

**PROGRAM DIVISION  
BULLETIN**

2006-11

March 27, 2006

**IMPORTANT CHANGES TO PROPERTY “QWIKNOTES”**

Attached is an updated copy of the AIG Program Division Property QWIKNOTES. As you are aware, we use these as a supplement to our standard Commercial Lines program underwriting guidelines.

The following are the key changes:

Page 20 TORNADO AND HAIL: We have amended this page to eliminate specific reference to deductibles for tornado and hail exposed risks. Wording has been substituted to reference careful underwriting of such risks, and to contemplate higher deductibles where the risk exposures merit such deductible levels. Also, TEXAS has been added to identified states where exposure should be determined via Risk Meter.

Page 24. State wind pool websites have been updated.

**THE PROPERTY QWIKNOTES ARE MINIMUM STANDARDS. IF YOUR CURRENT PROGRAM UNDERWRITING GUIDELINES ARE MORE RESTRICTIVE THEY SUPERCEDE THE QWIKNOTE GUIDELINES.**

If you have any questions please contact your Program Manager.



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**AIG**

**PROGRAM DIVISION**

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***AIG Program DIVISION 66***

***QWIK NOTES***

***FOR***

***PROPERTY***

REVISED 03/23/2005

KNOWLEDGE BASED UNDERWRITING

A quick reference to basic property standards for Program Administrators

Second Edition

03/24/06

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## AIG Program Division

### PROPERTY AND INLAND MARINE STRATEGY

**These guidelines are MINIMUM requirements and may be superceded by the actual individual Program Underwriting Guidelines. REFER TO YOUR INDIVIDUAL PROGRAM UNDERWRITING GUIDELINES FOR ANY EXCEPTIONS TO THESE GUIDELINES.**

The AIG Program Division will write property/inland marine business as an integral part of profitable accounts that encompass a broad array of AIG products. This coverage may be written as part of package policies, or on a monoline basis. The property/inland marine lines must be underwritten to a profit on the merits of each and every risk. There should be no evidence of loss frequency for these coverages. Our ultimate goal is to generate a "loss and loss adjustment expense ratio" below 35% over our divisional book of business for frequency losses (loss activity below \$100,000 per claim). A divisional loss ratio for such frequency losses and large non-catastrophe losses (over \$100,000, no assigned CAT number) shall not exceed 40%. This will allow funding for true catastrophe losses over the long run and provide long term profitability.

**Any account that would adversely impact our profitability should be declined.**

We are not a market for catastrophe prone business. Accounts with coverages for California earthquake, coastal locations, significant flood and earthquake exposures, all as further defined herein, must not be written but may be referred to your AIG Program Manager for appropriate underwriting consideration. Incidental catastrophe coverage may be considered only subject to complete underwriting documentation and approval from an appropriate authority level.

Risks that should be avoided include (but are not restricted to):

- Garden Apartments
- Vacant and unoccupied buildings
- Building rehabilitation
- Hanging Garment Storage
- Inland Marine "Block" Policies
- Catastrophe prone risks (natural catastrophes)
- Catastrophe prone risks (high inherent exposure)

The profitability of our property/inland marine business is essential to enhance the overall divisional profit margins required to meet our goals. We must write these coverages in order to achieve these objectives and diligence in our underwriting efforts will help assure success.

## MISCELLANEOUS PROPERTY INFORMATION

- A. COPE: is a property term commonly utilized when referencing basic property underwriting information. We should always have this information for all locations insured.

Construction  
Occupancy  
Protection  
Exposure

- B. Coverage Extensions (*IPIS -Property One Form / AIU 130 Endorsement*):  
All extensions of coverage as provided by these forms and endorsements, or any other approved extension endorsements, must be known by each underwriter. Exposures for these coverages must be understood, underwritten and rated accordingly. These are not "throw-in" coverages.

- C. Fire Following Earthquake:

This exposure can be severe, especially for risks located within geographical areas rated as MMI Zone 7 and higher.

- Note that the peril of Earthquake does not need to be covered for such a loss to occur;
- Identify all such locations, on all property schedules;
- Confirm superior construction and maintenance of these buildings (this is especially important at locations where the public construction codes are not sufficiently stringent to diminish loss potential from earthquake, or other loss resulting from earthquake - which encompasses most non-California areas);
- Confirm incoming utilities (especially gas mains) are adequately safeguarded;
- For sprinklered risks, analyze protection as outlined in the Automatic Sprinkler section.

- D. Off Premises Service Interruption/Utility Services Interruption- Direct Damage and Time Element:
- Coverage must be sublimited up to a maximum limit of \$500,000 Direct Damage/\$50,000 Time Element;
  - Identify the potential for Direct Damage loss (such as frozen food, goods in process which are damageable, etc.);
  - Identify the Time Element potential. **The current ISO Utility Services - Time Element Endorsement provides a 72 hour waiting period.** Be certain that this period places our attachment point above any “nuisance claim” activity.
  - **Under no circumstances** will we provide coverage for loss as a result of damage to or destruction of overhead transmission, distribution or communication lines (**this must be excluded**).

