## Contents

| Insurance | ce: Basic Pr                          | inciples and | Concepts  | 1  |  |
|-----------|---------------------------------------|--------------|---|----|--|
| I.        | INTRODU                               | JCTION       |   | 1  |  |
|           | 1-1                                   | Overview     |   | 1  |  |
|           |                                       | 1-1:1        | The Insurance Policy                            | 1  |  |
|           | 1-2                                   | Risk and R   | Risk Concepts                                   | 3  |  |
|           |                                       | 1-2:1        | What is Risk?                                   | 3  |  |
|           |                                       | 1-2:2        | Risk Transfer                                   | 4  |  |
|           |                                       | 1-2:3        | Risk Pooling and Risk Prediction                | 4  |  |
|           |                                       | 1-2:4        | The Law of Large Numbers                        | 5  |  |
|           | 1-3                                   | What Risk    | s are Insurable?                                | 6  |  |
|           | 1-4                                   | Insurable I  | Insurable Interest Doctrine                     |    |  |
|           |                                       | 1-4:1        | Nature of an Insurable Interest                 | 6  |  |
|           |                                       | 1-4:2        | Insurable Interest in Property                  | 8  |  |
|           |                                       | 1-4:3        | Insurable Interest in Health and Life Insurance | 9  |  |
|           | 1-5                                   | Fortuity     |   | 9  |  |
|           | 1-6 Moral Hazard and Behavior Changes |              |   |    |  |
|           | 1-7                                   | Underwriti   | ing and Pricing Risk                            | 10 |  |
| II.       | REGULATION OF INSURANCE               |              |   |    |  |
|           | 1-8                                   | Introduction | on  | 10 |  |
|           | 1-9                                   | Regulating   | "The Business of Insurance"                     | 11 |  |
|           |                                       | 1-9:1        | The Power to Regulate Insurance                 | 12 |  |
|           |                                       | 1-9:2        | Federal Regulation: McCarran-Ferguson Act       | 12 |  |
|           | 1-10                                  | Regulation   | of Insurance in New Jersey                      | 13 |  |
|           |                                       | 1-10:1       | Introduction: New Jersey Insurance              |    |  |
|           |                                       |              | Legislation and Administrative Regulations      | 13 |  |
|           |                                       | 1-10:2       | Application to Executive Branch:                |    |  |
|           |                                       |              | Administrative Regulations                      | 14 |  |
|           |                                       | 1-10:3       | State Control of Insurers                       | 16 |  |
|           |                                       | 1-10:4       | Legislative Leeway                              | 16 |  |
|           |                                       | 1-10:5       | Presumption of Validity                         | 17 |  |
|           |                                       | 1-10:6       | The Insurance Trade Practices Act               | 17 |  |
|           |                                       | 1-10:7       | Judicial Regulation                             | 18 |  |

| III.   | TYPES AND LINES OF INSURANCE PRODUCTS AND         |  |   |          |  |  |
|--------|---|--|---|----------|--|--|
|        | POLICIES  |  |   |          |  |  |
|        | 1-11  | Introduction                                 | on  | 19       |  |  |
|        |   | 1-11:1                                       | Proving Missing or Lost Policies of Insurance | 19       |  |  |
|        | 1-12  | Life and N                                   | Ion-Life Categories of Insurance              | 21       |  |  |
|        | 1-13  |  | Consumer and Commercial Lines                 | 21       |  |  |
|        | 1-14  | First-Party and Third-Party Insurance        |   |          |  |  |
|        | 1-15  | -  | pes of Insurance                              | 22       |  |  |
|        |   | 1-15:1                                       | Overview                                      | 22       |  |  |
|        | 1-16  | Life Insura                                  | ance and Other Life Products                  | 22       |  |  |
|        | 1-17  | Property I                                   | nsurance                                      | 23       |  |  |
|        | 1-18  | Liability I                                  |   | 24       |  |  |
|        | 1-19  | •  | es of Insurance                               | 25       |  |  |
|        |   | 1-19:1                                       | Financial Guaranty                            | 25       |  |  |
|        |   | 1-19:2                                       | Bonds, Fidelity, and Crime Insurance          | 25       |  |  |
|        | 1-20  | Title Insurance                              |   |          |  |  |
|        | 1-21  | Title Insurance 2 Political Risk Insurance 2 |   |          |  |  |
|        | 1-22  | Social Insurance 2                           |   |          |  |  |
| Chanta | . 2. 1  | of an Inc.                                   | namaa Dalkari                                 | 29       |  |  |
| _      | r 2: Anatomy of an Insurance Policy INTRODUCTION  |  |   |          |  |  |
| I.     | 2-1   | Overview                                     |   | 29<br>29 |  |  |
|        |   |  | annotation Deimainles                         |          |  |  |
| II.    | 2-2   | •  | erpretation Principles                        | 30<br>31 |  |  |
| 11.    | PARTS OF INSURANCE POLICIES 2-3 Declarations Page |  |   |          |  |  |
|        |   | Declarations Page Insuring Agreements        |   |          |  |  |
|        | 2-4   | _  | •   | 33       |  |  |
|        |   | 2-4:1  | Occurrence-Based Policies                     | 33       |  |  |
|        | 2.5   | 2-4:2  | Claims-Made Policies                          | 34       |  |  |
|        | 2-5   | Definition                                   |   | 35       |  |  |
|        |   | 2-5:1  | Occurrence Defined                            | 35       |  |  |
|        |   | 2-5:2  | "Bodily" Injury as Including                  | 2.0      |  |  |
|        | 2 (   | F 1 '  | Emotional Distress                            | 36       |  |  |
|        | 2-6   | Exclusions                                   |   | 36       |  |  |
|        |   | 2-6:1  | Purpose                                       | 36       |  |  |
|        |   | 2-6:2  | Exclusions Require Prominence                 | 37       |  |  |
|        |   | 2-6:3  | Exclusion Plainly Expressed                   | 38       |  |  |
|        |   | 2-6:4  | Exclusion Cannot Violate Statutory Policy     | 39       |  |  |
|        |   | 2-6:5  | Burden of Proof                               | 39       |  |  |
|        |   | 2-6:6  | Commonly Litigated Exclusions                 | 40       |  |  |

xvi

|        |             |             | 2-6:6.1      | Expected or Intended Exclusion     | 40 |
|--------|-------------|-------------|--------------|------------------------------------|----|
|        |             |             | 2-6:6.2      | Contractual Liability Exclusion    | 41 |
|        |             |             | 2-6:6.3      | Liquor Liability Exclusion         | 41 |
|        |             |             | 2-6:6.4      | Sistership Exclusion               | 42 |
|        |             |             | 2-6:6.5      | Business-Risk Exclusion            | 43 |
|        |             |             | 2-6:6.6      | Performance Exclusion              | 44 |
|        |             |             | 2-6:6.7      | Damage to Property Exclusion       | 44 |
|        |             |             | 2-6:6.8      | Motor Vehicle Exclusion            | 45 |
|        |             |             | 2-6:6.9      | Professional Services Exclusion    | 45 |
|        |             |             | 2-6:6.10     | <b>Business Pursuits Exclusion</b> | 46 |
|        |             |             | 2-6:6.11     | Punitive Damages Exclusion         | 46 |
|        |             |             | 2-6:6.12     | Sequential Clause Exclusion        | 46 |
|        |             |             | 2-6:6.13     | Care, Custody and Control          |    |
|        |             |             |              | Exclusion                          | 47 |
|        |             |             | 2-6:6.14     | Intra-Family Exclusions            | 47 |
|        |             |             | 2 -6:6.15    | Absolute Pollution Exclusion       | 47 |
|        | 2-7         | Conditio    | ns           |                                    | 48 |
|        |             | 2-7:1       | Generally    | ,                                  | 48 |
|        |             | 2-7:2       | Common       | Provisions                         | 48 |
|        |             | 2-7:3       | Notice an    | d Proof of Loss                    | 49 |
|        |             |             | 2-7:3.1      | Appreciable Prejudice Required     |    |
|        |             |             |              | in Occurrence Policies             | 49 |
|        | 2-8         | Cooperat    | tion Clauses |                                    | 49 |
|        | 2-9         | Endorser    | nents        |                                    | 50 |
| Chapte | er 3: Forma | tion and Te | mination of  | an Insurance Contract              | 51 |
| I.     | INTROL      | DUCTION     |              |                                    | 51 |
|        | 3-1         | Overview    | 7            |                                    | 51 |
| II.    | FORMA       | TION OF A   | AN INSUR     | ANCE POLICY                        | 52 |
|        | 3-2         | Ordinary    | Rules of Co  | ontract Formation Apply            | 52 |
|        | 3-3         | Offer and   | d Acceptance | e                                  | 52 |
|        | 3-4         | Consider    | ation        |                                    | 52 |
|        | 3-5         | Creating    | the Policy   |                                    | 52 |
|        |             | 3-5:1       | Issuance of  | of Policy or Binder                | 52 |
|        |             | 3-5:2       | Effect of    | Binder                             | 53 |
|        |             | 3-5:3       | The Polic    | y Period: When Does                |    |
|        |             |             | Coverage     | Apply?                             | 53 |
|        | 3-6         | Obligation  | ons of Prosp | ective Insured                     | 53 |
|        | 3-7         | Payment     | Issues       |                                    | 53 |

|      |      | 3-7:1       | Conditional Payment Rule                       | 53 |  |  |
|------|------|-------------|--|----|--|--|
|      |      | 3-7:2       | Effect of Broker's Receipt of Premium          | 54 |  |  |
|      |      | 3-7:3       | Cancellation Right for Dishonored              |    |  |  |
|      |      |             | Premium Payment                                | 54 |  |  |
|      | 3-8  | Binder T    | ime Restriction to Benefit the Insured         | 54 |  |  |
|      | 3-9  | Obligation  | ons on Application for Insurance               | 55 |  |  |
|      |      | 3-9:1       | Warranty and Representation                    | 55 |  |  |
|      |      | 3-9:2       | Material Change in Conditions                  | 55 |  |  |
|      |      | 3-9:3       | Failure to Disclose Material Change            | 55 |  |  |
|      |      | 3-9:4       | Representations Need be Substantially True     | 55 |  |  |
|      |      | 3-9:5       | Time of Death Limitation in Life Policies      | 56 |  |  |
|      |      | 3-9:6       | Broker's Failure to Confirm Oral Binder        | 56 |  |  |
|      |      | 3-9:7       | Policy Coverage by Estoppel                    | 56 |  |  |
|      | 3-10 | Changes     | During the Policy Period                       | 56 |  |  |
|      |      | 3-10:1      | Increase-of-Hazard Clauses                     | 56 |  |  |
| III. | TERM | TERMINATION |  |    |  |  |
|      | 3-11 | Termina     | tion of Coverage                               | 57 |  |  |
|      |      | 3-11:1      | Methods/Sources of Termination                 | 57 |  |  |
|      | 3-12 | Cancella    | tion   | 57 |  |  |
|      |      | 3-12:1      | Difference Between Cancellation and            |    |  |  |
|      |      |             | Rescission                                     | 57 |  |  |
|      |      | 3-12:2      | Terms in Policy                                | 58 |  |  |
|      |      | 3-12:3      | Purpose of Notice of Cancellation              | 59 |  |  |
|      |      | 3-12:4      | Strict Construction                            | 59 |  |  |
|      | 3-13 | Proof-of    | -Mailing Requirement Eased                     | 60 |  |  |
|      |      | 3-13:1      | No Requirement to Advise Additional            |    |  |  |
|      |      |             | Insured  | 61 |  |  |
|      |      | 3-13:2      | Harmless Mistakes                              | 61 |  |  |
|      |      | 3-13:3      | Statutory Provisions for Finance Companies     | 61 |  |  |
|      | 3-14 | Cancella    | tion by Mutual Consent                         | 61 |  |  |
|      |      | 3-14:1      | Contractual Principles Apply                   | 61 |  |  |
|      |      | 3-14:2      | Cancellation Agreement May be in Any Form      | 62 |  |  |
|      |      | 3-14:3      | Mutual Termination by Condition                | 62 |  |  |
|      | 3-15 | Cancella    | tion by Insurer                                | 63 |  |  |
|      |      | 3-15:1      | Clear and Unequivocal Cancellation             |    |  |  |
|      |      |             | Language                                       | 63 |  |  |
|      |      | 3-15:2      | Effective Notice of Cancellation               | 63 |  |  |
|      |      | 3-15:3      | Cancellation for Nonpayment of Premium         | 64 |  |  |
|      |      | 3-15:4      | Retroactive Builder's Risk Policy Requirements | 65 |  |  |

|        |               | 3-15:5        | Effect of F   | Renewal Quotation                  | 65 |
|--------|---------------|---------------|---------------|------------------------------------|----|
|        | 3-16          | The Mailt     | oox Rule      |                                    | 65 |
|        |               | 3-16:1        | Ordinary 1    | Use of Mail to Communicate         |    |
|        |               |               | Policy Info   | ormation                           | 66 |
|        |               | 3-16:2        | Cancellation  | on Affected by "Sale" or "Theft"   | 66 |
|        | 3-17          | Terminati     | on of Indivi  | dual Coverage under                |    |
|        |               | Master Po     | licies        |                                    | 67 |
| IV.    | RENEW         | AL PROVIS     | IONS          |                                    | 67 |
|        | 3-18          | Obligation    | ns Regarding  | g Renewal                          | 67 |
|        |               | 3-18:1        | Insurer Ob    | oligation to Advise of Termination | 67 |
|        |               | 3-18:2        | Insurer Ob    | oligation to Advise of Changes     | 67 |
|        |               | 3-18:3        | Statutory 1   | Notice of Intent to Cancel or      |    |
|        |               |               | Not Renev     | w Commercial Policies              | 68 |
|        |               | 3-18:4        | Commerci      | al Policy Cancellation and         |    |
|        |               |               | Renewal       |                                    | 70 |
|        | 3-18:5        |               | Fire and C    | Casualty Policy Cancellation and   |    |
|        |               |               | Renewal       |                                    | 70 |
|        |               | 3-18:6        | Automobi      | le Insurance Renewal               | 71 |
| V.     | ASSIGN        | MENT          |               |                                    | 71 |
|        | 3-19          | Major Pri     | nciples of A  | Assignment                         | 71 |
|        |               | 3-19:1        | Generally     |                                    | 71 |
|        |               | 3-19:2        | Policy Terr   | ms Must be Met                     | 72 |
|        |               | 3-19:3        | Pre-Loss A    | Assignment                         | 72 |
|        |               | 3-19:4        |               | Assignment                         | 73 |
|        |               | 3-19:5        | Third Part    | y Action for Coverage              |    |
|        |               |               | Under Lia     | bility Policy of Defendant         | 74 |
|        |               |               | 3-19:5.1      | Requirement for Assignment         |    |
|        |               |               |               | From Policy Holder                 | 74 |
|        |               |               | 3-19:5.2      | The Effect of N.J.S.A. 17:28-2     |    |
|        |               |               |               | as to Bankruptcy or Insolvency     |    |
|        |               |               |               | of Defendant                       | 75 |
|        |               | 3-19:6        | Nonassign     | ability of Fire Policies           | 77 |
| Chapte | er 4: Constru | uction and Ir | nterpretation | of Insurance Policies              | 79 |
| I.     |               | UCTION        | •             |                                    | 79 |
|        | 4-1           | Overview      |               |                                    | 79 |
|        |               | 4-1:1         | Introducti    | on to Coverage Rules               | 82 |
|        |               | 4-1:2         |               | eant by Reasonable                 |    |
|        |               |               | Expectation   |                                    | 84 |

| II.  | BASIC  | BASIC RULES OF INSURANCE |   |     |  |  |  |
|------|--------|--------------------------|---|-----|--|--|--|
|      | CONTI  | CONTRACT CONSTRUCTION    |   |     |  |  |  |
|      | 4-2    | Overvie                  | W   | 85  |  |  |  |
|      |        | 4-2:1                    | Contract Interpretation Rules Apply to    |     |  |  |  |
|      |        |                          | Insurance Policies                        | 86  |  |  |  |
|      |        | 4-2:2                    | Coverage is Question of Law Determined by | y   |  |  |  |
|      |        |                          | Policy Terms                              | 86  |  |  |  |
|      |        | 4-2:3                    | Plain Meaning Determines Intent           | 87  |  |  |  |
| III. | GOING  | BEYOND                   | THE DOCUMENT FOR CONSTRUCTION             | [   |  |  |  |
|      | AND II | NTERPRE                  | TATION                                    | 88  |  |  |  |
|      | 4-3    | Ambigu                   | ity                                       | 88  |  |  |  |
|      |        | 4-3:1                    | Who is an "Additional Insured"?           | 90  |  |  |  |
|      |        | 4-3:2                    | Extrinsic Evidence                        | 92  |  |  |  |
|      |        | 4-3:3                    | Exclusions Aid in Construing              |     |  |  |  |
|      |        |                          | Policy Provisions                         | 93  |  |  |  |
|      | 4-4    | Constru                  | ction Against the Insurer                 | 93  |  |  |  |
|      |        | 4-4:1                    | Introduction                              | 93  |  |  |  |
|      |        | 4-4:2                    | Contracts of Adhesion                     | 93  |  |  |  |
|      |        | 4-4:3                    | Contra Proferentem                        | 94  |  |  |  |
|      |        | 4-4:4                    | Contra-Insurer Rules are Not Automatic an | d   |  |  |  |
|      |        |                          | are Not Applied to Commercial Insureds    | 95  |  |  |  |
|      | 4-5    | Doctrin                  | ne of Reasonable Expectations             |     |  |  |  |
|      |        | 4-5:1                    | Reasonable Expectations for               |     |  |  |  |
|      |        |                          | Commercial Parties                        | 98  |  |  |  |
|      | 4-6    | Court C                  | Cannot Create a New Policy for Parties    | 99  |  |  |  |
| IV.  | CONST  | RUCTION                  | OF EXCLUSIONS                             | 100 |  |  |  |
|      | 4-7    | Purpose                  | of Exclusions                             | 100 |  |  |  |
|      |        | 4-7:1                    | Clear Exclusions Bar Coverage             | 101 |  |  |  |
|      |        | 4-7:2                    | Burden of Proof on Exclusions             | 102 |  |  |  |
|      |        | 4-7:3                    | <b>Exclusions Require Prominence</b>      | 103 |  |  |  |
|      |        | 4-7:4                    | Reasonable Expectations and Exclusions    | 104 |  |  |  |
|      |        | 4-7:5                    | Conflict as to Whether Loss Caused by     |     |  |  |  |
|      |        |                          | Covered Peril or Excluded Risk            | 104 |  |  |  |
| V.   | CONST  | RUCTION                  | OF DECLARATION PAGES AND                  |     |  |  |  |
|      | ENDO   | RSEMENT                  | S   | 105 |  |  |  |
|      | 4-8    | Defining                 | g Coverage; Insured's Expectations        | 105 |  |  |  |
|      |        | 4-8:1                    | Conflict Between Policy and Endorsement,  |     |  |  |  |
|      |        |                          | Look at the Policy as a Whole             | 106 |  |  |  |

