

Your answers are shown below:

**1. The need for excess or umbrella liability insurance is closely related to three basic issues involved in the use of liability insurance. Those three issues include all of the following, EXCEPT:**

- A. Layering of liability coverages.
- **B. Insurer solvency.**
- C. Effect of aggregate limits.
- D. Difficulty in determining the maximum possible loss.

**B is correct. (Obj 1 – Type A).**

The need for excess or umbrella liability insurance is closely related to three basic issues involved in the use of liability insurance:

- Effect of aggregate limits.
- Difficulty in determining the maximum possible loss.
- Layering of liability coverages.

**2. Which one of the following statements is correct regarding the need for excess or umbrella liability coverage?**

- A. Higher average deductibles in primary liability insurance policies have created a demand for more excess liability insurance coverage.
- B. The need for excess or umbrella liability coverage has declined in recent years due to the lower frequency of large verdicts against insureds.
- **C. Insureds often purchase excess or liability insurance coverage because their primary insurers are unwilling to provide adequate limits within the primary insurance layer.**
- D. Excess and umbrella liability coverages provide additional coverages for liability exposures in which it may be difficult to estimate the minimum probable loss.

**C is correct. (Obj 1 – Type A).**

A is incorrect. The deductible in a primary liability insurance policy does not affect excess or umbrella liability coverage. The excess or umbrella liability coverage would become effective once the limit (not the deductible) of the primary policy has been reached.

B is incorrect. Large verdicts have become increasingly common and have served to increase the need for excess or umbrella liability coverage.

D is incorrect. Excess and umbrella liability coverages provide additional coverages for liability exposures in which it may be difficult to determine the maximum possible loss.

**3. Because of the difficulty in estimating the maximum possible loss for liability claims, many insureds should consider:**

- **A. Purchasing an excess or umbrella liability coverage.**
- B. Increasing their commercial general liability policy deductible.
- C. Creation of separate business entities for each service offering.
- D. Implementing a risk management program designed to eliminate hazardous conditions.

**A is correct. (Obj 1 – Type A).**

Although most property loss exposures have a maximum possible loss that can be determined, this is not the case for most liability loss exposures. As a result, insureds should consider the purchase of an excess or umbrella liability policy to cover potentially large liability losses.

**4. A risk manager for a large manufacturing company has determined that the company needs \$50,000,000 of liability insurance coverage. However, no single insurer is willing to write a \$50,000,000 policy. The risk manager designed the following insurance plan:**

**ABC Insurance Company – \$5,000,000 policy.**

**DEF Insurance Company – \$10,000,000 policy.**

**GHI Insurance Company – \$15,000,000 policy.**

**JKL Insurance Company – \$20,000,000 policy.**

**Which one of the following represents the best description of this type of insurance plan?**

- A. Offset plan.
- B. Reimbursement plan.
- C. Indemnification plan.
- **D. Layering plan.**

**D is correct. (Obj 1 – Type B).**

Layering involves the purchase of additional policies from various insurers.

**5. Which one of the following statements is correct regarding excess liability insurance and umbrella liability insurance?**

- A. Almost all insurers writing excess and umbrella liability policies use standardized policies.
- **B. From a practical standpoint, the distinction between excess and umbrella liability policies may be unclear.**
- C. Umbrella liability policies rarely provide coverage for defense costs.
- D. An excess liability policy offers broader protection than that provided by the underlying coverage.

**B is correct. (Obj 2 – Type A).**

A is incorrect. Many insurers writing excess and umbrella liability policies write their own custom policies.

C is incorrect. Most umbrella liability policies provide defense coverage.

D is incorrect. An excess liability policy does not offer broader protection than that provided by the underlying coverage. The coverage may actually be more restrictive.

**6. Which one of the following represents a difference between an excess policy and an umbrella liability policy?**

- A. Almost all excess liability insurance policies are written on standardized forms, while almost all umbrella liability policies are manuscript forms.
- B. An excess policy contains a self-insured retention amount, while an umbrella liability policy excludes this provision.
- **C. An excess policy offers no broader protection than that offered in underlying policies, while an umbrella policy may provide coverage not available in underlying policies.**
- D. An excess policy would typically have a benefit limit far lower than the benefit offered by an umbrella liability policy.

**C is correct. (Obj 2 – Type A).**

A is incorrect. Many insurers do not use standardized policies for excess and umbrella liability policies, and the policies vary considerably in the coverages they offer.

B is incorrect. The umbrella liability policy is the only policy that contains a self-insured retention.

