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AAIS

Viewpoint

Winter 2009

Small trucks, big questions



Micro-utility vehicles
have underwriters
asking whether and
where they're insured

ALSO
INSIDE

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Articles in *Viewpoint* provide general discussion about topics in property/casualty insurance and AAIS products and services. The content of the articles and accompanying exhibits is not intended to provide definitive information regarding use of AAIS products and services, and in no way alters, supplants, or supersedes what is written in AAIS policy forms, manuals, bulletins, or other forms of information provided as part of our advisory services. Nor does the content of *Viewpoint* articles indicate any official AAIS position on insurance or other issues, unless specifically noted.

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[From the editor]

If you rely on AAIS for some of your key products, you really don't want to miss this year's AAIS Main Event conference, April 26-28 in Half Moon Bay, Calif.

As in the past, the 2009 conference features top-notch speakers and a CEO panel addressing political, regulatory, and strategic issues facing all carriers in this most challenging year (see pages 16-17).

A high point of the program, however, will be the "AAIS Update" session, where Deborah Summerlin, AAIS vice president of insurance lines, and Greg Jaynes, our chief actuary, will describe the initiatives AAIS will be taking in the coming months to restructure our rating plans.

Starting with our Homeowners Program, AAIS will be incorporating and expanding the use of multivariate analysis, catastrophe modeling, predictive analytics, and other advanced techniques in our rating plans.

As a result, companies that use AAIS programs will be able to price their policies to match the profile of each risk more precisely. Rating will never be the same.

Whether you belong to AAIS or not, there is no better opportunity than the Main Event to meet the officers and board members of an organization that serves more than 600 property/casualty carriers of all sizes throughout the U.S.

For those who have attended in the past, this year's program content is especially important for the future of AAIS and our industry. For those who are considering attending for the first time, be assured that you will have ample opportunity to meet literally every other attendee in a relaxed but elegant setting.

I look forward to seeing you in Half Moon Bay.

Joseph S. Harrington, CPCU

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Small trucks, big questions

Micro-utility vehicles have underwriters asking whether and where they're insured



The distinction between automobile liability and personal or general liability is a bedrock principle of property/casualty insurance in the U.S.

However, the growing use of new types of vehicles makes it more and more difficult to determine if a vehicle exposure is covered under an auto policy, a homeowners or CGL policy, or not at all, unless special insurance is acquired.

If you're an underwriter struggling to categorize new types of vehicles, you're not alone.

In 2005, the American Association of Motor Vehicle Administrators established an "Unconventional Vehicles Working Group." The group, composed of motor vehicle administrators from the U.S. and Canada, is charged with developing uniform standards regarding the titling, registration, operator licensing, and on-road regulation (e.g., seatbelt enforcement) of different types of vehicles.

"Jurisdictions continue to be faced with a variety of new vehicle types that are outside the traditional definitions of a motor vehicle," reads a report from the group. "Roadside enforcement continues to face the challenge of how to handle these vehicles and operators when they are found on the highways."

Utility

Among the "unconventional vehicles" seen today are new types of utility vehicles appearing on farms and work sites--and sometimes on public roads.

A Kansas report on unconventional vehicles identifies two types of off-road utility vehicles:

- Work-site utility vehicles, which look like large golf carts, with open cabs and low pressure tires; and
- Micro-utility trucks (MUTs), which are somewhat larger than work-site utility vehicles and look like small trucks, with enclosed metal cabs and high-pressure tires.

“ Jurisdictions continue to be faced with a variety of new vehicle types that are outside the traditional definitions of a motor vehicle.”

— American Association of Motor Vehicle Administrators, Unconventional Vehicles Working Group



Kansas state law regards both types of vehicles as motor vehicles for certain purposes, but not for others.

According to the report, work-site utility vehicles and MUTs both meet the definition of “motor vehicle” under seatbelt laws and under requirements that operators must be licensed when driving them on public roads.

However, both types of vehicles are generally restricted from public roads, and are thus exempt from motor vehicle registration and insurance requirements. To complicate matters further, municipalities in Kansas may permit utility vehicles to be operated on public roads within their boundaries, and are allowed to impose liability insurance requirements on them.

And, of course, Kansas is just one state.

Variation

A November 2008 report from the Insurance Institute for Highway Safety (IIHS) says that 10 states expressly allow “minitrucks” to operate on portions of public roads. The report describes minitrucks as vehicles used off public roads that are substantially smaller and slower than small pickups designed for on-road use.

According to the IIHS, only three states (Illinois, Kansas, and Tennessee) require minitrucks to meet federal safety standards for low-speed vehicles. In other states, the report says minitrucks fall under laws regulating off-road vehicles, some of which permit limited use

of such vehicles on public roads.

As of February 2008, according to the Specialty Vehicle Institute of America, 16 states required all-terrain vehicles (ATVs, the principal category of off-road vehicles) to be registered with the department of motor vehicles. Sixteen required them to be registered with a state recreation management agency, and 19 had no registration requirements listed.

Kei trucks

If that weren’t complicated enough, micro-utility vehicles create a whole new “gray area,” especially when we consider the “Kei” trucks imported from Japan. (Kei is short for *keijidosha* and pronounced “kay.”)

Kei trucks, which account for the vast majority of minitrucks in the U.S., are designed for use on public roads in Japan, but exported to the U.S. as off-road utility vehicles and generally restricted from public highways. However, as we’ve seen, some states allow local communities to determine for themselves whether to allow such vehicles on public roads.

When municipalities do permit small utility vehicles to be operated on public roads, they often require that those vehicles be insured for liability.

Yet, independent agents report that it is often difficult to find markets for such coverage, because the vehicles generally do not meet domestic qualifications for personal auto coverage, and some carriers balk at writing utility vehicles on policies designed for recreational vehicles.

Liability

Like most standardized homeowners forms, AAIS Homeowners forms generally exclude coverage for bodily injury and property damage liability arising from “motorized vehicles,” with the exception of injury to domestic employees in the course of employment.

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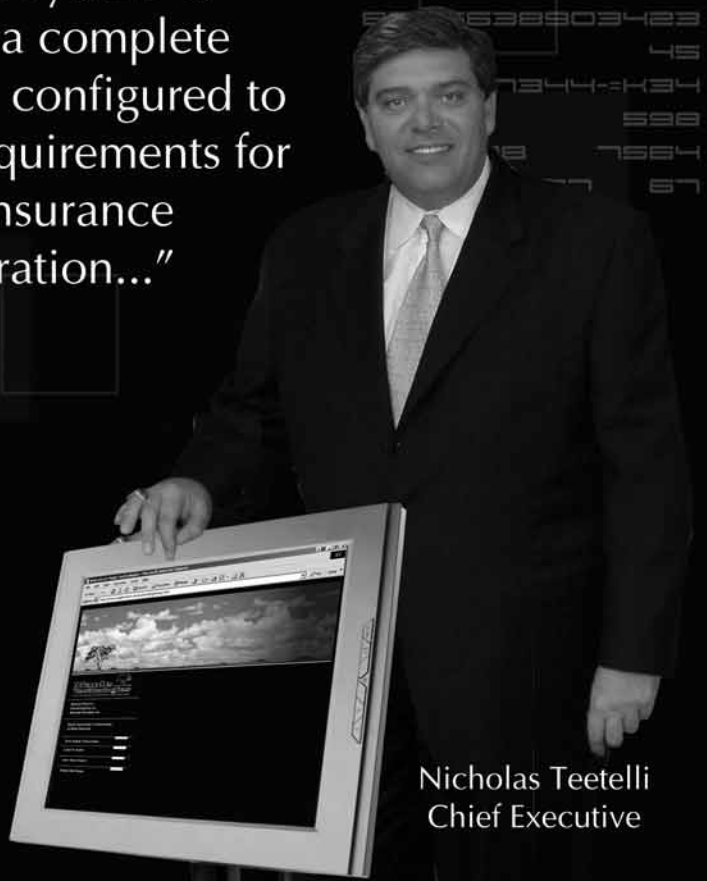
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Chief Executive

Auto or mobile equipment?

