

Line(s) of
Insurance:

Agricultural Output
Artisans
Businessowners
Commercial Inland Marine
Commercial Liability
Commercial Output
Commercial Output - XL

Commercial
Properties
Commercial
Umbrella
Contractors &
Developers Output
Crime
Farm Properties
Farmowners

Farm Umbrella
Glass
Inland Marine Guide
Personal & Premises
Liability

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COUNTRYWIDE

TERRORISM 'SEPARATE LINE ITEM' DISCLOSURE - ENDORSEMENT AVAILABLE

Reference Bulletin: 02-0550

This Bulletin provides information regarding the 'separate line item' terrorism disclosure requirement for policies issued on February 25, 2003 and later. The Treasury Department issued interim guidance on the 'separate line item' on January 22, 2003. Their interim guidance and an explanation of the methods which can be used to meet this requirement are described below.

BACKGROUND - 'SEPARATE LINE ITEM REQUIREMENT'

For policies issued on February 25, 2003 and later, the Terrorism Risk Insurance Act of 2002 specifies that the certified terrorism loss premium and the Federal share of insured losses must be disclosed as a 'separate line item' in the policy. According to the Act, insurers must meet this requirement as a condition for Federal payments.

In Bulletin 02-0550, AAIS stated that without further clarification from Treasury, it was reasonable to assume that wording similar to that used in CL 1045 12 02, to notify the insured of the certified terrorism loss premium and the Federal share of compensation for insured losses under the program as required under the Act along with programming terrorism premium to display as a 'separate line item' in the policy (in other words, a declarations page line item), would be adequate to meet this requirement.

INTERIM GUIDELINES PUBLISHED BY THE TREASURY - JANUARY 22, 2003

On January 22, 2003, the Treasury published interim guidance on this requirement. For purposes of interim guidance, an insurer is deemed to be in compliance with the separate line item requirement of Section 103(b)(2)(C) if it makes the required "clear and conspicuous" disclosure:

1. on the declarations page of the policy;
2. elsewhere within the policy itself; or
3. in any rider or endorsement that is made a part of the policy;

as long as the disclosure is clear and conspicuous and otherwise meets the requirements of section 103(b)(2) and previous interim guidance. Treasury's guidance is provided as a safe harbor to assist

insurers in complying with conditions for federal payment prior to the issuance of regulations. According to the Treasury, however, these are not the exclusive means by which an insurer may comply with the section 103(b)(2)(C) "separate line item" requirement.

This condition can be satisfied by programming changes to declarations pages, supplemental declarations pages, or by attaching "any rider or endorsement that is made a part of the policy." Treasury did not extend this statement to include attaching a disclosure notice to the policy. Based on this recent guidance, it is therefore not acceptable to program "refer to notice CL 1045 12 02" on the declarations page or supplemental declarations page to satisfy the separate line item requirement. Attachment of a notice that has not been filed as an endorsement to a policy may result in market conduct violations.

If you would like to review the Interim Guidance Concerning Certain Conditions for Federal Payment, Non-U.S. Insurers, and Scope of Insurance Coverage in the Terrorism Risk Insurance Act of 2002 published by the Department of the Treasury on January 22, 2003, the address to access this information at the Treasury Web site is: <http://www.ustreas.gov/press/releases/reports/interimguidance.htm>.

SEPARATE LINE ITEM ON THE DECLARATIONS PAGE

Companies may elect to design their declarations page or a supplementary declarations page to provide the required disclosure. The following wording may be appropriate for a declarations or supplemental declarations page disclosure:

CERTIFIED TERRORISM LOSS PREMIUM

\$_____.

(When coverage for "certified terrorism loss" has been rejected under a policy subject to Standard Fire Policy statutes, the premium shown for "certified terrorism loss" applies only to direct loss or damage by fire to covered property.)

Coverage for "certified terrorism loss", to the extent that such coverage is provided by this policy or Coverage Part, will be partially reimbursed by the United States Government, Department of Treasury, under a formula established by the Terrorism Risk Insurance Act of 2002. Under this formula, the United States pays 90% of the amount of the covered "certified terrorism loss" that exceeds the statutorily established deductible that "we" retain.

The premium amount shown may be an actual dollar amount, a "0", or may read 'premium has been waived'. An entry should be made for Certified Terrorism Loss Premium when certified terrorism loss coverage is accepted, or when coverage for certified terrorism loss has been rejected under a policy subject to Standard Fire Policy statutes.