D is incorrect. Both excess and umbrella policies can offer extremely high limits.

**7. ABC Company incurred a liability loss that is not covered under their primary liability insurance policy. Which one of the following statement is correct regarding coverages under either an excess or umbrella liability policy?**

- A. Both an excess and umbrella liability policy might cover the loss, subject to a self-insured retention.
- B. Neither the excess nor the umbrella liability policy would cover the loss, because the loss is not covered under the primary policy.
- C. The umbrella liability policy will not cover the loss, but the excess policy may cover the loss, subject to a self-insured retention.
- **D. The excess policy will not cover the loss, but the umbrella liability policy may cover the loss, subject to a self-insured retention.**

**D is correct. (Obj 2 – Type B).**

An excess policy provides no broader protection than that offered by the underlying policy. An umbrella liability policy may provide coverage not available in the underlying policy.

**8. Which one of the following types of insurance policies provides coverage that is more broad than commercial excess liability insurance?**

- A. Business automobile policy.
- **B. Umbrella policy.**
- C. Self-contained policy.
- D. "Following form" policy.

**B is correct. (Obj 3 – Type A).**

A is incorrect. A business automobile policy provides certain levels of liability coverage, but the limits are lower than those found in an umbrella policy.

C is incorrect. A self-contained policy is a type of commercial excess liability policy.

D is incorrect. A "following form" policy is a type of commercial excess liability policy.

**9. Which one of the following statements is correct regarding a following-form excess liability policy?**

- A. It is essentially just an increase in limits to the underlying policy.
- B. In most cases, it requires a self-insured retention before coverage applies.
- C. It usually provides fewer exclusions than the primary policy, leading to coverage that is broader in scope.
- D. It does not depend on the provisions of the underlying policy for determining the scope of coverage.

**A is correct. (Obj 3 – Type A).**

B is incorrect. The following-form excess liability policy does not have a self-insured retention.

C is incorrect. In some cases, coverage provided by a following-form excess liability policy may differ from the underlying coverages. In these cases, the following-form excess liability policy typically offers narrower coverage than the underlying policy.

D is incorrect. A following-form excess liability policy only covers a claim if the loss is covered by the underlying policy.

**10. Which one of the following statements is correct regarding a self-contained excess liability policy?**

- A. It is typically used in connection with self-insured workers' compensation plans.
- B. It is basically nothing more than an increase in limits to the underlying policy.
- C. It requires a self-insured retention.
- D. It generally does not depend on the provisions of the underlying policy.

**D is correct. (Obj 3 – Type A).**

A is incorrect. Specific and aggregate excess liability insurance is typically used in connection with self-insured workers' compensation plans.

B is incorrect. A self-contained excess liability policy has its own provisions for determining scope of coverage. Therefore, it is not merely an increase in limits in the underlying policy. A following form excess liability policy in some ways can be considered nothing more than an increase in limits to the primary policy.

C is incorrect. A self-contained excess liability policy does not require a self-insured retention.

**11. Which one of the following is an excess liability policy that covers a claim in excess of the underlying limits only if the loss is covered by the underlying policy?**

- A. Per diem liability policy.
- B. Following-form excess policy.
- C. Self-contained excess policy.
- D. Umbrella liability policy.

**B is correct. (Obj 3 – Type A).**

A following-form policy covers a claim in excess of the underlying limits only if the loss is covered by the underlying policy. A self-contained excess liability policy is subject only to its own provisions.

**12. Which one of the following excess liability insurance policies includes the provisions of the underlying policy and then modifies those provisions with additional exclusions or conditions?**

- A. Self-contained excess liability policy.
- B. Aggregate excess liability policy.
- C. Combination excess liability policy.
- D. Specific excess liability policy.

**C is correct. (Obj 3 – Type A).**

Combination excess liability policy combines the approaches of the following-form and self-contained policies by incorporating the provisions of the underlying policy. These provisions are modified through conditions and exclusions.

**13. Mena Restaurant Company has general liability coverage with the following limits: \$400,000 per-claim limit. \$4,000,000 annual aggregate limit. A customer was injured at one of the restaurants and was awarded a judgment of \$1,400,000. The first \$400,000 of the claim was covered by Mena's general liability policy. Provided an adequate amount of insurance was purchased, which one of the following excess liability forms would most likely cover the additional \$1,000,000 judgment?**

- A. Following-form excess policy.
- B. Self-contained excess policy.

- C. Umbrella liability policy.
- D. Combination excess liability policy.

