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AMERICAN ASSOCIATION OF INSURANCE SERVICES

AAIS

# viewpoint

Fall 2007



## The AAIS Homeowners Program for 2007

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INSIDE**

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and Industry Relations

## ■ EDITORIAL

Joseph Harrington, CPCU, ARP  
Editor

Christi Gaido  
Design

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For details please contact  
Joseph Harrington at [joeh@AAISonline.com](mailto:joeh@AAISonline.com).

For advertising information call  
Christi Gaido at 800/564-AAIS.



# AAIS

1745 S. Naperville Road  
Wheaton, IL 60187-8132

Toll free: 800/564-AAIS  
E-mail: [info@AAISonline.com](mailto:info@AAISonline.com)  
Web: [www.AAISonline.com](http://www.AAISonline.com)

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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.

## From the editor

*It's not easy promoting the products and services of an insurance advisory organization.*

*Apart from the initial hurdle of explaining to people what an "advisory organization" is, there is the challenge of promoting programs that are new but not too new, unique but not too unique.*

*Marketers like to boast that their products are bold and cutting edge, and that they stand out from the crowd. The latest revision of the AAIS Homeowners Program would not necessarily fit such a description, and is not intended to.*

*On the contrary, this latest comprehensive revision is designed to fit with the chastened outlook of insurers determined to maintain underwriting discipline and the possibility, at least, of an underwriting profit in a line where underwriting losses were long considered a cost of doing business.*

*Sure, many details in the forms and manual have been modified, yet a seasoned personal lines professional will recognize how the program maintains a traditional balance between covering certain unexpected losses and avoiding moral hazards and exposures that fall appropriately under other lines.*

*Now that is something we can boast about.*

Joseph S. Harrington, CPCU



# The AAIS Homeowners Program for 2007

Coverage crafted with precision

Insurance product development is not always an exact science, but it is an exacting one.

If someone asked you what is new in the revised AAIS Homeowners Program, you could hand them the 66 pages detailing changes to forms and endorsements prepared as filing memos.

That's 66 *single-spaced* pages in *10-point type*, describing every addition, deletion, and alteration in the fifth version of the program's policy forms.

That would hardly make for compelling reading, but it would suggest a fundamental truth about this revision: Its value emerges from exacting attention to a web of interconnected details, rather than from any bold new departures.

To be sure, the AAIS Homeowners Program is the nation's first standardized program to provide optional endorsements for adding equipment breakdown coverage to a homeowners policy.

That came about from an initiative of AAIS and The Hartford Steam Boiler Inspection and Insurance Company, filed around the same time as the latest comprehensive revision of the program's forms and manual.

(The equipment breakdown filing was reported in the Winter 2007 edition of *Viewpoint*; that article can be found in the *Viewpoint* section of [www.AAISonline.com](http://www.AAISonline.com).)

Otherwise, the latest AAIS Homeowners revision is not characterized by an expansion or contraction of coverage, but by a balanced attention to detail.

Some coverages may be slightly broadened, others slightly restricted, but the overall effect is to refine policy provisions so they provide up-to-date coverage while avoiding unintended exposures.

The value of the revision is best demonstrated by how its treatment of details affects coverage in key areas. Here we summarize the impact of those refinements in policy provisions, incorporating selections from comments by Susan Luecke, AAIS assistant vice president of personal lines.

Sue's comments can be heard in their entirety in audio files available at [www.AAISonline.com](http://www.AAISonline.com).



## Water and mold

Several provisions in the revised AAIS Homeowners base forms address growing concern about the increasing frequency and severity of losses arising from mold and water damage.

Through a carefully crafted interplay of different policy provisions, the revised base forms seek to preserve standard coverage for truly accidental discharges of

water or steam, but make it clear in several places that there is no intent to cover continuous or repeated seepage or other presence of water, humidity, moisture, or vapor.

Also, the new base forms include an expanded exclusion for fungi (mold) damage that does not result from a covered peril; an endorsement is available for limiting coverage for mold damage that arises from a covered peril.

In this way, the AAIS Homeowners revisions respond to a surge in water-related claims and litigation by preserving the homeowners policy as protection against fortuitous loss, and preventing its abuse as a source of funding for routine home maintenance.

“On the one hand, we’ve tried to preserve coverage for certain genuinely accidental losses,” says Luecke. “On the other hand, we seek to avoid coverage for what I would consider to be maintenance responsibilities.

**“In sum, the purpose of these refinements is to preserve the basic intent of homeowners policies, which is to provide protection against fortuitous loss, not funding for home maintenance.”**

— Susan Luecke, AAIS assistant vice president of personal lines

“In sum, the purpose of these refinements is to preserve the basic intent of homeowners policies.

### Personal Injury

Thanks to Internet communications, households are *publishing* nowadays--sometimes with damaging effects on individuals who are libeled or slandered, or whose right to privacy is violated by the unlawful dissemination of their personal information.

This new capability in the hands of individuals has increased the exposure of households and personal lines insurers to personal injury claims.

The 2007 Homeowners revision introduces several changes in wording in the optional endorsement for providing personal injury coverage.

First off, the definition of “personal injury” is modified to explicitly include injury that arises from electronic publication of material that slanders or libels a person or organization, disparages the products or services of a person or organization, or violates another’s right to privacy.



Go to [www.AAISonline.com](http://www.AAISonline.com) to listen to audio files of Sue Luecke, our assistant vice president for personal lines, as she describes how refinements in AAIS Homeowners policy provisions address exposure to business activities, personal injury, water-related losses, motorized vehicles, equipment breakdown, and changes in households.

With coverage for electronic publication established, the revised AAIS endorsement then clarifies the extent of coverage for electronic publication by implementing a new exclusion that includes a key exception.

The new provision generally excludes coverage for personal injury arising from “chat rooms,” “bulletin boards,” “gripe sites,” and other electronic forums an insured hosts or controls. However, the new provision contains an exception that preserves coverage for personal injury arising from content posted or provided by an insured.

“In a general sense, the exclusion and exception are crafted to preserve coverage for an insured’s own comments, but not for his or her potential liabilities as a publisher of the comments and ideas of others,” says Luecke.

The new AAIS personal injury endorsement also states that the personal injury limit is the most the carrier will pay for *all* personal injury to *any* one person or organization, regardless of the number of claims brought or the number of offenses committed during the policy period.

Says Luecke: “This language protects the carrier from being exposed to paying coverage limits multiple times for personal injury offenses claimed by the same party.”

# Homeowners manual updated to reflect revised policy forms

In tandem with the revised AAIS Homeowners policy forms, AAIS is also receiving state approvals for its revised Homeowners manual, modified to reflect new coverage provisions and to implement other efficiencies.

“The format of the AAIS Homeowners manual has been modified to simplify maintenance,” says Jeffrey Holaway, AAIS manager of personal lines pricing.

According to Holaway, the new manual provides countrywide rules and rating factors applicable to all optional coverages, with individual state exceptions to the rules and factors addressed in separate state exception pages.

Along that line, most countrywide rules have been modified to segregate instructions for premium determination and the corresponding endorsement, making it easier to restate just a portion of a countrywide rule to address a state exception.

The manual implements factor rating for optional liability coverages, which facilitates the automation of rating for those coverages.