E. Amount Subject: when determining the values subject to a single potential loss from fire the following establishes the acceptable distances between buildings. The distance between buildings must be “clear space” which includes parking lots, maintained lawns or open lots, and gravel. Anything combustible such as brush, stock in the open or similar materials between buildings would negate the benefit of the separation. All values for buildings, contents, time element and any other covered property within the “enclosed four walls of a structure” are always considered subject irrespective of interior cutoffs since we do not contemplate PML or MFL considerations in our underwriting.

- If any covered property is of Frame, Joisted Masonry or Non-combustible construction and is located within a Protection Class 1-8 town and two stories or less in height 100 feet or less is considered subject.
- If any covered property is of Frame, Joisted Masonry or Non-combustible construction and is located within a Protection Class 1-8 town and is over two stories in height 150 feet or less is considered subject.
- If any covered property is of Frame, Joisted Masonry or Non-combustible construction and is located within a Protection Class 9 to 10 town all buildings within 200 feet or less is considered subject regardless of height.
- If **all** covered buildings are Masonry Non-combustible or Fire Resistive within a Protection Class town of 1-8 and two stories or less 50 feet is considered subject.
- If **all** covered buildings are Masonry Non-combustible or Fire Resistive within a Protection Class town of 1-8 and over two stories in height 75 feet is considered subject.
- If **all** covered buildings are Masonry Non-combustible or Fire Resistive within a Protection Class 9 or 10 town all buildings within 100 feet are considered subject.

For any risk where a cause of loss other than fire poses the potential for more significant loss or damage than the amount subject calculated above (such as wind or similar causes of loss), the amount subject must be considered the TIV of all locations exposed to a single occurrence from such cause of loss.

F. Property Losses: property and inland marine coverages should not exhibit any evidence of frequency. The phrase “frequency leads to severity” is remarkably true for these coverages.

G. Unnamed Location Coverage:

- Avoid such coverage whenever possible;
- Do not provide coverage for Flood and/or Earthquake for any such unnamed location(s);
- Obtain information regarding anticipated exposure, such as number of locations, exposed values, anticipated COPE for such locations;
- Apply a rate against total estimated exposed values using conservative COPE assumptions;
- Keep limits at a minimal level (any limit in excess for \$100,000 per occurrence, or otherwise indicated in Program Underwriting Guidelines, must be referred to the appropriate Program Manager for approval).

**AGREED AMOUNT**

- A. Coinsurance:
    - 1. Real and Property Personal - Minimum - 90%
    - 2. Business Income - Minimum - 50% .
  - B. A signed statement of values and signed Business Interruption Worksheet along with a signed (by the Insured) fully completed application must be received **prior to** removing the co-insurance provision from any policy.
  - C. Insurance to value calculation for Property must be completed.
- \* For more detailed description see page 21, E. Control of ITV Documentation.



### AUTOMATIC SPRINKLER PROTECTION

- A. Identify hazards of occupancy for each location, utilizing as necessary the following:
- Best's Underwriting Guide,
  - Loss Control,
  - Program Manager.
- B. If there is storage of goods on premise - identify storage arrangements:
- Palletized - configuration and height;
  - Rack storage - rack configuration and height;
  - Hanging storage (such as garments) - how many levels, what proportion of storage.
- C. If there is storage of goods on premise - identify the types of commodities stored:
- Combustibility of commodities - be careful of products with:  
Plastics or plastic components, containing combustible/flammable liquids, wood or wood components, aerosols, yarns or threads and other fiber products, etc.
  - How are they packaged - packaging of a combustible nature such as expanded foam or "bubble type" protection, plastic encapsulation, etc.
  - Are any products explosive in nature - an explosion can quickly disable a sprinkler system. (Note that aerosols are deemed to be within this category)

**Any uncertainties regarding the hazards of product should be discussed with Loss Control or your AIG Program Manager.**

- D. Identify details of all sprinkler systems:
- Age - any system installed prior to 1940 will have utilized 3/4" pipe, which cannot provide adequate water to sprinkler heads;
  - For any system over 25 years of age, sprinkler head maintenance/replacement information is needed;
  - Servicing of system - confirm a sprinkler maintenance contract is in force and the date of last service;
  - Type of system - wet or dry. With a dry system continuous and frequent maintenance is extremely important to the proper functioning of the system;
  - Is the system specifically designed for the occupancy;
  - If any areas exposed to freezing temperatures are sprinklered, be sure they are either A) a dry system or B) an antifreeze system.
- E. Obtain sprinkler alarm information:
- Local (if so, is there 24 hour occupancy or watch service - someone to hear an alarm?);
  - Central Station (if so, is it a UL approved service?);
  - Alarm to Fire Department (if so, is it manned 24 hours per day?).
- G. Water supply - public, private, both? Single source or two source supply? If private only, get a Loss Control opinion on adequacy.