AAIS policy provisions summarized (consult forms for definitive language)

Program	"Auto" or "motor vehicle" excluded from liability coverage	"Mobile equipment" eligible for liability coverage under specific conditions
Agricultural General Liability	A land motor vehicle designed for travel on public roads. Auto also means any land vehicle subject to a compulsory insurance or financial responsibility law or other motor vehicle insurance law in the state where it is licensed or principally garaged.	Mobile equipment means, among other things, land vehicles (including any attached machinery or equipment) used only on or next to premises owned or rented by the named insured. Detailed specifications apply. "Mobile equipment" does not include any land vehicles that are subject to a compulsory insurance or financial responsibility law or other motor vehicle insurance law in the state where it is licensed or principally garaged.
Artisans Ed. 2.0	A land motor vehicle designed for use on public roads. Definition can be extended by endorsement to any land vehicle subject to a compulsory insurance or financial responsibility law or other motor vehicle insurance law in the state where it is licensed or principally garaged.	Mobile equipment means, among other things: <ul style="list-style-type: none"> • Vehicles used only on premises (including adjoining ways) owned or rented to the named insured. • Vehicles designed primarily for use off public roads. Coverage for mobile equipment can be amended by endorsement to exclude any land vehicles subject to a compulsory insurance or financial responsibility law or other motor vehicle insurance law in the state where it is licensed or principally garaged. (However, coverage could apply to the operation of machinery or equipment that is attached to or part of a vehicle that might otherwise qualify as "mobile equipment.")
Businessowners 2004	A land motor vehicle designed for travel on public roads. Endorsement option same as Artisans.	Essentially equivalent to Artisans
Commercial Liability Ed. 1.0	Essentially equivalent to Artisans, including endorsement option.	"

AAIS Homeowners forms include an incidental coverage, however, for BI/PD liability arising from specified use of certain vehicles not registered for use on public roads or property or required to be registered at the location of an occurrence. (Comparable coverage is provided in other industry forms as an exception to the motor vehicles exclusion.)



Among other things, that coverage extends to any such motorized vehicle used *only* to service insured premises, provided the occurrence takes place on insured

premises.

The AAIS incidental liability coverage for motorized vehicles also extends to any vehicle used only to service the insured premises or premises of another, provided that the vehicle is designed only for use off of public roads, and isn't used for any business purpose.

Therefore, even if an MUT is designed for public roads, a homeowners carrier could still be exposed for an on-premises BI/PD claim if the MUT is not registered or required to be registered.

AAIS Farmowners liability forms provide coverage under similar restrictions for vehicles not required to be registered.

Both the GL-2 (farm personal liability) and GL-610 (farm commercial liability) provide incidental motorized vehicle liability coverage

for BI/PD arising on insured premises or from the use of vehicles used to service the premises and designed solely for use off of public roads.

Given that many hunters utilize MUTs to transport hunting parties on their property, these exposures are far from hypothetical.

Equipment

There is a greater potential for liability coverage of micro-utility vehicles under the new AAIS Agricultural General Liability (AgGL) Program. (For a description of the AgGL, go to www.AAISonline.com.)

As one would expect, the AgGL's two base

forms both exclude coverage for BI/PD arising from an auto, which is defined as a land motor vehicle designed for travel on public roads, or as any vehicle subject to a compulsory insurance or financial responsibility law in the state where it is licensed or principally garaged.

However, one of the base forms, the one designed for farming operations, provides coverage for BI/PD liability arising from an auto used only on the insured premises for farming purposes. The auto must not be subject to a compulsory or financial responsibility law or other motor vehicle.

Beyond that, both of the AgGL base forms

" Each company must determine for itself whether a micro-utility vehicle is a motor vehicle. That determination may vary from risk to risk, depending on the circumstances."

— Susan Luecke,
AAIS assistant vice president
for personal lines

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When bad things happen

New “expense” coverages straddle the line between property and liability insurance

Think “med pay,” then think bigger.

Commercial insurers today are expanding the number and scope of “expense” coverages, insurance that pays for specified costs policyholders incur in the event of a loss or potential loss, even if the insurers don’t cover the loss itself.

Violent acts insurance and data breach insurance, described below, are two examples of emerging forms of insurance that, while distinct from each other, bear certain common characteristics:

- They provide first-party coverage that reimburses an insured for its own costs, but the coverage is often implemented to avoid or limit liability claims.
- Claims are typically paid without regard to a finding of legal liability, even when coverage is added by endorsement to a liability policy.
- The coverages typically avoid open-ended exposure to first-party losses and third-party damages, paying instead for specified costs, usually up to a separate limit.

In short, expense insurance is analogous to medical payments coverage in some respects, but not in others. (Medical payments coverage in personal and commercial liability policies pays the medical expenses of injured third parties, up to per person and per occurrence limits, without requiring that the insured be found legally liable for the injury.)

No loss?

In 2000, AAIS extended the med pay concept to property damage when it introduced its “Voluntary Property Damage Coverage” option in commercial lines. Under the option, insured contractors are covered for damage to

property in the insured’s care, custody, and control; or damage to property arising from the insured’s work.

The voluntary property damage coverage applies, up to an internal limit, no matter who is legally liable for the damage, a critical distinction from standard liability coverages for similar losses.

While the concept of “med pay” provides a convenient frame of reference for describing expense insurance, it does not fit in one important respect.

Under medical payments and voluntary property damage coverage, the scope of a loss has been established, at least theoretically. The coverages seek to keep relatively small losses from becoming court cases.

Under violent acts and data breach insurance, something bad has happened, but the scope of a loss has not been determined. In the case of a data breach, there may have been no loss at all, if the data has not been used fraudulently.

But organizations will almost certainly incur additional expenses when certain events occur, and they are willing to purchase insurance for those costs.

Violent acts coverage

How often have you seen this happen?

A senseless act of violence shocks the nation or your community, and churches and schools immediately implement new security measures designed to monitor who goes in and out of buildings.

Then, over time, these precautions are relaxed, and perhaps abandoned entirely, as people are once again allowed to come and go and carry on their customary activities.

The fact is, certain places are open by



nature, and cannot implement heavy-handed control over ingress and egress without sacrificing part of their essential mission.

