

Miscellaneous Professional Liability Loss Scenarios

Few organizations are immune to legal action from a customer who's dissatisfied with the performance of promised services. Even if a company doesn't do anything wrong, it can still be sued and may need to pay defense costs, which can be considerable. The following scenarios illustrate common professional liability risks.

Property manager fails to make repairs

COVERAGE	MISCELLANEOUS PROFESSIONAL LIABILITY
Cause of action	Negligence
Business	Property manager
Annual revenues	More than \$35 million

DESCRIPTION OF EVENT

A property manager was hired by a commercial building owner to manage the facility. An ongoing leak in the building roof caused substantial damage to tenant property. In addition to suing the building owner to recover the value of the damaged property, several tenants legally terminated their lease agreements. The building owner sued the property manager, alleging negligence for failing to maintain the roof and to repair the leaks in a timely manner. Damages sought included lost lease income.

RESOLUTION

The case settled for more than \$200,000. The property manager incurred defense costs, which surpassed \$50,000.

Printer misses deadline

COVERAGE	MISCELLANEOUS PROFESSIONAL LIABILITY
Cause of action	Misrepresentation, breach of contract
Business	Printer
Annual revenue	Nearly \$12 million

DESCRIPTION OF EVENT

A retail store owner contracted with a local printer to print flyers announcing a sale event. The delivery time dictated within the contract was 10 days prior to the event date. The printer completed the job three days late, causing the retail store owner to miss the deadline for submitting the flyers for insertion and delivery in a weekly journal. The retail store owner sued the printer for negligent misrepresentation and breach of contract, seeking compensatory damages for lost revenue.

RESOLUTION

The case settled for nearly \$50,000. The printer incurred defense costs of almost \$15,000.



Delays in claim processing

COVERAGE	MISCELLANEOUS PROFESSIONAL LIABILITY
Cause of action	Negligence
Business	Claim adjuster
Annual revenue	Nearly \$7 million

DESCRIPTION OF EVENT

An insurance company contracted with a claim adjuster to process and pay workers' compensation claims. The adjuster was not properly staffed to handle the volume of incoming claims, and many of them were not handled within the required time frame stated in the local insurance regulations. Fifty injured workers filed a class-action lawsuit against the insurance company alleging negligence for failing to properly administer their claims. The insurance company quickly settled the workers' compensation claims, but the administrative costs associated with notifying all potential plaintiffs of the class action exceeded \$1 million. The insurance company sued the claim adjuster, alleging negligence in processing the claims. The lawsuit sought compensatory damages to cover the costs of the class action.

RESOLUTION

The case settled for more than \$1.2 million. The claim adjuster incurred defense costs of nearly \$125,000.

Beneficiaries sue estate trustee

COVERAGE	MISCELLANEOUS PROFESSIONAL LIABILITY
Cause of action	Negligence
Business	Trustee
Trust assets	Approximately \$8.5 million

DESCRIPTION OF EVENT

A deceased person's will named a trustee to handle the deceased's estate, which included three properties. The trustee liquidated the estate and distributed the proceeds in accordance with the will. The beneficiaries brought suit, alleging that the trustee was negligent in obtaining an assessment of the property values, resulting in a \$250,000 loss to the estate.

RESOLUTION

The case settled for nearly \$165,000. The trustee incurred defense costs of more than \$20,000.

Incompetent temp workers

COVERAGE	MISCELLANEOUS PROFESSIONAL LIABILITY
Cause of action	Negligence
Business	Temporary staffing firm
Annual revenues	More than \$18 million

DESCRIPTION OF EVENT

A temporary staffing firm assigned two temporary bookkeepers to a company for one year to cover two maternity leaves. During this period, the bookkeepers failed to pay the mortgages on the company's properties, as well as the property taxes, resulting in a loss to the company of more than \$1 million. The company sued the staffing firm for the amount of the loss, alleging negligence. An investigation revealed that both employees had work histories of poor performance and that one had once been fired for incompetence. The company succeeded in showing that had the temporary staffing firm conducted thorough background checks on its temporary employees, it would have discovered the poor work histories.

RESOLUTION

The case settled for more than \$325,000. The staffing firm incurred defense costs of more than \$100,000.

Improper collection practices

COVERAGE	MISCELLANEOUS PROFESSIONAL LIABILITY
Cause of action	Violation of Fair Debt Collection Practices Act
Business	Collection agency
Annual revenue	Nearly \$22 million

DESCRIPTION OF EVENT

In the course of persuading an individual to begin paying off a \$4,500 credit card bill, a collection agent made numerous late-night calls to the individual's home even after being told to stop. The collection agent threatened the individual, saying he would never be able to obtain credit again. The individual reported the situation to the police and sued the collection agency, alleging violations of the Fair Debt Collection Practices Act.

RESOLUTION

The case settled for more than \$7,000. The collection agency's defense expenses exceeded \$2,500.

Negligent consulting advice

COVERAGE	MISCELLANEOUS PROFESSIONAL LIABILITY INSURANCE
Cause of action	Negligent advice
Organization	Management consultant
Annual revenue	Approximately \$50 million

DESCRIPTION OF EVENT

A management consultant was hired by the president of an auto parts distributor to help the organization with staffing, budgets, and executive decision making. The consultant implemented a reorganization strategy that redefined management roles and delegation, initiated spending controls, and used a new staffing model to address the organization's needs. However, 18 months after the reorganization, the client alleged that the spending control solution and staffing model had a negative impact on its bottom line when the expense of hiring and training new employees was accounted for. The client sued the management consultant for negligence in rendering a flawed solution to its problem, seeking compensatory damages including, but not limited to, lost profits.

RESOLUTION

The case settled for nearly \$150,000. Defense costs exceeded \$75,000.

Mailing error

COVERAGE	MISCELLANEOUS PROFESSIONAL LIABILITY INSURANCE
Cause of action	Negligence
Organization	Marketing consulting firm
Annual revenue	Approximately \$20 million

DESCRIPTION OF EVENT

A marketing consulting firm was hired by a bank to send preapproved credit card applications to two groups. One group had an excellent credit history and was to be offered low-interest, high-limit credit. The other group had a poor credit history and was to be offered high-interest, low-limit credit. The marketing consulting firm sent the "excellent credit" applications to the group with a poor credit history and the response to the mailing was immense. The bank sued the marketing consulting firm for negligence over the mailing error.

RESOLUTION

The marketing consulting firm incurred settlement and defense costs of more than \$500,000.

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Warren, NJ 07059

www.chubb.com

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