AMERICAN INTERNATIONAL COMPANIES

PROGRAM DIVISION BULLETIN

2005-15 **May 11, 2005**

Introduction of COMMERCIAL AUTOMOBILE "QUIKNOTES"

Attached with this distribution, we are sending our first edition of Commercial Auto "Quik Notes". Similar in content to the Commercial Property and Commercial Umbrella "Quik Notes", this is meant to be a quick and comprehensive reference guide to general underwriting guidelines as well as providing specific company procedures and resources.

This document will also be posted at the AIG Programs Underwriting website at www.lexingtoninsurance.com for your future reference.

THIS GUIDE IS INTENDED TO BE USED ONLY BY THOSE PROGRAM ADMINISTRATORS WHICH ARE AUTHORIZED TO WRITE COMMERCIAL AUTOMOBILE.

THIS MANUAL DOES NOT REPLACE YOUR SPECIFIC AUTOMOBILE GUIDELINES, BUT IS A REFERENCE TOOL TO BE USED IN CONJUNCTION WITH YOUR CURRENT GUIDELINES

If you have any questions, please contact your Program Manager.

"Automobile Qwik Notes 05-05.pdf"

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AIG PROGRAM DIVISION 66

QWIK NOTES
FOR
AUTOMOBILE

5/1/2005

A quick reference guide to basic automobile strategies and standards for Program Administrators

1st Edition

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INTRODUCTION

Automobile insurance is one of the most regulated lines in the insurance industry. Compulsory insurance laws necessitate an admitted insurance policy. State insurance regulation has created a complex framework of mandatory and selected coverages.

Commercial automobile coverage consists of offerings on both a policy level and vehicle specific basis making it one of the more data intensive lines of business in commercial insurance.

Companies, with few exceptions, follow ISO for commercial automobile, making that servicing organization the benchmark for forms, rules and loss costs. Within the family of companies that choose to use ISO, adoption of the latest ISO products varies widely by specific company. AIG typically follows ISO for automobile coverage.

The purpose of this document is to provide a general reference guide and an underwriting strategy for commercial automobile. It is not meant to be an exhaustive resource used exclusively to underwrite and price all types of automobile risks.

The guidelines contained within this document are minimum requirements and are superceded by individual program underwriting guidelines. Refer to your specific program guidelines for individual automobile authority and exceptions to these guidelines. Refer to the Program Administrator Manual for process and procedure guidelines.

In order to adequately provide up to date information on state regulatory issues, web addresses to access data, rather than actual reference material, will be presented in this document.

STRATEGY

Writing commercial automobile provides AIG Programs with the ability to round out our coverage offerings on profitable program business. **Division 66 writes automobile coverage in support of other lines and does not solicit standalone mono-line automobile accounts.**

Regardless of total account profitability, we will not write a poor performing or uncontrolled auto risk. The automobile line must profitably stand on its own.

Although there are specialized programs that have a higher percentage of automobile business, the automobile premium should not exceed 40% of the premium for the entire account written with the Division.

The Division is looking for well controlled risks that have shown the ability to keep frequency below 20% of their power unit total on an annual basis. The 5 year incurred loss ratio for automobile should be below 35% including ALAE. The account should also have a personal use policy that prohibits family use of company vehicles or, at the very least, a spouse only policy.

Historic severity should be reviewed, and accounts with more than one loss over $50,000 in any one year are considered below average. Larger losses must be analyzed for negative trends. If the underwriter feels that the account deserves consideration, proper documentation should be placed in file supporting that decision.

Division 66 is a middle-market account writer, and therefore looks at fleet size of 1-10 as a benchmark. Any fleets over 10 units are considered a referral, unless your guidelines specifically state otherwise.

Seasonal industries or accounts should be avoided.