That's why churches and schools are especially vulnerable to violent acts which, while rare, are especially traumatic because they impact entire communities.

And that's why an emerging form of insurance for expenses arising from violent acts is becoming common among schools and churches.

AAIS work

AAIS was recently engaged by one of its affiliates, Southern Mutual Church Ins. Co., Columbia, S.C., to assist in the drafting of an endorsement option for adding the coverage to a church general liability policy.

"It's one of the [exposures] we see with churches because they keep an open door to people," says David Karns, underwriting manager for Southern Mutual Church.

"It's not like they're going to put up metal detectors," he adds. "They welcome people. It's part of their ministry."

As currently drafted, "Coverage Y - Violent Acts Expense," will provide coverage for emergency medical expenses, plus other reasonable and necessary expenses approved by the insurer, to help the insured and victims of certain violent acts recover from the trauma.

The coverage applies only to violent acts where someone is held hostage or sustains a "critical injury," defined as death or substantial risk of death, or the disfigurement or impairment of part of the body.

Payments under the coverage extend to funerals, emergency medical care, counseling, and lost wages for victims and specified relatives caring for them.

In addition, the insured is covered for additional costs it may incur for security services, public relations consultants, group counseling, and rental of alternative facilities in the wake of a violent act.

Commercial

"I don't think churches should be liable for violent acts," Karns says, "but there are much greater costs [associated with such acts] than compensated by med pay."

"This coverage is entirely expense-driven," says Tony Leist, AAIS assistant vice president for commercial lines. "There is no recovery, except for emergency medical expenses, without the insurer first approving the expenses."

Violent acts expense coverage as currently being developed by Southern Mutual Church carries its own limits per person, per event, and for annual aggregate.

Other carriers that specialize in insuring churches and schools offer similar types of

"I don't think churches should be liable for violent acts, but there are much greater costs [associated with such acts] than compensated by med pay."

— David Karns,
underwriting manager,
Southern Mutual Church Ins.
Co., Columbia, S.C.

" 13 carriers have partnered with us to roll out data breach programs for their business policyholders."

— Matthew Cullina,
CEO, Identify Theft 911



insurance for expenses that follow violent acts.

The coverage is also starting to appear in commercial insurance.

Chubb markets its "Workplace Violence Expense Coverage" to commercial accounts as a stand-alone policy or as a part of its ForeFront Portfolio package along with liability, crime, and kidnap/ransom/extortion policies.

According to Greg Bangs, vice president and manager of the product, Chubb's workplace violence expense policy reimburses policyholders after a covered event for the costs of independent security consultants, public relations firms, psychological counseling for employees, security guards, and the salaries of affected employees and temporary replacement workers.

"The policy has its own per occurrence limit, and applies regardless of negligence," says Bangs. "It is an expense coverage, not a liability coverage, and there is no aggregate limit."

Data breach insurance

For some years, insurers have been providing identity fraud coverage to policyholders for costs they incur to put their financial affairs in order after they have been victimized by identity theft. (AAIS introduced

an identity fraud endorsement in 2002.)

Typically, the coverage extends only to those costs--such as time lost from work, express postage, document fees, and others--and not to any financial loss the insured may have suffered as a result of the fraud.

Data breach insurance has emerged as the commercial counterpart of identity fraud

coverage: Insurance for the costs of containing the impact of a data breach, but not for losses incurred by those whose data was stolen or compromised. (However, data breach insurance can be incorporated into cyber policies or packages offering a wide range of coverage for Internet-related exposures.)

Requirements

A key impetus for the emergence of data breach insurance as a distinct product was the rapid proliferation of state requirements that businesses notify potentially affected persons if their personal information has been breached or compromised.

As of the end of 2008, 44 states, Puerto Rico, and the District of Columbia had such requirements in place, according to Identity Theft 911, Scottsdale, Ariz. Identity Theft 911 is an organization that partners with insurance carriers to provide services to individuals seeking to recover from an identity theft, and to businesses seeking to recover from a data breach.

Data breach notice requirements apply regardless of the method used to affect the breach.

Whether the breach is the work of a hacker, or a laptop is stolen, or data on a disk is misplaced and unaccounted for, the breach will trigger certain expenses, according to a report by Jeff Jurick, president of The Jurick Group, which specializes in data breach communications, training, and management.

According to Jurick, those costs include, among others:

- Costs for notifying individuals by e-mail and postal mail;
- Costs to set up web pages and/or a call center to answer inquiries and provide support;

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AAIS *insight*

Comments on coverage issues
by AAIS staff specialists

AGRICULTURAL LIABILITY INSURANCE RATING

AAIS shifts from
acreage-based to
sales-based rating bases
for many farm classes

The AAIS Agricultural General Liability (AgGL) Program, developed and filed in 2008, has introduced a new approach to insuring liability exposures of farms and agribusinesses. In the future, this program will provide the liability components of the AAIS Farmowners Program.

As reported in the Summer 2008 edition of *Viewpoint* (available at www.AAISonline.com), the AgGL provides two general liability forms specifically designed for agricultural operations. One form is for farms, the other for any farm or agribusiness exposures the company wishes to cover under the terms of a CGL policy. Each has built-in coverages and exclusions that address agricultural exposures (in addition to standard CGL provisions).

Secondly, the program manual identifies 360 classifications of agricultural risks, far more ag classes than are found in most farmowners or CGL manuals.

Among those classes are 64 farm classes that have been converted from acreage-based to sales-based rating information. There are also 37 classes derived from the AAIS Homeowners manual, plus 259 classes derived from commercial liability, all but 39 of them sales-based.

Importantly, several of the farm classes are distinguished from similar classes by the manner in which the commodity is utilized. For example, crops and animals raised for human consumption pose different liability risks than do those raised for feed, seed, breeding, or soaps, lotions, and cosmetics. For that reason, there are multiple farm classes in those and other commodity categories defined by how commodities are utilized.

The change from acreage- to sales-based rating in many farm classes has generated considerable interest among insurers, and here Sherry Taylor, AAIS manager of farm and agribusiness, addresses some of the questions they have raised.

An audio file of this interview with *Viewpoint* editor Joseph Harrington is available at www.AAISonline.com.

.....

Joe Harrington: Why has AAIS decided to introduce sales-based rating in farming classes at this time?

Sherry Taylor: This initiative is analogous to the mid-1980s shift in the CGL rating base from floor area to sales.

At that time, there was some initial resistance to a shift from a rating base that was stable and easy to verify to one that would needed to be audited at least annually. But the industry recognized that area-based rating did not adequately reflect the effect of inflation on losses, or the growing exposure posed by the intensification of commercial operations.

Simply put, more and more things could be done in less and less space, and area-based rating could not keep up in most classes.

Agriculture has reached a similar crossroads.

For decades, farm liability insurance has been rated on the basis of a risk's number of acres. As with area-based rating for commercial liability, acreage-based rating has the virtue of simplicity. It's easy to determine the size of a farm, and rarely would the size change appreciably over the course of a policy period.

Yet, like commercial operations, farms have seen an intensification of operations. More and more output--and risk--can arise from the same or less acreage. Consider, for example, the contrast between modern hog confinement operations and mega-dairies and traditional methods of hog raising and dairy farming.