|         |                         | 4-8:2       | Obligation of Medicare to Pay PIP Medical |     |  |
|---------|-------------------------|-------------|---|-----|--|
|         |                         |             | Benefits                                  | 106 |  |
| VI.     | POLICIES                | S REGULA    | ATED BY STATUTE                           | 107 |  |
|         | 4-9                     | Policy Am   | ended to Comply with Statutory Provisions | 107 |  |
|         | 4-10                    | Conforma    | nce to Public Policy                      | 109 |  |
|         | 4-11                    | Plain Lang  | guage Requirements                        | 111 |  |
|         | 4-12                    | Policy Inte | erpretation: Legislation vs. Marketplace  | 111 |  |
| VII.    | MISCELI                 | ANEOUS      | TOPICS                                    | 112 |  |
|         | 4-13                    | Choice of   | Law                                       | 112 |  |
|         | 4-14                    | Insured's ( | Obligation to Read Policy                 | 112 |  |
|         | 4-15                    | Insurer's C | Obligation to Provide Notice of           |     |  |
|         |                         | Changes to  | o Policy                                  | 113 |  |
|         | 4-16                    | Placement   | of Policy Language                        | 114 |  |
| VIII.   | OTHER INSURANCE CLAUSES |             |   |     |  |
|         | 4-17                    | Determini   | ng Rights Among Multiple Insurers         | 114 |  |
|         | 4-18                    | Types of "  | Other Insurance" Clauses                  | 115 |  |
|         |                         | 4-18:1      | Escape Clauses                            | 115 |  |
|         |                         | 4-18:2      | Excess Escape Clauses                     | 116 |  |
|         |                         | 4-18:3      | Pro Rata Clauses                          | 117 |  |
|         |                         | 4-18:4      | Excess Clauses                            | 117 |  |
|         | 4-19                    | Other-Insu  | arance Disputes                           | 117 |  |
|         |                         | 4-19:1      | Sources of Disputes                       | 117 |  |
|         |                         | 4-19:2      | When No Other-Insurance Clause—           |     |  |
|         |                         |             | Apportion                                 | 118 |  |
|         | 4-20                    | Clauses Ca  | annot Extinguish Coverage                 | 118 |  |
|         | 4-21                    |             | ed Retention (SIR)                        | 119 |  |
|         | 4-22                    | Automobi    | le Insurance and Other Insurance Clauses  | 120 |  |
|         |                         | 4-22:1      | Mandatory UM Coverage                     | 120 |  |
|         | 4-23                    | Extra-Judi  | icial Dispute Resolution                  | 121 |  |
|         | 4-24                    | Umbrella    | Policies                                  | 122 |  |
|         | 4-25                    | Self-Insura | ance                                      | 122 |  |
| Chanter | 5: The Cla              | ims Process |   | 123 |  |
| I.      | INTRODI                 |             |   | 123 |  |
|         | 5-1                     | Overview    |   | 123 |  |
|         | 5-2                     |             | h Required in Claims Handling             | 124 |  |
|         | 5-3                     |             | onable Advantage                          | 124 |  |
|         | 5-4                     |             | erpretation of Policy Terms               | 125 |  |
|         | 5-5                     |             | al Reliance and Estoppel                  | 125 |  |

|     |         | 5-5:1      | Reliance as Basis for Estoppel                | 125 |
|-----|---------|------------|---|-----|
|     | 5-6     | Regulation | n of Claim Practices                          | 126 |
|     |         | 5-6:1      | Insurance Trade Practices Act                 | 126 |
|     |         | 5-6:2      | No Private Right of Action Under Trade        |     |
|     |         |            | Practices Act                                 | 127 |
|     |         | 5-6:3      | Administrative Regulation of Insurance        |     |
|     |         |            | Trade Practices                               | 127 |
|     |         | 5-6:4      | Limited Application of Administrative         |     |
|     |         |            | Code Regulations                              | 128 |
| II. | INITIAT | TION OF TH | IE CLAIMS PROCESS                             | 128 |
|     | 5-7     | Introducti | on  | 128 |
|     | 5-8     | Notice     |   | 129 |
|     |         | 5-8:1      | Requirement of Timely Notice                  | 129 |
|     |         | 5-8:2      | Notice Clauses Differ, But the Intent is      |     |
|     |         |            | Generally the Same                            | 129 |
|     |         | 5-8:3      | Notice is a Condition Precedent               | 130 |
|     |         | 5-8:4      | Compliance with Notice Requirements           | 130 |
|     |         | 5-8:5      | Cooper v. Geico: Appreciable Prejudice to     |     |
|     |         |            | Insurer Required in Occurrence Policies       | 131 |
|     |         | 5-8:6      | What is "Appreciable Prejudice" in the Notice | ;   |
|     |         |            | Context?                                      | 132 |
|     |         | 5-8:7      | Burden of Proof for Late Notice               | 134 |
|     |         | 5-8:8      | Examples of Late Notice That Do               |     |
|     |         |            | Not Forfeit Coverage                          | 134 |
|     |         | 5-8:9      | Primary Insurer's Notice to                   |     |
|     |         |            | Excess Insurer                                | 135 |
|     |         | 5-8:10     | Notice to Reinsurers                          | 135 |
|     |         | 5-8:11     | Notice Under Claims-Made Policies             | 136 |
|     | 5-9     | The Insure | er's Response to a Notice of Claim            | 137 |
|     |         | 5-9:1      | Insurer's Obligation to Protect the Insured   | 138 |
|     |         | 5-9:2      | Insurers Get a Reasonable Time to Ascertain   |     |
|     |         |            | Coverage                                      | 139 |
|     |         | 5-9:3      | Insurers Get a Reasonable Time to Defend      | 139 |
|     |         | 5-9:4      | Limitations on Insurers Duty to Investigate   | 139 |
|     |         | 5-9:5      | Suggestions of Fraud or Breach of Contract    | 140 |
|     |         | 5-9:6      | Insurers Duty to Inform the Insured           | 140 |
|     | 5-10    | Waiver and | d Estoppel                                    | 140 |
|     |         | 5-10:1     | Waiver  | 140 |
|     |         | 5-10:2     | Estoppel                                      | 141 |
|     |         |            |   |     |

|      |       | 5-10:3       | Prejudice Requires Substantial Impairment    |     |
|------|-------|--------------|--|-----|
|      |       |              | of the Insured's Rights                      | 142 |
|      | 5-11  | Non-Wai      | ver Agreements                               | 143 |
|      |       | 5-11:1       | Reservation-of-Rights Letter                 | 143 |
|      |       | 5-11:2       | Contents of Reservation-of-Rights Letter     | 144 |
|      |       | 5-11:3       | Reservation of Rights: Estoppel and          |     |
|      |       |              | Merchants v. Eggleston                       | 145 |
|      | 5-12  | Delay in 1   | Informing Insured of Possible Disclaimer     | 146 |
|      | 5-13  | Estoppel     | to Assert Other Defense to Coverage          | 147 |
|      | 5-14  | Insurer C    | ontrol as Conflict of Interest               | 148 |
|      |       | 5-14:1       | Conflict by Control of Trial                 | 148 |
|      |       | 5-14:2       | Various Ways for Insurers to Impose          |     |
|      |       |              | its Rights under Merchants v. Eggleston      | 148 |
|      | 5-15  | Estoppel     | by Failure to Settle                         | 149 |
|      | 5-16  | Insurer's    | Right to Rescind Settlement Agreement        | 149 |
| III. | OBLIG | ATIONS OF    | THE INSURED                                  | 150 |
|      | 5-17  | The Insur    | red's Obligation of Good Faith               | 150 |
|      | 5-18  | Misrepres    | sentation and Concealment                    | 151 |
|      |       | 5-18:1       | Post-Loss Misrepresentations May Void        |     |
|      |       |              | Coverage                                     | 151 |
|      |       | 5-18:2       | Post-Loss Misrepresentation Must be          |     |
|      |       |              | Knowing and Material                         | 152 |
| IV.  | CONDI | ITIONS       |  | 153 |
|      | 5-19  | Introduction |  |     |
|      | 5-20  | Duty to C    | Cooperate                                    | 153 |
|      | 5-21  | Inspectio    | n and Audit Condition                        | 155 |
|      |       | 5-21:1       | Inspection Not an Independent Basis for      |     |
|      |       |              | Liability                                    | 156 |
|      | 5-22  | "Insured"    | s Duties in the Event of a Claim" Condition  | 157 |
|      | 5-23  | Proof of     | Loss   | 157 |
|      | 5-24  | Access to    | Books and Records                            | 158 |
|      | 5-25  | File Decl    | aratory Judgment over Scope                  | 159 |
|      | 5-26  | Investigat   | tion and Testimony                           | 159 |
|      | 5-27  | False Tes    | timony                                       | 161 |
|      |       | 5-27:1       | Deliberate Lies                              | 161 |
|      | 5-28  | Cooperat     | ion Not an Issue When Insurer Disclaims      | 162 |
|      | 5-29  | Disappea     | rance  | 162 |
|      | 5-30  | When Lia     | ability is Certain—No Forfeiture of Coverage | 162 |
|      | 5-31  | Burden o     | f Proof on Insurer                           | 163 |

|        | 5-32         | Voluntary  | Assumption   | n of Liability or Payment        | 163 |
|--------|--------------|------------|--------------|----------------------------------|-----|
| V.     | NO-ACTI      | ON CLAU    | SES          |                                  | 164 |
|        | 5-33         | Nature and | d Purpose o  | f No-Action Clause               | 164 |
|        |              | 5-33:1     | No Direct    | Action Against Insurer           | 164 |
|        |              | 5-33:2     | Compliano    | ce is a Condition Precedent      | 164 |
| Chapte | r 6: Duty to |            |              |                                  | 167 |
| I.     | INTROD       |            |              |                                  | 167 |
|        | 6-1          | Overview   |              |                                  | 167 |
|        |              | 6-1:1      | _            | spects of New Jersey's Law on    |     |
|        |              |            | Duty to D    |                                  | 169 |
| II.    | THE LAV      |            |              | DUTY TO DEFEND                   | 169 |
|        | 6-2          |            | Insurer Mu   |                                  | 169 |
|        |              | 6-2:1      | "Four Cor    |                                  | 170 |
|        |              | 6-2:2      | •            | Extends to Groundless, False and |     |
|        |              |            |              | t Claims as Long as They         |     |
|        |              |            |              | Covered by Policy                | 170 |
|        |              | 6-2:3      | •            | efend Additional Insured         | 170 |
| III.   |              |            |              | NOT DEFEND                       | 171 |
|        | 6-3          |            |              | e Insurer Need Not Defend        | 171 |
|        |              | 6-3:1      |              | o Duty to Defend Claims Beyond   |     |
|        |              |            |              | ng Agreement                     | 172 |
|        |              | 6-3:2      |              | o Duty to Defend Claims that     |     |
|        |              |            |              | volve a Lawsuit                  | 173 |
|        |              | 6-3:3      |              | ty and/or Conflict               | 174 |
|        |              |            | 6-3:3.1      | When Underlying Case Will Not    |     |
|        |              |            |              | Resolve Coverage Issues          | 174 |
|        |              |            | 6-3:3.2      | When the Insurer Cannot Defend   |     |
|        |              |            |              | the Insured Without a Potential  |     |
|        |              |            |              | Conflict                         | 180 |
|        |              | 6-3:4      | _            | the Burd Issues Between          |     |
|        |              |            | Insurer an   |                                  | 181 |
|        |              |            | 6-3:4.1      | Declaratory Judgment to          |     |
|        |              |            |              | Determine the Duty to Defend     | 182 |
|        |              | 6-3:5      |              | Under Reservation of Rights      | 183 |
|        |              | 6-3:6      | Concurren    |                                  | 184 |
|        |              | 6-3:7      |              | bility Exclusions                | 185 |
| IV.    | APPLYIN      | IG THE LA  |              |                                  | 187 |
|        | 6-4          | Ambiguiti  | es are Resol | ved in Favor of the Insured      | 187 |

|       | 6-5                                    | Extrinsi  | Extrinsic Facts May be Considered Under   |     |  |  |
|-------|--|-----------|---|-----|--|--|
|       |  | Certain   | Circumstances                             | 188 |  |  |
|       |  | 6-5:1     | Extrinsic Facts Known by the Insurer that |     |  |  |
|       |  |           | Support the Duty to Defend                | 188 |  |  |
|       |  | 6-5:2     | The Insurer Has No Duty to Investigate    |     |  |  |
|       |  |           | Extrinsic Facts                           | 189 |  |  |
|       |  | 6-5:3     | Extrinsic Facts Known by the Insurer that |     |  |  |
|       |  |           | Support Denial of the Duty to Defend      | 190 |  |  |
|       | 6-6                                    | Duty to   | Defend Apparently Intentional Acts        | 190 |  |  |
|       |  | 6-6:1     | Subjective vs. Objective Intent           | 191 |  |  |
|       |  | 6-6:2     | The Presumption of Intent                 | 191 |  |  |
|       |  | 6-6:3     | "Particularly Reprehensible" Conduct      | 191 |  |  |
|       |  | 6-6:4     | Mental Disease                            | 194 |  |  |
|       |  | 6-6:5     | Duty to Defend Portee Claims              | 195 |  |  |
| V.    | APPOR'                                 | TIONMEN   | NT OF DEFENSE COSTS                       | 196 |  |  |
|       | 6-7                                    | Covered   | and Uncovered Claims                      | 196 |  |  |
|       |  | 6-7:1     | Dealing with Multi-Count Complaints       | 196 |  |  |
|       |  | 6-7:2     | Insurer's Conduct May Cause Payment for   |     |  |  |
|       |  |           | Uncovered Defense Costs                   | 197 |  |  |
|       |  | 6-7:3     | Court Can Allocate Defense Costs Among    |     |  |  |
|       |  |           | Covered and Uncovered Claims              | 197 |  |  |
| VI.   | INSURER'S WRONGFUL REFUSAL TO DEFEND 1 |           |   |     |  |  |
|       | 6-8                                    | Insurer's | s Breach of Duty                          | 199 |  |  |
|       |  | 6-8:1     | Damages Payable on Breach of Duty         | 200 |  |  |
|       |  | 6-8:2     | The Insurer is Not Responsible for        |     |  |  |
|       |  |           | Pre-Notice Costs                          | 200 |  |  |
|       |  | 6-8:3     | Guidelines for Assessing Attorney Fees    | 201 |  |  |
| VII.  | TERMI                                  | NATING 7  | THE DUTY TO DEFEND                        | 202 |  |  |
|       | 6-9                                    | When D    | oes the Duty to Defend End?               | 202 |  |  |
|       |  | 6-9:1     | Settlement, Dismissal or Judgment         | 202 |  |  |
|       |  | 6-9:2     | Claims Determined to be Outside Policy    |     |  |  |
|       |  |           | Coverage                                  | 203 |  |  |
|       |  | 6-9:3     | Payments of Limits Without Settlement or  |     |  |  |
|       |  |           | Dismissal                                 | 203 |  |  |
| VIII. | VOLUN                                  | TARY ASS  | SUMPTION OF LIABILITY AND                 |     |  |  |
|       | NO-AC                                  | TION CLA  | USES                                      | 203 |  |  |
|       | 6-10                                   | Overview  | N   | 203 |  |  |
|       | 6-11                                   | Volunta   | ry Assumption of Liability or Payment     | 204 |  |  |
|       | 6-12                                   |           | of No-Action Clause                       | 205 |  |  |