OPTION TO ATTACH A RIDER OR ENDORSEMENT TO THE POLICY

Optional endorsement, **CL 0605 02 03, Certified Terrorism Loss Disclosure of Premium and Federal Share of Insured Losses** has been filed in all states on a "file and use" basis under the exemption from any applicable state prior approval laws contained in the Act. It has been filed on behalf of those affiliated companies that have granted us filing authority for forms and endorsements in every state, **effective February 11, 2003**. Refer to Company Action for instructions on how to adopt the filings.

If a company elects to comply with the 'separate line item' requirement by attaching an endorsement to the policy, AAIS endorsement CL 0605 02 03 may be used for this purpose. It allows for the disclosure of premium charged for insured losses covered by the Program and indicates the federal share of compensation for insured losses under the Program.

Instructions for Use

When coverage for certified terrorism loss is accepted, the applicable premium charge may be shown in endorsement CL 0605. When coverage for certified terrorism loss (other than loss resulting from fire) is rejected under policies that are subject to Standard Fire Policy provisions, the premium charge that applies solely to the statutorily required fire coverage may also be shown in endorsement CL 0605. The CL 0605 also includes provisions for showing the premium on the declarations page or on a schedule of coverages.

Policyholder notice CL 1045 12 02, which allows the policyholder to accept or reject the offer of coverage for loss caused by certified acts of terrorism, should continue to be used for new or renewal policies issued on or after February 25, 2003. CL 1045 12 02 should be used in conjunction with CL 0605 02 03 or any other acceptable method chosen to satisfy the 'separate line item' requirement.

COMPANY ACTION AND FILING NUMBERS

AAIS advised the Departments of Insurance that materials may be provided to affiliated companies in an electronic format. Due to differences in printer configurations or other hardware or software differences, the cosmetic appearance of the material may be altered slightly when produced by another system without affecting the content.

COMMERCIAL PROGRAMS (including Farmowners, Farm Properties, and Farm Liability coverage under the Personal and Premises Liability Program)

Applies in all states unless otherwise noted:

Companies that have granted AAIS filing authority for forms and endorsements for one or more of the following programs can adopt the CL 0605 02 03 without notifying the insurance department: **Agricultural Output, Businessowners, Commercial Inland Marine, Commercial Liability, Commercial Properties, Commercial Output, Commercial Output - XL, Crime, Contractors and Developers Output, Farmowners, Farm Properties, Glass, and Personal and Premises Liability Program**

Refer to filing number **AAIS-2003-3** (or version thereof) when corresponding with the Department. Specific state filing numbers will be posted on the Website at a later date if there is any need to file a modification to this endorsement.

The following state company action exceptions apply:

California: All companies that adopt this endorsement **must** submit a reference filing which establishes an effective date and includes the necessary completed California state filing forms. CDI numbers will be posted as soon as they are available from the California Insurance Department.

Colorado: Forms are not required to be filed in this state. Therefore, no notification to the state is required in order to adopt the endorsement, but companies should keep documentation as to the effective date when they begin using the endorsement.

Florida and New Jersey: Commercial Inland Marine is exempt from form filing requirements in these states. No company action is required with the insurance department in these states, but companies should keep documentation as to the effective date when they begin using the endorsement.

Pennsylvania: Agricultural Output, Commercial Inland Marine, Commercial Output, Commercial Output - XL, and Contractors and Developers Output are exempt from form filing requirements. No company action is required with the insurance department, but companies should keep documentation as to the effective date when they begin using the endorsement.

Texas: affiliated companies can adopt the endorsement by establishing an effective date **and submitting the necessary reference filing(s)** to the Texas Department of Insurance. TDI numbers will be posted as soon as they are available from the Texas Department of Insurance.

Washington: For **Artisans, Businessowners, Commercial Properties, Farmowners, and Farm Properties**, AAIS **cannot** file on behalf of companies, and companies **cannot** adopt AAIS forms and endorsements by reference. All companies **must** take independent filing action with the Washington Department of Insurance within 30 days of the company chosen effective date.

COMMERCIAL UMBRELLA AND FARM UMBRELLA PROGRAMS

Except as noted below, CL 0605 02 03 has been filed on an *advisory basis* for the Commercial Umbrella and Farm Umbrella programs. Affiliated companies can adopt the CL 0605 02 03 by establishing an effective date and notifying the insurance department in writing.

Refer to the appropriate filing number(s) when corresponding with the department.