If anything, the intensification of agriculture has been even greater than that of commercial operations in recent years, when

we consider the "vertical integration" of production and processing operations on farms.

According to figures from the U.S. Dept. of Agriculture, the average size of a farm in the U.S. increased only slightly over the 10 years leading up to the agricultural census of 2002. But, over the same period, the income of an average farm before taxes and expenses grew by 60%.

Even those farms that are still primarily devoted to raising crops, produce, and livestock are generating growing percentages of their revenue from non-farming activities.

These activities include, but are not limited to "agritainment" and "agritourism" activities and events where members of the public are invited onto farm premises for educational and recreational activities. Vermont alone accounted for \$19.5 million in agri-tourism revenue in 2002, an average of \$9,000 per farm.

Joe Harrington: How much effort will be involved in auditing premium for sales-based rating?

Sherry Taylor: It is not hard to gather and verify the information needed to conduct premium audits.

The sales and production information is readily available from standard crop insurance production and yield reports, and carriers have several options for having the information reported and verified.

Many farm carriers already have their insureds or their agents submit "voluntary" reports of commercial-type sales for the policy period under consideration. These reports can then be verified or corrected, and the premium modified, during periodic audits or when a claim is submitted.

The larger the risk, the more cost-effective



Sherry Taylor

Like commercial operations, farms have seen an intensification of operations. More and more output--and risk--can arise from the same or less acreage.

The sales and production information is readily available from standard crop insurance production and yield reports.

it will be to conduct a premium audit. Once you implement sales-based rating for those farm classes where it is appropriate, you may be surprised to learn how large some of your farm risks have become.

Joe Harrington: Will sales-based rating lead to big premium increases?

Sherry Taylor: AAIS compared its new sales-based loss costs for farm classes with existing acreage-based loss costs. Overall, we found them to fall within established parameters.

For any given risk, of course, there can be a big jump in premium. That would be a signal that the risk may not have been rated adequately under an acreage-based approach.

Potential premium increases can be curbed by the use of the AgGL experience and IRPM plans.

Joe Harrington: How did AAIS develop lost costs needed to support sales-based rating?

Sherry Taylor: Since farm premium and loss data has been reported to AAIS on the traditional acreage basis, AAIS had to convert the resulting loss costs to a sales base.

To do that, AAIS agricultural insurance specialists utilized data from the USDA to determine the average income per acre for each agricultural commodity grown in each state, and the number of acres in an average-sized farm producing each type of commodity in each state.

Through a series of additional steps, loss costs were determined for an "average-sized" farm in each of three AAIS acreage-based categories. These were then combined and converted to determine a single loss cost in each state per \$1,000 of income for each commodity. Those, in turn,

are then combined into the applicable classification in the new structure.

Joe Harrington: How does AAIS address the effect of commodity price swings on agricultural sales data?

Sherry Taylor: Farm commodity prices can be more volatile than the prices of commercial products and services, and would distort sales-based rating if not adjusted for a more long-term, smoother progression.

To do that, AAIS has developed a "Commodity Price Stabilization Plan" in its AgGL manual. This plan provides a six-step procedure for producing a premium adjustment factor for the latest available year.

Using simple arithmetical steps, the manual indicates how to convert all production within the farming classification to a standardized measurement. If a farm measures output of one commodity in bushels, another in hundredweight, and another in pounds or cartons, the manual shows how to convert them all to a common measure.

The manual then indicates how to arrive at an annual commodity price change factor, a preliminary commodity adjustment factor, then a final commodity adjustment factor reflecting changes in commodity prices and the overall rate of inflation.

The manual provides examples demonstrating how the commodity price stabilization plan works, as well as Internet links to an inflation calculator and production measure conversion factors.

Joe Harrington: What else does the AgGL rating plan offer?

Sherry Taylor: The AgGL manual provides an individual risk premium modification plan and an experience modification plan.

The IRPM plan allows underwriters to apply



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- The selection, training, experience, and supervision of employees;
- The insured location's accessibility, congestion, and exposures;
- Storage practices and hazardous operations;

- Safety programs and safety measures; and
- Past losses and measures taken to prevent their re-occurrence.

The experience modification plan is available to single entities or to multiple entities in which the named insured holds a majority interest in each entity. To qualify, a risk must generate a minimum of \$2,000 in annual premium, and three or five years of premium and loss experience.

Once the premium and adjusted loss ratio are determined for the 3- or 5-year period under consideration, a corresponding experience rating factor can be found in tables provided in the manual. ■

Potential premium increases can be curbed by the use of the AgGL experience and IRPM plans.

The AAIS MAIN EVENT

April 26-28, 2009

Ritz-Carlton in Half Moon Bay, Calif.

Schedule in brief

Sunday Evening, April 26

Opening reception

Monday Morning, April 27

Breakfast

Business session

- Howard Mills, Deloitte LLP
- Lamont Boyd, Fair Isaac Corp.
- CEO Panel

Monday Afternoon

- AAIS Golf Outing
Half Moon Bay Links
- Optional Tour
California Academy of Sciences

Monday Evening

Reception

Tuesday Morning, April 28

Breakfast

Business Session

- Gerry Finley, Munich Re America
- Mark B. Gorman,
independent consultant
- James Barber, Information Builders
- Deborah Summerlin, AAIS
- Greg Jaynes, AAIS

Tuesday Morning/Afternoon

- Guest/spouse tour, Half Moon Bay
and Thomas Fogarty Winery

Tuesday Afternoon

- Lunch and AAIS annual meeting
- Roundtable discussions
 - Personal Lines
 - Farm & Ag
 - Inland Marine
 - Executive

Tuesday Reception & Dinner

At The Ritz-Carlton



The AAIS Main Event has drawn increased attendance and acclaim over the years, and is regarded as a uniquely important and valuable conference.

This year's Main Event brings together a lineup of topics and speakers ideally suited to address today's critical issues, making this conference even more valuable in these troubled times.

Meeting the Challenge of a New Era

Howard Mills, former insurance superintendent of New York, now a chief advisor to the insurance industry group of the Deloitte LLP, will analyze the political and economic challenges facing insurers this year.

Credit Crunch: Is scoring dead?

Lamont Boyd, insurance market director for Fair Isaac Corporation, will address questions about the validity of credit scoring in light of the credit crisis.

Emerging Issues in Underwriting

Gerry Finley, Munich Re America's senior vice president for casualty treaty underwriting, will speak on emerging issues being tracked by the company's underwriting department.

Predictive Power: What companies are doing to implement analytics

Mark Gorman, an independent consultant and author of the report, "So You Want to Use Predictive Models in Insurance . . .," will share his survey findings on how P/C carriers are implementing predictive analytics.

"Data Mastery:" Creating connections between people and information

James Barber, North American insurance market manager for Information Builders, will discuss how insurers can structure information systems and train staff to achieve the "data mastery" needed to succeed in today's market.

CEO panel

Our panel of company CEOs will discuss how they are using credit-based scoring and other predictive methodologies, and how they are prepared to respond to regulatory challenges to underwriting freedom.