Each state’s manual pages display the loss cost base amounts by territory as well as by form, amount of insurance, and protection/construction relativities. Since 2006, this type of information has also been available as datasets provided in Microsoft Excel and XML formats on the *AAISdirect* Internet service.

In addition, new rules and rating information have been introduced for new coverages, including those for association deductible, resident of an assisted living facility, and student living away from the described location.

“Throughout the manual, editorial revisions have been made to the rules and to the text of the rating information pages to refine and clarify them,” says Holaway.

## Business activities

While preserving traditional exclusions and restrictions for business activities, the revised AAIS Homeowners forms introduce refinements that preserve coverage for certain situations that may be related to business but are also personal in nature.

For example, the property exclusion for “related private structures” used for business purposes is now expressed in more detail, explicitly excluding structures used for the direction or operation of a business, as well as those used to store business property.

The exclusion includes a new provision, however, that would leave coverage in place for a garage where a company car is parked. That situation, while never an issue under AAIS forms, has been a concern of agent groups regarding other industry forms.

Regarding liability coverage, the definition of “business” has been updated to maintain coverage under specific limitations for care services, volunteer activities, and incidental activities for which the insured earns little or no compensation.

“Exceptions [to the business activities exclusion] preserve liability coverage for activities often considered personal in nature, even if an insured receives some compensation,” says Luecke.

Also, incidental liability coverage is explicitly provided for part-time or occasional business activities (e.g., a lawn mowing business) of a self-employed insured who is under age 21 and has no employees.

As in other areas, however, some of the business-related modifications are designed to limit the exposure of insurers.

For example, the definition of “business” now includes “occasional” as well as part-time and full-time work, thus expanding the potential application of exclusions for business activities.

“We have expanded the definition of a business to include occasional activities related to a trade, occupation, or profession, in addition to full- and part-time work,” Luecke says. “This change slightly expands the scope of the business activities exclusion.”



Continued on page 6

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## Motorized vehicles

The revised AAIS Homeowners forms include important refinements addressing the ever-evolving use of motorized vehicles by households.

One new provision provides built-in liability coverage for certain battery-powered vehicles that travel 15 miles per hour or less, including those owned by the insured and used away from the insured location.

"The kiddie car provision was drafted in response to comments from our personal lines advisory committee," Luecke notes. "Members of that group . . . told us that a strict reading of standard liability forms might preclude coverage for injury arising from children's toys that happen to be vehicles."

"The kiddie car provision . . . is intended to provide automatic coverage to slow-moving toy vehicles generally used by younger children, while still protecting insurers from exposure to the growing number of miniature but high-powered motorized vehicles you see today."

Also, provisions have been added that expand the number of situations in which liability coverage will apply when golf carts are used other than on a golf course.



## Family changes

The revised AAIS Homeowners forms include new provisions addressing some of the changes that have occurred within American families.

For example, the definition of "insured" has been modified to include certain members of a household who have moved out to attend school, but who are still financially dependent on the named insured.

Also, a new endorsement option allows personal property and personal liability coverage to be extended to a relative who resides in an assisted living facility.

The revision retains the endorsement option, introduced to the industry by AAIS in 1996, that allows carriers to provide personal property and liability coverage to a member of a household, such as a live-in boyfriend or girlfriend, who may not fall under the standard definition of insured.

"In all, the enhancements to the AAIS Homeowners Program continue the evolution of homeowners programs to address transitional living arrangements," Luecke says.



Continued on page 28



# Insuring Farm Cargo

## Coverage varies under different forms

The shipping of farm products is getting a lot of attention these days.

A prime indication of that was the nation's first "summit" on agricultural and food truck transport, held in April 2007 near Washington, D.C.

Mike Johanns, then U.S. Secretary of Agriculture, led off a series of public officials and industry experts at the event who addressed the growing challenge of shipping

agricultural cargo in an era of rising fuel prices, driver shortages, and increased concern for security.

"The agricultural sector is the largest user of freight services in the country," Johanns told the gathering, and "trucks handle about 90% of all food shipments and nearly half of all grain movements" in the U.S.

While the "summit" addressed transportation issues that are national, even global, in scope, agricultural shipping interests have been negotiating with Congress and federal agencies over issues that directly impact local shipments of farm commodities.

In August 2007, the U.S. Department of Transportation (DOT) announced funding for a study of the methods used to secure cargoes of agricultural commodities, such as fruits and vegetables, that are shipped in tubs and bins.

That study was prompted by the reaction of agricultural shippers to the imposition of new cargo securement regulations promulgated by DOT to help secure the nation's food supply against sabotage by terrorists or criminals.

Those rules drew protests from shippers and motor carriers when they were applied to intra-state agricultural shipments in California. The shippers and carriers claim the regulations, as currently drafted, would drive up the cost of farm cargo shipments unnecessarily.

**"The agricultural sector is the largest user of freight services in the country. Trucks handle about 90% of all food shipments and nearly half of all grain movements in the U.S."**

— Mike Johanns, former U.S. Secretary of Agriculture

In the meantime, agricultural shipping interests lobbied Congress to include a provision in the 2007 farm bill that would limit the application of restrictions on the hours of service drivers could put in.

Previously, those restrictions did not apply to agricultural shipments within a radius of 100 miles during planting and harvest time; ag shippers sought to increase the radius to 150 miles.

### Insurance

With so much attention being paid to farm shipments, farm agents and underwriters may wonder whether, or how, their insureds are covered for risk of loss to commodities as they are

## Off the farm and on the road

### Transit coverage for farm property under different policy forms

Exposure	AAIS Farm Coverage Form (FO-6)	AAIS AgOP Agribusiness and Income Coverage Part	AAIS <i>Inland Marine Guide</i> Transit forms
<b>Scheduled farm property away from insured premises</b>	<p>Covered for named perils up to 10% of the farm personal property limit.</p> <p>Poultry and specifically scheduled livestock are insured for loss due to named perils, with limitations, up to limits indicated on the declarations.</p> <p>Livestock is covered for loss due to collision or overturn of a vehicle it is being transported on, as well as events during the loading and unloading of livestock onto vehicles, among other perils.</p>	Coverage for "stock" limited to 1,000 feet of an insured location. Coverage can be extended to property temporarily beyond 1,000 feet, but not if it is in or on a vehicle, rail car or other conveyance.	n.a.
<b>Unscheduled farm property away from insured premises</b>	<p>Grain is covered for limited perils, including vehicles, if a limit for grain is indicated on the declarations.</p> <p>Livestock, farm machinery and equipment, and certain specified commodities covered for named perils up to the blanket limit indicated in the declarations.</p> <p>No coverage for unscheduled fruits and vegetables.</p>	"	n.a.
<b>Property being shipped on grower's vehicles</b>	<p>Covered as described above for scheduled and unscheduled farm property away from insured premises.</p> <p>Optional endorsement provides coverage up to \$5,000 for property in transit by a party that is not a common carrier.</p>	Supplemental coverage for "Property in Transit" is established when a limit is indicated in the declarations.	Covered up to policy limit.
<b>Property in the custody of a common or contract carrier</b>	Covered as an incidental coverage up to a built-in limit of \$1,500, unless a higher limit is shown on the declarations.	"	"
<b>Property at warehouses, elevators, and other storage facilities</b>	Not covered.	Depending on circumstances, could be covered as "Property Away From a Covered Location" or as "Property in Transit." Both coverages triggered by dec page entries.	Automatically covered when such storage is among the "ordinary reasonable and necessary stops, interruptions, delays, or transfers incidental to the route and method of shipment."
<b>Liability for property of others transported by the insured</b>	Not covered.	When a limit is shown in the dec, coverage is established for insured's legal liability for loss to property of others insured is obligated to pay as a common or contract carrier.	Not covered.
<b>Debris removal</b>	Removal of scheduled property covered up to 25% of the scheduled limit; removal of unscheduled property covered up to 5% of Cov. G limit.	Removal of covered property paid up to 25% of the covered loss to all property before any deductible is applied. Additional Debris Removal Expense limit can be indicated on declarations.	<p>Paid up to 25% of the amount paid for direct physical loss to covered property. Up to an additional \$5,000 is paid when the debris removal expense exceeds 25% of the amount paid for direct physical loss or when the loss to property and debris removal combined exceeds the limit for the damaged property.</p> <p>Supplemental coverage up to \$10,000.</p>
<b>Pollutant clean up and removal</b>	Coverage limited to insured premises.	Coverage limited to property at covered locations.	Excluded
<b>Spoilage</b>	No coverage off-premises.	"	