- H. Obtain an ISO Sprinkler Grading (if less than 65, we must rate and underwrite the risk as non-sprinklered).

If the sprinkler grading is below 65, but recent improvements have been made to the sprinkler system, obtain loss control assistance in determining sprinkler adequacy. If loss control review provides written documentation of sprinkler adequacy, the risk may be underwritten as sprinklered.

- I. If no ISO Sprinkler Grading is available we need to:
- Obtain prior carrier loss control recommendations to determine sprinkler inadequacies; or
  - Obtain a loss control pre-survey or other loss control data collection (method to be determined by loss control); and
  - In conjunction with either of the above discuss with loss control and/or your Program Manager to determine sprinkler adequacy.

**EARTHQUAKE SPRINKLER LEAKAGE:**

- A. Underwriting - Refer to the Earthquake section for details.
- B. Authority - Refer to individual signed underwriting guidelines.

**Endorsements are available to exclude or sublimit this exposure. Refer all sprinklered locations within MMI Zone 7 and above to the appropriate authority level.**

### BLANKET LIMITS

**We will not provide blanket policy limits. Limits may be written blanket per location as outlined below.**

- A. **Do not combine Property Damage and Time Element** - we must maintain separate Business Income (Time Element) limits
- B. Obtain signed statement of values and signed business income worksheets for each location.
- C. Property Damage (real and personal property) must be written at a minimum 90% coinsurance value.
- D. Business Interruption must be written at a minimum 50% coinsurance value (preferably 80% to 100% value)
- E. Total Insured Values (TIV):
  - 1. For TIV purposes, 100% of specific location values must be used for *each and every coverage* (we are liable for payment of 100% value in the event of loss);
  - 2. Stock and other moveable personal property must be increased by 30% (of the 100% value) as a protective buffer to assure adequate reinsurance;
  - 4. All Inland Marine values, and any other exposed property values, shall be included within the TIV for each location.
  - 5. If the AIU 130 endorsement, PropertyOne form, or any other approved enhancement endorsement is used, a buffer equal to 10% of the building value should be added for each location to protect against building ordinance exposures creating increased liability.
  - 6. The Occurrence Limit of Liability Endorsement PR 9014 or Blanket Occurrence Endorsement **must** be attached to the policy.
  - 7. Attach the Blanket Limit of Liability schedule.

## BUILDING ORDINANCE COVERAGE

Answers to a number of questions should be received regarding each location to be covered when we provide Building Ordinance Coverage, whether via PropertyOne Form, AIU 130, other approved enhancement forms, or ISO Endorsement.

### A. Construction Date:

1. There may be different building codes now than at time of construction, such as (but not restricted to):
  - a) requirement to upgrade life safety features - ie. pressurized stairwells;
  - b) requirement to install sprinkler systems;
2. Prior to 1975, there may be asbestos within buildings, such as (but not restricted to):
  - a) in pipe insulation within a structure;
  - b) in fireproofing material;

B. Any change in occupancy could lead to requirements for building upgrades, to meet the standards for the current occupancy.

### C. Americans with Disabilities Act - may lead to upgrade requirements, such as (but not restricted to):

1. Access - ramps, wider doors, etc.;
2. Reconfiguration of bathroom areas, etc.;
3. Elevators - wider doors, accessible controls, etc.;

When we are providing this coverage, **always request comments from Loss Control** (especially in older buildings), regarding exposures and potential preventative actions to minimize our liabilities in the event of loss. Include the limits when determining TIV or amount subject.

**NOTE:** Most Property Enhancement Forms and Endorsements provide full Building Ordinance Coverage within the building limits. **Do not use these forms for buildings constructed prior to 1975 unless confirmation has been received, prior to quoting, that the building has been upgraded to current codes. This also applies to Increased Period of Restoration for Time Element coverages. If the building has NOT been upgraded, coverage may be provided subject to a sublimit of no more than \$500,000 any one occurrence.**