**A is correct. (Obj 3 – Type B).**

The likelihood is the greatest that the additional judgment would be covered under the following-form excess liability policy. This is because the following-form policy incorporates the same provisions and conditions of the underlying policy. Since the loss was covered under the underlying policy, the following-form excess policy would also cover the loss.

**14. Onyx Company retains general liability claims up to \$50,000 per occurrence. They purchased excess liability coverage that, after the retention, provides both specific and aggregate excess coverage as follows:**

**Specific excess limit – \$250,000 per occurrence.**

**Aggregate excess limit – \$2,500,000.**

**Onyx sustained the following general liability claims during the year:**

**Claim 1 – \$25,000 settlement.**

**Claim 2 – \$350,000 settlement.**

**Claim 3 – \$200,000 settlement.**

**How much of will the excess insurer pay in total?**

- A. \$0.
- B. **\$400,000.**
- C. \$450,000.
- D. \$575,000.

**B is correct. (Obj 3 – Type B).**

The specific excess part of the policy would pay the following:

Claim 1 – \$25,000 settlement - \$50,000 retention = \$0

Claim 2 – \$350,000 settlement - \$50,000 retention = \$300,000, but limited to \$250,000 excess limit.

Claim 3 – \$200,000 settlement - \$50,000 retention = \$150,000

Therefore, the total amount covered would be \$400,000 (\$0 + \$250,000 + \$150,000).

**15. GOW Manufacturing purchased a specific excess liability policy. Limits are as follows:**

**Per occurrence retention – \$200,000.**

**Maximum limit – \$2,000,000.**

**GOW incurred the following losses during the policy year:**

**January – \$300,000.**

**March – \$100,000.**

**July – \$200,000.**

**September – \$1,500,000.**

**Under the specific excess liability policy, how much will the insurer will pay for the losses?**

- A. \$1,300,000.
- B. **\$1,400,000.**
- C. \$1,900,000.
- D. \$2,000,000.

**B is correct. (Obj 3 – Type B).**

The specific excess part of the policy would pay the following:

January – \$300,000 - \$200,000 retention = \$100,000

March – \$100,000 - \$200,000 retention = \$0

July – \$200,000 - \$200,000 retention = \$0

September – \$1,500,000 - \$200,000 retention = \$1,300,000

Therefore, the total amount covered would be \$1,400,000 (\$100,000 + \$0 + \$0 + \$1,300,000).

**16. Which one of the following statements is correct regarding an umbrella liability policy?**

- A. It eliminates the need for the insured to carry any primary policies.
- B. It only covers claims that are not covered by the insured's primary policies.
- **C. It may contain exclusions more restrictive than those contained in the primary policies.**
- D. It rarely contains aggregate limits, since underlying policies already contain these limits.

**C is correct. (Obj 4 – Type A).**

A is incorrect. Each insurer selling umbrella policies has its own requirements for the types and amounts of underlying insurance the insured must have.

B is incorrect. An umbrella liability policy covers claims that are also covered by the insured's primary policies. In addition, it covers some claims that are not covered by the insured's primary policies. An umbrella policy provides additional limits above the each occurrence limits of the primary policies.

D is incorrect. Almost all umbrella policies contain aggregate limits that operate like the aggregate limits contained in the primary insurance policies.

**17. If an umbrella liability policy provides coverage for a loss, even when the loss is not covered by underlying insurance, this coverage is known as:**

- **A. Drop-down coverage.**
- B. Layered coverage.
- C. Self-insured coverage.
- D. Triggered coverage.

**A is correct. (Obj 4 – Type A).**

Drop-down coverage is coverage provided by an umbrella policy when a claim is not covered by the underlying policies, or the underlying policies' aggregate limits have been exhausted.

**18. With respect to an umbrella liability policy, an amount that is deducted from claims that are not covered at all by any primary policy is referred to as a:**

- A. Drop-down deductible.
- B. Conditional exclusion.
- C. Sublimit.
- **D. Self-insured retention.**

**D is correct. (Obj 4 – Type A).**

A self-insured retention usually applies when a claim is covered under the umbrella policy, but is not covered by any primary policy.

**19. Which one of the following statements is correct regarding umbrella liability policies?**

- A. They are limited to a single insuring agreement.
- **B. They may contain exclusions that do not exist in the underlying policy.**
- C. They typically require the insured to establish identical limits for the various primary insurance coverages.
- D. They are typically written with a claims-made coverage trigger.