transported locally for sale, processing, or transshipment to other regions.

If you can't answer that for your insureds, you're probably not alone.

Transit exposures have long been a secondary concern of farmers compared to "production risks," such as bad weather, according to Rudy Radke, an agriculture specialist with North Dakota State University Extension who advises the Upper Great Plains Transportation Institute.

"There isn't a lot of loss in transit," he says. "The transportation problem is pretty thin."

"For the short period of time farmers are transporting commodities to the distributor, they either accept the risk or buy some cargo coverage," says Sherry Taylor, AAIS manager of farm and agribusiness who previously worked as a farm insurance underwriter and manager for several insurance companies.

According to Taylor, liability concerns outweigh concerns about transit exposures from a company perspective.

**"For the short period of time farmers are transporting commodities to the distributor, they either accept the risk or buy some cargo coverage."**

— Sherry Taylor, AAIS manager of farm and agribusiness

"When underwriting fresh pack, my concern was whether the farmer was packing under his own label or someone else's," she says. "I wanted to know whether problems could be traced back to our farmer. Cargo exposures are far easier to calculate than the damages for a potential products claim."

Perhaps as a reflection of that, and of the long history of informal risk management on farms, coverage for first-party transit losses has generally been found in limited form under disparate provisions of standardized farm policies.

AAIS has taken some steps to introduce transit coverage in farm and agribusiness policies, but it remains to be seen whether a more comprehensive mechanism is needed.

That will depend, in part, on whether the growing desire among consumers for locally grown produce is enduring or a fleeting fad. For now, at least, "the local food movement is coming on pretty strong," says Radke.

## Off-premises

First-party coverage for farm property in transit is addressed in several ways under the AAIS Farmowners Program.

First, under the AAIS FO-6 (the farm property coverage part), there is coverage with limitations for both scheduled and unscheduled farm personal property away from the insured premises.

Named perils coverage for scheduled farm personal property (AAIS Coverage F) applies to scheduled property away from the insured premises, up to 10% of the applicable limit for that property.

In contrast, named perils coverage for unscheduled farm personal property (AAIS Coverage G) is applied up to a limit indicated in the declarations. However, coverage for unscheduled property off premises is limited to livestock, farm machinery and equipment, and certain specified commodities.

The FO-6 has other provisions addressing key transit exposures, however:

- There is no coverage for insured property being stored or processed at warehouses, elevators or other facilities; and
- There is no coverage for property in the custody of a common or contract carrier, except as provided under a separate incidental coverage.



That incidental coverage for "Property in the Custody of a Common or Contract Carrier" extends to property insured under coverages F and G that suffers a loss due to one of the named perils insured against under the FO-6. Covered losses are paid up to a built-in limit or \$1,500 unless a higher limit is indicated in the declarations.

Additional coverage related to transit is provided through specified livestock perils. Subject to various limiting provisions, death of covered livestock due to the collision or overturn of a vehicle transporting them, or due to accidents during loading or unloading, is covered up to the applicable livestock limit.

## Endorsement

The AAIS Farmowners Program allows insurers to provide additional transit coverage under the program's "Property in Transit" endorsement.

That endorsement covers losses to property insured under coverages F and G while in transit, up to a \$5,000 limit or the limit on the covered property, whichever is less. There is no coverage, however, for losses to property being transported by or in the custody of a common or contract carrier.

"I have seen carriers include the \$5,000 cargo coverage as part of the property freebies," says Taylor.

Continued on page 24



# Open files

## Information from filings moves onto public websites

Immediate, widespread access to information is at the heart of the Internet revolution, and now that revolution is extending to the obscure world of insurance filings.

As of this publication, at least six states--Arkansas, California, Florida, North Carolina, South Carolina, and Wisconsin--provide access on open websites to documents and information submitted by insurance companies in rate and form filings.

No fee or arranged access is required, but it helps to know what you're looking for. While public access is intended to benefit consumers and citizens, few non-specialists can navigate through the categories of filing documents and make sense of the technical information found therein.

For insurers, however, the new ease of access to information submitted in filings could have an impact on product development.

### Scrutiny

Insurance filings have long been public records open to public scrutiny, and insurers have commonly reviewed competitors' filings as part of their product research and development, according to Larris Larsen, AAIS assistant vice president of compliance.

Years ago, however, the task of reviewing hundreds of pages submitted on paper placed practical limitations on how quickly and systematically insurers could review--and copy--the work of its competitors.

"They had to go through volumes of paper and photocopy what they wanted at 10 cents a copy," Larsen says. "With some states, they had to make an appointment and specify which filings they wanted."

That did not change entirely with the advent of electronic filings. Until recently, one still had to go to an insurance department to view information filed electronically, or pay one of the private services that maintained databases of state filings.

Either way, the practical impediments to copying and implementing product features provided some margin of benefit to companies and organizations that invested resources to develop new policy provisions or rating information.

"You could still have two years to sell a filed product without competition," Larsen says. "Now, with Internet access to filed information, your competitive advantage may last 60 days."

"This might inhibit companies from spending the time needed to develop new products and features."

### Impact

According to Larsen, niche writers that develop products based on proprietary data and knowledge of unique classes are most at risk of seeing their competitive advantage eroded by easy and widespread access to information submitted in filings.

Beyond those companies, however, widespread access to rate and form filings is not yet a great concern to most property/casualty insurers, says Lynn Knauf, director of personal lines for the Property Casualty Insurers Association of America (PCI).

**“With Internet access to filed information, your competitive advantage may last 60 days. This might inhibit companies from spending the time needed to develop new products and features.”**

— Larris Larsen, AAIS assistant vice president of compliance



She says that insurers are resigned to the fact that “people digging for information have the time and the resources to do it.”

Of more immediate concern, she believes, is the fear that legislators and regulators will expand the breadth of competitive information that must be filed to include, among other things, risk classifications and underwriting guidelines.

As an example, Knauf cites a Texas bill introduced in a recent legislative session that would have essentially required


new underwriting techniques to be filed and approved before being utilized.