Severity potential or historically bad industry experience exists within certain classes and we are not a market for these classes as part of our normal automobile underwriting appetite:

- **Long Haul Automobile**
- **Trucking**
- **Truckers**
- **Public Auto -Taxi Cabs, Black Car, Limousine Services, Buses**
- **Transporting, Distributing, Manufacturing, Contracting of Environmental Sensitive Materials including Hazardous Waste and or Pollutants, Energy, Fuel, Nuclear, Chemical Oil and Gas, Asbestos, etc.**
- **Tow Truck Operators**
- **Trash Haulers**

- **Heavy non-ownership exposure**
- **Rental and Leasing Operations**
- **Armored Cars**
- **Carnival and Circus Operations**
- **Livestock**
- **Fire Arms and Ammunition**
- **Heavy Contracting – Demolition, Crane, Street and Road, etc.**

Division 66 desires financially sound entities to reduce potential credit risk, but to also ensure that a customer has sufficient funds to maintain a fleet, and to train and supervise employees. D&B credit ratings of 1, 2 or 3 are acceptable. Ratings of 4 or 5 are not acceptable.

Classes that require specific DOT financial responsibility filings should be avoided, except where the only reason for a filing is a specific vehicle weight, as is the case in California.

Should filings be required and the account is written, the Program Administer is responsible for making and canceling the filing according to the applicable regulatory standards.

STATE RESTRICTIONS

AIG Programs is not a market for Massachusetts or Hawaii automobile.

We do not offer UM or UIM in the state of Ohio.

THE APPLICATION

Many producers utilize ACORD applications. This is the preferred means of receiving automobile information from an agent, because of the consistency of the fields and questions asked within the application. Supplemental applications may also be incorporated when specialized exposures are present, or when specific additional coverages are being requested.

Regardless of whether the application submitted is a standard ACORD Application, Supplemental Application, or Broker specific, automobile quotes should contain superceding verbiage. (Language that states that the quote supercedes the application)

The ACORD application questions will provide evidence of positive and negative risk characteristics, and should be completed and signed by the insured and producer.

Correct vehicle information must be provided. We require Year, Make, Model, VIN, and primary classification. Commercial primary classifications will provide the type, weight, use, and radius information.

ISO provides secondary codes for specialized types of vehicles, vehicles used for a particular purpose, or for delivery of goods of a time sensitive nature. Some of theses secondary factors may be a debit or a credit to the rating algorithm. Please see the ISO CLM for questions on secondary codes.

The completed application will provide evidence of safety programs, MVR verifications, financial responsibility filings, driver recruitment programs, and vehicle maintenance programs.

The application will also alert an underwriter to additional exposures or hazards such as significant hired or non-ownership exposure, drivers with violations, contractual arrangements, and personal use, to name a few. These types of exposures or potential hazards should be reviewed for acceptance and priced accordingly.

The application will also provide evidence of leasing exposures, pollution potential, unscheduled operations and public autos, as well as other potential catastrophic exposures or those better suited for a specialized policy.

Look for inconsistency in the data, whether the data is on the application or part of other information provided (such as loss runs). A few things to look for:

1. Power unit to driver ratio. Is any one out of balance? Why?
2. Do the loss runs indicate frequency of physical damage claims but no third party PD?
3. Does the application state the MVR’s are clear and there are MVR’s in the submission that have activity?

4. Do the vehicle types match the description of operations?
5. Does the exposure base on the auto versus the other exposure information look consistent?
6. Is the fleet size relative to the number of losses inconsistent?

ACORD applications may be found at AccessAIG:

https://www.accessaig.com

SYMBOLS/ COVERAGES

The request for coverage and limits is an important part of the application. Auto symbols are a component of the automobile coverage part trigger.

The Business Auto Policy (BAP), the Trucker's Policy and the Garage Policy all have a set of symbols specific to their respective coverage forms. For the purpose of this reference, discussion will be limited to the BAP symbols.

There are 9 main symbols for the Business Auto Policy:

Symbol 1 Any "Auto"

Symbol 2 Owned "Autos" Only

Symbol 3 Owned Private Passenger "Autos" Only

Symbol 4 Owned "Autos" Other Than Private Passenger "Autos" Only

Symbol 5 Owned "Autos" Subject To No-Fault

Symbol 6 Owned Auto Subject to A Compulsory Uninsured Motorist Law

Symbol 7 Specifically Described " Autos"

Symbol 8 Hired "Autos" Only

Symbol 9 Non-owned "Autos" Only

Each symbol describes a specific type of vehicle and is used for certain types of coverage. The declarations page will contain a symbol or number of symbols per coverage.

Liability:

Symbol 1 is common for liability, however other combinations include 2, 8 and 9 or 7, 8 and 9.