Commercial Umbrella and Farm Umbrella programs: Filing number **AAIS-2003-4:**

Alabama	Indiana	Mississippi	New York	South Dakota
Arkansas	Iowa	Montana	North Carolina	Tennessee
Connecticut	Georgia	Nebraska	North Dakota	Washington
Delaware	Kansas	Nevada	Oklahoma	West Virginia
Florida	Maine	New Hampshire	Oregon	Wisconsin
Idaho	Massachusetts	New Mexico	South Carolina	Wyoming
Illinois				

Commercial Umbrella program only: Filing number: **AAIS-2003-4CUP:**

Alaska	Hawaii	Louisiana	Missouri	Vermont
District of Columbia	Kentucky	Maryland	Ohio	

Farm Umbrella program only: Filing number **AAIS-2003-4FUP**

Alaska	Kentucky	Missouri	Rhode Island
Arizona	Maryland	Ohio	Vermont

The following state company action exceptions apply:

Arizona and Rhode Island: The Commercial Umbrella program is deregulated; filings are not required. Companies should keep documentation as to the effective date and forms/endorsements they use.

California: Filing number AAIS-2003-3. All companies that adopt this endorsement **must** submit a reference filing which establishes an effective date and includes the necessary completed California state filing forms. CDI numbers will be posted as soon as they are available from the California Insurance Department.

Colorado: Forms are not required to be filed in this state. No company action is required with the insurance department, but companies should keep documentation as to the effective date when they begin using the endorsement.

Michigan and Pennsylvania: No filing action is required; affiliated companies may adopt the endorsement for the Commercial Umbrella and/or Farm Umbrella programs without notifying the Insurance Department.

Minnesota: No filing action is required; affiliated companies may adopt the endorsement for the Commercial Umbrella and/or Farm Umbrella programs without notifying the Insurance Department. Under Minnesota Rules Part 2700.2470, companies that wish to adopt the AAIS Commercial Umbrella or Farm Umbrella endorsements may do so by making an internal (drawer) filing.

New Jersey: Umbrella Lines are deregulated, filings are not required. No company action is required with the insurance department, but companies should keep documentation as to the effective date when they begin using the endorsement.

Texas: affiliated companies can adopt the endorsement by establishing an effective date **and submitting the necessary reference filing(s)** to the Texas Department of Insurance. TDI numbers will be posted as soon as they are available from the Texas Department of Insurance.

Virginia: In this state, the Commercial Umbrella and Farm Umbrella programs are filed 'on behalf' of companies. Companies that have granted AAIS filing authority for forms and endorsements for either or both of these programs can adopt the CL 0605 02 03 without notifying the insurance department.

INLAND MARINE GUIDE:

CL 0605 02 03 has also been filed on an *advisory basis* for the Inland Marine Guide in the states of California, Nebraska, Oregon and Texas as follows.

Nebraska and Oregon: Affiliated companies can adopt the CL 0605 02 03 by establishing an effective date, and notifying the insurance department in writing. Refer to filing number AAIS-2003-4 in all correspondence to the insurance department.

California: All companies that adopt this endorsement **must** submit a reference filing which establishes an effective date and includes the necessary completed California state filing forms. CDI numbers will be posted as soon as they are available from the California Insurance Department. Also refer to filing number AAIS-2003-3 in all correspondence to the insurance department.

Texas (Fine Arts Floater and Electronic Data Processing classes only): Affiliated companies can adopt the endorsement by establishing an effective date **and submitting the necessary reference filing(s)** to the Texas Department of Insurance. TDI numbers will be posted as soon as they are available from the Texas Department of Insurance. Also refer to filing numbers AAIS-2003-3FA (Fine Arts) and AAIS-2003-3EDP (Electronic Data Processing) in all correspondence to the insurance department.

Companies must take independent filing action in the states other than California, Nebraska, Oregon, and Texas that require the filing of forms For Inland Marine Guide classes. This optional endorsement, CL 0605, should be filed on a "file and use" basis under the exemption from any applicable state prior approval laws contained in the Act. Please refer to the Inland Marine Guide Standard Fire Policy v. Non-SFP States Chart for the states that require the filing of Inland Marine Guide Classes. The website address to access this chart is: <http://www.aaisonline.com/terror/IMGinfo.htm>. The filing requirements for the traditional non-filed Inland Marine classes are also provided in the State Filings Guide.

In states that do not require filings for the non-filed classes, CL 0605 02 03 is available for immediate use for companies that are affiliated for AAIS's Inland Marine Guide (non-filed classes).

ATTACHMENT

CL 0605 02 03 Certified Terrorism Loss Disclosure of Premium and Federal Share of Insured Losses

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AAISDIRECT AND AAIS PRODUCT ADVISORY

All AAIS bulletins, forms, manuals, and other resource information for all lines of insurance are now available online. For a two-week trial of our Internet service, *AAISdirect*, or a cost quote, contact Rick Anderer. E-mail Richarda@AAISonline.com or call 800/564-AAIS.

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