|        |               | 6-12:1       | Purpose of No-Action Clauses              | 206 |
|--------|---------------|--------------|---|-----|
|        |               | 6-12:2       | No Protection from Declaratory Judgment   | 206 |
| IX.    | <b>ISSUES</b> | AMONG I      | NSURERS                                   | 207 |
|        | 6-13          | Primary 1    | Insurer's Duty to Another Primary Insurer | 207 |
|        | 6-14          |              | Insurer's Duty to Excess Insurer          | 207 |
| Chapte | er 7: Fiducia | ary Obligati | ions and Extra-Contractual Liability      | 209 |
| I.     | INTROL        | DUCTION      |   | 209 |
|        | 7-1           | Overview     | 7   | 209 |
| II.    | MISREF        | PRESENTA     | TION AND CONCEALMENT                      | 210 |
|        | 7-2           | Misrepre     | sentation by Insured May Void Policy      | 210 |
|        |               | 7-2:1        | Requirements for Forfeiture of            |     |
|        |               |              | Insured's Rights                          | 210 |
|        |               | 7-2:2        | When a Misrepresentation is Material      | 210 |
|        | 7-3           | Misrepre     | sentation During Application Process      | 211 |
|        |               | 7-3:1        | Cancellation for Misrepresentation        | 211 |
|        |               | 7-3:2        | Insurer Bears the Burden of Proving       |     |
|        |               |              | Reasonable Reliance                       | 211 |
|        | 7-4           | Ambigui      | ties in Insurance Application             | 211 |
|        |               | 7-4:1        | Protection for the Insured                | 211 |
|        |               | 7-4:2        | Distinction Between Subjective and        |     |
|        |               |              | Objective Questions in Applications       | 212 |
|        | 7-5           | Misrepre     | sentation in Life Insurance Policies      | 213 |
|        |               | 7-5:1        | Equitable and Legal Fraud                 | 213 |
|        |               | 7-5:2        | Investigation Does Not Relieve            |     |
|        |               |              | Insured of Duty                           | 214 |
|        | 7-6           | Misrepre     | sentation and Compulsory Insurance        | 216 |
|        |               | 7-6:1        | Protection of Third Parties               | 216 |
|        |               | 7-6:2        | The Steliga Rule                          | 219 |
|        |               | 7-6:3        | Rescission for Fraud of a "Basic"         |     |
|        |               |              | Policy                                    | 221 |
|        |               | 7-6:4        | Rescission of Professional Liability      |     |
|        |               |              | Policy for Fraud                          | 221 |
|        | 7-7           | Post-Loss    | s Misrepresentation                       | 222 |
|        |               | 7-7:1        | Insured's Post-Loss Misrepresentations    |     |
|        |               |              | Void Coverage                             | 222 |
|        |               | 7-7:2        | Longobardi v. Chubb Insurance Co.         | 222 |
|        |               | 7-7:3        | Post-Loss Misrepresentation Must be       |     |
|        |               |              | Knowing and Material                      | 224 |

|      |        | 7-7:4     | The Test for Materiality                 | 224 |
|------|--------|-----------|--|-----|
|      |        | 7-7:5     | No Prejudice Necessary                   | 225 |
|      | 7-8    | Concealı  | ment                                     | 226 |
|      |        | 7-8:1     | Definition                               | 226 |
|      |        | 7-8:2     | Difference Between Misrepresentation and |     |
|      |        |           | Concealment                              | 227 |
|      |        | 7-8:3     | Voluntary Disclosure of Important        |     |
|      |        |           | Information by Insured                   | 227 |
| III. | NEW J  | ERSEY INS | SURANCE FRAUD                            |     |
|      | PREVE  | ENTION AC | T  | 228 |
|      | 7-9    | Introduc  | tion                                     | 228 |
|      | 7-10   | Purpose   | of Act                                   | 228 |
|      | 7-11   | Violation | ns of the Act                            | 229 |
|      | 7-12   | Burden o  | of Proof                                 | 232 |
|      | 7-13   | Jury Tria | .1                                       | 233 |
|      | 7-14   | Damage    | s Under the Act                          | 234 |
|      |        | 7-14:1    | No Requirement of Insurer Reliance for   |     |
|      |        |           | Conviction of Insurance Fraud            | 235 |
| IV.  | EXTR.  | A-CONTRA  | CTUAL LIABILITY: FAILURE TO SETTLE       |     |
|      | WITHI  | N POLICY  | LIMITS                                   | 237 |
|      | 7-15   | Good Fa   | ith Negotiation Required                 | 237 |
|      |        | 7-15:1    | Multiple Claimants and Insufficient      |     |
|      |        |           | Policy Limits                            | 238 |
|      | 7-16   | Failure t | o Furnish Defense Not Bad Faith          | 239 |
|      | 7-17   | Bad Fait  | h Liability                              | 239 |
|      | 7-18   | Damage    | s Beyond Financial Loss                  | 241 |
|      | 7-19   | Hypothe   | tical Full Coverage Analysis             | 242 |
|      | 7-20   | The Role  | e of the Deductible                      | 242 |
|      | 7-21   | Time Lin  | nitation for Bad Faith Actions           | 243 |
|      | 7-22   | Bad Fait  | h Actions Among Insurers                 | 243 |
|      |        | 7-22:1    | Primary and Excess Insurers              | 243 |
|      |        | 7-22:2    | Role of the Reinsurer                    | 245 |
|      |        | 7-22:3    | Joint Defense Obligations of Primary     |     |
|      |        |           | Insurers                                 | 246 |
|      | 7-23   | Proof of  | Bad Faith as Prima Facie Evidence of     |     |
|      |        | Damage    | S  | 246 |
| V.   | FIRST- | -PARTY CO | VERAGE CLAIMS                            | 247 |
|      | 7-24   | Liability | in First-Party Claims Generally          | 247 |
|      | 7-25   | The "Fai  | rly Debatable" Standard                  | 247 |

|       | 7-26         | Foreseeability of the Consequences of Such |            |  |
|-------|--------------|--|------------|--|
|       |              | a Policy Breach                            | 249        |  |
| Chapt | ter 8: Insur | er Recovery: Subrogation and Reinsurance   | 251        |  |
| I.    | INTRO        | DUCTION                                    | 251        |  |
|       | 8-1          | Overview                                   | 251        |  |
| II.   | SUBRO        | OGATION                                    | 251        |  |
|       | 8-2          | Subrogation Generally                      | 251        |  |
|       | 8-3          | Implied Right of Subrogation               | 253        |  |
|       | 8-4          | Effect of Subrogation                      | 253        |  |
|       |              | 8-4:1 The "Make Whole" Doctrine            | 254        |  |
|       | 8-5          | No New Claims Permitted                    | 255        |  |
|       | 8-6          | Right to Assert Claim Before Payment       | 255        |  |
|       | 8-7          | Subrogation and Automobile Insurance       | 255        |  |
|       |              | 8-7:1 Subrogation Between PIP Insurer      |            |  |
|       |              | and Healthcare Insurer                     | 256        |  |
|       | 8-8          | Subrogation and Property Insurance         | 258<br>259 |  |
|       | 8-9          | Subrogation and Surety                     |            |  |
|       | 8-10         | Release on Subrogation                     |            |  |
|       | 8-11         | Waiver of Subrogation                      | 260        |  |
|       |              | 8-11:1 Waiver of Subrogation Under         |            |  |
|       |              | Standard Form Construction Contracts       | 260        |  |
| III.  | REINS        | URANCE                                     | 261        |  |
|       | 8-12         | Introduction                               | 261        |  |
|       | 8-13         | Purposes of Reinsurance                    | 262        |  |
|       | 8-14         | Types of Reinsurance                       | 263        |  |
|       | 8-15         | Retrocession                               | 264        |  |
|       | 8-16         | Reinsurance in New Jersey                  | 264        |  |
|       | 8-17         | Duty of "Utmost Good Faith"                | 264        |  |
|       | 8-18         | Reinsurance Policies                       | 265        |  |
|       | 8-19         | "Follow the Fortunes" Clause               | 265        |  |
|       | 8-20         | Reinsurance Arbitration                    | 266        |  |
|       | 8-21         | Compelling Arbitration                     | 266        |  |
|       | 8-22         | Judicial Review of Arbitration Awards      | 266        |  |
|       | 8-23         | Privity Between Insured and Reinsurer      | 267        |  |
|       | 8-24         | Duty of Reinsurer to Primary Insured       | 267        |  |
| _     |              | edures Governing Coverage Disputes         | 269        |  |
| I.    |              | DUCTION                                    | 269        |  |
|       | 9-1          | Overview                                   | 269        |  |

|      | 9-2   | Nature of   | Disputes                            | 269 |
|------|-------|-------------|-------------------------------------|-----|
| II.  | DECLA | ARATORY JU  | JDGMENTS                            | 270 |
|      | 9-3   | Purpose o   | f Declaratory Judgment Actions      | 270 |
|      | 9-4   |             | s of the Declaratory Judgments Act  | 271 |
|      | 9-5   | Burden of   | Proof                               | 272 |
|      | 9-6   | Cross-Cla   | im Against Agent or Broker          | 273 |
|      | 9-7   | Effect on ' | Third-Party Claimants               | 273 |
|      | 9-8   | Insurer vs. | . Insured                           | 273 |
|      | 9-9   | Insured vs  | s. Insurer                          | 273 |
|      | 9-10  | Insurer vs. | . Insurer                           | 274 |
|      |       | 9-10:1      | Contribution Rights Among Insurers  | 274 |
|      |       | 9-10:2      | Equitable Contribution              | 274 |
| III. | SUBST | ANTIVE BAS  | SES FOR POLICY SUITS                | 277 |
|      | 9-11  | Sources of  | f Contractual Disputes              | 277 |
|      | 9-12  | Notice of   | Disputes                            | 278 |
|      |       | 9-12:1      | Notice Required of Insured          | 278 |
|      |       | 9-12:2      | Notice "As Soon as Practical"       | 278 |
|      |       | 9-12:3      | Additional Insureds Bound by        |     |
|      |       |             | Notice Provisions                   | 278 |
|      | 9-13  | Third-Par   | ty Rights                           | 278 |
| IV.  | PROCE | EDURAL ISS  | UES                                 | 279 |
|      | 9-14  | Suits to be | e Filed in Law Division             | 279 |
|      | 9-15  | Transfer o  | of Action Among Divisions           | 279 |
|      | 9-16  | Venue by    | County                              | 280 |
|      | 9-17  | Time for C  | Change of Venue Motion              | 280 |
|      | 9-18  | Jurisdictio | on and Foreign Insurers             | 281 |
|      | 9-19  | Choice of   | Law                                 | 281 |
|      | 9-20  | The "First  | t Filed" Rule                       | 282 |
|      | 9-21  | Service of  | Suit Clauses                        | 283 |
|      | 9-22  | Entire Co   | ntroversy Doctrine                  | 284 |
|      | 9-23  | Joinder of  | Interested Parties                  | 285 |
|      | 9-24  | Interested  | Parties                             | 285 |
|      | 9-25  | Claimants   | in Underlying Action Must be Joined | 285 |
|      | 9-26  | Realistic A | Ability to Join                     | 286 |
|      | 9-27  | Environm    | ental Declaratory Judgment Actions  | 286 |
|      | 9-28  | Either Par  | ty Entitled to Jury Trial           | 286 |
|      | 9-29  | Summary     | Judgment Principles Applicable      | 287 |
|      | 9-30  | Allegation  | s of the Complaint Within Insuring  |     |
|      |       | Obligation  | 1                                   | 288 |

|       | 9-31  | An Appl             | icable Exclusion May Warrant Early   |     |  |
|-------|-------|---------------------|--------------------------------------|-----|--|
|       |       | Declarat            | ory Judgment Relief                  | 288 |  |
|       | 9-32  | No-Acti             | on Clauses Affect on Litigation      | 288 |  |
|       |       | 9-32:1              | Purpose of No-Action Clauses         | 288 |  |
|       |       | 9-32:2              | No-Action Clause Does Not Prohibit   |     |  |
|       |       |                     | Declaratory Judgment Action          | 289 |  |
|       | 9-33  | Expert T            | Testimony                            | 289 |  |
| V.    | TERM  | INATION, (          | CANCELLATION AND RESCISSION          | 290 |  |
|       | 9-34  | Termina             | tion of Coverage                     | 290 |  |
|       | 9-35  | The Diff            | erence Between Cancellation and      |     |  |
|       |       | Rescissio           | on                                   | 290 |  |
|       | 9-36  | Cancella            | tion by Agreement                    | 290 |  |
|       | 9-37  | Definition          | on of Rescission                     | 291 |  |
|       | 9-38  | Burden o            | of Proof on Rescission               | 291 |  |
|       | 9-39  | Return c            | of Premium and Rescission            | 292 |  |
|       |       | 9-39:1              | Impact of Rescission on Innocent     |     |  |
|       |       |                     | Victims in Automobile Accidents      | 293 |  |
| VI.   | REFO  | RMATION             |                                      | 293 |  |
|       | 9-40  | Introduc            | tion                                 | 293 |  |
|       | 9-41  | Reforma             | tion is a Non-Jury Action            | 294 |  |
| VII.  | DISCO | DISCOVERY           |                                      |     |  |
|       | 9-42  | Means of Discovery  |                                      | 294 |  |
|       | 9-43  | Reasona             | Reasonably Calculated to Lead to     |     |  |
|       |       | Admissible Evidence |                                      |     |  |
|       | 9-44  | Work-Pr             | oduct Privilege Viewed Narrowly      | 295 |  |
|       |       | 9-44:1              | No Discovery of Bad Faith Claim      |     |  |
|       |       |                     | During Litigation of Underlying      |     |  |
|       |       |                     | Breach of Contract Claim             | 295 |  |
| VIII. | TRANS | SFER OF F           | EES AND COSTS                        | 296 |  |
|       | 9-45  | Attorney            | Fees                                 | 296 |  |
|       |       | 9-45:1              | The American Rule                    | 296 |  |
|       |       | 9-45:2              | Recovery of Fees Permitted in        |     |  |
|       |       |                     | Certain Cases                        | 296 |  |
|       |       | 9-45:3              | Fees Not Allowed on First-Party      |     |  |
|       |       |                     | Actions                              | 298 |  |
|       |       | 9-45:4              | Successful Claimant                  | 299 |  |
|       |       | 9-45:5              | Fees in Insurer Versus Insurer Cases | 300 |  |
|       |       | 9-45:6              | Court Scrutiny of Fee Requests       | 301 |  |
|       |       | 9-45:7              | In Automobile Insurance Cases        | 301 |  |

|     | 9-46   | Interest              |  | 302 |  |
|-----|--------|-----------------------|--|-----|--|
|     |        | 9-46:1                | Prejudgment Interest                       | 302 |  |
|     |        | 9-46:2                | Interest Question Rests with Trial Judge   | 302 |  |
|     |        | 9-46:3                | Appellate Review of Fees                   | 302 |  |
| IX. | LEGAI  | REPRESE               | NTATION                                    | 303 |  |
|     | 9-47   | Attorney              | s Assigned to Defend Insureds              | 303 |  |
|     | 9-48   | Attorney              | -Client Privilege                          | 304 |  |
|     |        | 9-48:1                | Generally                                  | 304 |  |
|     |        | 9-48:2                | Attorney Represents Insurer and Insured    | 304 |  |
|     |        | 9-48:3                | Attorneys Representing Multiple Insureds   | 305 |  |
|     | 9-49   | Co-insur              | eds with Cross-claims Entitled to Separate |     |  |
|     |        | Counsel               |  | 305 |  |
| X.  | LIMITA | LIMITATION OF ACTIONS |  |     |  |
|     | 9-50   | Statutory             | Limitations and Accrual of Actions         | 305 |  |
|     | 9-51   | Impact o              | f Insanity on Statute of Limitations       | 306 |  |
|     | 9-52   | Discover              | y Doctrine Applicability                   | 306 |  |
|     | 9-53   | Policy Cl             | ause Enforceable                           | 307 |  |
|     | 9-54   | Disputes              | Only as to Amounts Owed                    | 308 |  |
|     | 9-55   | Mandato               | ry Limit in Fire Insurance Policies        | 308 |  |
|     | 9-56   | Claims A              | ccrue at the End of the Underlying Action  | 308 |  |
|     | 9-57   | No-Fault              | Act  | 308 |  |
|     |        | 9-57:1                | Arbitration Subject to Statute             |     |  |
|     |        |                       | Limiting Contract Actions                  | 308 |  |
|     |        | 9-57:2                | Limitation on No-Fault Actions             | 309 |  |
|     |        | 9-57:3                | Insurer Suit for PIP Reimbursement         | 309 |  |
|     | 9-58   | Actions b             | by an Estate                               | 309 |  |
|     | 9-59   | Minors E              | Sound by Time Limitation                   | 310 |  |
|     | 9-60   | Equitable             | e Principles Do Not Apply                  | 310 |  |
|     | 9-61   | Limitatio             | on on Medical Expenses                     | 311 |  |
|     | 9-62   | Limitatio             | on on Future Treatment                     | 311 |  |
|     | 9-63   | Reimburg              | sement of Auto Insurer from Workers'       |     |  |
|     |        | Compens               | sation Insurer                             | 311 |  |
|     | 9-64   | Laches                |  | 312 |  |
| XI. | ARBIT  | RATION                |  | 312 |  |
|     | 9-65   | Definitio             | n  | 312 |  |
|     |        | 9-65:1                | Arbitration by "Non-Signatory"             |     |  |
|     |        |                       | to Insurance Policy                        | 313 |  |
|     | 9-66   | Legislativ            | ve and Judicial Efforts to Stem Litigation | 314 |  |
|     | 9-67   | Recognit              | ion of Arbitration                         | 314 |  |