Use of symbol 7 will restrict the addition of other vehicles unless specifically requested by endorsement. However, even with symbol 7, there exists the ability to have coverage for a vehicle while waiting for endorsement processing. There is coverage for 30 days for newly acquired vehicles, however the "auto" being added must be of the same type as those already on the policy.

Applicable symbols include, within their definition, coverage for non-owned trailers while attached to a covered power unit.

Personal Injury Protection (PIP) or No-Fault coverage:

This coverage was developed as a solution to the high cost associated with our traditional tort system. It partially abrogates the negligence system and utilizes a no-fault payment approach for certain accidents and injuries (for instance, an accident whose resulting injuries fall below a severity threshold). It essentially works as medical payments for a driver and passenger to pay for losses on a first party basis rather than through the tort system.

The problem with no-fault is that there is little consistency among states, and the legislation itself has created additional litigation. Some states (Colorado) have actually gone back to a tort system in lieu of no-fault. Added PIP is part of the coverage offerings for certain states where such option is available.

Symbol 5 provides coverage for owned autos that are eligible for no-fault coverage and symbol 7 would be used to provide for specific autos only where regulation allows such an option. These are the only two symbols that should be used for no-fault, unless specific state requirements dictate otherwise.

There are 10 compulsory no-fault states. The remaining states have a tort system that may include optional no-fault offerings.

Medical Payments

Medical payments coverage for a commercial risk is added by endorsement to a BAP to cover medical expenses up to certain limits for individuals who are considered covered under the “who is an insured” section of the auto form while occupying a covered vehicle.

Medical payments can have a number of symbols assigned. 2, 3 or 7 are the available symbols. The most appropriate are 3 or 7.

Uninsured and Underinsured Motorists Coverage

This coverage provides compensation for parties injured by motorists that are liable for that injury, but either have no insurance (UM), or have insufficient insurance to cover the damages to the insured (UIM). Some states separate out uninsured and underinsured motorists. Some states combine the two coverages. Certain states require an option for UM/UIM property damage as well as bodily injury.

Symbol 6 (owned) autos subject to a compulsory UM law is reserved for this particular coverage. This symbol affords automatic coverage only in those states that do not allow the insured to reject the coverage. To obtain automatic coverage, either symbol 2 (owned autos) or symbol 3 (owned private passenger autos) may be used. Symbol 6 will afford fleets automatic coverage, but it may be used only in those states with mandatory uninsured motorists laws which do not permit the right of rejection of such coverage. The Division guidelines for UM/UIM mandates that all vehicles should have UM/UIM if the coverage is provided. Prior approval from the company is required for exceptions.

If an underwriter uses a restricted symbol for UM/UIM, the appropriate selection or rejection must be obtained from the insured.

No UM/UIM coverage may be offered in the state of Ohio.

A number of states require that UM/UIM be offered. This offer is in the form of a written selection or rejection notification. A signature and selection is mandatory. Selection form language must meet certain regulatory and statutory requirements. These forms, in many cases, are filed with an individual state. ODEN has information regarding what states require. The Lexington - AIG Programs Underwriting website has information regarding what forms are to be used.

There are 18 states that allow stacking of UM/UIM limits in some form or another on an inter-policy or intra-policy basis**. It is imperative that every effort be made to avoid stacking of UM/UIM limits, particularly intra-policy.**

UM/UIM in the umbrella or excess layer is not provided. It is excluded in the umbrella form and there is an endorsement to exclude the UM/UIM for use with the follow form and excess auto policies. There are, however, 7 states that either make UM/UIM mandatory in the excess or require rejection of the coverage to remove it.

As of this writing umbrella and excess policies covering autos domiciled or registered in

ALASKA
FLORIDA
INDIANA
LOUISIANA
NEW HAMPSHIRE
VERMONT
WEST VIRGINIA

an offer of UM/UIM <u>must</u> be made. (In Vermont, UM/UIM is a <u>mandatory</u> coverage.)

Procedures when we are required to offer UM/UIM in the excess:

1. Check if you have any vehicles garaged in one or more of the 7 states noted above;

2. If yes, check the LEXINGTON AIG PROGRAMS website for a link to additional state specific language that may have to be added.