## BUSINESS INCOME AND EXTRA EXPENSE

- A. We must be providing Property Damage coverage at locations where BI is provided.
- B. Obtain specific limits for each location, including the appropriate coinsurance percentage.
  - Compare BI totals to gross sales (to assure adequacy),
  - Check with broker, how were values developed?
    - Business Interruption Worksheet?
    - Insured estimate?
    - Broker estimate, etc.?
    - Full payroll or limited?
- C. Identify any processing bottlenecks in operations and/or any interdependencies of operations.
- D. Identify any areas of high valued business interruption exposure. Is there any specialty or difficult to replace personal property or machinery?
- E. Identify the effects of seasonal business on BI exposures. This can be commonly applicable to manufacturing, distribution, etc. risks, not just hospitality exposures.
- F. Obtain the estimated time to resume operations in the event of a total loss:
  - Can other locations replace production/operating capacity?
  - Can operations continue via Extra Expense payments, and to what extent?
  - What is the ability to replace needed raw materials to resume operations?
  - Is there any specialized equipment that will extend "down time" due to replacement delays?
  - Are there any "mutual aid" agreements with others in similar businesses, to assist in continuation of operations?
- G. Agreed Amount: **THIS IS NOT AN OPTION WE ARE WILLING TO PROVIDE FOR USE ON EVERY RISK.**
  - We should receive a signed business interruption worksheet for each location prior to binding any Agreed Amount coverage.
  - We must require no less than 50% coinsurance, preferably 80% to 100% (remember we still pay the 100% amount until the limit is exhausted!).
- H. Extended period of indemnity: we should obtain an estimate of the time which would be required to restore operations to their original operating condition after complete resumption of operations. Any extension more than 180 days must be referred to your Program Manager.
- I. If we use an approved form that does not contain a 72 hour waiting period as is currently provided with ISO wording or use ISO endorsements that reduce or eliminate this 72 hour waiting period, we must identify and analyze the exposures before providing such enhancement.

**CONTINGENT BUSINESS INTERRUPTION (DEPENDENT PROPERTY BI):**

- A. Identify locations where any contingency exists
- B. Underwrite each location by obtaining complete COPE information.
- C. If a location is the “sole source” for materials/supplies, are there other suppliers available in the event of a loss, and how can they be accessed?
- D. If the locations identified provide similar or identical materials/supplies (multi-source), can all other identified suppliers fill the gap in the event of loss to any one contingent location?
- E. Are there any major customers upon whom the insured depends to generate sales. If so, we need to underwrite this exposure carefully;
- E. If any coverage is requested for unnamed contingent locations:
  - Must provide a small limit (such as \$25,000.);
  - No catastrophe perils shall be provided;
  - Obtain confirmation of duplicate suppliers, and ease of access;
  - Obtain an estimate of total exposure from these unnamed locations.
- F. Current ISO Business Income from Dependent Properties endorsement provides for a 72 hour waiting period. We should be sure to maintain this protection.
- G. Any limits requested over \$100,000 refer to your Program Manager.

**EXTRA EXPENSE:**

- A. Can be provided in two ways:
  - Extra Expense Form: which provides a maximum limit payable in increments.
  - Business Income Coverage Form and Extra Expense: is a broader Extra Expense coverage, as the insured can utilize the full Business Income / Extra Expense limit, with no restriction on the amount of Extra Expense incurred within the limit.
- B. When underwriting any Extra Expense coverage, the exposure identification utilized for Business Interruption (B, C, D, E, F) must also be used to identify:
  - 1. Normal Extra Expense payout exposures;
  - 2. The potential for prolonged disruptions;
  - 3. The potential for high valued exposures.

## EARTHQUAKE

- A. We are not a market for Earthquake in California or any other areas of significant Earthquake exposure.
- B. The earthquake Modified Mercalli Index (MMI) rating for each location must be determined, and documented within the underwriting file, prior to quoting. RiskMeter will provide such rating, as referenced below.
- C. The amount subject is 100% of the TIV of all locations exposed to the same fault or zone.
- D. Authority: refer to signed program underwriting guidelines, as they may be more restrictive than the parameters outlined herein.
- E. Limits: EQ coverage must be sublimited, and provide an annual aggregate limitation equal to the per occurrence sublimit.
- F. Whenever possible, we should avoid offering Earthquake coverage for locations within EQ Zones - MMI 7 and higher.
  - Refer all such situations to your Program Manager, including the RiskMeter data and rating;
  - Any exceptions must be authorized by the appropriate authority within Divisional Home Office;
- G. For locations located within MMI Zones 1 through 6.99, the underwriter should confirm superior newer construction and maintenance prior to quoting.
- H. Minimum Earthquake Deductibles:
  - MMI Zones 1 through 6.99: \$25,000 per occurrence or per ISO percentage deductibles,
  - All other Zones - refer to proper authority level.
- I. Rating:

All locations for which EQ coverage is to be provided will be rated within CoverAll utilizing ISO Earthquake rates and territories.

  - Each location will be rated on the TIV for that location, using 100% values.
  - A Lloyds scale factor will be determined, based upon the ratio of:

### Earthquake sublimit TIV for the location

- The 100% TIV Earthquake premium will then be "adjusted" using the Lloyds Scale factor to determine our location premium for the sublimited EQ coverage.

