
- C. In the insurance industry, false pretense can be asserted if the insurer denies a claim without cause.
- D. Risk management is difficult because most professions in the financial field are not subject to regulatory standards.

B is correct. (Obj 5 – Type A).

A is incorrect. Extra-contractual damages are those damages in excess of the policy limit.

C is incorrect. In the insurance industry, bad faith can be asserted if the insurer denies a claim without cause.

D is incorrect. Most professions in the financial and legal field are subject to strict standards.

28. Which one of the following causes of loss is typically covered under a professional liability policy for financial and legal professionals?

- A. Property damage.
- B. Criminal acts.
- **C. Errors and omissions.**
- D. Bodily injury.

C is correct. (Obj 5 – Type A).

Professional liability policies for financial and legal professionals typically exclude:

- Bodily injury.
- Property damage.
- Dishonest acts.
- Criminal acts.

29. Which one of the following statements is correct regarding insurance related to financial and legal professional liability?

- A. The definition of professional services tends to differ greatly from policy to policy.
- **B. The majority of U.S.-domiciled insurers purchase insurance company errors and omissions insurance.**
- C. An unendorsed securities brokers liability policy will insure registered representatives for negligence claims related to brokering real estate.
- D. Policies almost always contain an occurrence-based trigger.

B is correct. (Obj 5 – Type A).

A is incorrect. The exclusions section is most likely to exhibit material differences from one policy form to the next, not the definition of professional services.

C is incorrect. Generally, an endorsement is required to cover claims relating to real estate brokerage services.

D is incorrect. Policies almost always contain a claims-made trigger.

30. Which one of the following statements is correct regarding professional loss exposures of architects and engineers?

- A. Only the entity with whom the architect or engineer has contracted can initiate a claim against the architect or engineer.
- **B. Claims against architects and engineers are more likely to hinge on contract interpretation than on the application of common law principles.**
- C. Personal injury and property damage are the primary loss exposures of architects and engineers.
- D. Binding arbitration is one of the most common forms of non-insurance risk transfer used by architects and engineers.

B is correct. (Obj 6 – Type A).

A is incorrect. Members of the public can also initiate professional liability claim against the architect or engineer.

C is incorrect. The primary loss exposures of professional architects are property damage, financial loss, and bodily injury.

D is incorrect. A hold-harmless agreement is one of the most common forms of non-insurance risk transfer used by architects and engineers.

31. If an architect contracts to supply drawings to a client by a specific date, but fails to deliver the drawings by that date, the client could assert:

- A. Negligent supervision of construction.
- B. Conflict of interest.
- C. Practicing beyond the scope of the license.
- **D. Breach of contract.**

D is correct. (Obj 6 – Type A).

The architect breached the terms of the contract, and therefore, the client could sue the architect for breach of contract.

32. Which one of the following statements is correct regarding professional liability insurance for architects and engineers?

- **A. Coverage under professional liability policies for architects and engineers can be extended to subcontractors if they have been named as an additional insured.**
- B. Professional liability policies for architects and engineers usually contain an exclusion for claims related to bodily injury and property damage.
- C. Virtually all architect and engineers professional liability policies are written on an occurrence basis.
- D. ISO has drafted a standard policy form for providing professional liability insurance to architects and engineers.

A is correct. (Obj 6 – Type A).

B is incorrect. Professional liability policies for architects and engineers do not contain a flat exclusion of claims for bodily injury and property damage.

C is incorrect. virtually all architect and engineers professional liability policies are written on a claims-made basis.

D is incorrect. There is no standard policy form for providing professional liability insurance to architects and engineers.

33. Chuck, an architect, and Larry, an engineer, are each 50% owners of Build It Up, LLC. While Chuck is on vacation, Larry draws up the architectural plans for a small strip center for a one of the LLC's clients. Flaws in the architectural plans cause the finished building to be declared structurally unsound. The client will most likely allege:

- A. Negligent supervision of construction.
- B. Liability to other parties.
- **C. Practicing beyond the scope of the license.**
- D. Negligent selection of materials.

C is correct. (Obj 6 – Type B).

Practicing beyond the scope of the license could be asserted because each state requires architects and engineers to be licensed before practicing in that state. An engineer that creates architectural plans would be practicing beyond the scope of their engineering license.

34. Oscar, an engineer, retires after a 25-year career building shopping centers. One year later, after the expiration of his professional liability policy, he finds out he is being sued by a client who was injured in one of the shopping centers. Would the professional liability policy provide any coverage?

- A. No, because the policy had expired.
- B. No, because bodily injury is excluded under professional liability policies.
- **C. Yes, because the policy most likely contains an extended reporting period.**
- D. Yes, because the policy contains a bad faith provision that addresses this situation.

C is correct. (Obj 6 – Type B).

Professional liability policies often contain an extended reporting period that applies when a professional retires, dies, or becomes disabled.