3. If yes, also check the same website for a link to the latest selection or offer form. Insert with your quote letter.

4. Florida: If you are writing over a primary policy, offer either your policy limit or $1M, whichever is less. (This UM limit is in addition to the primary policy's UM limit.)

5. Website to obtain state specific quote language and rejection offer forms: www.lexingtoninsurance.com, AIG Programs, Underwriting

Coverage restricted to Specifically Described Autos

Symbol 7 may be used to activate liability, physical damage, medical payments, personal injury protection, and uninsured/underinsured motorists coverage.

Symbol 7 should be used for physical damage coverage. This will allow the underwriter to control the addition of certain types of vehicles .

Driver Other Car (DOC)

This endorsement includes coverage for individuals who are provided with the use of a company vehicle but do not have their own Personal Automobile Policy (PAP) to cover them for hired and non-owned liability, as well as other coverages, when they are using a vehicle, other than their company vehicle, for personal use.

Coverage is included for a spouse but not family members and the underwriting of the exposure is similar to that for any other driver. The exposure created with this endorsement is that of an individual or spouse using a hired or borrowed vehicle on personal business. Driver acceptability is necessary to add a named individual for DOC.

Named DOC should be referred to the company for approval.

Limited Mexico Coverage

This endorsement provides what can be characterized as Difference in Limits (DIL) and Difference in Conditions (DIC) coverage for local admitted Mexican auto insurance. It limits coverage for accidents within 25 miles of the US border for trips less than 10 days in length. Local admitted insurance for liability is a law in Mexico and this endorsement will not suffice for that purpose. A warning to that effect is posted as part of the endorsement.

Any Mexico exposure should be underwritten carefully as the 25 mile band over the Mexican border is a high crime area with the very real possibility that a commercial vehicle and its contents may be hijacked.

Local auto insurance may be purchased at the US/Mexico border.

DEDUCTIBLES

The minimum physical damage deductible is $500 unless otherwise stated in individual underwriting guidelines. This minimum may be used on vehicles with cost new up to $25,000. For $25,000- $35,000, the deductible must be at least $1,000. Vehicles with cost new over $35,000 must have a minimum physical damage deductible of $2,500 or $3,000, depending on the filing in that state.

Third party deductibles should not be used without prior approval from the company. Third party deductibles when approved should not exceed $25,000. Deductibles in excess of $25,000 would require collateral and the Program Division is not currently set up to structure large deductible collateralized programs or accounts.

Escrow accounts used for loss funds to reimburse small deductible losses require approval by the company.

DMV REPORTING

The Program Administrator must provide specific vehicle information via electronic transfer. Resources for completing these transfers may be found within www.accessaig.com

At the time of this writing, 14 states required electronic DMV reporting. There is a quick reference guide for these DMV requirements posted at the DMV Reporting section within the 'Services' menu of www.accessaig.com.

Each state has its own template for reporting data. Underwriters should complete the appropriate template and upload the template using the DMV Reporting System (ALIR).

Access to the ALIR (Automobile Liability Insurance Reporting) System should be coordinated with the Program Manager or Compliance Manager. Information regarding ID requests and general log-on information is also available in the DMV Services section at www.accessaig.com.

It is imperative that reporting be made in a correct and timely manner to avoid possible suspensions, vehicle ticketing or towing.

Please work with the Division's Compliance Department to clear errors related to transfers, or contact the DMV Help Desk at 866-799-7195.

FINANCIAL RESPONSIBILITY FILINGS

Financial Responsibility Filings create minimum requirements for public liability, including bodily injury, property damage and environmental restoration. FR filings place the burden on an insurer to financially back a motor carrier regardless of policy wording if that motor carrier is unable to pay its obligations under public liability.

A specific company authority grant is required to issue Federal Financial Responsibility Filings such as the MCS –90.

Motor Carriers are required to have minimum limits via an insurance policy or surety bond. These minimums depend on what commodity is being carried and where it is being transported. These limits fall under DOT regulation 387.9.