Howard Mills



Lamont Boyd



Gerry Finley



Mark Gorman



James Barber



AAIS Update: New directions in rating

Companies of all sizes--especially those that use AAIS programs--won't want to miss this segment on how AAIS is fundamentally restructuring its rating plans to help insurers achieve a better risk-to-price match.

Deborah Summerlin, vice president of insurance lines and **Greg Jaynes**, chief actuary, will discuss how AAIS is incorporating multivariate analysis, catastrophe modeling, predictive analytics, and other techniques to expand the number of price points in its Homeowners Program--and how that process will be carried over to other AAIS lines.

Rating will never be the same after this, and this session is a valuable opportunity for companies to see what lies ahead.



Debi Summerlin



Greg Jaynes

AAIS Golf Outing Half Moon Bay Golf Links

This year's golf outing takes place at the Old Course, one of two courses on the property of The Ritz-Carlton. Set against dramatic cliffs overlooking the Pacific Ocean.

Optional Tour, California Academy of Science

Attendees who are not participating in the golf outing can join a bus tour to the California Academy of Sciences, an innovative museum in San Francisco's Golden Gate Park.

Your Turn: The roundtable discussions

The business program of the Main Event concludes with roundtable discussions where attendees can share thoughts and concerns with their counterparts from other companies.

Executive: **Paul Baiocchi**, president, and Greg Jaynes, chief actuary. This session will feature discussion of how companies are implementing predictive analytics.

Personal Lines: **Susan Luecke**, AAIS assistant vice president of personal lines, will lead discussion on:

- The status of the latest AAIS Homeowners forms;
- Homeowners rating plan revisions; and
- Revisions to Mobile-Homeowners forms and rating.

Inland Marine: **Robert Guevara**, AAIS vice president of inland marine, will lead discussion on:

- Changes to Inland Marine Guide Builders' Risk forms;
- Changes to the AAIS Commercial Output Program; and
- The development of new inland marine coverages.

Farm & Ag: **Sherry Taylor**, AAIS manager of farm and agribusiness, will lead discussion on:

- The new Agricultural General Liability Program (AgGL);
- An agricultural umbrella liability program to complement the AgGL; and
- Coverage issues and policy format for farmowners and agribusiness property risks.



Paul Baiocchi



Susan Luecke



Robert Guevara



Sherry Taylor



California Academy of Science, Living Roof

Guest/spouse Tour, Downtown Half Moon Bay Thomas Fogarty Winery and Vineyards

Participants can explore the charming town and have lunch before riding through the Santa Cruz Mountains to the Thomas Fogarty Winery and Vineyard for a tasting of its award-winning wines.



Closing reception and dinner at The Ritz-Carlton

For information and to register:
go to www.AAISonline.com or call
Joe Harrington at 800-564-2247

The Great Disconnect

e2Value CEO Todd Rissel explains how market values and construction costs sometimes correlate--and sometimes don't



of mortgage lenders and insureds insisting that Coverage A homeowners limits needed to match mortgage balances.

Indeed, trends in housing values and construction often move in tandem, Todd tells us in the following interview, but they haven't since around 2004. Now insurers have to face questions and complaints from some homeowners whose devalued homes would cost more to replace than they are worth in today's market, and from other homeowners whose inflated mortgage balances do not merit an equivalent reconstruction cost.

Todd spoke recently with *Viewpoint* editor Joseph Harrington.

AAIS member companies are familiar with e2Value, Inc. as an AAIS strategic business partner that provides residential, commercial, and farm property valuation applications available to users of *AAISdirect*.

There is, then, perhaps no one better than Todd Rissel, president and CEO of e2Value to respond to questions about how the collapse of real estate values is impacting construction cost estimates used to establish building property limits.

Companies have long faced the problem

Viewpoint: What impact is the decline in housing values having on construction cost valuation?

Todd Rissel, e2Value: Housing values have an impact on construction cost valuation from the standpoint of how they are affecting material prices, how they are affecting labor and demand, and how they are affecting people staying in business.

Michigan, unfortunately, was a state that was leading the way in declining housing values, and it's bled down into northern

Ohio and Indiana, as well. In those areas, you saw a leveling off of construction costs while the rest of the country was still moving up at that time. Now the rest of the country is following suit.

Viewpoint: We know there is considerable confusion among homeowners between market value and replacement cost in setting the Coverage A limit. Are you hearing anything about this in this market?

Todd Rissel, e2Value: Absolutely. We hear it in the good markets, and we hear it in the not-so-good markets.

Homeowners are reacting because they see in the news reports that \$2 trillion dollars of value has been lost, and that houses are 30% below the price they were a year ago. They naturally think that their insurance costs should be going down, that their limits and premiums should correspond.

Viewpoint: Can we separate the recession and its impact on construction costs from falling real estate values themselves?

Todd Rissel, e2Value: Well, we separate them. They are different and distinct.

Even though you're seeing a 30% drop in market value, what you didn't see, when the market values were going up 30-40-50 percent, was a corresponding escalation of replacement cost. A lot of the housing price increases were related to speculation and had no real basis of value other than that somebody could get a loan.

Sometimes there is a fairly good correlation between market value and replacement cost value. In this particular process, starting in 2004, there was a separation between market value increases and construction costs. At that time, the corresponding increase in construction

costs were probably 10 or 12 or 15 percent, about half of the market value increase.

That's hard for a lot of people to understand. We had a case of a house in Maryland in 2005. It was literally bought and sold four times in six months. You went from one price of \$150,000, and six months later it was being sold for \$400,000. Agents for this particular insurance company were complaining that the replacement cost value was not reflective of the true cost of the house. We showed how this house went from a market value of 150 to 400 in six months based on all those sales.

That had nothing to do with replacement cost. It was still an 800 square foot home. An 800 square foot home's replacement cost did not jump four times or five times just because of the bubble effect of the financing.

Now that that \$400,000 house is probably back on the market for \$200,000, everyone looks at that and says, "Gee, that's a 50% loss in value." But, from our perspective, when you're following construction costs, it's a slow, steady increase in cost along the way.

Viewpoint: Are you detecting any continued pressure from mortgage lenders or the secondary mortgage market agencies to have Coverage A limits or valuations equivalent to mortgage balances? Do you hear anything about that?

Todd Rissel, e2Value: We hear about that all the time.

When someone has a \$400,000 mortgage on an 800 square foot home, all they understand is that the amount of the mortgage is \$400,000 and they are required to have \$400,000 worth of insurance.



Todd Rissel

Starting in 2004, there was a separation between market value increases and construction costs. At that time, the corresponding increase in construction costs were probably 10 or 12 or 15 percent, about half of the market value increase.

Continued on page 26

***Inland Marine Guide* adds new Equipment Sales and Rental class**

AAIS has added a new class of coverage to its *Inland Marine Guide* of forms, rating procedures, underwriting guidelines, and other information for the traditionally nonfiled classes of inland marine insurance.

The new Equipment Sales and Rental class features a base form that provides open perils coverage for agricultural, construction, and other kinds of mobile equipment held for sale or rental and described on a schedule. Coverage is also provided for parts and accessories, for equipment of others the insured is servicing, and for loss to rented equipment when the lessee fails to meet obligations to insure it.