|      | 9-68  | Arbitrati              | ng a Controversy                             | 314 |
|------|-------|------------------------|--|-----|
|      | 9-69  | Impact of              | f "Errors of Law" or "Insufficient Evidence" | 314 |
|      | 9-70  | Interest o             | on Arbitration Awards                        | 315 |
|      | 9-71  | Award of               | Attorney Fees                                | 316 |
|      | 9-72  | Effect in              | Subsequent Litigation                        | 316 |
|      | 9-73  | Determin               | nation of Waiver                             | 317 |
|      | 9-74  | Participa <sup>a</sup> | tion No Bar to Challenge of                  |     |
|      |       | Arbitrato              | or's Jurisdiction                            | 317 |
|      | 9-75  | Direct Ac              | ctions Against Insurers for Coverage         | 318 |
|      |       | 9-75:1                 | Enforceability of Arbitration Clauses        |     |
|      |       |                        | Under N.J.S.A. 17:28-2 Direct Actions        | 319 |
| Chap |       | nt and Broker          | r Liability                                  | 321 |
| I.   | INTRO | DUCTION                |  | 321 |
|      | 10-1  | Overview               |  | 321 |
|      | 10-2  | Broker D               |  | 322 |
|      | 10-3  | Agent De               |  | 322 |
|      | 10-4  | Duty to I              |  | 323 |
|      | 10-5  | •                      | t Dependent on Prior Relations               | 324 |
|      | 10-6  |                        | tus of Intermediary                          | 324 |
|      | 10-7  |                        | nation of Legal Status of Insurance          |     |
|      |       | Intermed               |  | 325 |
| II.  |       | JCT AND L              |  | 325 |
|      | 10-8  | Standard               |  | 325 |
|      |       | 10-8:1                 | Affidavit of Merit                           | 326 |
|      | 10-9  | Negligen               | t Conduct of Broker                          | 328 |
|      |       | 10-9:1                 | Generally                                    | 328 |
|      |       | 10-9:2                 | Determination of "Special Relationship"      | 329 |
|      |       | 10-9:3                 | Relationship of Negligent Conduct            |     |
|      |       |                        | to Damages                                   | 330 |
|      | 10-10 |                        | Duty to Investigate Insurer                  | 330 |
|      | 10-11 |                        | Negligent Investigation of Insurer           | 330 |
|      | 10-12 | Failure to             | Obtain Coverage                              | 331 |
|      | 10-13 | Improper               | Placement of Insurance                       | 332 |
|      | 10-14 | Failure to             | Advise of Policy Expiration                  | 332 |
|      | 10-15 | Agent's R              | Representations to Insured                   | 333 |
|      | 10-16 |                        | Negligent Acts                               | 333 |
|      |       | 10-16:1                | Vicarious Liability of a Producer            | 334 |
|      | 10-17 | UM/UIM                 | 1 Coverage Endorsements                      | 334 |

|          | 10-18        | Failure of    | Insured to   | Read Policy                       | 335 |
|----------|--------------|---------------|--------------|-----------------------------------|-----|
| Chapter  | 11: The Ne   | w Jersev Pr   | operty-Lia   | bility Insurance Guaranty         |     |
| <b>F</b> |              | •             |              | ed Claim and Judgment Fund        | 337 |
| I.       | INTRODU      |               |              |                                   | 337 |
|          | 11-1         | Overview      |              |                                   | 337 |
|          |              | 11-1:2        | Purpose of   | f the Act                         | 338 |
|          |              |               | 11-1:2.1     | Application of the Act            | 338 |
|          |              |               | 11-1:2.2     | Protection Afforded               | 338 |
|          |              |               | 11-1:2.3     | Restrictions and Limitations      | 339 |
|          |              |               | 11-1:2.4     | Pedestrian and PIP Claims         | 339 |
|          |              |               | 11-1:2.5     | Insolvent Insurance Companies     | 340 |
|          |              |               | 11-1:2.6     | Funding                           | 340 |
|          |              |               | 11-1:2.7     | Legal Status of Association       | 340 |
|          | 11-2         | Compensa      | tion of Ins  | _                                 | 341 |
| II.      | OPERATI      | ON OF TH      |              |                                   | 341 |
|          | 11-3         | Administra    | ation        |                                   | 341 |
|          | 11-4         | Claims Co     | vered by th  | e Act                             | 342 |
|          |              | 11-4:1        | What Are     | "Covered Claims"                  | 342 |
|          | 11-5         | Maximum       | Recovery o   | on a Covered Claim                | 343 |
|          | 11-6         | Counsel Fe    | ees and Oth  | ner Claim Expenses are Excluded   | 343 |
|          | 11-7         | Priority of   | Payments     | -                                 | 343 |
|          |              | 11-7:1        | Payors are   | Entitled to Credits for Full Fund |     |
|          |              |               | Liability    |                                   | 344 |
|          | 11-8         | Immunity      |              |                                   | 344 |
|          | 11-9         | Liability of  | f Insured in | Excess of Statutory Cap           | 345 |
|          | 11-10        | Residency     |              |                                   | 346 |
|          | 11-11        | Excess Inst   | urance Issu  | es                                | 346 |
|          | 11-12        | Prejudgme     | nt Interest  |                                   | 347 |
|          | 11-13        | Workers' C    | Compensati   | on Reimbursement Claim            | 347 |
| III.     | UNSATIS      | FIED CLA      | IM AND       | JUDGMENT FUND                     | 348 |
|          | 11-14        | Overview      |              |                                   | 348 |
|          | 11-15        | PIP Recove    | ery Under    | the Fund                          | 349 |
|          | 11-16        | Common I      | Law Damas    | ges Under the Fund                | 350 |
| Chapter  | · 12: Genera | l Liability ( | CGL) Polic   | eies                              | 351 |
| I.       | INTRODU      |               | •            |                                   | 351 |
|          | 12-1         | Overview      |              |                                   | 351 |
| II.      | HISTORY      | OF GENE       | ERAL LIA     | BILITY POLICIES                   | 352 |
|          | 12-2         | Farly Polic   | iec Princin  | ally Covered Property Damage      | 350 |

|      | 12-3  | Early Pol  | icies Required an "Accident"                | 352 |
|------|-------|------------|---|-----|
|      | 12-4  | Commerc    | cial Liability Policy Packages              | 353 |
|      | 12-5  | Occurren   | ce-Based Policies                           | 353 |
|      | 12-6  | 1973 Rev   | ision of "Property Damage" and "Occurrence" | 354 |
|      | 12-7  |            | ern Commercial General Liability Policy     | 355 |
|      | 12-8  | Additiona  | al Coverage Available                       | 357 |
|      | 12-9  | Practition | ners Must Look Carefully at Policy Form     | 357 |
| III. | PARTS | OF A GENI  | ERAL LIABILITY POLICY                       | 358 |
|      | 12-10 | Self-Cont  | rained Single Contract                      | 358 |
|      | 12-11 | Declarati  | ons   | 358 |
|      | 12-12 | Insuring A | Agreement                                   | 359 |
|      | 12-13 | Condition  | ns  | 359 |
|      | 12-14 | Exclusion  | ns  | 360 |
|      | 12-15 | Definition | ns  | 360 |
|      | 12-16 | Endorsen   | nents                                       | 360 |
| IV.  | ACCID | ENT-BASEI  | O COVERAGE                                  | 361 |
|      | 12-17 | Meaning    | of "Accident"                               | 361 |
| V.   | OCCUR | RRENCE-BA  | ASED COVERAGE                               | 363 |
|      | 12-18 | The Insur  | ring Agreement                              | 363 |
|      |       | 12-18:1    | Definitions                                 | 363 |
|      |       | 12-18:2    | Coverage Limited to Listed Perils           | 364 |
|      | 12-19 | Occurren   | ce  | 365 |
|      |       | 12-19:1    | Look to Cause Giving Rise to Harm           | 365 |
|      |       | 12-19:2    | Number of Occurrences                       | 365 |
|      | 12-20 | Damages    |   | 366 |
|      |       | 12-20:1    | Legal Damages                               | 366 |
|      | 12-21 | Bodily In  | jury  | 367 |
|      |       | 12-21:1    | Physical Injury Required                    | 367 |
|      |       | 12-21:2    | Physical Manifestations Required            |     |
|      |       |            | for Emotional Distress                      | 367 |
|      | 12-22 | Property   | Damage                                      | 368 |
|      |       | 12-22:1    | Defined by Policy                           | 368 |
|      | 12-23 |            | tion Defect Coverage                        | 368 |
|      | 12-24 | Economic   |   | 370 |
|      |       | 12-24:1    | Direct Physical Loss                        | 371 |
|      | 12-25 | Trigger of | f Coverage                                  | 371 |
|      |       | 12-25:1    | Injury or Damage Must Occur                 |     |
|      |       |            | Within Policy Period                        | 371 |
|      |       | 12-25:2    | Injury-in-Fact                              | 372 |

|       |              | 12-25:3    | Manifestation                           | 373 |
|-------|--------------|------------|---|-----|
|       |              | 12-25:4    | Continuous Trigger                      | 374 |
|       | 12-26        | What Co    | nstitutes a Suit?                       | 375 |
|       |              | 12-26:1    | Coercive and Adversarial Proceeding     | 375 |
|       |              | 12-26:2    | "Functional Equivalent" of Suit         | 375 |
|       |              | 12-26:3    | Indicia of Court Proceeding             | 376 |
| IV.   | COVER        | AGE PERI   | LS                                      | 377 |
|       | 12-27        | Premises   | Operations (                            | 377 |
|       |              | 12-27:1    | Scope                                   | 377 |
|       | 12-28        | Products   | Hazard and Completed                    |     |
|       |              | Operation  | ns Hazard                               | 377 |
|       |              | 12-28:1    | History                                 | 377 |
|       |              | 12-28:2    | Nature of the Coverage                  | 379 |
|       |              | 12-28:3    | Completed Operations                    | 379 |
|       |              | 12-28:4    | Coverage for Faulty Work by Insured's   |     |
|       |              |            | Subcontractor                           | 382 |
|       |              | 12-28:5    | Interplay Between "Property             |     |
|       |              |            | Damage" and "Impaired Property"         |     |
|       |              |            | Exclusion in CGL Policies               | 383 |
| VII.  | DUTY '       | TO DEFEN   | D                                       | 385 |
|       | 12-29        | Defense l  | Required for Covered Claim              | 385 |
| VIII. | <b>EXCLU</b> | SIONS      |   | 385 |
|       | 12-30        | Expected   | or Intended Injury                      | 385 |
|       |              | 12-30:1    | Subjective Intent of the Actor Controls | 385 |
|       |              | 12-30:2    | Objectively Reprehensible Conduct       | 386 |
|       | 12-31        | Contract   | ual Liability Exclusion                 | 387 |
|       |              | 12-31:1    | Generally                               | 387 |
|       |              | 12-31:2    | No Coverage for Breach of Contract      | 388 |
|       | 12-32        | Liquor L   | iability Exclusion                      | 389 |
|       | 12-33        | Products   | Hazard Exclusion                        | 390 |
|       | 12-34        | Sistership | Exclusion                               | 392 |
|       | 12-35        | Business-  | Risk Exclusion                          | 392 |
|       | 12-36        | Performa   | nce Exclusion                           | 393 |
|       | 12-37        | Workers'   | Compensation and Employer's             |     |
|       |              | Liability  | Exclusions                              | 395 |
|       | 12-38        |            | Exclusion                               | 396 |
|       | 12-39        | Damage     | to Property Exclusion                   | 397 |
|       |              | _          | Motor Vahiela Evalusion                 | 300 |

|        |             | 12-39:2                                     | Professional Services Exclusion             | 400 |
|--------|-------------|---|---|-----|
|        |             | 12-39:3                                     | Operations Exclusion                        | 401 |
| IX.    | COVER       | COVERAGE B: PERSONAL AND ADVERTISING INJURY |   |     |
|        | 12-40       | Introducti                                  | ion: Personal and Advertising Injury        | 402 |
|        |             | 12-40:1                                     | History of the Coverage                     | 402 |
|        |             | 12-40:2                                     | Common Claims                               | 403 |
|        |             | 12-40:3                                     | Three Main Versions of Policy Language      | 403 |
|        |             | 12-40:4                                     | The 1973 Endorsement                        | 404 |
|        |             | 12-40:5                                     | Definition of "Personal Injury"             | 405 |
|        |             | 12-40:6                                     | 1973 Definition of "Advertising Injury"     | 405 |
|        |             | 12-40:7                                     | 1986 Personal Injury and Advertising Injury | 406 |
|        |             | 12-40:8                                     | 1986 Definition of "Personal Injury"        | 406 |
|        |             | 12-40:9                                     | Definition of "Advertising Injury"          | 407 |
|        |             | 12-40:10                                    | 1998 Policy Language                        | 408 |
|        | 12-41       | Personal l                                  | Injury Coverage                             | 409 |
|        |             | 12-41:1                                     | Limited to Enumerated Offenses              | 409 |
|        |             | 12-41:2                                     | Distinguishing "Personal Injury" from       |     |
|        |             |   | "Bodily Injury"                             | 409 |
|        |             | 12-41:3                                     | Reasonable Expectations Still Control       |     |
|        |             |   | Interpretation                              | 410 |
|        | 12-42       | Advertisir                                  | ng Injury                                   | 412 |
|        |             | 12-42:1                                     | Elements for Recovery                       | 412 |
|        |             | 12-42:2                                     | Patent Infringement                         | 414 |
|        |             | 12-42:3                                     | Prior Publication Exclusion                 | 415 |
| X.     | MEDIC       | AL PAYME                                    | NTS   | 415 |
|        | 12-43       | Scope of 1                                  | Medical Coverage                            | 415 |
|        | 12-44       | Medical E                                   | Exclusions                                  | 416 |
| Chapte | er 13: Auto | mobile Liabil                               | ity Policies                                | 417 |
| I.     |             | DUCTION                                     |   | 417 |
|        | 13-1        | Overview                                    |   | 417 |
|        | 13-2        | Right to N                                  | Maintain a Liability Claim                  | 418 |
|        | 13-3        |   | of the Unsatisfied Claim and Judgment Fund  | 418 |
| II.    | LIABIL      |   | ANCE POLICIES                               | 420 |
|        | 13-4        | Policy Mu                                   | st Conform to Statute                       | 420 |
|        | 13-5        | •   | Purpose of Liability Insurance              | 420 |
|        | 13-6        | •   | Business Affected with Public Interest      | 420 |
|        | 13-7        |   | tion Favors Coverage                        | 421 |
|        | 13-8        | -   | ile Policy Language                         | 421 |

|      |                                    | 13-8:1                   | Typical Insuring Agreements                | 421        |  |
|------|------------------------------------|--------------------------|--|------------|--|
| III. | VEHIC                              | 13-8:2                   | Automobile Rental Insurance ERSONS COVERED | 427<br>427 |  |
| 111. | 13-9                               | Vehicle C                |  | 427        |  |
|      | 13-9                               | 13-9:1                   | Extension of Coverage Beyond Identified    | 427        |  |
|      |                                    | 13-7.1                   | Vehicles                                   | 427        |  |
|      |                                    | 13-9:2                   | Subsequently Acquired Vehicles             | 428        |  |
|      |                                    | 13-9:3                   | Non-Owned Vehicles Coverage                | 428        |  |
|      |                                    | 13-9:4                   | Regular Use of Non-Owned Automobiles       | 429        |  |
|      | 13-10                              | Persons (                | _  | 430        |  |
|      |                                    | 13-10:1                  | Initial and Implied Permission             | 430        |  |
|      |                                    | 13-10:2                  | Reasonable Belief Standard                 | 433        |  |
|      |                                    | 13-10:3                  | Deviation from Initial Permission          | 433        |  |
|      |                                    | 13-10:4                  | Relationship of Parties                    | 434        |  |
|      |                                    | 13-10:5                  | Theft or the Like                          | 434        |  |
|      |                                    | 13-10:6                  | Scope of Use                               | 435        |  |
| IV.  | LOSSES FROM OWNERSHIP, MAINTENANCE |                          |  |            |  |
|      | AND U                              | SE                       |  | 436        |  |
|      | 13-11                              | Losses A                 | rising Out of Use of the Automobile        | 436        |  |
|      |                                    | 13-11:1                  | "Arising Out of Use" Generally             | 436        |  |
|      |                                    | 13-11:2                  | Broad Interpretation of "Use"              | 437        |  |
|      |                                    | 13-11:3                  | Repossession as "Use"                      | 438        |  |
|      | 13-12                              | Maintena                 | ance of a Vehicle                          | 440        |  |
|      | 13-13                              | Scope of                 | Coverage Under I.C.C. Rules                | 440        |  |
|      | 13-14                              | Bobtail C                | E  | 441        |  |
| V.   |                                    | NG AND U                 | NLOADING                                   | 442        |  |
|      | 13-15                              | -                        | e Operations Doctrine                      | 442        |  |
|      | 13-16                              | _                        | and Unloading Coverage Required by Statute | 443        |  |
|      | 13-17                              |                          | cific Loading and Unloading Cases          | 443        |  |
|      | 13-18                              |                          | rower" Exception                           | 446        |  |
|      | 13-19                              |                          | to Limit Scope of Loading and Unloading    | 446        |  |
| VI.  |                                    | NSURANC                  |  | 447        |  |
|      | 13-20                              |                          | rer Requirements                           | 447        |  |
|      | 13-21                              |                          | rers' Coverage Obligations                 | 448        |  |
| VII. |                                    | COVERAC                  |  | 449        |  |
|      | 13-22                              |                          | e Required for Rental Vehicles             | 449        |  |
|      | 13-23                              | Other Insurance Coverage |  | 449        |  |