{PRIVATE**}**SCHEDULE OF LIMITS **(Public liability)**

{PRIVATE**}**Type of carriage	Commodity transported	January 1, 1985
(1) For hire (In interstate or foreign commerce, with a gross vehicle weight rating of 10,000 or more pounds).	Property (non hazardous)	$750,000
(2) For hire and Private (In interstate, foreign, or intrastate commerce, with a gross vehicle weight rating of 10,000 or more pounds).	Hazardous substances, as defined in 49 CFR 171.8 transported in cargo tanks, portable tanks, or hopper type vehicles with capacities in excess of 3,500 water gallons; or in bulk Division 1.1, 1.2, and 1.3 materials, Division 2.3, Hazard Zone A, or Division 6.1, Packing Group I, Hazard Zone A material; in bulk Division 2.1 or 2.2; or highway route controlled quantities of a Class 7 material, as defined in 49 CFR 173.403	5,000,000
(3) For hire and Private (In interstate or foreign commerce: in any quantity; or in intrastate commerce, in bulk only; with a gross vehicle weight rating of 10,000 or more pounds) .	Oil listed in 49 CFR 172.101; hazardous waste, hazardous materials and hazardous substances defined in 49 CFR 171.8 and listed in 49 CFR 172.101, but not mentioned in (2) above or (4) below	1,000,000
(4) For hire and Private (In interstate or foreign commerce, with a gross vehicle weight rating of less than 10,000 pounds).	Any quantity of Division 1.1, 1.2, or 1.3 material; any quantity of Division 2.3, Hazard Zone A, or Division 6.1, Packing Group I, Hazard Zone A material; or highway route controlled quantities of a Class 7 material as defined in 49 CFR 173.403	5,000,000

Filings are in force until cancelled. If not cancelled, the filing may still be in force despite the policy being non-renewed or cancelled.

It is the Program Administrators responsibility to make and cancel filings where appropriate.

Contact the division's Program Manager or Compliance Manager with questions regarding electronic access to state filings.

PRICING

PROPER CLASSIFICATIONS

Selecting the appropriate classification is essential for charging adequate premium. Underwriters should not rely solely on the application to assign the correct code. Use and radius are the most commonly incorrect selections. Verify use and check it against the ISO definition for that code.

The service class is the most common misclassification. Some vehicles traditionally classified as service may be more accurately classed under commercial. The service class does not contemplate frequent service stops or job site changes. Vehicles taken home or used for personal use should be classified under the commercial class.

The ISO use rule is as follows:

"If a truck, tractor or trailer has more than one use, use the highest rated classification unless 80% of the use is in a lower rated activity. In that case, use the lower rated classification."

Service Use
Service Use Autos are those used for transporting the insured's personnel, tools, equipment and incidental supplies to or from a job location. This classification is confined to autos principally parked at job locations for the majority of the working day or used to transport supervisory personnel between job locations.

Retail Use
Retail Use Autos are those used to pick up property from, or deliver property to individual households.

Commercial Use
Commercial Use Autos are those used for transporting property other than those autos defined as service or retail.

Verify radius from alternative sources, such as an accounts web site. Look at an insured's distribution demographic compared with their radius of operations. Are they using common carriers for shipments in excess of 50 miles, or are they using their own fleet.

ISO's radius rule is as follows:

"Determine radius on a straight line from the street address of principal garaging."

Local (Up To 50 Miles)
The auto is not regularly operated beyond a radius of 50 miles from the street address where such auto is principally garaged.

Intermediate (51 To 200 Miles)
The auto is operated beyond a radius of 50 miles but not regularly beyond a radius of 200 miles from the street address where such auto is principally garaged.

Long Distance (Over 200 Miles)
The auto is operated regularly beyond a 200 mile radius from the street address where such auto is principally garaged. Apply zone rates for other than light trucks.

Zone rating is a method of rating long haul distances by geographic region. Long haul and zone rating is not a focus of our strategy and requires a referral to the company.

EXPERIENCE RATING

The multi-state eligibility requirement for experience rating is a **.07** credibility factor. CoverAll will alert you to a factor below **.07**, and no experience factor should be applied on risks that develop a factor below **.07**.

Experience rating is based on the losses for 3 years prior to the most current year. If no currently valued runs are available, no matter how good the history, no experience credit should be applied. If there are questionable loss runs from prior carriers, particularly those that had inadequate reserving practices up to their departure from the market, the experience modification should reflect our comfort level with the data.