“That crosses the line between underwriting and rating,” she says.

### Advisory

Insurance advisory organizations have a more pressing concern about the ease of accessing traditional filings, because the development of filed forms and rates constitutes their principal

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profit creation of the insurance industry governed by a board composed primarily of insurance company executives.

For decades, the Institutes have enjoyed something close to a monopoly on the training and education of P/C company staff, particularly in core operations like underwriting, claims, and compliance.

The Institutes have held this position in part because of the role they have been given in defining what were to be core competencies of P/C operations other than actuarial work, a specialized profession for which candidates seek designations from the American Academy of Actuaries and Casualty Actuarial Society.

Tens of thousands of P/C professionals still take “Institute” examinations every year, a total that far exceeds those of any other provider. But, in recent years, the number of Institute test takers has leveled off, while some company professionals have elected to pursue some new designations from new providers that have emerged in recent years.

**“Our customers are asking us to take our textbooks and, in some cases, unbundle the content so we can meet specific needs more readily, more effectively, and more efficiently.”**

— Peter Miller, president, American Institute for CPCU and the Insurance Institute of America

## Specialists

One of those organizations is the Insurance Skills Center (ISC), a training organization originally sponsored by IBA West, a California affiliate of the Independent Insurance Agents and Brokers of America.

The ISC sponsors two designations that have grown rapidly in the few years since they were introduced:

- The Agribusiness and Farm Insurance Specialist (AFIS); and
- The Certified Insurance Specialist in Construction (CISC).

Like some of the life designations Barton laments, these designations can be earned by attending three or more 2-day conferences and passing an examination that most of the other attendees pass. In addition, candidates are allowed to refer to books of policy forms while taking the examinations.

None of that detracts from the value of the designations, or their growing appeal, says Laurie Infantino, president of the ISC.

“What separates our designations is that they are industry-specific,” she says. “Other designations, while we support

them, are not necessarily industry-specific.

“Our designees are not mainstream insurance people,” Infantino continues. “They are ag people and construction people. We’re informing agricultural and contractor insurance specialists what they need to know to be specialists in their fields.”

As for using forms books in examinations, Infantino says “We’re not here to teach them to memorize. We’re here to teach them to use resources.

“We have standardized exams. They’re industry-specific and very intensive. They’re not intended to be simple.”

Even though the program is rooted in an agent-sponsored organization, a “good number” of company people now attend ISC programs, and several big agricultural writers have begun to require staff members to get the AFIS designation.

ISC’s construction designation is competing with the new Construction Risk Insurance Specialist (CRIS) designation introduced by the International Risk Management Institute (IRMI). The CRIS designation can be earned online.



## Changes

In response to the success of new approaches to training and changing needs of companies, the Institutes in 2007


introduced a new method of developing and deploying its curriculum.

Rather than have insurance curricula defined in CPCU textbooks and then repackaged in other textbooks, the Institutes are moving to define building blocks of insurance knowledge called “learning objects” that can be organized in different formats.

In essence, learning objects are modules of information with educational objectives and testing criteria that can be utilized in textbooks, online courses, or customized company training materials.






“The learning object approach recognizes that we need to adapt the way we develop curriculum so that we can deliver

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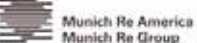

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materials in a variety of different ways that have been expressed to us by our customers,” says Peter Miller, president of the Institutes.

“The learning object approach allows us to accomplish with one development cycle the writing of a textbook and the equivalent of an online version of the same material. The quality of our content will stay the same, but the process we’ll use to develop the content will change.

“Our customers are asking us to take our textbooks and, in some cases, unbundle the content so we can meet specific needs more readily, more effectively, and more efficiently.”

The Institutes encounter more requests from companies for specialized training, Miller says.

“I went into one insurance company, and they told me, ‘We just hired some new CPAs, and nothing on the CPA exam talked about statutory accounting. Can you give us something right now to get those people up to speed?’

“I’ve had reinsurers say they have people who were in treaty who are now going into facultative and they need something just to get up to speed quickly.”

### Choices

Shorter, more focused designations are welcomed by some carriers.

“It would be good if there were designations that could be accomplished in a shorter period of time on specific insurance subject matter,” says James Guynn, executive vice president of Augusta Mutual Ins. Co., Staunton, Va. “The sense of accomplishment gives a person the inspiration to continue achieving.

“Having to spread a designation out over a long period of time defeats the student’s sense of accomplishment.”

Tom Claude, vice president and secretary of Pharmacists Mutual Ins. Co., Algona, Iowa, concurs.

“Not everyone wants to tackle the CPCU program,” Claude says, “but they might be willing to take on some other program that might not be as long or detailed.”

That said, Claude adds that, “you do not want to have the designation ‘watered down.’ They need to mean something not only to the individual but also to the general public.”

Ultimately, the decisions by individuals and companies regarding which designations to pursue will depend on how much they value an understanding of the “received wisdom” of the industry, and how pressed they are for information to meet immediate operational needs.

“There will always those trying to understand how it came to be,” says Chris Amrhein, a prominent insurance educator, who serves on a national advisory committee for the Institutes. “Others are buried by their work and say, ‘Tell me what I need to know to move on.’” ■



By Joseph L. Petrelli,  
president, Demotech, Inc.

## GUEST ESSAY

# Character, Capacity, Collateral, Capital and Conditions

Lending Evaluations and  
Insurer Ratings Intersect

*This is the latest in a series of guest essay by associate members of AAIS. To learn more about associate membership, contact Rick Maka, director of marketing, at [rickm@AAISonline.com](mailto:rickm@AAISonline.com), or by calling 800/564-AAIS.*

An article in The May 2007 issue of the *RMA Journal*, the lending industry's journal of Enterprise Risk Management discussed loan agreement covenants. Loan agreement covenants specify what a borrower must and must not do to comply with his or her loan agreement. The covenants are designed to ensure the lender that the borrower will be able to repay the principal and interest due to the lender. The author, Charles S. Zimmerman, suggested that if a situation does not satisfy the five C's - character, capacity, capital, conditions, and collateral - then a loan should not be made to the borrower.

The article provided an outline for evaluating the five C's. The author suggested that all borrowers, even qualified borrowers, should be evaluated based upon the five C's. His concern was that some borrowers might be poor risks for qualitative reasons even though they had acceptable quantitative scores. As a rating service analyzing the insurance industry, it struck me that this was analogous to the assignment of a Financial Stability Rating® at the Stable level, A or better. That is, even financially stable insurance companies need some degree of qualitative evaluation. What follows is my perspective on the application of the five C's to insurance companies seeking a Financial Stability Rating®.

First, policyholders prepay a premium for insurance coverage. The ability of the carrier to honor its obligations is of paramount importance. Clearly, a lender's perspective of a borrower's ability to respond to its contractual obligation is analogous to an insured's perspective. 'I gave you money, I expect you to honor your contract, as well.' The **Character** of an insurer is more difficult to measure than the character of an individual; however, our assignment of FSRs reflect a measure of corporate character.

Specifically, prior to assigning an FSR, Demotech, Inc. analyzes the representative operating experience of a carrier while simultaneously analyzing its mix of business. If an insurer sticks to its core competency and can report operating results consistent with its historical results, that

carrier demonstrates character. It demonstrates a commitment to producers, consumers, reinsurers and management by staying in its niche(s).