**B is correct. (Obj 4 – Type A).**

A is incorrect. Many umbrella policies contain one comprehensive insuring agreement, but this is not a requirement.

C is incorrect. Each insurer writing umbrella liability policies has their own requirements as to the types and amounts of underlying insurance. The limits on the various types of underlying insurance can differ.

D is incorrect. Umbrella liability policies are typically written with an occurrence coverage trigger.

**20. Which one of the following statements is correct regarding the self-insured retention (SIR) in an umbrella policy?**

- A. The SIR only applies when an underlying insurance also covers a portion of the loss.
- B. The SIR applies to all umbrella coverage payments.
- C. The SIR cannot exceed \$1,000.
- **D. The SIR is similar to a deductible.**

**D is correct. (Obj 4 – Type A).**

A is incorrect. The SIR applies only when the loss is not covered by an existing underlying policy.

B is incorrect. The SIR applies only when the loss is not covered by an existing underlying policy.

C is incorrect. The SIR is typically much higher than \$1,000.

**21. Wanda causes an accident while driving her business automobile. The driver of the other car is awarded \$900,000 for his injuries. Wanda has a Business Auto Liability policy with a bodily injury liability limit of \$250,000 per person and an umbrella liability policy with a \$2,000,000 limit and a \$2,000 self-insured retention (SIR). It is later discovered that the amount due from Wanda's Business Auto Liability insurer is uncollectible. What amount will the umbrella insurer pay for this accident?**

- A. \$250,000.
- **B. \$650,000.**
- C. \$895,000.
- D. \$900,000.

**B is correct. (Obj 4 – Type B).**

The umbrella insurer is excess over any other insurance, whether that other insurance is collectible or not. The SIR does not apply when underlying insurance coverage is present. Therefore, the umbrella insurer will pay for the loss minus the amount covered by Wanda's Business Auto Liability policy.

Loss covered by umbrella policy = \$900,000 total loss - \$250,000 Business Auto Liability coverage limit = \$650,000

**22. Gina's Manufacturing Company has a commercial general liability (CGL) policy with a limit of \$1,000,000. The company also has a \$1,000,000 umbrella policy. The umbrella policy is subject to a \$25,000 self-insured retention (SIR). Gina's Manufacturing Company recently posted several ads online, which included disparaging remarks about their competitors. Gina's Manufacturing was sued by one of their competitors and lost a judgment for \$500,000. Their CGL policy does not cover advertising injury. How much will Gina's Manufacturing be entitled to recover from the insurers?**

- A. \$0.
- B. \$225,000.
- **C. \$475,000.**
- D. \$500,000.

**C is correct. (Obj 4 – Type B).**

The CGL policy excludes advertising injury, so Gina's Manufacturing will collect nothing from the CGL. The umbrella policy will drop down and provide reimbursement for the judgment. Drop-down coverage is subject to a self-insured retention.

Therefore, the amount of the covered loss is \$475,000 (\$500,000 - \$25,000).

**23. An insured has a commercial general liability (CGL) policy with a \$2,000,000 per occurrence limit and a \$4,000,000 general aggregate limit. The insured also has an umbrella policy with a \$2,000,000 limit and a \$25,000 self-insured retention. At the time of a loss, the CGL was canceled due to non-payment of premiums. If the insured incurred a \$2,200,000 loss, and this loss would have been covered by the CGL had the premiums been paid, how much will the umbrella policy pay toward the loss?**

- A. \$0.
- B. \$175,000.
- **C. \$200,000.**
- D. \$2,175,000.

**C is correct. (Obj 4 – Type B).**

The umbrella policy will pay \$200,000 toward this loss. Had the CGL not lapsed, the CGL would have provided \$2,000,000 of coverage, resulting in the umbrella policy providing \$200,000 of coverage.

**24. A distribution company has a commercial general liability (CGL) policy with liability limits of:**  
**\$1,000,000 per occurrence.**  
**\$2,000,000 general aggregate.**

**\$2,000,000 products and completed operations aggregate.**

**The insured also has a drop-down coverage umbrella policy with a \$2,000,000 limit and a \$25,000 self-insured retention.**

**The following bodily injury claims were filed against the company:**

**Claim 1 – \$900,000 settlement.**

**Claim 2 – \$500,000 settlement.**

**Claim 3 – \$1,000,000 settlement.**

**The CGL provided coverage for all three claims. How much did the umbrella insurer contribute to the Claim 3?**

- A. \$0.
- B. \$375,000.
- **C. \$400,000.**
- D. \$1,000,000.