| Chapte | r 14: Pers | 14: Personal Injury Protection (PIP) Coverage 45 |  |     |
|--------|------------|--|--|-----|
| I.     | INTRO      | DUCTION  |  | 451 |
|        | 14-1       | Overview   | 7  | 451 |
|        |            | 14-1:1   | Research Focus                             | 453 |
|        |            | 14-1:2   | Underlying Assumption                      | 453 |
|        | 14-2       | Legislati  | ve Background                              | 453 |
|        | 14-3       | Constitu   | tionality of the No-Fault Act              | 455 |
|        |            | 14-3:1   | Challenges Struck Down by Courts           | 455 |
|        |            | 14-3:2   | No Denial of Equal Protection              | 455 |
|        |            | 14-3:3   | No Denial of Equal Protection              |     |
|        |            |  | for Motorcyclists                          | 455 |
|        |            | 14-3:4   | Perfection Not Required                    | 455 |
|        |            | 14-3:5   | Renewal Requirement Constitutional         | 455 |
|        |            | 14-3:6   | Out-of-State Drivers' Rights Not Violated  | 456 |
|        |            | 14-3:7   | Constitutionality of N.J.S.A. 39:6A-8      | 456 |
|        |            | 14-3:8   | Constitutionality of N.J.S.A. 17:28-1.4    | 456 |
|        |            | 14-3:9   | Constitutionality of Alternative Procedure |     |
|        |            |  | for Dispute Resolution Act (APDRA),        |     |
|        |            |  | N.J.S.A. 2A:23A-1 to -19                   | 457 |
|        | 14-4       | Other M  | atters                                     | 458 |
|        |            | 14-4:1   | Statutory Considerations                   | 458 |
| II.    | AUTHO      | ORITY OF I                                       | NSURANCE COMMISSIONER                      | 460 |
|        | 14-5       | Commiss  | sioner Must Comply with Statutory Intent   | 460 |
| III.   | RIGHT      | TO SUE T   | HIRD PARTIES FOR                           |     |
|        | COMPI      | COMPENSATORY DAMAGES                             |  |     |
|        | 14-6       | Verbal T   | hreshold                                   | 461 |
|        |            | 14-6:1   | Implementation of the Verbal Threshold     | 462 |
|        |            | 14-6:2   | "While Operating an Uninsured Vehicle"     | 463 |
|        |            | 14-6:3   | Operating a Vehicle While Intoxicated      | 465 |
|        |            | 14-6:4   | Out-of-State Plaintiffs or Defendants      | 466 |
|        |            | 14-6:5   | Implementation of N.J.S.A. 17:28-1.4       | 467 |
|        |            | 14-6:6   | Deemer Statute                             | 468 |
|        |            | 14-6:7   | Property Damage Recovery by One            |     |
|        |            |  | Without PIP Coverage                       | 469 |
|        |            | 14-6:8   | Aggravation of Pre-Existing Injury         | 469 |
|        |            | 14-6:9   | Portee Claims                              | 470 |
| IV.    | COVER      | AGE REQU   | JIREMENTS                                  | 471 |
|        | 14-7       | Scope of   | Coverage                                   | 471 |
|        |            | 14-7:1   | Automobiles Garaged in New Jersey          | 471 |

|      |              | 14-7:2     | Geograph     | nical Coverage                      | 472 |
|------|--------------|------------|--------------|-------------------------------------|-----|
|      |              | 14-7:3     | Addition     | al Optional Coverage                | 472 |
|      |              | 14-7:4     |              | as Limited as Statutorily Specified | 473 |
| V.   | RULES        | APPLICAB   |              |                                     | 473 |
|      | 14-8         | The Law    | of Benefits  | Payments                            | 473 |
|      |              | 14-8:1     |              | Based on Actual Loss                | 473 |
|      |              | 14-8:2     |              | Claimant                            | 473 |
|      |              | 14-8:3     | Insurer as   | s Primary Payor                     | 473 |
|      |              | 14-8:4     | Prompt P     |                                     | 474 |
|      | 14-9         | Double R   | Recovery Pro |                                     | 474 |
|      |              | 14-9:1     | •            | on Against Double Recovery          | 474 |
|      |              | 14-9:2     |              | Prohibited                          | 476 |
|      |              | 14-9:3     | _            | of Other Benefits                   | 477 |
|      |              | 14-9:4     | -            | er Primary                          | 477 |
|      |              | 14-9:5     |              | Subject to Collateral Source Rule   | 478 |
|      |              | 14-9:6     |              | nts Allowing Duplicated             |     |
|      |              |            | Medical I    |                                     | 478 |
|      |              | 14-9:7     | Workers'     | Compensation                        | 479 |
|      |              |            | 14-9:7.1     | Lost Income Reduced by              |     |
|      |              |            |              | Workers' Compensation               | 479 |
|      |              |            | 14-9:7.2     | Survivor Benefits Reduced           |     |
|      |              |            |              | by Workers' Compensation            | 479 |
|      |              |            | 14-9:7.3     | Workers' Compensation               |     |
|      |              |            |              | Ultimate Recovery Source            | 479 |
|      |              |            | 14-9:7.4     | Reimbursement of PIP Benefits       | 480 |
|      |              |            | 14-9:7.5     | Workers' Compensation               |     |
|      |              |            |              | Procedural Law                      | 481 |
|      |              | 14-9:8     | Temporar     | ry Disability Benefits              | 481 |
|      |              |            | 14-9:8.1     | Setoff of Other Lost-Income         |     |
|      |              |            |              | Benefits                            | 481 |
|      |              |            | 14-9:8.2     | Private Supplementary               |     |
|      |              |            |              | Disability Plans                    | 481 |
| VI.  | <b>TYPES</b> | OF PIP CO  | VERAGE P     | POLICIES                            | 482 |
|      | 14-10        | Standard   | Policy       |                                     | 482 |
|      |              | 14-10:1    | Basic Aut    | comobile Insurance Policy           | 482 |
|      |              | 14-10:2    | Special A    | utomobile Insurance Policy          | 483 |
| VII. | PIP CO       | VERAGE B   | ENEFITS      | -                                   | 484 |
|      | 14-11        | Benefits I | Provided by  | PIP                                 | 484 |
|      |              | 14-11:1    | Expenses     | Covered                             | 484 |

|       | 14-12 | Qualificat | tions for Benefits                      | 485 |
|-------|-------|------------|---|-----|
|       |       | 14-12:1    | Persons to Whom Benefits are Payable    | 485 |
|       |       | 14-12:2    | Persons Who Qualify as Insureds         | 485 |
|       |       | 14-12:3    | Lessees as Insureds                     | 485 |
| VIII. | BUYER | S GUIDE    | AND NOTICE                              | 486 |
|       | 14-13 | Requirem   | nent of Buyer's Guide                   | 486 |
|       |       | 14-13:1    | Contents of Buyer's Guide               | 486 |
|       |       | 14-13:2    | Effect of Completed Coverage            |     |
|       |       |            | Selection Form                          | 486 |
| IX.   | FAMIL | Y MEMBER   | RS .                                    | 489 |
|       | 14-14 | Who is C   | overed as a Family Member               | 489 |
|       |       | 14-14:1    | Spouses as Household Residents          | 489 |
|       |       | 14-14:2    | "Family" or "Resident Relative"         | 489 |
|       |       | 14-14:3    | Definition of "Immediate Family"        | 489 |
|       |       | 14-14:4    | Definition of "Members of the Family"   | 489 |
|       |       | 14-14:5    | Policies May Not Restrict Definition of |     |
|       |       |            | "Family Members"                        | 490 |
|       |       | 14-14:6    | "Family Members" Same as                |     |
|       |       |            | "Resident Relatives"                    | 490 |
|       |       | 14-14:7    | Surviving Spouse                        | 490 |
|       |       | 14-14:8    | Essential Service Benefits Class        | 490 |
|       |       | 14-14:9    | Determination of Household Residents    | 491 |
|       |       | 14-14:10   | Non-Custodial Support Payments          | 491 |
|       |       | 14-14:11   | Extramarital Cohabitation               | 491 |
|       |       | 14-14:12   | Effect of Cohabitation on Child         | 492 |
|       |       | 14-14:13   | Family Corporation Owner                | 492 |
| X.    | OTHER | EXCLUSION  | ONS FROM COVERAGE                       | 492 |
|       | 14-15 | Intention  | al Conduct Exclusion                    | 492 |
|       |       | 14-15:1    | Exclusion Based on Registration Abuse   | 493 |
|       |       | 14-15:2    | Uninsured Vehicle in Storage            | 493 |
|       |       | 14-15:3    | Unlicensed Driver Exclusion             | 494 |
|       |       | 14-15:4    | Occupying or Operating Auto Without     |     |
|       |       |            | Permission                              | 494 |
| XI.   | PEDES | TRIAN COV  | VERAGE                                  | 494 |
|       | 14-16 | Pedestria  | ns                                      | 494 |
|       |       | 14-16:1    | Statutory Definition                    | 494 |
|       |       | 14-16:2    | Pedestrian Locations                    | 495 |
|       |       | 14-16:3    | Pedestrian Pushing Vehicle from Road    | 495 |
|       |       | 14-16:4    | Minibike and Dirt Bike Operators        | 495 |

|       |        | 14-16:5    | Bicyclists as Pedestrians                   | 496 |
|-------|--------|------------|---|-----|
|       |        | 14-16:6    | Moped Operators Not Pedestrians             | 496 |
|       |        | 14-16:7    | Injuries "Caused by" Automobile             | 496 |
|       |        | 14-16:8    | Stolen Vehicle No Bar to Benefits           | 497 |
|       |        | 14-16:9    | Pedestrian Benefits on Alternative Vehicles | 498 |
| XII.  | VEHIC  | LES THAT ( | QUALIFY AS "AUTOMOBILES"                    | 498 |
|       | 14-17  | Definition | of "Automobile"                             | 498 |
|       |        | 14-17:1    | Vehicle Cannot be Used in                   |     |
|       |        |            | Income Production                           | 499 |
|       |        | 14-17:2    | Primary Use on Highway                      | 499 |
|       |        | 14-17:3    | The Nature of a "Private" Automobile        | 499 |
|       |        | 14-17:4    | Marginal Business Use                       | 500 |
|       |        | 14-17:5    | Autos with Dealer Plates                    | 500 |
|       |        | 14-17:6    | Use of Vehicle as Public Livery             | 500 |
|       |        | 14-17:7    | Motorcycle Occupants Excluded from PIP;     |     |
|       |        |            | Pedestrians Covered                         | 501 |
|       |        | 14-17:8    | Taxicab Passengers Not Eligible for         |     |
|       |        |            | Benefits                                    | 501 |
|       |        | 14-17:9    | PIP Coverage to Bus Passengers              | 501 |
|       |        | 14-17:10   | Required Ownership of Automobile            | 502 |
| XIII. | THE AU | JTOMOBIL:  | E-ACCIDENT NEXUS                            | 502 |
|       | 14-18  | What is an | n Accident?                                 | 502 |
|       |        | 14-18:1    | No Requirement for Physical Contact         | 502 |
|       |        | 14-18:2    | Intentional Acts Not Excluded               | 503 |
|       | 14-19  | The Auto   | mobile-Accident Nexus                       | 503 |
|       |        | 14-19:1    | "Use of Vehicle" as Nexus                   | 503 |
|       |        | 14-19:2    | Eligibility Tightened                       | 504 |
|       |        | 14-19:3    | Proximate Relationship of Accident to       |     |
|       |        |            | Automobile                                  | 505 |
|       |        | 14-19:4    | Fetus Covered                               | 505 |
|       |        | 14-19:5    | When Automobile "Setting" Insufficient      |     |
|       |        |            | for Coverage                                | 505 |
| XIV.  | BENEF  | ITS        |   | 507 |
|       | 14-20  | Medical-I  | Expense Benefits Generally                  | 507 |
|       |        | 14-20:1    | Coordination Among Insurers                 | 507 |
|       |        | 14-20:2    | Reasonableness of Expenses                  | 507 |
|       |        | 14-20:3    | Compliance with Standards                   | 508 |
|       |        | 14-20:4    | Nature of Health Care Expenses              | 508 |
|       |        | 14-20:5    | Attendant Care Covered                      | 508 |

|     |         | 14-20:6     | Customized Vans Not Covered                | 509 |
|-----|---------|-------------|--|-----|
|     |         | 14-20:7     | Travel to Medical Facility Covered         | 509 |
|     |         | 14-20:8     | Necessity of Medical Treatment             | 509 |
|     |         | 14-20:9     | Chiropractic Treatments Covered            | 510 |
|     |         | 14-20:10    | Thermography Covered as a                  |     |
|     |         |             | Diagnostic Aid                             | 510 |
|     |         | 14-20:11    | Brain-Death Determination                  |     |
|     |         |             | Procedures Covered                         | 510 |
|     | 14-21   | Income Co   | ontinuation                                | 510 |
|     |         | 14-21:1     | Definition of Income                       | 510 |
|     |         | 14-21:2     | Income Loss Not Prorated                   | 511 |
|     |         | 14-21:3     | Definition of Income Producer              | 511 |
|     |         | 14-21:4     | Unemployment is Not a Criterion            |     |
|     |         |             | of Coverage                                | 511 |
|     |         | 14-21:5     | Proof of Income Loss Required              | 512 |
|     |         | 14-21:6     | Ineligible Claimants                       | 512 |
|     |         | 14-21:7     | Income Increase Does Not Bar Benefits      | 513 |
|     | 14-22   | Essential S | Services                                   | 513 |
|     |         | 14-22:1     | Statutory Definition                       | 513 |
|     |         | 14-22:2     | Limits on Reimbursement                    | 513 |
|     |         | 14-22:3     | Loss Replacement Theory                    | 514 |
|     |         | 14-22:4     | Essential Services Benefits on Death Claim | 514 |
|     | 14-23   | Survivor E  | Benefits                                   | 514 |
|     |         | 14-23:1     | Survivor Entitled to Maximum               |     |
|     |         |             | Essential-Services Benefits                | 514 |
|     |         | 14-23:2     | Bill Submission Not Required               | 515 |
|     |         | 14-23:3     | Perfection Not Required                    | 515 |
|     | 14-24   | Funeral B   | enefits                                    | 515 |
|     |         | 14-24:1     | \$1,000 Maximum on Expenses                | 515 |
|     |         | 14-24:2     | No Duplication of Workers'                 |     |
|     |         |             | Compensation Recovery                      | 515 |
| XV. | LIMITAT | ION OF A    | CTIONS                                     | 516 |
|     | 14-25   | Statutory   | Limits on Actions                          | 516 |
|     |         | 14-25:1     | Limits Apply to Infants                    | 516 |
|     |         | 14-25:2     | Commencement of Action by an Estate        | 516 |
|     |         | 14-25:3     | Judicial Construction                      | 517 |
|     |         | 14-25:4     | Triggering Mechanism for Statute           | 517 |
|     |         | 14-25:5     | Discovery Rule Applicable                  | 517 |
|     |         |             |  |     |

|        |  | 14-25:6    | Actual Payment of Benefits Adds               |     |
|--------|--|------------|---|-----|
|        |  |            | Two Years                                     | 518 |
|        |  | 14-25:7    | Denial of Additional Payments as Trigger      | 518 |
|        |  | 14-25:8    | Exception for Future Treatments               | 519 |
| XVI.   | TIME F                                 | OR PIP PAY | MENT  | 520 |
|        | 14-26                                  | Time Lim   | it for Benefits Payment                       | 520 |
|        |  | 14-26:1    | Interest Required on Overdue Payments         | 520 |
|        |  | 14-26:2    | Failure to Give Notice                        | 520 |
| XVII.  | ARBITE                                 | RATION     |   | 520 |
|        | 14-27                                  | Arbitratio | on for Dispute Resolution                     | 520 |
|        |  | 14-27:1    | Dispute Resolution Procedure                  | 521 |
|        |  | 14-27:2    | Judicial Intervention                         | 523 |
|        |  | 14-27:3    | Appeal and Remand                             | 525 |
| XVIII. | FEES A                                 | ND COSTS   |   | 527 |
|        | 14-28                                  | Fees and   | Costs   | 527 |
|        |  | 14-28:1    | Costs Borne by Insurer                        | 527 |
|        |  | 14-28:2    | Award of Fees Within Judge's Discretion       | 527 |
|        |  | 14-28:3    | Recovery of Expert Witness Fees               | 528 |
|        |  | 14-28:4    | Punitive Damages                              | 528 |
| XIX.   | RIGHT OF INSURER TO OBTAIN INFORMATION |            |   | 529 |
|        | 14-29                                  | Informati  | on Gathering by Insurers                      | 529 |
|        |  | 14-29:1    | Insurer's Obligation to Investigate Claim     | 529 |
|        |  | 14-29:2    | Insured Must Execute All Necessary            |     |
|        |  |            | Documents                                     | 529 |
|        |  | 14-29:3    | Access to Employer and Medical Records        | 529 |
|        |  | 14-29:4    | Insured Must Comply with Request for          |     |
|        |  |            | Examination                                   | 529 |
|        |  | 14-29:5    | <b>Examination for Chiropractic Treatment</b> | 529 |
|        |  | 14-29:6    | Place of Examination                          | 530 |
|        |  | 14-29:7    | Availability of Local Examining Physicians    | 530 |
|        |  | 14-29:8    | Deposition or Statement from Claimant         | 530 |
|        |  | 14-29:9    | Conditional Payment Barred                    | 530 |
|        |  | 14-29:10   | Court Resolves Discovery Disputes             | 531 |
| XX.    | INTER-                                 | INSURER I  |   | 531 |
|        | 14-30                                  | Allocating | g Financial Responsibility Among Insurers     | 531 |
|        |  | 14-30:1    | Primary PIP Coverage of Named Insured         | 531 |
|        |  | 14-30:2    | Primacy Limited to Family Relationships       | 532 |
|        |  | 14-30:3    | Health Coverage as Primary                    | 532 |
|        |  | 14-30:4    | Recovery of Duplicated Benefits               | 532 |