SCHEDULE RATING

In order for risks to be eligible for schedule rating, they must generate a credibility factor of at least **.03**. A rule of thumb is if liability premium generates at least $5,000 in premium then the coverage is eligible for schedule rating.

CoverAll will not make such calculations. There is a table at the Lexington AIG Programs Underwriting website illustrating the loss costs that correspond to credibility factors.

Schedule rating documentation is an important part of the regulatory process. These deviations from manual-based rates on individual risk characteristics center around the theory that there are above-average, average and below-average risks. Each account will need to be documented as required by state insurance regulation. Reasons for debiting or crediting should be documented and should illustrate what items are above-average, average or below-average. Changes to crediting or debiting should have the corresponding change to the risk documented. Underwriter specific authority exists within the ISO plan for schedule rating. Please see your individual program guidelines for specific schedule rating authority.

RULE 15

ISO's Rule 15 allows some flexibility for individual risk situations. There are specific instances when the rule may be applied, and its use is governed by the ISO guidelines.

No authority is delegated within these commercial underwriting guidelines to use Rule 15.

COMPOSITE RATING

Composite rating is a policy structure which does not require that all vehicles be scheduled on the policy. The rating is performed as it would be under the normal rules and then an average rate is calculated by class and by state. That average rate is then multiplied by the number of respective units to arrive at a premium. There is no addition or deletion of vehicles during the policy period. At the end of the term, the number of vehicles on the policy at the beginning of the policy is added to the number at the end of the policy; that number is then divided by two. The result is the premium for the policy term.

This mechanism is utilized to decrease the endorsement activity during a given policy period.

Composite Rating should not be used as a pricing tool and should be discouraged except for large fleet risks with high vehicle turnover. DMV reporting in many states has eliminated the efficiency of composite rating.

CoverAll can process composite rated policies. Composite rating should conform to the rules laid out in CoverAll. Underwriting will be responsible for getting the vehicle counts by class and adjusting the premium at the end of the policy term.

Composite Rating must be referred to the company for approval.

PHYSICAL DAMAGE AGGREGATION

Storage of fleet of vehicles at one location or lot could give rise to an aggregation of values and potentially a substantial loss from one occurrence. Any aggregation over $2,000,000 must be referred to the company prior to quoting.

Division 66 is not a market for Dealer’s Open Lot coverage.

HIGH PRICED/PERFORMANCE AUTOMOBILES

Vehicles priced over $75,000 or high performance private passenger vehicles should be referred to the company.

HIRED AND NON -OWNERSHIP LIABILITY

Hired automobile liability is exposure from liability arising out of the short term rental of a vehicle without a driver. Non-Ownership liability is that which arises from the business use of a vehicle that is owned by someone other than the entity.

Non-Ownership exposure is probably one of the more difficult automobile exposures to control. The premium for the coverage is consistently inadequate, exposure base is normally inaccurate, and rating base commonly stated as incidental. Most insureds do not obtain written verification of insurance coverage and limits from their employees. Even if a certificate is obtained, there may be a change subsequent to the issuance of the certificate.

Employees using their own vehicles on company business should have a minimum personal auto insurance limit of $300,000 CSL. A written policy stipulating this should be confirmed. Regular use of a non-owned vehicle on company business requires a satisfactory review of the driver's MVR.

HIRED CAR PHYSICAL DAMAGE

Hired car physical damage should be charged based on the total number of dollars spent on hired autos for a particular insured during the policy term. If the amount spent is not available, then one can get the number of days and then multiply by $50 to get the total dollars spent. The LDW that rental car companies charge may be $15 to $20 per day, therefore we should not be providing pricing which is much lower than what an insured would obtain from the rental company.

Limits for hired car physical damage should not exceed the authority for the owned automobiles and the deductible should be the same as that of the highest physical damage deductible on the owned autos.