**C is correct. (Obj 4 – Type B).**

The aggregate limit under the CGL was \$2,000,000. As a result, the umbrella policy will pay for losses once the \$2,000,000 aggregate limit is reached. The CGL will completely pay the first two claims, as they are under the \$2,000,000 aggregate limit in total.

Amount paid towards Claim 3 = Total Claims - Aggregate CGL Limit

Amount paid towards Claim 3 = (\$900,000 + \$500,000 + \$1,000,000) - \$2,000,000

Amount paid towards Claim 3 = (\$2,400,000) - \$2,000,000

Amount paid towards Claim 3 = \$400,000

**25. Which one of the following statements is correct regarding the structuring of a liability insurance program?**

- **A. Insureds wanting higher limits of liability above the working layers usually achieve this through one or more layers of excess liability coverage.**
- B. If a following-form excess policy is purchased, risk managers should assume the coverage of this policy is as broad as the underlying policies.
- C. When an insurance program has several liability policies layered on top of one another, the primary and first umbrella layers
- are referred to as buffer layers.
- D. An organization maximizes its risk management value by combining an excess policy with an umbrella liability policy.

**A is correct. (Obj 5 – Type A).**

B is incorrect. Risk managers should not assume coverage provided by a following-form excess policy is as broad as the underlying policies. The excess policy should be compared to the underlying policies to discover ways in which its coverage is more restrictive than coverage in the underlying policies.

C is incorrect. When an insurance program has several liability policies layered on top of one another, the primary and first umbrella layers are referred to as working layers.

D is incorrect. An organization maximizes its risk management value by combining insurance and non-insurance techniques.

**26. A level of excess insurance coverage that exists between a primary layer and an umbrella policy is referred to as a:**

- **A. Buffer layer.**
- B. Default layer.
- C. Base layer.
- D. Safety net layer.

**A is correct. (Obj 5 – Type A).**

A buffer layer is a level of excess insurance purchased between a primary layer of insurance and an umbrella policy.

**27. Which one of the following represents a problem that can occur when layering policies?**

- **A. It is virtually impossible to find an insurer willing to write multiple layers of coverage.**
- B. Premium discounts are not available for layered policies.
- C. If a primary policy lapses due to non-payment of premiums, excess layers will no longer provide coverage for losses.
- D. The aggregate limits may vary with the umbrella and excess layers.

**D is correct. (Obj 5 – Type A).**

One potential problem with layering coverage is that the aggregate limits may vary with the umbrella and excess layers.

**28. A large corporation purchased umbrella liability insurance with the following limits:**

**\$1,000,000 per occurrence.**

**\$2,000,000 aggregate limit.**

**The company is required to retain \$100,000 per occurrence. During the year, the company had the following losses that were covered under the umbrella policy:**

**Loss 1 – \$80,000**

**Loss 2 – \$1,700,000**

**Loss 3 – \$800,000**

**How much of the losses will be covered by the umbrella policy?**

- **A. \$1,700,000.**
- B. \$2,000,000.
- C. \$2,480,000.
- D. \$2,500,000.

**A is correct. (Obj 5 – Type B).**

Loss 1 – since the loss is less than the \$100,000 retention amount, none of the loss will be covered by the umbrella policy.

Loss 2 – the \$1,700,000 loss will be limited to the \$1,000,000 per occurrence limit.

Loss 3 – the \$800,000 loss will be reduced by the \$100,000 required retention, resulting in \$700,000 being covered.

Total covered by umbrella policy = \$0 + \$1,000,000 + \$700,000 = \$1,700,000

**29. ABC Company purchased a commercial general liability policy with the following limits:**

**\$1,000,000 per occurrence limit.**

**\$2,000,000 general aggregate limit.**

**The company also carries an umbrella liability policy with the following limits:**

**\$2,000,000 per occurrence limit.**

**\$2,000,000 general aggregate limit.**

**\$25,000 self-insured retention.**

**A covered claim arises, resulting in a judgment of \$2,400,000 against the company. How much of the judgment is paid by the umbrella liability policy?**

- A. \$1,375,000.
- **B. \$1,400,000.**
- C. \$2,375,000.
- D. \$2,400,000.

**B is correct. (Obj 5 – Type B).**

Since the claim is a covered claim, the CGL policy will pay up to the \$1,000,000 per occurrence limit. The remaining amount of the judgment, \$1,400,000 (\$2,400,000 - \$1,000,000), will be paid by the umbrella policy. The self-insured retention does not apply because the underlying coverage provides coverage for the loss.