The form includes two options for providing the principal property coverage:

- “Inside and Outside Building Coverage,” where separate limits are indicated on a schedule for insured property inside buildings and insured property in outdoor storage yards; or
- “Separate Limit Coverage,” where limits apply to each type of described property (e.g., equipment for sales, equipment for rent, equipment being serviced, and parts and accessories) whether the property is inside or outside of buildings.



A schedule of coverages is provided for each option; the insurer makes its selection among the options by utilizing one or the other schedule.

Supplemental coverages built into the base form provide coverage for, among other things, equipment that is away from the insured premises while being transported, serviced, on exhibition, or used during a trial period.

The *Guide’s* new Equipment Sales and Rental class also includes 10 endorsement options, including options for covering rented property other than equipment and tools, the insured’s interest in equipment sold under an installment plan, and equipment of others the insured is transporting as a carrier for hire.

Although the Equipment Sales and Rental class is introduced as a nonfiled class of inland marine insurance, AAIS is filing the new forms in 21 states that do not exempt inland marine insurance from filing requirements.

For information on affiliating with AAIS for use of the *Inland Marine Guide*, contact Rick Maka at rickm@AAISonline.com, or by calling 800-564-AAIS.

AAIS & Mutual Boiler Re team up on Farmowners equipment breakdown option

AAIS and Mutual Boiler Re have teamed up to develop a new “Equipment Breakdown Enhancement Endorsement” available to AAIS Farmowners affiliates.

Among other things, the endorsement includes a “green” upgrade feature that covers costs incurred to repair and replace damaged property with property certified by a “green authority” to conserve natural resources, reduce energy or water consumption, reduce emissions of pollutants, or otherwise minimize environmental impact.



This equipment breakdown endorsement provides coverage for loss to household property and specified types of farm property caused by equipment breakdown, up to a declared limit. (Traditionally, losses caused by breakdowns within equipment have been excluded from coverage under standard property policies. In recent years, there has been a move to add such coverage by endorsement.)

Incidental coverages provided in the endorsement pay for costs of expediting expenses, pollutant clean-up and removal, refrigerant contamination, chlorofluorocarbon (CFC) refrigerants, and service interruption, as well as for loss to livestock and poultry.

The “Green Environmental and Efficiency Improvements” condition of the endorsement provides coverage beyond replacement cost for costs incurred to:

- Repair or replace damaged property with green alternatives;
- Hire an accredited green consultant to assist in green design and replacement;
- Attain certification or recertification by recognized green authorities; and
- Remove, recycle, and dispose of property in an environmentally sound manner.

In addition, the “Green Environmental and Efficiency Improvements” condition will extend coverage for additional living costs and loss of rent (if provided under the base policy) for any additional time required to repair or replace property to green standards.

For farm property, recovery under the “Green Environmental and Efficiency Improvements” condition is limited to 125% of what it would cost to repair and replace damaged property with property of like kind and quality, up to a built-in sublimit.

For residential property, recovery is limited to \$3,000 more than what it would cost to repair and replace damaged property with property of like kind and quality.

(Since AAIS already has equipment breakdown endorsements filed under the Farmowners Program, the new endorsement is available as a sample; companies must take filing action to use it.)

Mutual Boiler Re, a member of the FM Global Group, has been providing equipment breakdown insurance in North America for more than 130 years. For more information, contact Sam Broomer, vice president, at 800-814-4485, or at samuel.broomer@MutualBoilerRe.com.

Affiliate Guide provides expanded, updated information

AAIS recently released an expanded and updated *Affiliate Guide* to all AAIS member companies.

The *Affiliate Guide* replaces the previous “Factbook” and, like its predecessor, is intended to be a permanent reference guide that provides answers to commonly asked questions and helps AAIS members make the most use of their affiliation.



Information in the *Affiliate Guide* includes:

- A complete list of AAIS programs and services, including the *AAISdirect* Internet service, plus support services for customizing, pricing, filing, and automating programs;
- An explanation of the election of services form used to initiate changes in a company’s affiliation with AAIS (i.e., new lines and states); and
- Ordering instructions for copies of forms, manuals, and educational materials.

In addition, the *Affiliate Guide* provides information on updates to various AAIS products and services, as well as an up-to-date directory of contact information for AAIS staff members.

For information about the guide itself, contact Pat Peters, director of member relations, at patp@AAISonline.com, or by calling 800-564-2247, ext. 289.

‘Direct Tips’ audio added to AAISdirect

A new service has been added to *AAISdirect*, the online library of AAIS policy forms, manuals, bulletins, and other resources.

“Direct Tips” are brief audio commentaries written and narrated by AAIS staff specialists and embedded in documents. Some commentaries provide quick summaries of more detailed information; others direct users to additional resources on *AAISdirect* and elsewhere.

By directing users to relevant information, the tips will reduce or eliminate the need to search for such information. In addition, users will be prompted to consider other value-added steps, such as adding a coverage option that they may not have considered otherwise.

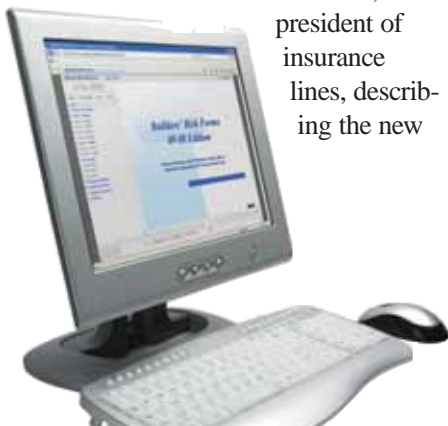


Web seminar recordings and Builders' Risk presentation available online

Recordings of two recent AAIS web seminars and another slide presentation are available at www.AAISonline.com, AAIS's public website. The three presentations include:

- The recording of an October web seminar featuring Pam Nykaza, senior product development specialist for inland marine, describing the latest revision to the AAIS Boatowners Program. (Click on the Boatowners window that appears on the AAIS home page.)
- A slide presentation, with audio commentary by Robert Guevara, AAIS vice president of inland marine, on the latest revision to the Builders' Risk section of the *AAIS Inland Marine Guide*. (Click on the Builders' Risk window that appears on the AAIS home page.)
- The recording of a November web seminar featuring Sherry Taylor, manager of farm and agribusiness, and Deborah

Summerlin, vice president of insurance lines, describing the new



AAIS Agricultural General Liability (AgGL) Program. Companies interested in using the AgGL can get a link to this recording by contacting Joyce Tignino, vice president of marketing and industry relations, at joycet@AAISonline.com, or by calling 800-564-AAIS.

For each of these presentations, you will need a computer with speakers to hear the audio commentary.

Filing action addresses new Florida condo law

AAIS filed materials in late 2008 to address new insurance requirements for residential unit-owners and condominium association insurance in Florida. A Florida law enacted in 2008 contains the following insurance requirements:

- An association policy must include coverage for air conditioners and heating equipment.
- Each unit-owner policy must contain a provision making it excess over any other policy covering the same property.
- Each unit-owner policy must waive subrogation against the association.
- Each unit-owner policy must include "special assessment" coverage of no less than \$2,000.
- Each unit-owner policy must cover improvements and alterations made by unit owners that benefit fewer than all residents (such as an enclosed balcony).