Second, we believe **Capacity** can be interpreted as the financial capability to write business without leverage while simultaneously processing insurance policies, transactions and claims. Prior to assigning an FSR, we evaluate premium growth and operating effectiveness (combined ratios over an extended period of time.) Stability is a critical consideration.

**“Capacity can be interpreted as the financial capability to write business without leverage while simultaneously processing insurance policies, transactions and claims.”**

**Capital** sufficiency is another critical component of an FSR. Demotech, Inc. needs to be comfortable that the insurer can absorb adverse fluctuation from its typical historical operating result. Policyholders’ surplus and the relative level of loss and loss adjustment expense reserve adequacy provide us with some direction. Has the carrier utilized reinsurance to protect itself or has the carrier stretched itself too thin?

Our interpretation of the fourth C, **Collateral** is the quality and liquidity of invested assets. Similar to a lender’s evaluation of collateral, Demotech, Inc. reviews the quantity, quality and liquidity of invested assets. Are the insurers’ assets and liabilities properly matched with comparable timing of cash flows? A carrier with an FSR at the stable level has met or exceeded our stringent criterion.

**Conditions** present a two-fold observation - Should conditions refer to “policy conditions” or to “limitations and conditions?” We opt for the latter. To earn an FSR at the stable level, an insurer must have appropriate financial flexibility. Carriers with substantial debt obligations, pre-existing contractual obligations, existing or impending regulatory constraints require additional scrutiny, evaluation and analysis. At Demotech, Inc., we believe that transparency and simplicity are preferable to complexity.

Those who rely upon FSRs of A or better should realize that we identify carriers that focus on insurance fundamentals - liquidity and quality of invested assets, adequacy of loss and loss adjustment expense reserves and appropriate use of reinsurance.

In sum, lenders must be able to evaluate and trust borrowers. Consumers must be able to trust their insurers. The five C’s provide a good start to the evaluation process. We were pleased to determine that they are as applicable in the insurance business as they are in the lending industry.

*Joseph L. Petrelli is the President and Founder of Demotech, Inc. Organized in 1985, Demotech, Inc. is a Columbus, Ohio based financial analysis and actuarial services company. Demotech, Inc. provides services to regional insurance companies, title underwriters and specialty insurance markets. Financial Stability Ratings® of A or better are accepted by the secondary mortgage marketplace, virtually all mortgage lenders and an increasing number of umbrella insurance markets. ■*



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- 1993 First to have rating process reviewed and accepted by HUD.
- 1996 Worked in conjunction with the State of Florida Office of Insurance Regulation to develop evaluation procedures for the assignment of FSRs to newly formed P&C companies.
- 2005 Celebrated our 20<sup>th</sup> anniversary, continuing to grow and serve P&C insurers and Title underwriters throughout the industry.  
Rating process approved by HUD for professional liability insurance under Notice H04-15, Professional Liability Insurance for Section 232 Program.
- 2006 Comparative Financial Observations™ (CFOs) introduced as a response to the apparent decreased focus on L&LAE reserve adequacy by international rating agencies. CFOs represent a limited analysis of industry fundamentals for companies currently without an FSR.
- 2007 Designated as the Official Research Partner of *Insurance Journal*, providing research, actuarial and statistical support and collaborating on special joint reports pertaining to insurance industry performance and financial results.  
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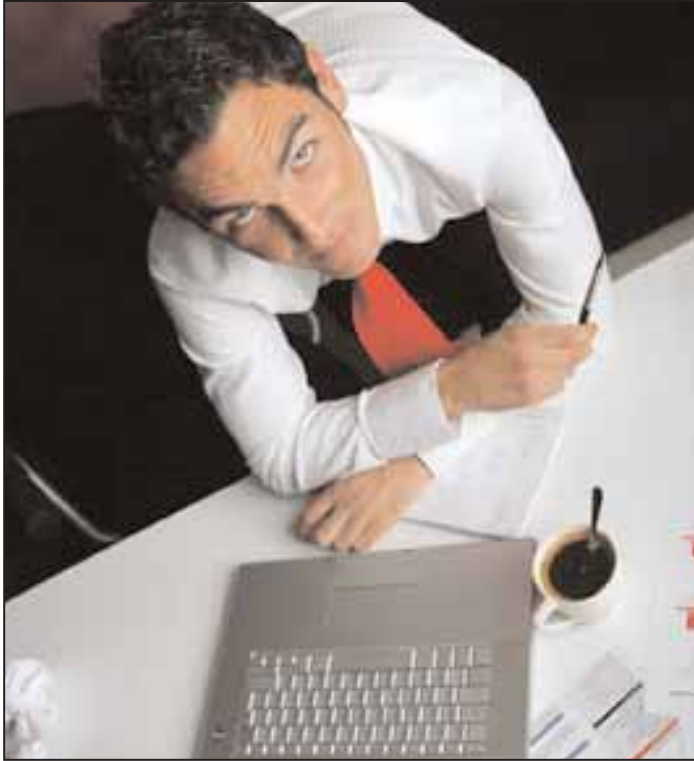


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# In demand; not always welcome

Product managers need to know it all, but not act like they do

You've seen the job ads for insurance "product managers." Do you think you want to be one?

"It's one of the best jobs in the industry," says Eric Neely, who has worked as a product manager for four carriers, most recently SAFECO. "You're essentially a general manager for your product line."

Compensation can be excellent, as "there is intense competition among companies for product managers," says Rick Dorman, principal of Dorman Consulting Associates, Beachwood, Ohio.

Dorman was a product manager for Progressive Insurance and has gone on to a career in consulting and seminars in product management and ratemaking.

Before you jump at a product management opportunity, however, understand that it is one of the most demanding roles in P/C insurance, requiring individuals with hard knowledge of insurance operations and "soft" skills needed to achieve goals without having formal authority.

Pam Nykaza, now an AAIS inland marine product development specialist, needed to demonstrate competency in pricing, policy form analysis, risk management, and a range of other analytical and management skills before being selected as a product manager at Allstate where she was previously employed.

Her role, she says, was to improve the operating results of a landlord's package policy.

To accomplish that goal, Nykaza had to be personally engaged in updating policy language, expanding program eligibility, creating a more sophisticated rating plan to reflect the increased eligibility, and increasing awareness of the program to Allstate's agency force.

**"Product management is a role that enables one person to focus all of his or her energy on the total business performance of a given state or product lines."**

— Michael Cronin, Cronin Consulting Services, Kernersville, N.C.

## Contrast

"In its purest form, product management is a role that enables one person to focus all of his or her energy on the total business performance of a given state or product lines," says Michael Cronin, a product management consultant with Cronin Consulting Services, Kernersville, N.C.

Contrasting the product management approach with a more traditional approach, Cronin says that, "a sales vice president will often be evaluated and compensated for top-line growth, while an underwriting vice president's responsibilities may emphasize underwriting profitability.

“But a product manager’s goal is to find the optimum balance between top-line growth and bottom line profitability.”

Dorman concurs, saying “The easiest way to understand product management is to think of the way business used to be done exclusively.”

“There were two key functions, underwriting and marketing. Everything in a traditional organization funneled through those functions. The flaw in this approach is that those functions are in conflict much of the time.”