|      |              | 14-30:5     | Intercompany Arbitration                 | 533 |
|------|--------------|-------------|--|-----|
|      |              | 14-30:6     | Obligations of Insurer in Arbitration    | 533 |
|      |              | 14-30:7     | Statutory Subrogation Remedies           | 534 |
|      |              | 14-30:8     | Follow-the-Family Exclusion              | 536 |
| Chap | ter 15: Unir | sured and U | nderinsured Motorist Coverage            | 539 |
| I.   | INTRO        | DUCTION     |  | 539 |
|      | 15-1         | Overview    | 7  | 539 |
|      | 15-2         | Statutory   | Requirements for UM and UIM Coverage     | 540 |
| II.  | UM CC        | VERAGE      |  | 540 |
|      | 15-3         | UM Cov      | erage Generally                          | 540 |
|      | 15-4         | Required    | UM Coverage                              | 541 |
|      |              | 15-4:1      | The Required Minimum Amounts of UM       |     |
|      |              |             | Coverage                                 | 541 |
|      |              | 15-4:2      | The Required Offer of Optional           |     |
|      |              |             | UM Coverage                              | 541 |
|      |              | 15-4:3      | Policies Cannot Limit Mandatory          |     |
|      |              |             | UM Coverage                              | 542 |
|      |              | 15-4:4      | What Motor Vehicles Must Carry           |     |
|      |              |             | UM Coverage                              | 542 |
|      | 15-5         | Self-Insu   | rance and UM                             | 543 |
|      |              | 15-5:1      | Self-Insurer Must Cover the Same Risks   | 543 |
|      |              | 15-5:2      | Public Entities Must Purchase            |     |
|      |              |             | UM Insurance; Not Applicable to          |     |
|      |              |             | Out-of-State Residents                   | 543 |
|      | 15-6         | What is a   | n Uninsured Vehicle?                     | 544 |
|      |              | 15-6:1      | Motor Vehicle with No Liability Coverage | 544 |
|      |              | 15-6:2      | When Insurer Denies Coverage             | 545 |
|      |              | 15-6:3      | When Insurer Unable to Pay               | 545 |
|      |              | 15-6:4      | Vehicle Involved in Hit-and-Run Accident | 545 |
|      |              | 15-6:5      | When Special Policy Applies              | 545 |
|      | 15-7         | When is a   | a Vehicle Not "Uninsured"?               | 546 |
|      |              | 15-7:1      | Vehicle Owned by Named Insured           | 546 |
|      |              | 15-7:2      | Self-Insured Vehicle                     | 546 |
|      |              | 15-7:3      | Vehicle Owned by Public Entity           | 546 |
|      |              | 15-7:4      | Vehicle Operated on Rails                | 547 |
|      |              | 15-7:5      | Stationary Vehicle                       | 547 |
|      |              | 15-7:6      | Off Road Vehicle                         | 547 |
|      |              | 15-7:7      | Vehicle with Basic Coverage              | 547 |

| 15-8  | Issues Surrounding Issuance and Interpretation of |  |     |  |  |
|-------|---|--|-----|--|--|
|       | the UM l  | Endorsement                            | 547 |  |  |
|       | 15-8:1  | UM Coverage Governed by Terms of the   |     |  |  |
|       |   | Contract and UM                        | 547 |  |  |
|       | 15-8:2  | Interpretation of the UM Endorsement   | 548 |  |  |
|       | 15-8:3  | UM Coverage is Subject to Approval and |     |  |  |
|       |   | Close Supervision by the Commissioner  |     |  |  |
|       |   | of Insurance                           | 548 |  |  |
|       | 15-8:4  | Provisions that Conflict with Statute  |     |  |  |
|       |   | are Void                               | 548 |  |  |
| 15-9  | UM Reco   | overy                                  | 549 |  |  |
|       | 15-9:1  | Overview                               | 549 |  |  |
|       | 15-9:2  | Choice of Law                          | 549 |  |  |
| 15-10 | Who is an   | n Insured?                             | 549 |  |  |
| 15-11 | Family M  | Iember Issues                          | 550 |  |  |
|       | 15-11:1   | Cohabitation as Basis for Recovery     | 550 |  |  |
|       | 15-11:2   | Scope of Coverage for "Relatives"      | 551 |  |  |
|       | 15-11:3   | UM (and UIM) Coverage Required for     |     |  |  |
|       |   | Separated Spouse                       | 553 |  |  |
|       | 15-11:4   | Divorced Family Issues                 | 554 |  |  |
| 15-12 | An Accident "Arising Out of the Ownership,        |  |     |  |  |
|       | Maintena  | ance or Use"                           | 555 |  |  |
|       | 15-12:1   | Generally                              | 555 |  |  |
|       | 15-12:2   | Accident                               | 555 |  |  |
|       | 15-12:3   | "Arising Out of the Use" of a          |     |  |  |
|       |   | Vehicle for UM/UIM Coverage            | 555 |  |  |
| 15-13 | Notice  |  | 559 |  |  |
|       | 15-13:1   | Late Notice                            | 559 |  |  |
| 15-14 |   | Compensation Issues                    | 559 |  |  |
|       | 15-14:1   | No Double Recovery with Workers'       |     |  |  |
|       |   | Compensation                           | 559 |  |  |
|       | 15-14:2   | Limitation on Workers'                 |     |  |  |
|       |   | Compensation Lien                      | 560 |  |  |
|       | 15-14:3   | Co-Employee as Uninsured Tortfeasor    | 561 |  |  |
| 15-15 |   | n Among More than One UM Policy        | 562 |  |  |
|       | 15-15:1   | Multiple Claimants and                 |     |  |  |
|       |   | Multiple Policies                      | 562 |  |  |
|       | 15-15:2   | Multiple Claimants Measure of          |     |  |  |
|       |   | Recovery                               | 562 |  |  |

|      | 15-16  | Claimant   | as Option to Proceed Against UM Insurers | 563 |
|------|--------|------------|--|-----|
|      |        | 15-16:1    | Not All Relevant Insurers                |     |
|      |        |            | Must be Joined                           | 563 |
|      |        | 15-16:2    | Other Sources of Recovery                | 564 |
|      |        | 15-16:3    | UM Subrogation                           | 564 |
|      |        | 15-16:4    | Impacts of UM Settlements                | 564 |
|      | 15-17  | UM and     | Bad Faith                                | 565 |
|      |        | 15-17:1    | New Jersey Insurance Fair                |     |
|      |        |            | Conduct Act (IFCA)                       | 565 |
|      |        | 15-17:2    | Procedure for Claim                      | 565 |
|      |        | 15-17:3    | Definition of "Insurer"                  | 566 |
|      |        | 15-17:4    | Definition of "Public Entity"            | 566 |
|      |        | 15-17:5    | Right to Also File Civil Action          | 566 |
|      |        | 15-17:6    | The Substantive Law of First Party       |     |
|      |        |            | Coverage Suits for "Bad Faith"           | 567 |
|      |        | 15-17:7    | Numerous Issues Arise Because            |     |
|      |        |            | of the IFCA's Broad Language and Brevity | 568 |
|      |        | 15-17:8    | Unresolved Questions Under the IFCA      | 568 |
|      | 15-18  | "For Fee   | "Exclusions Unenforceable                | 568 |
| III. | UIM CO | OVERAGE    |  | 569 |
|      | 15-19  | Introduc   | tion                                     | 569 |
|      | 15-20  | UIM His    | story                                    | 570 |
|      | 15-21  | Definitio  | n of "Underinsured"                      | 570 |
|      | 15-22  | UIM Co     | verage is Optional                       | 571 |
|      |        | 15-22:1    | Required Optional Offer to               |     |
|      |        |            | Purchase UIM Coverage                    | 571 |
|      |        | 15-22:2    | Limitations on the Purchase of           |     |
|      |        |            | UIM Coverage                             | 571 |
|      | 15-23  | UIM Co     | verage Cannot be Stacked                 | 571 |
|      | 15-24  | Difference | es Between UM and UIM Coverage           | 572 |
|      | 15-25  | Single Er  | ndorsement Allowed for UM                |     |
|      |        | and UIM    | I Coverage                               | 572 |
|      | 15-26  | Self Insu  | rance and Public Entities                | 572 |
|      | 15-27  | UIM Red    | covery                                   | 573 |
|      |        | 15-27:1    | Overview                                 | 573 |
|      | 15-28  | When is a  | a Vehicle "Underinsured"?                | 573 |
|      |        | 15-28:1    | The UIM Endorsement Controls             |     |
|      |        |            | Recovery                                 | 573 |
|      |        | 15-28:2    | Recovery Limited to Own UIM Limits       | 574 |

|       | 15-28:3   | The Effect of "Step-Down" Provisions    | 574 |
|-------|-----------|---|-----|
| 15-29 | Primary a | and Excess UIM Coverage                 | 575 |
| 15-30 | UIM Rec   | overy and Longworth—The "Roadmap"       |     |
|       | to UIM R  | Recovery                                | 575 |
|       | 15-30:1   | UIM Insurer Seeking                     |     |
|       |           | Recovery from Tortfeasor                | 576 |
|       | 15-30:2   | Consequences of Breach of               |     |
|       |           | the 30-Day Notice Requirement           | 577 |
|       | 15-30:3   | Insurer's Duty to Provide               |     |
|       |           | Notice to Other Insurers                | 578 |
|       | 15-30:4   | Prejudice Issues that Surround          |     |
|       |           | Longworth Notice                        | 578 |
|       | 15-30:5   | No Prejudice Need be Shown if           |     |
|       |           | Insured's Actions Nullify UIM           |     |
|       |           | Insurer's Right to Subrogation          | 580 |
|       | 15-30:6   | When the UIM and Tortfeasor's           |     |
|       |           | Insurer is the Same Carrier             | 580 |
|       | 15-30:7   | Insurer Refuses Consent at Its Own Risk | 581 |
|       | 15-30:8   | No Need to Exhaust Tortfeasor's         |     |
|       |           | Policy Limits                           | 582 |
|       | 15-30:9   | Effect of Liability Settlements         |     |
|       |           | Deduction Based on Actual Policy        |     |
|       |           | Limits                                  | 582 |
|       | 15-30:10  | Payment of Claims to Others Does        |     |
|       |           | Not Reduce Coverage to Injured Party    | 584 |
|       | 15-30:11  | Credit Under Split Limits               | 584 |
|       | 15-30:12  | Intervention by UIM Insurer             | 585 |
| 15-31 | Proration | of Multiple Policies Applicable to      |     |
|       | UIM Clai  | ims                                     | 585 |
|       | 15-31:1   | Statutory Coverage Limit                | 585 |
|       | 15-31:2   | Single Claimant and Multiple Policies   | 586 |
|       | 15-31:3   | Multiple Named Insureds                 |     |
|       |           | Under Multiple Policies                 | 587 |
| 15-32 | Total Lim | nits of Tortfeasor Must be Less than    |     |
|       | Total UIN | M Limits                                | 587 |
|       | 15-32:1   | Multiple Tortfeasors and UIM            | 589 |
| 15-33 | Non-Auto  | o Tortfeasor Limits Compared to         |     |
|       | UIM Lim   |   | 589 |
| 15-34 | No Prora  | tion for Specialty Policies             | 590 |
|       |           |   |     |

|     | 15-35  | Exclusion  | ns May Bar UM/UIM Coverage          | 590 |
|-----|--------|------------|-------------------------------------|-----|
|     | 15-36  | The Entir  | re Controversy Doctrine May         |     |
|     |        | Bar Knov   | wn but Unfiled UIM Claims           | 591 |
| IV. | NOTIF  | ICATION O  | F OPTION TO PURCHASE UM/UIM         |     |
|     | COVER  | AGE; REL   | ATED CAUSES OF ACTION               | 591 |
|     | 15-37  | Statutory  | Requirement                         | 591 |
|     | 15-38  | Satisfying | g Requirement to Notify Insured     |     |
|     |        | of Option  | ns                                  | 592 |
|     | 15-39  | Sources of | of Breach of Duty to an Insured:    |     |
|     |        | UM/UIM     | 1 Context                           | 593 |
|     | 15-40  | Broker N   | ot Required to Initiate Contact     | 593 |
|     | 15-41  | Limited (  | Causes of Action Against Producers  | 594 |
|     |        | 15-41:1    | Remedies Against the Producer       | 594 |
| V.  | ARBITI | RATION     | -                                   | 594 |
|     | 15-42  | Introduct  | tion                                | 594 |
|     | 15-43  | Issues to  | be Decided                          | 595 |
|     |        | 15-43:1    | What Can be Arbitrated?             | 595 |
|     | 15-44  | Arbitrati  | on Procedure                        | 597 |
|     |        | 15-44:1    | Look to Policy                      | 597 |
|     | 15-45  | Statute of | f Limitations                       | 597 |
|     |        | 15-45:1    | Limits on Commencement of Action    | 597 |
|     | 15-46  | UM Arb     | itration Issues                     | 598 |
|     |        | 15-46:1    | Phantom Vehicles                    | 598 |
|     |        | 15-46:2    | Theft and Carjacking                | 599 |
|     | 15-47  | Impact o   | f Third-Party Settlement on         |     |
|     |        | Judicial I | Estoppel                            | 599 |
|     | 15-48  | UIM Arl    | pitration Issues                    | 600 |
|     |        | 15-48:1    | What is Different About UIM         |     |
|     |        |            | Arbitration                         | 600 |
|     | 15-49  | Aggregat   | e Liability Determines UIM Coverage | 600 |
| VI. | PROCE  |            | SPECTS OF UIM CLAIMS                | 601 |
|     | 15-50  | The Righ   | t to Trial                          | 601 |
|     |        | 15-50:1    | When Does an Arbitration Award      |     |
|     |        |            | Qualify as "Exceeding" the          |     |
|     |        |            | Statutory Minimum?                  | 602 |
|     |        | 15-50:2    | No Extra Contractual Award          |     |
|     |        |            | Where UM Insurer's Conduct          |     |
|     |        |            | Was Fairly Debatable                | 602 |
|     |        |            |                                     |     |

|      | 15-51       | Wrongful Death Actions for UM and UIM       |     |
|------|-------------|---|-----|
|      |             | Benefits                                    | 603 |
|      | 15-52       | Per Quod Claims                             | 603 |
|      | 15-53       | Circumstances Under Which Host Vehicle      |     |
|      |             | Coverage is Primary                         | 604 |
|      | 15-54       | Offer of Judgment Applicable to UM/UIM      | 605 |
|      | 15-55       | Statutes of Limitations and Insurer Conduct | 606 |
|      | 15-56       | Class Actions in UM/UIM Cases               | 607 |
| Chap | ter 16: Hom | neowner Policies                            | 609 |
| I.   | INTRO       | DUCTION                                     | 609 |
|      | 16-1        | Overview                                    | 609 |
|      | 16-2        | Types of Homeowner Policies                 | 609 |
|      | 16-3        | Liability Coverage Analysis                 | 610 |
|      | 16-4        | Claims for Damage and Loss                  | 611 |
| II.  | DWELI       | LING AND CONTENTS COVERAGE                  | 612 |
|      | 16-5        | Coverage A—The Dwelling                     | 612 |
|      | 16-6        | Coverage B—Other Structures                 | 612 |
|      | 16-7        | Coverage C—Personal Property                | 612 |
|      | 16-8        | Coverage D—Loss of Use/Additional           |     |
|      |             | Living Expenses                             | 612 |
|      | 16-9        | Additional Coverages                        | 612 |
| III. | FIRST-      | PARTY COVERAGE                              | 613 |
|      | 16-10       | Insured Members of Household                | 613 |
|      | 16-11       | Coverage Limited to Identified Premises     | 613 |
|      | 16-12       | Applicable Exclusions                       | 614 |
|      | 16-13       | Wind or Water Loss                          | 615 |
|      | 16-14       | Causation Which Includes an Insured Peril   | 615 |
|      | 16-15       | Theft or Mysterious Disappearance           | 616 |
|      | 16-16       | Impairment to Structural Integrity:         |     |
|      |             | Reasonable Expectations                     | 617 |
|      | 16-17       | Mold Loss                                   | 618 |
|      | 16-18       | Payment for Structures                      | 618 |
|      | 16-19       | Actual Cash Value: The Broad Evidence Rule  | 619 |
|      | 16-20       | Constructive Total Loss                     | 620 |
| IV.  | LIABIL      | ITY COVERAGE                                | 620 |
|      | 16-21       | Coverage Limited to Identified Premises     | 620 |
|      | 16-22       | Applicable Exclusions                       | 620 |