WHAT WE REQUIRE TO QUOTE AUTOMOBILE

Minimum requirements to quote automobile are:

1. A completed and signed ACORD application and any supplementary application made part of program underwriting guidelines;
2. Signed UM/UIM and PIP forms where required;
3. 3 years of currently valued carrier loss runs in addition to a current year run;
4. New business with 20 or fewer drivers, acceptable MVR's;
5. New Business with 20 or more drivers, issue quote subject to acceptable MVR's; MVR's must be ordered within 48 hours of binding coverage;
6. Signed Terrorism Rejection/Selection Forms

WHAT GOES IN A FILE

- Completed experience and schedule rating worksheets;
- Complete VIN#'s must be captured. Accurate VIN's are essential for many data applications. No policy should be issued without a complete VIN;
- Currently valued loss runs;
- All appropriate selection/rejection forms for UM/UM and or PIP;
- MVR's ;
- Current Drivers List;
- Signed ACORD Application;
- Copy of any FR Filings;
- Loss Control, if required;
- Quotation;
- Binder;
- Policy when issued.

LONG HAUL

AIG Programs is not a market for long haul automobile. Any long haul exposure should be referred to the company. Long haul is defined by radius of operations more than 200 miles. Zone rating, as discussed previously, uses geographic territories to rate long haul exposure.

REINSURANCE

There is no authority outside of the company for any facultative reinsurance.

DRIVER SELECTION AND TRAINING

DRIVERS

Selection of good drivers should be a priority for any insured with a fleet. A company's reputation and assets are on the line each time someone is driving. Acceptable driver selection and training is an indication of good management practices.

MVR records are the best indication the insurance industry has of good drivers. This historical record reveals both personal and work violations of state motor vehicle laws. The system is not perfect however. DMV's may not collect out-of-state infractions, community service or other plea bargains which may expunge pertinent information from the record. Some states preclude the use of personal driving violations to underwrite commercial exposures.

Still, the MVR is a good tool for determining the acceptability of an individual driver.

Division 66 requires the underwriting of drivers on an annual basis. The producer should provide an updated MVR with every new business and renewal submission. Each driving record should be reviewed and documented for acceptability.

Infractions are divided into three categories and then placed in a grid to determine the acceptability of a fleet. The following lists the types of violation categories and the grid for determining acceptability.

MVR GUIDELINES

<u>TYPE A</u> **–** major violations. These are DWI, DUI, OUI, OWI, refusing a substance test, driving with an open container of alcohol, reckless driving, hit and run, fleeing a police officer, racing, driving while license is revoked or suspended, manslaughter or any felony. **Fleets with ANY driver with a TYPE A violation within the prior three years is NOT acceptable.**

<u>TYPE B</u> **–** include most driving violations such as speeding, improper lane change, failure to yield or obey a traffic signal or sign, license suspension, at-fault accidents.

<u>TYPE C</u> **–** include parking tickets, financial responsibility violations, seat belt violations, improper equipment or excessive loads.

Use the MVR GRID worksheet to evaluate acceptability. Any new business submission which has an overall rating of POOR must be declined. Any renewal which has an overall rating of POOR must be referred to your Program Manager.

	MVR GRID	
ENTER NAMED INSURED:		**Data Entry**
1	Total Number of Power Units:	
2	Total Number of Drivers:	
3	Number of MVR's Ordered:	
	(If less than 50% document rational)	
4	Number of Drivers with Type A Violations:	
	(If this number is positive decline account or provide documentation for non compliance with underwriting requirements.)	
5	Number of Drivers with 3 or more Type B Violations	
	(*If line 5 is <5% + preferred; >or = 5%<10% =good; >or + 10% -15% average and >15% poor)*	
6	Number of drivers aged 24 or younger	
7	Number of drivers aged 50 or older	
	(If line 13 is > 0 and <20% rate as good; if >20% and <30% average; if > than 30% poor)	
	Rating	

DRIVER EXPERIENCE

Drivers on commercial policies need to be at least 21 years old and have a minimum of 4 years driving experience. Drivers must have a valid drivers license with a class that is consistent with vehicle regulation. Drivers should be familiar with the vehicle to which they are assigned or driving.

Data supports the theory that older drivers may have accidents more frequently than younger drivers with similar credentials. Recognizing that laws protect certain classes, our insureds should have controls in place that make sure that drivers are physically capable of performing their duties, including driving a vehicle for business purposes.

SELECTION AND TRAINING

When underwriting fleet exposures, it is insufficient to look only at the MVR reports for listed drivers. Driver selection and training are as important as making sure the driver's list is acceptable. Make certain MVR's are ordered on new drivers and that these drivers are properly trained.