A listing of ISO construction codes is available in SAGE Silver Plume as a reference to appropriately classify each location for rating in CoverAll.

- J. Fire following earthquake must also be given strong underwriting consideration, even when we are not providing the earthquake peril. See the Miscellaneous Property Information page for detail.
- K. Use RiskMeter to obtain the U. S. Quick Quake – EQ rating for the specific location being underwritten. RiskMeter will provide the MMI intensity/zone to which the building(s) are exposed.

**EARTHQUAKE SPRINKLER LEAKAGE:**

- 1. In MMI Zones 1 through 6.99, confirm appropriate maintenance of system, and that all piping/hangars are in good condition and repair.
- 2. In MMI Zones 7 and above:
  - Confirm all information per 1. above, and
  - Confirm that all sprinkler piping is adequately braced / supported, and
  - Confirm that all sprinklers are installed utilizing flex connectors, and
  - All EQSL coverage in these zones must be sublimited, and contain an annual aggregate limitation no greater than \$1,000,000., and must receive approval from your Program Manager.

**Endorsements are available to exclude or sublimit this exposure. Refer all sprinklered locations within MMI Zone VII and above to appropriate authority level.**



## FLOOD

- D. The flood zone for each location must be determined, and documented within the underwriting file, prior to quoting. RiskMeter will indicate if a location is within a Flood Zone (if outside of, but within 250 feet of, a Flood Zone, it will advise) and will provide the zones if exposed to multiple Flood Zones. Flood coverage can be bound only for locations where Flood exposure has been confirmed and appropriately underwritten per the guidelines outlined herein.
- Additional details on obtaining flood information, if needed, are available on the internet through [www.fema.org](http://www.fema.org);
  - Any location on which the insured has a lienholder, the Flood exposure will be known. The financial institution will determine this exposure, and require coverage if the location is exposed to a known flood area. Therefore, in many instances this information is readily available;
  - Individual location “look ups” are also available through RiskMeter when questions per exposure still remain subsequent to review of report data. If needed refer these requests to your Program Manager.
- B. Authority: refer to signed program underwriting guidelines, as they may be more restrictive than the parameters outlined herein.
- C. Wherever possible avoid providing Flood coverage for locations in or near a known Flood Zones.
- D. Below grade exposures must be identified for all locations at which we are requested to provide Flood coverage. If below grade exposure exists, avoid providing flood coverage at these locations.
- E. Limits: Flood coverage must be sublimited, and provide an annual aggregate limitation equal to the sublimit.
- F. Deductibles:
- a) A separate deductible must be provided for Flood.
  - b) **Flood Zone C, X or better:** the Flood deductible shall not be less than \$25,000 per occurrence
  - c) **Flood Zone B and X(shaded)** : the Flood deductible shall apply per building each and every occurrence for all property damage coverages, and shall be equal to or greater than the maximum available Federal Flood limits for each location, each building, to be covered. For time element coverages a minimum 168 hour deductible shall apply separately.
  - d) **Flood Zone A, D and V**, refer to your Program Manager.
- NOTE: The underlying Federal Flood limits must be shown as deductibles. We must not show our coverage as excess coverage.**
- G. Flood coverage within known Flood Zones (A, B, X(shaded) and V) must have Building Elevation information, and Base Flood Elevation (available from Flood Map), for each location considered for coverage.
- H. Flood Rating Guidelines and Flood Zone Definitions: see attached.

**DEFINITIONS:**

Zone A: areas of 100 year flood.

Zone B: areas of 500 year flood, areas of 100 year flood with depth of less the 1 foot or with drainage areas less than 1 square mile, and areas protected by levees from 100 year flood.

Zone X (shaded): same as Zone B above.

Zone X: areas determined to be outside 500 year flood plain.

Zone C: Areas of minimal flooding.

Zone D: Areas of undetermined, but possible, flood hazards.

Zone V: Coastal flood with velocity hazard (wave action or wind driven rain).

If referencing Flood Zones within quotations DO NOT use the "lettered" references, but USE THE ENTIRE ZONE DEFINITION.

**MAXIMUM FEDERAL FLOOD INSURANCE LIMITS AVAILABLE**

As of March 1, 1995:

<b>Building Coverage</b>	<b>Regular Program</b>
Single-family dwelling	\$250,000
Other residential*	250,000
Non-residential	500,000
<b>Contents Coverage (per unit)</b>	
Residential	\$100,000
Non-residential	500,000

These limits are available on a "per building" basis (\* for "other residential", limits are available on a per unit basis)

## FLOOD RATING GUIDELINES

Flood Zones A, B, X(shaded),V and D: refer to your Program Manager.

Flood Zone C or better: Rates to be modified based on construction, occupancy, relationship of limit to values at risk, deductible credits, all applicable as outlined below.