As Dorman sees it, good underwriting at the expense of marketing, leads to unnecessary limitations and restrictions on business. On the other hand, aggressive marketing with relaxed underwriting erodes the quality of a book of business.

## Quantitative

Cronin identifies six core competencies of an effective product manager:

- The ability to think strategically and act tactically;
- Project management skills;
- Data analysis skills;
- Working knowledge of insurance functions;
- Effective interpersonal skills; and
- A strong sense of accountability.

Of all those, an ability to work to with numbers is paramount.

“In many companies, product management is a more analytical role,” Cronin says, “emphasizing the quantitative aspects of pricing and ratemaking, and balancing price-competitiveness with profitability.”

“If you’re not good or comfortable with numbers, you’re not going to be a good product manager,” says Dorman. “You don’t have to be a math major, you don’t have to know calculus, but you need to be able to pound out Excel spreadsheets.

“If you don’t like crunching numbers, it’s not the job for you.”

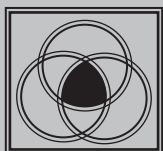
## Diplomacy

Also, if you don’t like diplomacy, product management is not the job for you.

“You need good interpersonal skills, because you have a whole lot of responsibility without a lot of authority,” says Dorman.

Indeed, responsibility without authority is consistently identified as one of the defining characteristics of product management. That’s because product managers must work across the functional lines that still define most insurance organizations--marketing, underwriting, and claims--challenging traditional lines of authority.

Continued on page 28



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## >> AAIS NEWS

### **New materials issued for several *Guide* classes**

Over the summer, AAIS released new and revised forms, endorsements, coverage schedules, rating information, and rating worksheets for several classes in the *Inland Marine Guide*, a standard product resource for the traditionally nonfiled classes of inland marine insurance.

A new Mobile Equipment Floater was introduced in the Miscellaneous Floaters section. This form essentially provides contractors' equipment coverage for equipment used by organizations that are not in the construction business.

In addition, five new endorsement options were introduced under the Transit section. These allow underwriters to exclude coverage for property on unattended vehicles, limit coverage for loss due to theft, and impose requirements that vehicle alarms be maintained and activated while property is in transit.

*Guide* users subsequently received new rating worksheets that correspond to recently revised countrywide Transit rating information. New worksheets are available for per vehicle, volume shipment, and trip transit rating.

Among other revised forms is a Rehabilitation and Renovation form and schedule in the Builders' Risk section of the *Guide*. The revised materials allow for valuation of existing buildings on a stated value or actual cash value basis, and for restriction of coverage for vacant buildings.

Also, a schedule provided under the Radio and Television Towers & Equipment class has been revised to add, among other things, a section to indicate the valuation basis for various types of covered equipment.

*Guide* users also received new rating worksheets for the revised Difference in Conditions class, as well as for Miscellaneous Floaters for insuring property on exhibit, sales representative samples, patterns and dies, mobile equipment, and miscellaneous bailee and scheduled property risks.

For information on affiliating with AAIS for use of the *Inland Marine Guide*, contact Rick Maka, director of marketing, at [rickm@AAISonline.com](mailto:rickm@AAISonline.com), or by calling 800-564-AAIS.

### **BOP cause of loss report posted on *AAISdirect***

Another new cause of loss report has been posted on *AAISdirect*.



AAIS Businessowners affiliates now have access to new tables that provide

causes of both property and liability loss for calendar years 2004-06. Information will be available on a countrywide and state-by-state basis.

For property coverage, the tables list the percentage of losses caused by fire & lightning, wind & hail, water damage, freezing, theft, and "other" causes. For liability coverage, the tables will list causes of loss by bodily injury, property damage, medical payments, and "other" causes.

The countrywide cause of loss report has an additional level of detail not found within the state reports. The countrywide report breaks the experience down by class category (retail, service, restaurants, and more).

Additional data reports for other lines are planned for introduction over the next few months.

INDUSTRY NEWS

STAFF UPDATES

TECHNOLOGY

MEMBER COMPANIES

INDUSTRY MEETINGS



# AAIS releases revised and expanded *Compliance Guide*

## New sections address SERFF requirements and umbrella policies

### **Filings address requirements of laws on civil unions and domestic partnerships**

AAIS has filed mandatory endorsements under most programs in Connecticut and New Hampshire addressing new requirements related to civil unions between adults.

The New Hampshire endorsement implements a new requirement that partners in a civil union be entitled to the rights and obligations of married couples. The Connecticut endorsement is a revision of an existing endorsement that is modified to extend coverage to partners of any civil union recognized under Connecticut law, not just those established in Connecticut.

AAIS undertook similar filing action to address a new Oregon law establishing same-sex domestic partnerships in that state. Among other things, the law states that rights and responsibilities of married persons will “be granted on equivalent terms” to partners in domestic partnerships.

All three filings have been approved effective January 1, 2008.

### **Louisiana law prompts filing to protect innocent insureds**

AAIS filed amendments to intentional acts and criminal acts exclusions in Louisiana to comply with a new state law protecting “innocent insureds” following an intentional fire loss. The amendments will be filed under all AAIS programs that provide property coverage in that state.

Under the law, insurers cannot deprive any innocent insured of coverage for fire losses that result from wrongful or malicious acts of a named insured. Innocent insureds shall be entitled to coverage up to the applicable limit or the amount of

AAIS recently released a revised and expanded guide to state compliance requirements related to policy forms and rating information.

For 18 years, AAIS has provided its members with a free annual guide to state filing requirements. This year’s edition is renamed the *AAIS Compliance Guide* to reflect the expanded scope of information provided in it.

In addition to updated information in existing sections, the *Compliance Guide* includes the following additions:

- A new section with tables listing requirements regarding the use of “SERFF,” the System for Electronic Rate and Form Filing developed under the auspices of the National Association of Insurance Commissioners. The tables indicate which jurisdictions have adopted the SERFF policy coding matrix, which ones are accepting electronic fund transfers via SERFF, and what other requirements jurisdictions may have.
- A new section with information on filing requirements for umbrella policy forms, endorsements, rules, and rates. This includes a table with citations from state laws governing umbrella policy filings, plus state-by-state information on how to adopt and/or modify AAIS Personal, Commercial, and Farm Umbrella products.
- New “company action” sections within existing sections with instructions for companies seeking to implement an AAIS form, rule, or rating information filing, whether it be in a new line or state or for an existing line and state affiliation.

“AAIS has been expanding the compliance material contained in this guide consistently over the past few years,” says Larris Larsen, AAIS assistant vice president for compliance. “The new name reflects the *Compliance Guide*’s new content and AAIS’s continuing effort to improve and expand the compliance related resources material it publishes.”

In all, the *Compliance Guide* provides over 800 pages of compliance information, broken down into sections and sub-sections covering general information, form filing requirements, rate and rule filing requirements, special inland marine filing requirements, state qualifications for “exempt commercial policyholders,” and other topics, in addition to the new SERFF and umbrella policy sections.

One section covering “Applications, Binders, and Certificates of Insurance” was updated and reprinted with the permission of ACORD, Inc., Pearl River, N.Y., an organization devoted to improving agency-carrier communication through the standardization of forms and data transmission.