- Each unit-owner policy must name the association as an additional named insured and loss payee.

In response, AAIS implemented some changes in policy forms.

Under the AAIS Dwelling Properties and Homeowners programs:

- Amendments to the Insurance Under More Than One Policy provision now indicate that the policy's coverage is excess over the amount recoverable under any other policy covering the same property; and
- Endorsements were introduced to enable a condominium association to be named as an insured and a loss payee with respect to property covered under Coverage A.

Under the Commercial Properties and Businessowners programs:

- Policy terms were amended with respect to residential condominium association and unit-owner policies to address specific provisions within the statute; and

Continued on page 27

AAIS issues updated and expanded Homeowners Cause of Loss Report

AAIS recently posted an updated and expanded *Homeowners Cause of Loss Report* on its *AAISdirect* web service.

The report indicates the percentage and average severity of losses due to property perils and liability claims incurred by carriers that report homeowners statistical data to AAIS.

The latest report has been updated from previous versions to provide loss information for each state and the entire country from 2005 through 2007, as well as for the combined three-year period. It has been expanded to provide results that include catastrophe losses, and results that do not include catastrophes.

Also, the data is provided for calendar-accident years, making the report more valuable to company personnel charged with underwriting, pricing, and loss reserving.

For 2005-07, the report provides the following countrywide results. Totals may not add to 100 due to rounding.

The *Homeowners Cause of Loss Report* is available free of additional charge to companies that use the AAIS Homeowners Program and *AAISdirect*. Other companies can access it for a fee. For information, contact Rick Maka, director of marketing, at rickm@AAISonline.com or by calling 800-564-AAIS.

Cause of loss	% of incurred loss inc. catastrophes	% of incurred loss exc. catastrophes	Severity distribution inc. catastrophes	Severity distribution exc. catastrophes
Property peril				
Fire	33.1%	42.2%	\$49,258	\$49,258
Lightning	2.0%	2.6%	\$2,248	\$2,248
Wind	18.3%	6.3%	\$5,931	\$3,103
Hail	11.6%	5.0%	\$7,150	\$5,896
Water Damage	14.3%	18.3%	\$5,055	\$5,055
Freezing	2.0%	2.3%	\$7,197	\$7,835
Theft	3.6%	4.6%	\$2,516	\$2,516
Other	9.6%	11.7%	\$3,461	\$3,506
Property total	94.5%	93.0%	\$6,946	\$6,648
Liability claim				
Bodily Injury	2.7%	3.4%	\$19,921	\$19,921
Prop. Damage	1.1%	1.4%	\$3,372	\$3,372
Med Pay	0.2%	0.2%	\$1,327	\$1,327
Other	1.6%	2.0%	\$12,488	\$12,488
Liability total	5.5%	7.0%	\$7,874	\$7,874
Total avg sev	n.a.	n.a.	\$6,992	\$6,721

AAIS revises water exclusions in new Homeowners forms and other programs



The levees did not hold up during Hurricane Katrina, but standardized property insurance flood exclusions did.

Several court challenges were initiated to amend, in essence, contracts that had been filed with and approved by insurance departments in the states affected by the storm. But federal and state courts ultimately upheld provisions stating the clear intent of private insurers not to cover certain catastrophic losses.

Nonetheless, insurers are refining their water exclusions to explicitly address certain points raised in litigation. As part of this, AAIS has filed new provisions addressing water damage under several programs that provide property coverage.

New water damage provisions are included in updated versions of the AAIS Homeowners base forms. The new forms are compatible for use with Homeowners endorsements filed starting in 2006 and currently approved in most states.

Among other things, the standard water damage exclusion in the Homeowners base forms is revised to emphasize that:

- The exclusion applies regardless of the cause of an excluded event;
- There is no coverage for loss caused by matter carried by excluded water (e.g., flood-borne debris);
- There is no coverage for water that overflows, escapes, or is discharged from a dam, levee, dike, etc. designed to retain or control water; and
- Provisions excluding loss due to tidal events now include, but are not limited to, tidal waves, tsunamis, tidal surges, storm surges, and storm tides.

Also, where applicable, provisions addressing loss caused by accidental discharge are refined to specify types of water loss that are covered or not covered.

Exclusions

AAIS has also filed new mandatory water exclusion endorsements under other programs that provide property coverage.

These endorsements replace existing water exclusions with essentially equivalent provisions as the new Homeowners forms.

In addition, however the new commercial and farm lines water exclusions add language, already present in Homeowners forms, that excludes loss from water that backs up through, overflows from, or is otherwise discharged from sump pumps and related equipment, or any other type of system that removes subsurface water from the foundation area. ■

Small Trucks continued from page 7

provide coverage for BI/PD arising from the use of mobile equipment, which includes land vehicles (including attached machinery and equipment) used only on or next to premises owned or rented by the named insured.

Thus, whether a micro-utility truck purchased for use on a farm would be covered for BI/PD liability under an AgGL base form would depend on at least two factors:

- Whether it was subject to motor vehicle registration or insurance laws; and
- Whether the company, or a court, regarded a vehicle designed for public roads in Japan to be so designed for purposes of insurance in the U.S., especially if such vehicles are restricted from public roads in the U.S.

Similar distinctions between autos and mobile equipment are found in the base forms of the AAIS Artisans, Businessowners, and Commercial Liability programs.

Under each of them, an auto is defined as a land motor vehicle designed for use or travel on public roads, and coverage for BI/PD liability is excluded. Each also provides coverage for BI/PD arising from the use of mobile equipment, however.

Under all three programs, mobile equipment is defined as land motor vehicles designed primarily for use off public roads (including attached machinery and equipment) and used only on premises owned by or rented to the named insured, including adjoining ways.

For more details, see the table on page 6.

“Each company must determine for itself whether a micro-utility vehicle is a motor vehicle,” wrote Susan Luecke, AAIS assistant vice president for personal lines, in a response to a question from an AAIS Farmowners affiliate on this topic.

“That determination may vary from risk to risk, depending on the circumstances,” she said. ■

Property coverage has its own questions

For insurers, there is less at stake regarding first-party property coverage for utility vehicles, but some of the same issues arise.

The latest AAIS Homeowners forms expressly state that there is no first-party property coverage for “motorized vehicles,” but there is an exception for vehicles designed only for use off of public roads and used only to service insured premises or the premises of another.

To be eligible for first-party property coverage under the AAIS Homeowners Program, such vehicles must not be required to be registered for use on public roads or property, and cannot be used for business purposes.

These and similar provisions in other standardized forms were developed to address riding lawn mowers and small tractors used for yard work, snowplowing, and other outdoor chores.

One can see, however, how a work-site utility vehicle (see main article) might qualify for homeowners coverage under the right circumstances, even though it might be larger than the vehicles originally envisioned for homeowners property coverage.

One would think that a micro-utility truck, especially one designed for use on public roads in Japan, would not qualify as covered property under an AAIS-based homeowners policy, since AAIS Homeowners forms state that covered vehicles must be designed *only* for use off of public roads.