<u>LIMIT (occurrence / aggregate)</u>	<u>RATE on TIV</u>
\$500,000 / \$500,000	.015
\$1,000,000 / \$1,000,000	.018

For higher limits, refer to your AIG Program Manager

**Rates are per \$100. total insured value for each location.**

## DEDUCTIBLE CREDITS

<u>Deductible</u>	<u>Credit Range</u>
\$ 25,000	0%
\$ 50,000	6%
\$100,000	7%
\$250,000	8%

## INLAND MARINE

- A. Underwriting information must be gathered for *each coverage*.
- B. All coverages shall be underwritten and priced for **all** exposures assumed (inland marine coverages are not throw-ins).
- C. Most Inland Marine forms do not exclude flood and earthquake perils. We must check the form wordings for each coverage. The exposures for flood and earthquake must be identified, underwritten, and documented in all instances where not excluded.
- D. Check the valuation. There may be differences between the valuation clause in our Inland Marine form and the valuation requested/expected by the broker. This must be clarified during the quotation process.
- E. Any coverages and/or exposures encountered with which an underwriter does not have complete familiarity should be referred and discussed with your Program Manager.

## INSURANCE TO VALUE

- A. Insurance to Value consideration is imperative in all property insurance situations.
- In all instances ITV assures we will obtain adequate premium to exposure.
  - For Blanket and / or Agreed Amount coverages ITV assures adequate premium plus adequate reinsurance protection.
  - ITV calculations must be performed prior to quoting.
- B. For Property Damage Coverages:
- Obtain a signed statement or application of values \*\*;
  - Obtain a Marshall and Swift valuation replacement cost valuation for all buildings valued over \$750,000 and attach to the underwriting file;
  - Compare the submitted building value to your Marshall and Swift estimate;
  - For multi-location accounts where all locations are less than 10,000 sq. ft., determine for each construction class, the total area and total building values. Divide the total values by the total building areas to determine cost per sq. ft. for each construction type. This should provide the underwriter a level of confidence in appropriate valuation per square foot over the schedule;
  - Whenever in doubt regarding appropriate valuation, contact your Loss Control Manager or Program Manager.
- C. Time Element Coverage:
- Obtain signed business interruption worksheets for each location with BI value \$100,000 or greater.
  - Compare total business interruption values to gross sales (from financial statement), to estimate the adequacy of limits.
- D. Inland Marine Coverages:
- Obtain signed statement of values, or specific equipment schedule attached to a completed, signed application.
  - Be sure submission information provides type of valuation (replacement cost/ACV) and coinsurance percentage. Most inland marine coverages should be written on an actual cash value basis.

E. Control of ITV Documentation:

If a signed statement of values and/or business interruption worksheet is not received prior to binding, we should maintain coinsurance as a condition of insurance until such time as all are received. In those rare instances where we agree to provide agreed amount prior to receipt of these signed documents, the account must be referred to the appropriate Program Manager for approval. Furthermore, to assure receipt of any signed statements of values and/or business interruption worksheets in these instances, all quote letters should specify that agreed amount coverage will be applicable only for the first 30 days of coverage. Upon receipt of the signed worksheets, the agreed amount expiration date will be extended for the one year period. Otherwise, the date will expire and a coinsurance clause becomes effective.

- \*\* Signed statements of values must contain: values for each location and for each category of coverage (i.e.: building, contents, stock, etc.); indicate the percent valuation (80, 90 or 100%); and state whether coverage is Replacement Cost (RC) or Actual Cash Value (ACV). Business Interruption Worksheets must be complete and indicate the percent valuation (not less than 50%, preferably 80% to 100%).

## LOSS CONTROL PROCEDURES

The following guidelines have been developed to ensure consistency in the utilization of loss control throughout the underwriting of AIG Program Division accounts. These are guidelines, and as such can be adjusted for individual accounts for just cause. **However, failure to survey required locations must be approved by your Program Manager, and documented in the underwriting file.** Refer to the loss control section of the underwriting guidelines for specific requirements of the program.

Within seven days of new business effective date, request an initial on-site survey from an AIG approved subcontractor for any location with an amount subject value exceeding \$1,000,000 on a single building or a group of buildings (amount subject as more specifically defined in the Miscellaneous Property Information, Amount Subject, section of this document).

At least 120 days prior to the first renewal:

- check for any material changes during the policy term, or being requested on the renewal submission, to existing locations;
- check for any significant recommendations, of which we should have been advised on compliance, but which we deem prudent to confirm;

such items may require updated loss control. Any new locations shall be reviewed for loss control consideration per the preceding paragraph.

At least 120 days prior to the second renewal, review as per first renewal criteria.

At least 120 days prior to the third renewal, request a re-survey from an AIG approved subcontractor.

For locations with location values under \$1,000,000., telephone surveys shall be requested from an AIG approved vendor per the terms outlined in the Program Underwriting Guidelines.