Thorough screening of drivers is important and may include applications, interviews, references, background checks, and physicals where required.

Driver training, including defensive driving courses, are highly recommended.

Low driver turnover is an element to review when looking for a well controlled account. Low turnover says a great deal about management's attention to risk management. Certain industries will have different turnover rates in relation to an insured's industry classification. The automobile application requests turnover information. Loss control should comment on unusually high turnover.

Wages often determine the quality of individual one hires to drive a vehicle. Wages for drivers should be above the minimum wage and competitive within the insured's respective industry

DRIVER EXCLUSIONS

Driver Exclusions are filed and approved in only a few states and in most are considered against public policy. The AIG Programs Division does not condone the use of driver exclusions.

If a prospect has unacceptable drivers on the schedule, then we should not be writing the automobile. Possible options to the insured include having the employee or employees with unacceptable records moved to non-driving positions. This should be confirmed in writing and must be feasible based on the insured's operations and staffing.

PRIVATE PASSENGER FLEETS

Private passenger fleet experience tends to be poor for many reasons. Included in this category are salesman's fleets where there is extensive driving exposure, personal use issues, and off-hours exposures. There must be written personal use and cell phone guidelines in place for this class of vehicle.

PERSONAL AUTOS

There should not be individual named insureds on the policy. Individually owned and registered vehicles belong on a Personal Auto Policy (PAP).

12/15 PASSENGER VANS

Data shows a significant hazard for rollovers for 12 and15 passenger vans. A major cause for rollover potential is the design, however several other factors increase the possibility of a rollover.

A van at moderate or full capacity is five times more likely to roll than a van with no passengers. Lack of maintenance, particularly on the tires, may increase the likelihood of losing control. Inexperienced drivers cause rollovers more frequently. Speed is another major factor.

The existence of 12 and 15 passenger vans on a vehicle schedule has become unacceptable. Insureds with these vans must provide a written disposal plan for all such vehicles. All vehicles will need to be disposed and/or replaced within 3 years.

In the meantime, there are several steps that an insured may take to limit rollover potential. Vehicles should be placed on a regular maintenance plan, including tire rotation and regular replacement. Insureds should remove the back two seat rows, reducing the maximum capacity of the van. Only experienced drivers should be allowed to drive the van. Drivers should be educated to the danger posed by excessive speed in these vehicles. Maintain a maximum speed guideline of 45 miles per hour. Retrofit the van with dual rear wheels to increase stability. Never store luggage, cargo or anything else on the roof of the van. Loading practices which keep rear cargo low and distributed evenly across the rear axle will reduce the chance of a rollover.

Please review the the following NHTSA website regarding 15 passenger vans

http://www.nhtsa.dot.gov/cars/problems/studies/15PassVans/15passvan.html

Cell Phones

Insureds should have a written policy banning cell phone use without the use of a hands-free device while driving a vehicle. A number of states have laws prohibiting cell phone use while driving without a hands-free set.

Conclusion

2003 was a year which proved the case for rating adequacy. It was the first time in 16 years that Commercial Auto produced an industry profit. While rates were going up to a peak of 20% in the fall of 2002, the combined ratio hit 95% in that next year. It does not look like that trend is continuing.

Since that time, rate increases have started to slide and severity is up. Therefore, it is imperative that we maintain responsible pricing discipline. We must continue to focus on the fundamentals of risk selection by concentrating on better state environments, managing severity classes, refining our pricing to give the best prices to our best accounts, and partnering with producers that share our commitment to profitability.

REFERENCE LIST

ODEN Rules & Regulations: www.odenonline.com

ODEN Policy Terminator: **www.accessaig.com**

DMV Reporting: www.accessaig.com, "Services" Menu
or, contact Stephen Raymond, Compliance Manager @ stephen.raymond@aig.com
for first-time users

Automobile Schedule Rating: www.lexingtoninsurance.com
Lexington Insurance Program Division Website (ID and password required for access)
contact Stephen Raymond, Compliance Manager @ stephen.raymond@aig.com
for first-time visitors

State Electronic Motor Carrier Filings:
contact Pamela Burns, Compliance Manager @ pamela.burns@aig.com