| V.   | EXCLU         | SIONS                              |  | 621 |  |  |
|------|---------------|------------------------------------|--|-----|--|--|
|      | 16-23         | Criminal                           | Conduct Exclusions                           | 621 |  |  |
|      |               | 16-23:1                            | Coverage Excluded for Criminal Acts          | 621 |  |  |
|      |               | 16-23:2                            | Effect of Criminal Conviction                | 622 |  |  |
|      |               | 16-23:3                            | Guilty Plea Not Necessarily Conclusive       | 622 |  |  |
|      |               | 16-23:4                            | When Conviction Establishes                  |     |  |  |
|      |               |                                    | Intent to Injure                             | 624 |  |  |
|      |               | 16-23:5                            | Innocent Insured Not Barred                  |     |  |  |
|      |               |                                    | from Recovery                                | 624 |  |  |
|      | 16-24         | Business                           | Pursuits Exclusion                           | 625 |  |  |
|      |               | 16-24:1                            | Business Pursuits                            | 625 |  |  |
|      |               | 16-24:2                            | Activities "Ordinarily Incident" to          |     |  |  |
|      |               |                                    | Non-Business Pursuits                        | 626 |  |  |
|      |               | 16-24:3                            | Professional Services Excluded               | 627 |  |  |
|      |               | 16-24:4                            | Babysitting and Child Care                   | 627 |  |  |
|      | 16-25         | Motor V                            | ehicle Exclusions                            | 627 |  |  |
|      |               | 16-25:1                            | The Instrumentality Theory:                  |     |  |  |
|      |               |                                    | The Moraca Case                              | 627 |  |  |
|      |               | 16-25:2                            | Concurrent Cause Theory: The Oliver Case     | 628 |  |  |
|      |               | 16-25:3                            | What is a "Motor Vehicle"?                   | 630 |  |  |
|      | 16-26         | Intra-Fai                          | mily Exclusion                               | 631 |  |  |
|      | 16-27         | "Arising                           | "Arising Out of" Exclusion                   |     |  |  |
|      | 16-28         | Flood and Surface Water Exclusions |  |     |  |  |
| Chap | ter 17: Profe | essional Lial                      | pility Policies                              | 635 |  |  |
| I.   | INTRODUCTION  |                                    |  | 635 |  |  |
|      | 17-1          | Overview                           | 7  | 635 |  |  |
|      | 17-2          | Claims-N                           | Made Policies vs. Occurrence Policies        | 636 |  |  |
|      | 17-3          | Claims-Made Policies 6             |  |     |  |  |
| II.  | POLICY        | Y PROVISIO                         | ONS  | 637 |  |  |
|      | 17-4          | Common                             | Insuring Agreements in Professional Policies | 637 |  |  |
|      | 17-5          | The Effec                          | ct of a Deductible                           | 638 |  |  |
|      | 17-6          | Claims E                           | xpenses                                      | 638 |  |  |
|      | 17-7          | Professio                          | nal Acts and Services                        | 639 |  |  |
|      | 17-8          | Retroacti                          | ve and Extended Discovery Clauses            | 640 |  |  |
|      | 17-9          | Varying l                          | Policy Provisions                            | 641 |  |  |
|      | 17-10         | Duty to 1                          | Defend Concepts                              | 641 |  |  |
|      | 17-11         | Separate Trial on Duty to Defend   |  |     |  |  |

| III.  | CLAIMS-MADE POLICIES |  |     |  |
|-------|----------------------|--|-----|--|
|       | 17-12                | Essentials of Coverage                               | 642 |  |
|       | 17-13                | Notice: No Appreciable Prejudice                     | 642 |  |
| IV.   | CLAIM                | AND DISPUTE RESOLUTION                               | 644 |  |
|       | 17-14                | Disputes Among Insurers                              | 644 |  |
|       | 17-15                | Effect of Consent to Settle and Deductible Clauses   | 645 |  |
|       | 17-16                | Criminal Conduct as Affecting Coverage               | 646 |  |
|       | 17-17                | Scope of Professional Association Coverage           | 647 |  |
|       | 17-18                | Application for Professional Liability Coverage      | 647 |  |
|       | 17-19                | Effect of Misrepresentation                          | 648 |  |
|       | 17-20                | Effect of Exclusions                                 | 648 |  |
| V.    | COVER                | AGE FOR DIRECTORS AND OFFICERS                       | 649 |  |
|       | 17-21                | Directors and Officers (D&O) Liability Policies      | 649 |  |
|       | 17-22                | D&O Exclusions                                       | 650 |  |
| VI.   | DIMIN                | ISHING LIMIT POLICIES                                | 650 |  |
|       | 17-23                | Policies in Which the Limits Are Reduced by          |     |  |
|       |                      | Legal Costs  | 650 |  |
| VII.  | MEDIC                | CAL MALPRACTICE COVERAGE                             | 651 |  |
|       | 17-24                | Mandatory Coverage for Doctors and Podiatrists       | 651 |  |
|       | 17-25                | Rescission of Medical Malpractice Policies for Fraud | 652 |  |
| Chapt | er 18: Life          | , Accident and Health Policies                       | 655 |  |
| I.    | INTRO                | DUCTION  | 655 |  |
|       | 18-1                 | Overview   | 655 |  |
|       | 18-2                 | Definition of Life Insurance                         | 656 |  |
|       | 18-3                 | "Accidental Means" Requirement                       | 656 |  |
| II.   | INSURABLE INTEREST   |  |     |  |
|       | 18-4                 | Parties with Insurable Interest                      | 656 |  |
| III.  | STATU                | TORY REQUIREMENTS/INDIVIDUAL                         |     |  |
|       | LIFE P               | OLICIES  | 658 |  |
|       | 18-5                 | Standardization of Policies                          | 658 |  |
|       | 18-6                 | Grace-Period Requirements                            | 659 |  |
|       | 18-7                 | Ten-Day Cancellation Period                          | 659 |  |
|       | 18-8                 | Reinstatement of Policy                              | 659 |  |
|       | 18-9                 | Statements in Application as Part of Policy          | 660 |  |
|       | 18-10                | Other Policy Requirements                            | 660 |  |
|       | 18-11                | Insured as Owner of Policy for Loans                 | 661 |  |
|       | 18-12                | Right of Insurer to Waive                            | 661 |  |
|       | 18-13                | Manner of Premium Payment                            | 662 |  |

|      | 18-14  | Limitation on Time for Suit                           | 662    |
|------|--------|---|--------|
|      | 18-15  | Life Policy Incontestability                          | 662    |
|      |        | 18-15:1 Generally                                     | 662    |
|      |        | 18-15:2 Limits on Incontestability                    | 663    |
|      |        | 18-15:3 Contesting a Reinstated Policy                | 663    |
|      | 18-16  | Reformation Due to Age Discrepancy                    | 663    |
|      | 18-17  | Readability Requirements                              | 663    |
|      |        | 18-17:1 Minimum Language Standards                    | 663    |
|      |        | 18-17:2 Nonapplicable Statutes                        | 664    |
|      |        | 18-17:3 Non-English Language Policies                 | 664    |
| IV.  | APPLIC | CATION FOR INSURANCE                                  | 664    |
|      | 18-18  | False Statements                                      | 664    |
|      | 18-19  | Two-Year Contestability Limit                         | 665    |
|      | 18-20  | Two-Year Limit on Equitable Fraud Actions             | 665    |
|      | 18-21  | Fraudulent Misrepresentation Extends Incontestability | ty 665 |
|      | 18-22  | The Manzo Doctrine                                    | 666    |
|      | 18-23  | Nature of the Application Question                    | 667    |
|      | 18-24  | Insurer Has No Duty to Inquire                        | 668    |
|      | 18-25  | Admissible Evidence                                   | 668    |
|      | 18-26  | Obligation to Advise Policy Applicant of              |        |
|      |        | Health Risks  | 669    |
| V.   | DEATH  | I BY ACCIDENT OR ACCIDENTAL MEANS                     | 669    |
|      | 18-27  | Accident Independent of Other Causes                  | 669    |
|      | 18-28  | Primary Test for Determination of Coverage            | 670    |
|      | 18-29  | Trauma Inflicted by Insured's Own Illegal Conduct     | 671    |
| VI.  | BENEF  | TICIARIES   | 672    |
|      | 18-30  | Beneficiary's Rights                                  | 672    |
|      | 18-31  | Person, Not Relationship, Decides Beneficiary         | 673    |
|      | 18-32  | Substantial Compliance with Policy Terms              | 673    |
|      | 18-33  | Change of Beneficiary Received After Death            | 675    |
|      | 18-34  | Effect of Marriage or Termination of Marriage on      |        |
|      |        | Beneficiary   | 675    |
|      | 18-35  | Court Can Order Spouse to Obtain Insurance            | 677    |
|      | 18-36  | Compliance with Policy Terms Absolves Insurer         | 677    |
|      | 18-37  | Effects of Careless Record Keeping                    | 677    |
|      | 18-38  | Insurer Not Liable for Forged Payment Check           | 678    |
| VII. | MURD   | ER INVOLVING BENEFICIARY                              | 678    |
|      | 18-39  | Beneficiaries Who are Murderers                       |        |
|      |        | Cannot Recover  | 678    |

| VIII.  | SUICID                                    | ÞΕ                                   |  | 679 |  |
|--------|---|--------------------------------------|--|-----|--|
|        | 18-40                                     | Suicide a                            | Defense to Payment                             | 679 |  |
|        | 18-41                                     | Suicide I                            | Suicide Exclusion in Policy Allowable          |     |  |
|        | 18-42                                     | Burden o                             | of Proof on Additional Benefits Claim          | 680 |  |
| IX.    | PROOF                                     | OF DEAT                              | Н  | 681 |  |
|        | 18-43                                     | Requirer                             | nents for Presumption of Death                 | 681 |  |
|        | 18-44                                     | Determin                             | nation of Death                                | 681 |  |
|        | 18-45                                     | Probate?                             | No Bar to Insurer Challenge                    | 681 |  |
| Chapte | er 19: Emp                                | loyment-Rel                          | ated Insurance Issues                          | 683 |  |
| I.     | INTRO:                                    | DUCTION                              |  | 683 |  |
|        | 19-1                                      | Overviev                             | V  | 683 |  |
|        | 19-2                                      | Potential                            | Sources of Coverage for                        |     |  |
|        |   | Employn                              | nent-Related Acts                              | 684 |  |
| II.    | <b>TYPES</b>                              | TYPES OF EMPLOYMENT-RELATED POLICIES |  |     |  |
|        | 19-3                                      | General                              | Liability Policies                             | 684 |  |
|        |   | 19-3:1                               | <b>Employment-Related Practices Exclusions</b> |     |  |
|        |   |                                      | Preclude Most Employment Matters               | 685 |  |
|        |   | 19-3:2                               | Expected or Intended Injury under              |     |  |
|        |   |                                      | General Liability Policies                     | 686 |  |
|        | 19-4 Workers' Compensation and Employers' |                                      |  |     |  |
|        |   | Liability                            | Policies                                       | 686 |  |
|        |   | 19-4:1                               | Coverage Provided by Workers'                  |     |  |
|        |   |                                      | Compensation and Employers'                    |     |  |
|        |   |                                      | Liability Policies                             | 687 |  |
|        |   | 19-4:2                               | Differences Between Workers'                   |     |  |
|        |   |                                      | Compensation and Employers'                    |     |  |
|        |   |                                      | Liability Coverage                             | 687 |  |
|        |   | 19-4:3                               | Common Law Actions Against                     |     |  |
|        |   |                                      | Employers for Allegedly Intentional Acts       | 688 |  |
|        |   | 19-4:4                               | Work-Related Harassment                        | 689 |  |
|        |   | 19-4:5                               | Claims of Underage Employees                   | 690 |  |
|        | 19-5                                      |                                      | ner Policies                                   | 690 |  |
|        | 19-6                                      | Employn                              | nent Practices Liability Policies              | 690 |  |
|        | 19-7                                      | Coverage                             | e of Emotional Distress Claims                 |     |  |
|        |   | _                                    | Out of Employment Situations                   | 691 |  |
| III.   | EMPLC                                     | YMENT-R                              | ELATED DUTY TO DEFEND ISSUES                   | 691 |  |
|        | 19-8                                      | Defense                              | for Employment-Related Claims                  | 691 |  |
|        |   | 19-8:1                               | Defense of EEOC Proceedings                    | 691 |  |

| IV.    | PROTECTION FOR EMPLOYERS FROM EMPLOYEE |   |     |  |  |  |
|--------|--|---|-----|--|--|--|
|        | CONDU                                  | UCT   | 692 |  |  |  |
|        | 19-9                                   | Employee Dishonesty Policies                            | 692 |  |  |  |
| V.     | ADMIN                                  | NISTRATION OF WORKERS' COMPENSATION                     |     |  |  |  |
|        | POLICI                                 | IES   | 693 |  |  |  |
|        | 19-10                                  | Jurisdiction to Decide Policy Coverage Issues           | 693 |  |  |  |
|        | 19-11                                  | Employer's Obligation to Employee under the             |     |  |  |  |
|        |  | Workers' Compensation Act                               | 694 |  |  |  |
|        | 19-12                                  | Cancellation Procedure                                  | 695 |  |  |  |
|        | 19-13                                  | General Contractor Responsible for                      |     |  |  |  |
|        |  | Uninsured Subcontractor                                 | 696 |  |  |  |
|        | 19-14                                  | Employee's Right of Action Under                        |     |  |  |  |
|        |  | the Workers' Compensation Policy                        | 697 |  |  |  |
|        | 19-15                                  | Notice or Knowledge of Injury by Insurer                | 699 |  |  |  |
|        | 19-16                                  | Restrictions on Limitation of Liability                 | 699 |  |  |  |
| Chapte | er 20: Prop                            | perty Insurance and Fire Insurance                      | 701 |  |  |  |
| I.     | INTRO                                  | DUCTION   | 701 |  |  |  |
|        | 20-1                                   | Overview  | 701 |  |  |  |
| II.    | TYPES                                  | OF PROPERTY INSURANCE                                   | 701 |  |  |  |
|        | 20-2                                   | Covered Perils or All Risk Coverage                     | 701 |  |  |  |
|        |  | 20-2:1 Commercial Property Insurance                    | 702 |  |  |  |
|        | 20-3                                   | Differences Between First- and Third-Party Insurance    | 703 |  |  |  |
| III.   | MISCE                                  | LLANEOUS FIRST-PARTY POLICY ISSUES                      | 703 |  |  |  |
|        | 20-4                                   | Construction and Interpretation of First-Party Policies | 703 |  |  |  |
|        | 20-5                                   | Appraisal   | 704 |  |  |  |
|        | 20-6                                   | Inventory Lists   | 706 |  |  |  |
|        | 20-7                                   | Bad Faith Claim Handling and First-Party Insurance      | 707 |  |  |  |
|        | 20-8                                   | Trigger of Coverage Under First-Party Policy            | 708 |  |  |  |
|        | 20-9                                   | Collapse Peril  | 709 |  |  |  |
|        | 20-10                                  | Increase of Hazard                                      | 710 |  |  |  |
| IV.    | FIRE II                                | NSURANCE POLICIES                                       | 711 |  |  |  |
|        | 20-11                                  | Development of the Standard Policy                      | 711 |  |  |  |
|        |  | 20-11:1 Business Interruption Insurance                 | 712 |  |  |  |
|        |  | 20-11:2 Similarities to Other Insurance Policies        | 714 |  |  |  |
|        | 20-12                                  | Issues Raised by Fire Policies                          | 714 |  |  |  |
| V.     | STAND                                  | OARD REQUIREMENTS AND FIRE                              |     |  |  |  |
|        | POLICY                                 | Y FORMS   | 714 |  |  |  |
|        | 20-13                                  | New Jersey Statutory Requirements for Fire Insurance    | 715 |  |  |  |

|      |        | 20-13:1    | Statutory Authority for Form and              |     |
|------|--------|------------|---|-----|
|      |        |            | Language                                      | 715 |
|      |        | 20-13:2    | Scope of Coverage                             | 715 |
|      |        | 20-13:3    | Limits on Actual Cash Value                   | 715 |
|      |        | 20-13:4    | Limits on Recovery                            | 715 |
|      |        | 20-13:5    | Assignment Requires Insurer's                 |     |
|      |        |            | Written Consent                               | 715 |
|      |        | 20-13:6    | Concealment and Misrepresentation             |     |
|      |        |            | Void Policy                                   | 716 |
|      |        | 20-13:7    | Financial Tender Excluded                     | 716 |
|      |        | 20-13:8    | Acts of War and Insurrection Excluded         | 716 |
|      |        | 20-13:9    | Loss by Theft and Neglect Excluded            | 718 |
|      |        | 20-13:10   | Restrictions on Other Insurance               | 718 |
|      |        | 20-13:11   | Restrictions on Insurer's Liability           | 718 |
|      |        | 20-13:12   | Coverage by Endorsement for Other Perils      | 719 |
|      |        | 20-13:13   | Additional Provisions Not                     |     |
|      |        |            | Inconsistent with Statutory Form              | 719 |
|      |        | 20-13:14   | Cancellation Notice Requirement               | 719 |
|      |        | 20-13:15   | Loss May be Paid to Mortgagee                 | 720 |
|      |        | 20-13:16   | Insurer's Liability to be Prorated            | 720 |
|      |        | 20-13:17   | Insured's Requirements in the Event           |     |
|      |        |            | of a Loss                                     | 720 |
|      |        | 20-13:18   | Insured's Cooperation Required                | 721 |
|      |        | 20-13:19   | Selection of Appraisers                       | 721 |
|      |        | 20-13:20   | Insurer's Options as to Damaged Property      | 721 |
|      |        | 20-13:21   | Time for Payment of Loss                      | 721 |
|      |        | 20-13:22   | Requirements for Filing Suit                  | 721 |
|      |        | 20-13:23   | Insurer's Right of Subrogation                | 722 |
|      |        | 20-13:24   | Commissioner May Approve Another              |     |
|      |        |            | Policy Form                                   | 722 |
| VI.  | FIRE A | S THE BASI | IS FOR RECOVERY                               | 722 |
|      | 20-14  | The Elem   | ents of "Fire"                                | 722 |
|      |        | 20-14:1    | Determination of "Friendly" Fire              | 723 |
| VII. | INSUR  | ABLE INTE  | REST  | 723 |
|      | 20-15  | The Test f | for Insurable Interest                        | 723 |
|      |        | 20-15:1    | Degree of Interest                            | 724 |
|      |        | 20-15:2    | Title Problems No Bar to Recovery             | 724 |
|      |        | 20-15:3    | Interest of Successor Sufficient for Recovery | 724 |
|      |        | 20-15:4    | Interest Determined as of Time of Loss        | 724 |