For all loss control surveys, on-site or via telephone:

Maintain a follow up diary system to monitor the status of requests for service to ensure loss control surveys are completed within 30 days of request. Due date extensions should be documented by the requester.

Review of all loss control reports within seven days of receipt, take appropriate action where required and document the file per such review and action.

Forward the loss control survey confirmation letter with recommendations to the insured and agent within seven days of receipt.

Maintain a follow up diary system to monitor the status of recommendation compliance at 30, 60, and 90 day intervals. Notify the appropriate Program Manager of any recommendations that remain open after 90 days.

## **TORNADO AND HAIL**

Exposure to the perils of tornado and hail can be severe throughout a number of geographical areas of the United States. Such exposures should be identified and underwritten to minimize the impact of these exposures on a per risk and countrywide book of business basis.

Exposures can be identified via the RiskMeter Tornado Exposure Index and Hail Exposure Index tools.

RiskMeter will provide scores for each as follows:

- 1 = Low Risk
- 2 = Average Risk
- 3 = Elevated Risk
- 4 = High Risk
- 5 = Extreme Risk

For locations with risk scores of 4 or 5, it is imperative that we underwrite these exposures carefully. Information including, but not limited to, the following should be considered:

- Prior loss by either of these Causes of Loss;
- Condition of the roof and roof covering;
- Recent updates of the roof for older buildings.

In addition to the above considerations, higher deductible amounts should be contemplated, especially for those locations with risk scores of 5.

**RiskMeter evaluations should be obtained for locations meeting the following parameters:**

- **Locations with total location values of \$1,000,000 or greater; AND**
- **Within the following states:**
  - Arkansas
  - Colorado
  - Florida
  - Illinois
  - Indiana
  - Iowa
  - Kansas
  - Kentucky
  - Louisiana
  - Missouri
  - Nebraska
  - Ohio
  - Oklahoma
  - Tennessee
  - Texas



## WINDSTORM

- A. Coastal business is not a focus of the AIG Program Division. Such exposures should be minimized or avoided throughout our countrywide book of business. "Coastal business" is defined as being within the restricted windstorm coastal zones defined below.
- B. **Authority:** There is no authority to quote windstorm or hail on locations within any of the windstorm control zones outlined below. All such locations must be submitted to, and approved by, your Program Manager before quoting.
- C. **Windstorm Control Zones**
- a) Any location for Windstorm Pool coverage (see J. Below);
  - b) Locations from Delaware southward, through and including Texas (but excluding Florida) within 15 miles of the mainland coastline;
  - c) Locations north of Delaware through and including Maine within 1 mile of the mainland coastline.
  - d) Florida:
    - The following counties in southern Florida:  
Broward, Charlotte, Collier, Dade, Desoto, Glades, Hardee, Highlands, Lee, Manatee, Martin, Monroe, Okeechobee, Palm Beach, Sarasota, St. Lucie
    - For locations within the remainder of the state any risk located within 15 miles of the coast.
  - e) Limited as per signed Underwriting Guidelines, if different from the above zones.

Risk Meter will provide distance from the **actual** coast line and will also indicate if a location is eligible for coverage within a state wind pool.

- D. For any locations with potential windstorm exposure identified through the above parameters, the underwriter must confirm superior construction and maintenance of all such properties.
- E. **Minimum deductibles:**
- I. **Any location eligible for coverage in a State wind pool:** the full amount of such coverage available to each risk, whether the wind pool coverage is, or is not, purchased. For BII/EE, or any other time element coverage, there is a minimum waiting period of 168 hours. Those states with wind pools are: Florida, North Carolina, South Carolina, Texas, Louisiana, Alabama, Mississippi, Georgia. All other locations subject to the following minimum deductibles.

II. **Locations Delaware southward through Virginia:**

Distance from mainland coast  
0 to 15 miles

Deductibles  
2% of value, minimum \$25,000 per occurrence

III. **Locations North Carolina southward through Texas (except Florida):**

Distance from mainland coast

0 to 10 miles  
(all subject to referral)

Deductibles

5% of value, minimum \$50,000 per occurrence

Distance from mainland coast

Over 10 miles to 25 miles  
(subject to referral 10 to 15 miles)

Deductibles

2% of value, minimum \$25,000 per occurrence

**IV. Locations north of Delaware through and including Maine:**

0 to 1 miles from the mainland coast - 2% of value, minimum \$10,000 per occurrence.

**V. Florida:**

- a) Risks located more than 15 miles of the coast and north of the excluded counties must have a 5% or \$50,000 minimum windstorm deductible per location;
- b) All other risks, subject to referral and approval.

AIG Program Managers and Product Line Managers possess authority to modify these deductibles.