The *Compliance Guide* is available electronically for no additional charge to all companies that utilize at least one AAIS program. Companies not affiliated with AAIS can purchase an electronic copy of the guide for \$400 by contacting Rick Maka, AAIS director of marketing, at [rickm@AAISonline.com](mailto:rickm@AAISonline.com), or by calling 800-564-AAIS.

their insurable interest, whichever is less.

Also, the law effectively limits an insurer's ability to void a policy by restricting court rulings of fraud or material misrepresentation from being applied retroactively. AAIS amendatory endorsements in Louisiana already restrict the ability to void policies to situations where intentionally deceptive statements were made when applying for coverage.

### **Sample fungi exclusion available under Homeowners**

A countrywide AAIS Homeowners bulletin issued in September makes available a sample exclusion for fungi that is more restrictive than the exclusion built into the newly revised Homeowners forms.

Whereas the built-in exclusion preserves coverage for damage arising from fungi and bacteria (including mold) that arises from a covered peril, the sample endorsement excludes coverage for all mold-related losses except those identified in the endorsement. The sample endorsement excludes property coverage for all fungi losses except those arising from fire or lightning.

The endorsement also excludes liability losses arising from fungi except for those involving food poisoning, slips and falls on slick surfaces, or bodily injury to farm employees.

As drafted, the sample endorsement can be used with the revised and filed Homeowners forms, but companies will have to file the sample endorsement themselves.



### **Snowmobile, golf cart liability coverage reinstated in Ohio**

AAIS has filed snowmobile and golf cart liability endorsements in programs providing personal and farm personal liability coverage in Ohio.

Several years ago, an Ohio court ruled that snowmobiles were considered "motor vehicles" for purposes of uninsured/underinsured motorists (UM/UIM) coverage. As a result, UM/UIM coverage had to be offered for them, and the Ohio Insurance Department consequently called for the withdrawal of endorsements that provided off-premises liability coverage for snowmobiles. Since then, the Ohio legislature has revised the state's UM/UIM statute to explicitly exclude snowmobiles and golf carts from the term "motor vehicle."

In response, AAIS filed an endorsement, rule, and rating information for providing liability coverage for snowmobiles under its revised Homeowners program, which takes effect Dec. 1, 2007 in Ohio. Equivalent endorsements are now being filed in Ohio under the AAIS Farmowners, Mobile-Homeowners, and Personal and Premises Liability programs, with a proposed effective date of March 1, 2008.

Also, a similar endorsement for providing liability coverage for golf carts is being filed in Ohio under the AAIS Homeowners and Mobile-Homeowners programs.

### **AAIS files sample notices to comply with Mississippi "bill of rights"**

AAIS received approval of sample notices that carriers are required to provide personal lines residential policyholders under Mississippi's new "Homeowner Insurance Policyholder Bill of Rights."

The measure, enacted by regulation,



requires that insureds be provided with an outline of the coverage provided under a policy, along with a checklist of specific perils and exposures that are covered and not covered, and a disclosure of any changes made to a policy.

AAIS staff specialists made slight modifications to sample notices developed by the Mississippi Department of Insurance so they would be suitable for use with AAIS programs.

### **Wisconsin regulation clarifies UM/UIM coverage**

The Wisconsin Office of the Commissioner of Insurance has issued a new regulation clarifying requirements regarding the provision of uninsured/underinsured motorists coverage.

Prior to the regulation, companies had been instructed, on the basis of court rulings, to offer uninsured motorists coverage with liability policies that included optional non-owned and hired auto coverage.

The new regulation exempts carriers from that obligation when auto coverage under a policy is limited to coverage on non-owned autos. The regulation also exempts commercial liability and umbrella policies from requirements to offer underinsured motorists coverage, subject to a disclosure requirement. Since the disclosure is required to appear on the application, companies will need to develop their own disclosures.

AAIS programs that provide non-owned and hired auto liability coverage generally do not include options for writing either uninsured motorists or underinsured motorist coverage. AAIS umbrella programs in Wisconsin currently have optional underinsured motorists coverage endorsements available, but since companies are no longer required to offer underinsured motorist coverage on umbrella policies, AAIS has withdrawn those endorsements. ■

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## Farm Cargo continued from page 9

As written, the endorsement seeks to define an appropriate transit exposure under a farmowners policy.

First off, by excluding coverage for property in the custody of common or contract carriers, the endorsement effectively limits coverage to property shipped on a farmer's own vehicles or, depending on circumstances, through informal arrangements.

Also, the endorsement is written to limit coverage to fortuitous causes of loss and avoid exposure to transportation hazards outside the scope of farming.

For example, the endorsement excludes coverage for, among other things, "loss or damage caused by shifting of load, poor packing or rough handling, or unexplained shortage . . ." unless these are caused by fire, lightning, windstorm, flood, explosion, collision, or overturn of the vehicle transporting the property.

By what it covers and what it doesn't, the Property in Transit coverage endorsement seeks to cover a farm's incidental transit exposures, not a trucking operation.

## AgOP Approach

AAIS has taken a different approach in addressing transit exposure under its Agricultural Output Program (AgOP), a program designed for insuring disparate property exposures of agribusiness operations.

The AgOP's building and personal property form effectively excludes commodities being shipped from coverage as property away from a covered location.

The provision that provides coverage for personal property temporarily off-premises states that "this coverage does not apply to property in or on a vehicle, a rail car, an aircraft, or other conveyance . . ."

Rather, the form includes a separate, built-in "Property in Transit" coverage, with a limit indicated on the declarations, for covered property while in transit "regardless if the loss involves one or more vehicles, conveyances, containers, trailers . . ."

In addition, the AgOP property form includes another distinct coverage, with its own limit indicated on the declarations, for "Carrier Liability."

This coverage insures the policyholder for its legal liability for loss to property of others that the insured becomes legally obligated to pay as a common or contract carrier. In this way, the AgOP anticipates the expanded coverage needs of an agribusiness that may also be in the business of transporting commodities from suppliers for processing and/or transshipment.

## Marine

Yet, even the relatively broad transit coverage provided in the AgOP may not be suitable for agricultural risks with large transit exposures or transit exposures that could pose a large threat to a farming operation at a critical time.

Cargo insurance is traditionally an inland marine coverage, and the AAIS *Inland Marine Guide* provides three policy forms that can be used to cover property being shipped on the owner's vehicles or by a common or contract carrier.

The forms are:

- Owner's Cargo Coverage, typically used to insure multiple shipments of the insured's property on the insured's trucks;
- Trip Transit Coverage, typically used to insure a single shipment of the insured's property; and
- Transportation Coverage, typically used to insure single or multiple shipments that use a variety of modes of transportation (truck, rail, air, etc.).

Under all three inland marine forms, coverage automatically extends to property at warehouses and other facilities when they are part of the "ordinary, reasonable, and necessary stops, interruptions, delays or transfers incidental to the route and method of shipment."

In contrast, there is no coverage under a farmowners policy for property at warehouses, elevators, and other facilities away from insured premises.

Under the AgOP, a loss to property at a warehouse might be covered as "property away from a covered location" or as "property in transit," depending on the circumstances of a loss.

However, inland marine coverage for property at stops incidental to transit usually does not extend to locations where commodities are processed before transshipment elsewhere.

Also, inland marine transit forms provide no liability coverage for property of others transported by an insured.