|       |                               | 20-15:5   | Demolition Plans No Bar to Recovery     | 724 |  |
|-------|-------------------------------|-----------|---|-----|--|
| VIII. | OTHER                         | INSURAN   | ICE                                     | 725 |  |
|       | 20-16 Primary Excess Coverage |           |   |     |  |
| IX.   | CANCELLATION OF FIRE POLICY   |           |   | 725 |  |
|       | 20-17                         | Notice R  | equirements                             | 725 |  |
|       |                               | 20-17:1   | Cancellation                            | 725 |  |
|       |                               | 20-17:2   | Expiration                              | 725 |  |
|       |                               | 20-17:3   | Insurer Not Required to Notify          |     |  |
|       |                               |           | Mortgagee of Expiration                 | 726 |  |
|       | 20-18                         | Burdens   | of Proof Regarding Cancellation         | 726 |  |
|       |                               | 20-18:1   | Insurer Burden to Prove Effective       |     |  |
|       |                               |           | Cancellation                            | 726 |  |
|       |                               | 20-18:2   | Proof of Mailing Requirement            | 727 |  |
|       |                               | 20-18:3   | Proof by Insured of Non-Receipt         | 727 |  |
| X.    | ACTUAL CASH VALUE             |           |   |     |  |
|       | 20-19                         | The Mea   | sure of Loss: Actual Cash Value         | 727 |  |
|       |                               | 20-19:1   | Measured as of Time of Loss             | 727 |  |
|       |                               | 20-19:2   | Prohibition to Rebuild as               |     |  |
|       |                               |           | Constructive Total Loss                 | 728 |  |
|       |                               | 20-19:3   | Broad-Evidence Rule Measures            |     |  |
|       |                               |           | Actual Cash Value                       | 728 |  |
|       |                               | 20-19:4   | Impossibility of Insured's Performance  |     |  |
|       |                               |           | Caused by Insurer                       | 728 |  |
| XI.   | MISCE                         | LLANEOUS  | S POLICY PROVISIONS AND ISSUES          | 729 |  |
|       | 20-20 Insurer Protections     |           |   |     |  |
|       |                               | 20-20:1   | Suspension of Coverage for Increased    |     |  |
|       |                               |           | Hazard                                  | 729 |  |
|       |                               | 20-20:2   | Insured's Knowledge of Increased Hazard | 730 |  |
|       |                               | 20-20:3   | Insured's Disabling of Sprinkler System | 730 |  |
|       |                               | 20-20:4   | Insured's Voluntary Relinquishment      |     |  |
|       |                               |           | of Control                              | 731 |  |
|       | 20-21                         | Intention | ally Set Fires                          | 731 |  |
|       |                               | 20-21:1   | No Recovery for Intentionally Set Fire  | 732 |  |
|       |                               | 20-21:2   | Arson Proved by Preponderance of        |     |  |
|       |                               |           | Evidence                                | 732 |  |
|       | 20-22                         |           | Co-insured's Right to Recover           | 732 |  |
| XII.  | RIGHT                         | S OF MOR  |   | 733 |  |
|       | 20-23                         |           | or and Mortgagee as Beneficiaries       | 733 |  |
|       | 20-24                         | Mortgage  | or's Obligation to Keep Policy in Force | 733 |  |

|        | 20-25       | Independent Contract Created                       | 734 |
|--------|-------------|--|-----|
|        | 20-26       | Mortgagee's Use of Proceeds                        | 734 |
| XIII.  | FIRE L      | OSS LITIGATION                                     | 735 |
|        | 20-27       | Choice of Law                                      | 735 |
|        | 20-28       | Time for Filing Suit                               | 735 |
|        | 20-29       | Notice to Insurer Tolls Limitations Period         | 735 |
| XIV.   | SUBRO       | GATION RIGHTS                                      | 736 |
|        | 20-30       | Assignment by Insured                              | 736 |
|        | 20-31       | Tortfeasor's Right to Legal and Equitable Defenses | 736 |
|        | 20-32       | Indemnity Limited to Amount Insurer Paid           | 736 |
| XV.    | WATER       | A DAMAGE CLAIMS                                    | 737 |
|        | 20-33       | "Named Windstorm" vs. "Flood" Sub Limit            | 737 |
| XVI.   | ECONO       | OMIC LOSS  | 737 |
|        | 20-34       | Coverage for Economic Loss Under First             |     |
|        |             | Party Policies is Limited to Losses as a           |     |
|        |             | Result of Detrimental Physical Alteration          | 737 |
| Chapte | er 21: Insu | rance Coverage for Environmental Claims and Other  |     |
| •      |             | nt Injury  | 739 |
| I.     | INTRO       | DUCTION  | 739 |
|        | 21-1        | Overview   | 739 |
| II.    | DUTY '      | TO DEFEND  | 740 |
|        | 21-2        | Duty to Defend: Covered Allegations                | 740 |
|        | 21-3        | Duty to Defend: PRP Letters and What is a "Suit"?  | 741 |
|        | 21-4        | Duty to Defend: When Questions of Coverage Exist   | 741 |
|        | 21-5        | No Automatic Defense of Underlying Action          | 742 |
|        | 21-6        | Morton International: Supreme Court's              |     |
|        |             | Discussion of Duty to Defend                       | 743 |
|        | 21-7        | Post-Morton International Debate on the            |     |
|        |             | Duty to Defend Underlying Environmental Claims     | 744 |
|        | 21-8        | Allocation of Defense Costs Among Covered and      |     |
|        |             | Noncovered Claims                                  | 745 |
| III.   | CHOIC       | E OF LAW FOR ENVIRONMENTAL AND OTHER               |     |
|        | "LONG       | TAIL" CLAIMS                                       | 746 |
|        | 21-9        | Introduction                                       | 746 |
|        | 21-10       | Choice of Law Basics for Contract Disputes         | 747 |
|        |             | 21-10:1 Does a "Conflict" Exist?                   | 748 |
|        | 21-11       | Choice of Law: Insurance Policies                  | 748 |
|        | 21-12       | Choice of Law: Application of Restatement          | 749 |

|     | 21-13  | Environn                     | Environmental and Other Long Tail        |     |  |  |
|-----|--------|------------------------------|--|-----|--|--|
|     |        | Insurance                    | e Disputes                               | 751 |  |  |
|     |        | 21-13:1                      | The Site-Specific Approach Adopted       |     |  |  |
|     |        |                              | in New Jersey                            | 752 |  |  |
|     |        | 21-13:2                      | Determining the Location of the "Risk"   | 754 |  |  |
|     | 21-14  | Summary                      | y: Choice of Law for Environmental       |     |  |  |
|     |        | and Long                     | g Tail Insurance Litigation              | 755 |  |  |
|     | 21- 15 | Waste Ge                     | enerated in New Jersey Predictably       |     |  |  |
|     |        | Disposed                     | of in Another State                      | 756 |  |  |
|     | 21- 16 | Insured's                    | Status as a New Jersey Resident          |     |  |  |
|     |        | Favors N                     | ew Jersey Law                            | 757 |  |  |
|     | 21-17  | Multiple                     | Filings in Different Jurisdictions       | 757 |  |  |
|     |        | 21-17:1                      | "Special Equities" That May Override the |     |  |  |
|     |        |                              | First Filed Rule                         | 758 |  |  |
|     | 21-18  | The Sam                      | e Law Must Apply to Primary and          |     |  |  |
|     |        | Excess C                     | overage                                  | 759 |  |  |
|     | 21-19  | Choice of                    | f Law: Appellate Review                  | 759 |  |  |
| IV. | THE BA | THE BASIC INSURING AGREEMENT |  |     |  |  |
|     | 21-20  | Common                       | Coverage Issues                          | 760 |  |  |
|     | 21-21  | Common                       | Disputes over the Insuring Agreement     | 760 |  |  |
|     |        | 21-21:1                      | "Accident" or "Occurrence" Causing       |     |  |  |
|     |        |                              | Damage                                   | 760 |  |  |
|     |        | 21-21:2                      | Insured Bears Burden of Demonstrating    |     |  |  |
|     |        |                              | Claim Falls Within Policy                | 761 |  |  |
|     | 21-22  | What Co                      | nstitutes an "Accident" or "Occurrence"  | 762 |  |  |
|     |        | 21-22:1                      | "Accident" Policies                      | 762 |  |  |
|     |        | 21-22:2                      | "Occurrence" Policies                    | 763 |  |  |
|     |        | 21-22:3                      | Unintentional Result No Bar to Coverage  | 763 |  |  |
|     |        | 21-22:4                      | Application of the Intentional Act       |     |  |  |
|     |        |                              | Analysis to Environmental Cases          | 764 |  |  |
|     | 21-23  | What Are                     | e Covered "Damages"?                     | 766 |  |  |
|     |        | 21-23:1                      | Cleanup Costs Constitute "Damages"       | 766 |  |  |
|     |        | 21-23:2                      | "Damages" Not Limited to Traditional     |     |  |  |
|     |        |                              | Judgment Damages                         | 766 |  |  |
|     |        | 21-23:3                      | Mandatory Remediation Costs are          |     |  |  |
|     |        |                              | Damages                                  | 768 |  |  |
|     |        | 21-23:4                      | Remedial Investigation/Feasibility       |     |  |  |
|     |        |                              | Study Costs as Damages                   | 768 |  |  |

| V.    | THE POLLUTION EXCLUSION |           |   | 769 |
|-------|-------------------------|-----------|---|-----|
|       | 21-24                   | Overview  | of the Pollution Exclusion                      | 769 |
|       |                         | 21-24:1   | Two Primary Exclusions                          | 769 |
|       | 21-25                   | "Sudden   | and Accidental" Exclusion                       | 769 |
|       |                         | 21-25:1   | Exclusion Language                              | 769 |
|       |                         | 21-25:2   | "Sudden and Accidental"                         |     |
|       |                         |           | Interpretation Issues                           | 770 |
|       |                         | 21-25:3   | In New Jersey, the Sudden and Accidental        |     |
|       |                         |           | Exclusion Bars Coverage for Intentional         |     |
|       |                         |           | Discharges of Known Pollutants                  | 771 |
|       |                         | 21-25:4   | The <i>Morton</i> Factors Determine a           |     |
|       |                         |           | "Knowing Discharge"                             | 773 |
|       |                         | 21-25:5   | Post-Morton Pollution Exclusion                 |     |
|       |                         |           | Principles                                      | 774 |
|       | 21-26                   | The Abso  | olute Pollution Exclusion                       | 775 |
|       |                         | 21-26:1   | Nature of the Exclusion                         | 775 |
|       |                         | 21-26:2   | Absolute Exclusion: Language and                |     |
|       |                         |           | History   | 775 |
|       |                         | 21-26:3   | The Absolute Pollution Exclusion                |     |
|       |                         |           | Bars Coverage for Traditional                   |     |
|       |                         |           | Pollution-Related Claims                        | 777 |
|       |                         | 21-26:4   | The Absolute Pollution Exclusion                |     |
|       |                         |           | Bars Coverage for "Personal Injury"             | 778 |
|       |                         | 21-26:5   | The Absolute Pollution Exclusion                | ,,, |
|       |                         | 21 20.5   | Does Not Apply to Traditional                   |     |
|       |                         |           | D&O Claims                                      | 778 |
|       |                         | 21-26:6   | The Pollution Exclusions and                    | ,,, |
|       |                         | 21 20.0   | Indoor Air Pollution                            | 778 |
| VI.   | OWNEI                   | O-PROPERT | TY EXCLUSION                                    | 780 |
| ٧1.   | 21-27                   |           | f the Owned-Property Exclusion                  | 780 |
|       | 21-28                   |           | New Jersey v. Signo Trading International, Inc. | 782 |
|       | 21-29                   |           | vater and the Owned-Property Exclusion          | 784 |
|       | 21-27                   | 21-29:1   | Allocation of Costs Associated                  | 704 |
|       |                         | 21-27.1   | With Owned and Third Party Property             | 787 |
|       |                         | 21-29:2   | Alienated-Premises Exclusion                    | 787 |
| VII.  | TRIGG                   | ER OF COV |   | 788 |
| V 11. | 21-30                   |           | tion to Triggers of Coverage                    | 788 |
|       | 21-30                   |           | ential Triggers of Coverage                     | 788 |
|       | 21-31                   |           | ey Has Adopted the Continuous Trigger           | 790 |
|       | 21-32                   | inew jers | ey mas Adopted the Continuous migger            | 790 |

|       | 21-33 The Continuous Trigger for Environmental |   |   |     |  |
|-------|--|---|---|-----|--|
|       |  | Coverage                                |   | 791 |  |
|       | 21-34  | When Do                                 | oes The Trigger End?                        | 792 |  |
| VIII. | ALLOC  | ALLOCATION ISSUES                       |   |     |  |
|       | 21-35  | Introduction to Allocation              |   |     |  |
|       | 21-36  | Weighted                                | Allocation                                  | 794 |  |
|       | 21-37  | Examples                                | s of Owens-Illinois Allocation              | 795 |  |
|       | 21-38  | _                                       | Given to the Trial Judge                    | 796 |  |
|       | 21-39  | The Ower                                | ns-Illinois Rule and Excess Insurance       | 797 |  |
|       | 21-40  | Unanswe                                 | red Allocation Issues                       | 799 |  |
|       |  | 21-40:1                                 | Allocating to Uninsured Periods             | 799 |  |
|       |  |   | 21-40:1.1 Allocation Among Insurers         |     |  |
|       |  |   | When Property Was Owned by                  |     |  |
|       |  |   | More than One Owner During                  |     |  |
|       |  |   | the Continuous Trigger Time                 |     |  |
|       |  |   | Period                                      | 801 |  |
|       |  | 21-40:2                                 | Non-Cumulation Clause Inconsistent with     |     |  |
|       |  |   | Owens-Illinois and Carter-Wallace           | 802 |  |
|       |  | 21-40:3                                 | Deductibles and Retentions Must First Be    |     |  |
|       |  |   | Satisfied                                   | 802 |  |
|       | 21-41  | Allocatio                               | n of Defense Costs                          | 803 |  |
| IX.   | THE RI   | GHT TO A                                | JURY TRIAL                                  | 804 |  |
|       | 21-42  |   | Trial for Environmental Declaratory Actions | 804 |  |
| X.    | DIREC  | T ACTIONS                               | S AGAINST INSURERS                          | 806 |  |
|       | 21-43  | Direct Ac                               | Direct Action Authorized by the Spill Act   |     |  |
|       | 21-44  | No General Direct Cause of Action Under |   |     |  |
|       |  | the Spill                               | Act   | 807 |  |
|       | 21-45  |   | t Action Against Insurers of Former Owners  | 808 |  |
|       | 21-46  |   | cognizing Direct Action Against Insurers    | 808 |  |
| XI.   |  |   | L COVERAGE UNDER                            |     |  |
|       |  | NAL INJUF                               | RY ENDORSEMENT                              | 808 |  |
|       | 21-47  | No Cover                                | rage for Environmental Property Damage      | 808 |  |
| Chapt | er 22: COV                                     | /ID-19 Cove                             | rage Issues                                 | 811 |  |
| I.    | INTRO  | DUCTION                                 |   | 811 |  |
|       | 22-1   | Overview                                |   | 811 |  |
| II.   | INSUR  | ANCE COV                                | ERAGE FOR COVID-19                          | 812 |  |
|       | 22-2   | Why is T                                | his Important?                              | 812 |  |
|       | 22-3   | Lines of                                | Coverage Impacted by COVID-19               | 813 |  |

|         |              | 22-3:1       | Workers Compensation Insurance            | 813  |
|---------|--------------|--------------|---|------|
|         |              | 22-3:2       | Political Risk and Trade Credit Insurance | 814  |
|         |              | 22-3:3       | Comprehensive General Liability           |      |
|         |              |              | Insurance (CGL)                           | 815  |
|         |              | 22-3:4       | Directors and Officers (D&O) Insurance    | 816  |
|         |              | 22-3:5       | Employer's Liability (EPLI) Insurance     | 817  |
| III.    | COVERA       | GE CLAIN     | IS FOR ECONOMIC LOSS                      | 818  |
|         | 22-4         | Business In  | nterruption (BI) Coverage and             |      |
|         |              | Applicatio   | n to COVID-19 Claims                      | 818  |
|         |              | 22-4:1       | Business Interruption Insuring Principles | 818  |
|         | 22-5         | "Direct Ph   | ysical Loss or Damage" to Insured         |      |
|         |              | Property     |   | 821  |
|         | 22-6         | New Jersey   | Law Applied to COVID-19 Economic Loss     | 821  |
|         |              | 22-6:1       | Generally, No Business Interruption       |      |
|         |              |              | Coverage for COVID-19 Economic Losses     | 823  |
|         |              | 22-6:2       | Economic Losses from COVID-19 as a        |      |
|         |              |              | Result of the Governor's Executive Orders |      |
|         |              |              | are Not "Direct Physical Loss or Damage"  |      |
|         |              |              | to Covered Property                       | 823  |
|         |              | 22-6:3       | COVID-19 Economic Losses are not          |      |
|         |              |              | Covered Under the Civil Authority         |      |
|         |              |              | Clause in Property Insurance Policies     | 824  |
|         |              | 22-6:4       | Coverage for Economic Losses Resulting    |      |
|         |              |              | from COVID-19 is Excluded by a Clear      |      |
|         |              |              | and Unambiguous Virus Exclusion           | 825  |
|         |              | 22-6:5       | Claims for COVID-19 Economic Losses       |      |
|         |              |              | are Not Impacted by Claims for            |      |
|         |              |              | Regulatory Estoppel                       | 826  |
|         | 22-7         | COVID-19     | Coverage Litigation Around the U.S.       | 827  |
| Append  | lix A: Gloss | sary of Insu | rance Terms and Phrases                   | 829  |
| Append  | lix B: Statu | tes and Cod  | es  | 897  |
| Table o | f Cases      |              |   | 909  |
| Index   |              |              |   | 1003 |