The determination whether MUTs qualify for property coverage may depend on local laws and regulations, however, and on whether courts interpret references to “public roads” as meaning public roads anywhere or only in the U.S.

Other programs

AAIS Farmowners dwelling forms include a built-in \$2,500 sublimit for first-party loss to motorized vehicles used to service the insured premises. However, that provision does not apply to vehicles designed or licensed for use on public roads, and it does not extend to farm personal property.

Thus, if a micro-utility vehicle is used for farming purposes, as would be likely on a farm, it could be regarded as farm personal property and excluded under the dwelling coverage.

For its part, the AAIS FO-6 Farm Property form states in several places that there is no coverage for “non-farm vehicles.”

Depending on the design and use of the vehicle, one could insure a micro-utility vehicle on an FO-6 by scheduling it as an item of “described machinery,” which includes “items of mobile farm machinery and equipment.” This approach allows the company to retain underwriting discretion over each vehicle insured.

For purposes of property coverage, the AAIS Artisans and Businessowners programs simply exclude vehicles required to be licensed for use on public roads. This raises the possibility that micro-utility vehicles might be covered for first-party loss if they are not required to be licensed.

Even vehicles that are designed for highway use but unlicensed and not operated on public roads can qualify for coverage under the first-party Contractors Equipment coverage forms provided in the AAIS *Inland Marine Guide*.



Great Disconnect,
continued from page 19

Insurance carriers were being asked by the lenders to put a \$400,000 limit on a \$150,000 home, and we were under pressure to increase the replacement cost. We didn't do that.

So they look at us and the other replacement cost providers and say, "Your replacement cost should be reflective of that mortgage value." We can't do that. We just give you an idea of what it would take to replace a particular structure at a particular time with particular features. We aren't driven by the mortgage value.

Insurance carriers were being asked by the lenders to put a \$400,000 limit on a \$150,000 home, and we were under tremendous pressure to correspondingly increase the replacement cost. We didn't do that.

Now, that person has probably lost that house and moved on. A new buyer is probably looking at \$150,000 in replacement costs. The mortgage company is a little more aware of what a real true value is, and they're more aware of the fact that the replacement cost is a good baseline to give them an idea for what the real market value of a home should be.

Always, from all my time, 25 years in the business, through up cycles and down cycles, there is that pressure to correlate the replacement cost with the mortgage value, and the two are not related.

Viewpoint: How does the situation compare for commercial properties? How are their construction cost valuations being impacted by the real estate market and the recession? Is there any parallel to what's happening in the home market?

Todd Rissel, e2Value: There is now, although nine to 10 months ago, commercial construction was still moving along fairly well.

Commercial construction does have a boom and bust cycle to it, but the boom in commercial construction was not like the boom in housing.

The problem for commercial construction was the pressure on materials pricing. Don't forget, now that oil is \$39 or \$37 a barrel, that not too long ago it was \$147 a barrel, and all of the things that use oil were going up [in price]. Platinum was going up, copper was going up, all of the things that were related to building were dramatically increasing in price.

Commercial construction was also impacted by the cost of labor because you could make so much more money as a laborer on residential projects. When the residential market fell out, the commercial market was still fairly strong and, at that point, could take advantage of the price drops for commodities and labor. Unfortunately, in the last two months, after the debacle with the personal lending and mortgage-backed securities, commercial lending is now having some issues.

Because of the valuation of assets on everybody's books, there's a lack of lending. It's not that there isn't capital, but lenders are not lending it because they're not sure what's around the next corner. ■

- New manual rules were introduced to address the forms to be attached with respect to residential risks.

Revision being filed to Commercial Liability manual

AAIS has filed revised state pages and a revised countrywide classifications table for its Commercial Liability Manual. (The manual being revised is the countrywide manual introduced in 1999 with inflation-sensitive rating bases.)

Among other things, the manual revision adds seven new classifications for bed and breakfast operations; snow and ice removal contractors; event, party, or wedding planners; Internet auctions; media manufacturing; portable toilet rentals; and telecommunications towers (the last for existence hazard and lessor's risk only). New class codes have been introduced for the new classifications, and loss costs rating information for existing classifications has been revised.

The manual's state-specific pages have been reformatted to distinguish between state exceptions to countrywide manual rules, and additional rules provided for a state.

In all states, a new rule is provided for implementing a new Commercial Liability endorsement that provides an exception to the auto exclusion for snow and ice removal operations. The exception applies only to injuries included in the products/completed work hazard. ■



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- R**ECEIVE CE Credits
- N**ETWORK with Construction Insurance Professionals

WHO SHOULD ATTEND

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- Underwriters & Adjusters
- Contractors & Developers
- Attorneys

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Costa Mesa, CA April 6-7, 2009	Sacramento, CA April 20-21, 2009	Fresno, CA May 18-19, 2009	Las Vegas, NV July 23-24, 2009	Seattle, WA October 5-6, 2009
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When bad things happen,
continued from page 10

- Costs to implement credit monitoring and fraud detection services for affected individuals; and
- Costs to develop a crisis management and public relations strategy aimed at internal and external audiences.

Identify Theft 911 partners with carriers to develop and file policy forms to provide coverage for such costs.

“Currently, 13 carriers have partnered with us to roll out data breach programs for their business policyholders,” says Matthew Cullina, CEO. “These solutions are being built into businessowners and commercial package policies as well as a variety of professional liability policies and cyber-risk coverages.”

Insurers often think of data breach insurance as a first-party property coverage, says Cullina, but the threat of regulatory sanction and third party liability drives policyholders to purchase it.

Any failure to notify consumers and implement measures to protect them following a breach will be used as an allegation in a law suit, says Cullina. “It’s usually about what the business did to respond,” he says.

Property

Boston-based One Beacon Insurance Group has worked with Cullina to offer data breach insurance and related services.

According to Roger Pare, chief underwriting officer for the commercial middle market, One Beacon’s “Data Breach Expense” endorsement covers the following expenses in the wake of a data breach:

- Expenses incurred to notify impacted individuals ;
- Expenses incurred to determine the nature and extent of the breach;
- Expenses incurred for credit monitoring services made available to affected individuals;
- Expenses incurred for legal review of a breach and proposed responses; and
- Expenses incurred for public relations or crisis management services.

The coverage also extends to expenses to notify the insured’s customers of a breach of their data entrusted to a third-party processor, as well as to monies extorted by persons threatening a data breach and monies paid to obtain information that leads to the arrest and conviction of data breach offenders.

According to Pare, One Beacon’s Data Breach Expense coverage is provided as an endorsement option to its commercial property policies, and the resulting premium and loss data are reported under property lines.

“The coverage is clearly a first-party coverage at its core,” he says.

Services

However, in addition to the expense coverage, Pare says “we also provide data breach response services to customers of our insured whose data was compromised.”

These services, provided by Identity Theft 911, include:

- Consulting services to assist insureds with notification requirements and the news media;
- A toll-free help line for affected individuals;
- Assistance with placing alerts for affected individuals with the main credit bureaus; and
- Access to an identity restoration professional who can help victims of identity theft restore their stolen identity.

“The customer response services are provided within the policy as a service without limit,” Pare says. ■

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