One potentially critical coverage offered under inland marine cargo forms is pollutant clean-up, provided as a supplemental coverage up to \$10,000 under the transit forms, but limited to insured premises/covered locations under the Farmowners and AgOP programs.

Farm underwriters are well-advised to understand how the provisions of inland marine cargo policies differ from cargo provisions in farm forms, and to evaluate their farm clients' need for transit coverage accordingly. ■



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or sole source of income.

When one goes to the website of the Florida Office of Insurance Regulation and searches for a rate filing submitted by the Insurance Services Office, Jersey City, N.J., you get a message stating that “legal issues prevent these filings from being made available through this Internet search utility.”

Viewers are advised, however, that the ISO filings are available for inspection at a department office in Tallahassee. In other words, an important distinction is being made, at least for the time being, between having information publicly available and making it easy to access.

AAIS has made a similar distinction in its reaction to an initiative by the directors of “SERFF,” the System for Electronic Rate and Form Filing, the countrywide electronic filing service created under the auspices of the National Association of Insurance Commissioners (NAIC).

Earlier this year, the SERFF board of directors proposed to institute a common countrywide platform for providing information from filings made via SERFF in response to freedom of information request.

“From the state perspective, if the information is available via a web interface, they’ll no longer have resources tied up in locating, printing, and mailing rate/form filings to satisfy requests,” reads a statement from the SERFF directors.

In a response to Thea Cook, the NAIC’s product implementation supervisor, Larsen stated that information filed by advisory organizations should not be made available in that fashion.

“While this material may be available through contacts or visits to individual states, open distribution via the Internet of all AAIS materials would place [AAIS] at a competitive disadvantage,” Larsen wrote.

“Competitor advisory organizations and non-subscribing insurance companies could, with little efforts and at no cost, receive all of the materials that AAIS expends extensive resources to develop.”

## **Friction**

In short, advisory organizations maintain that the *manner* in which their information is made available is an important consideration on its own, apart from the content of filings.

Not everyone sees it that way.

Any attempt to restrict access to public information by limiting electronic distribution amounts to “building friction into the system,” says Kevin Eastman, a professor of insurance and risk management at Georgia Southern University, who reviews filings and other public submissions in the course of his academic research.

“If someone has decided it should be public, it seems to me, why not make it more easily available?” Eastman says. “The question is: Should this stuff be there in the first place? That’s an issue for legislators and regulators.

“If it’s required to be submitted, it should be available without a lot of effort.”

The SERFF statement asserts that a new “confidentiality request” added to the system will make it easier for filers to make successful requests that certain filed information remain confidential “trade secrets.”

“If each state builds its own stand-alone public access solution, [the] industry has less certainty that these systematic protections are in place,” the statement reads.

Ultimately, a resolution of the questions arising from electronic access to filings may turn on a common understanding of what properly constitutes a “trade secret.”

Many of the recent rating innovations employing “predictive analytics” are being kept confidential as trade secrets, says Larsen, but expect that to be challenged.

“The innovations that come closest [to being legitimate trade secrets] are some of the sophisticated models, as long as you limit [the protection] to the internal functioning and not the assumptions that go into the model,” says Robert Hunter, director of insurance for the Consumer Federation of America.

“It should be the math of it, not the assumptions.”

Hunter, a frequent critic of insurance company practices, argues that competition would be enhanced by easy access to filing information. He dismisses the argument that open access would discourage companies from investing in product development.

“You’ll still have an advantage, because you’ll already have [the products] in place,” he says. ■



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## **Collapse**

A similar interplay of different provisions protects carriers from unintended exposure for structural impairment, another threat arising from aggressive litigation.

The approach implemented in the revised AAIS Homeowners Program combines a general exclusion for collapse and structural impairment with a tightly defined incidental coverage for collapse to make it clear that coverage applies only to structures that have actually fallen down under certain circumstances.

As with the AAIS approach to water damage, the structure and wording of provisions related to collapse seek to protect insurers from claimants and trial attorneys who argue, in essence, that homeowners insurers should pay for home maintenance.

## **Other features**

The revised AAIS Homeowners forms introduce some new incidental coverages, including:

- Built-in limited coverage for an insured's share of an insurance deductible levied by a homeowners or condominium association, an AAIS innovation that is distinct from standard loss assessment coverage;
- Built-in coverage for loss to personal property in rental units at the described location (furnishings, carpets, etc.); and
- Limited built-in property coverage (in some forms) for loss caused by the discharge, dispersal, etc., of liquid fuel from a heating or air-conditioning system, water heater, or domestic appliance.

At the same time, the AAIS Homeowners Program retains an exclusion for pollution liability that, along with a similar exclusion for lead liability, are program features not available in all standard homeowners programs.

Similar examples of value-added clarity are evident throughout the new AAIS Homeowners forms. In all, these demonstrate how AAIS product development specialists “dot the i’s and cross the t’s” for AAIS members, allowing them to compete in markets all across the U.S.

## **Support**

That service doesn’t end when the programs are filed. Users of the AAIS programs say that the service that follows is equally valuable to their homeowners business.

“AAIS helped us convert our old homeowners program to the AAIS forms, providing us with side-by-side comparisons in a thorough, efficient, and timely manner,” says Kenneth Stover, executive vice president of Western National Insurance Group, Edina, Minn. “AAIS’s knowledgeable staff members are always timely in responding to any calls regarding our affiliation or forms.”

“I have worked with the AAIS Homeowners Program for years,” adds John DiStefano, assistant vice president and portfolio manager for Preferred Mutual Ins. Co., New Berlin, N.Y. “AAIS has been most helpful in providing training materials and working with us.”

About 200 U.S. property/casualty companies use the AAIS Homeowners Program as their product base. That demonstrates why the program is one every carrier should consider among its product options. ■

“The product manager is a change agent,” says Paul Stulgaitis, president of Blue Rock Consulting, Portland, Me. “He or she will bump up against vertical team interests where someone is always responsible for marketing, underwriting, claims, and so forth.

“Product managers are potentially seen as a threat.”

Nykaza at AAIS recalls the “dotted line accountability” in her days as product manager for Allstate.

Put simply, she was individually responsible for actuarial determinations and underwriting results, but she only shared access to and authority over the actuarial and underwriting specialists needed to do the job.

## **Help**

As difficult as it is to be an effective product manager in a large company, it is even more daunting to be one in a small carrier.

“Product management is more challenging for smaller companies because they have all the same requirements with fewer resources,” says Neely at SAFECO.

Effective use of the resources of an advisory organization could make product management easier and more successful for small companies, says Tony Leist, AAIS assistant vice president of commercial lines. Leist has extensive experience in product management with American Modern Insurance Group and Midwestern Indemnity.

As Leist sees it, “Product management is the effective management of all product planning and development phases, from product idea through product monitoring.

“Many insurance companies do not have adequate resources or expertise to do this,” he adds. “Some smaller carriers may have a product manager, but that individual may not have the time to get new or revised products out on the market in a timely fashion.

“AAIS could assist them in competitor research, customized products, compliance maintenance, and filings with insurance departments.”

With the right help, maybe you’ll have what it takes to be a successful product manager. ■

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American Association of Insurance Services  
1745 S. Naperville Road  
Wheaton, IL 60187-8132