- F. **Imminent Hurricane Threat** – No binder, policy or endorsement where the perils of windstorm/hail/flood are covered (or to be covered), may be issued, or otherwise agreed, for any property within 100 miles of the seacoast whenever a hurricane has been reported by the National Weather Service to be within 600 statute miles and moving toward, parallel to or in the general direction of such property.
- G. You have the option to exclude the perils of wind and hail for any policy or individual locations.
- H. Use RiskMeter.com to determine if individual locations are eligible for coverage by a wind pool.
- I. Amount subject is 100% of the TIV for all locations exposed to the same Windstorm Control Zone.

J. State wind pool web sites. Here is a listing of the state wind pool sites.

Alabama: [www.alabamabeachpool.org](http://www.alabamabeachpool.org)

Florida: [www.citizensfla.com](http://www.citizensfla.com)

Georgia: [www.georgiaunderwriting.com/](http://www.georgiaunderwriting.com/)

Louisiana: [www.lacitizens.com](http://www.lacitizens.com)

Mississippi: [www.msplans.com/mwua/](http://www.msplans.com/mwua/)

North Carolina: [www.ncjua-nciua.org/](http://www.ncjua-nciua.org/)

South Carolina: [www.scwhua.com/](http://www.scwhua.com/)

Texas: [www.twia.org/](http://www.twia.org/)

## WESTERN STATES LANDSLIDE AND WILDFIRE

### A. Landslide:

A RiskMeter - California Landslide/Liquefaction analysis must be obtained for any California location within a geographical area of known landslide exposure, whenever available through RiskMeter.

The landslide result will be either:

- Risk of landslides exists; or
- No known landslide/liquefaction risk.

If the location is identified as “risk of landslide exists” the account must be referred to the appropriate Program Manager to determine if a quote may be provided for the account.

### B. Wildfire:

#### California:

Check each location within RiskMeter for “California Brush Fire Zone”. The result will indicate whether the location is within, or outside, of the hazard area. If outside of the hazard area, it will state how far away from the closest brush fire area the location is situated.

- If within a brush fire hazard area, we will require complete clearing of no less than a 200 foot perimeter around the property;
- If outside of a brush fire hazard area, but within 250 feet of such area, we will require complete clearing of no less than a 200 foot perimeter around the property;
- If outside of a brush fire hazard area and more than 250 feet from such area, standard underwriting procedures should be followed.

#### All other available states:

Arizona, Colorado, Idaho, Montana, New Mexico, Nevada, Oregon, South Dakota, Utah, Washington and Wyoming are states for which wildfire hazard identification capabilities exist through the CDS Wildfire Hazard Model of RiskMeter. Other Western States will be added in future months. Locations within any state for which such capabilities exist must have the hazard rating identified.

The ratings for this Model are:

- Very low
- Low
- Medium
- High

If outside of a “high” hazard area, it will state how far from such “high” hazard area the location is situated.

Any locations identified as being located within a “high” hazard fire zone, or within 250 feet of a “high” hazard fire zone, must meet the requirement of: Complete clearing of no less than a 200 foot perimeter around the property.

## APPENDIX 1

### RiskMeter Geocoded Data

RiskMeter is a vendor service contracted to provide geocoded data to our Program Managers through an internet site. The site is [www.Riskmeter.com](http://www.Riskmeter.com) and requires a login ID, password and member ID. Check with your Program Manager for assignment of your member ID.

The following information is available from RiskMeter.

- Flood Zone Determination – will indicate if a location is within a flood zone (if outside of, but within 250 feet of, a flood zone it will advise, as there could be minor sources of error in placement of the building on the property site).
- Distance to Shore – actual distance to coastline. No adjustments have been made for harbors, bays or tide marshes (if such adjustment is desired for any specific risk, please refer to Program Manager).
- State Wind Pool Eligibility – AL, FL, NC, NJ, SC, TX. The lookup will indicate if a location is within the designated state wind pool area of eligibility.
- California Brush Zones – will indicate if a location is within a brush fire zone. If outside of a brush fire zone, it will indicate distance of the property from the closest brush fire zone. In California, locations within designated brush zones are eligible for fire coverage through the State FAIR Plan.
- CDS Wildfire Hazard Model – for the states of Arizona, Colorado, New Mexico, Oregon and Washington this model will indicate the brush fire rating for any location. Other Western States will be added in future months.  
The ratings for this Model are Very low; Low; Medium; High. If outside of a “high” hazard fire zone, it will indicate distance of the property from the closest “high” hazard fire zone.
- US Quick Quake – provides local soil conditions, the name and distance to the closest fault, identification of the controlling fault and the resulting Modified Mercalli Intensity (MMI) at the site.
  - California Landslide/Liquefaction – will indicate whether a location is within, or outside of, a landslide or liquefaction area. Currently key areas around Los Angeles and San Francisco have been mapped (with additional areas to be added in the future). The results can be:
    - Risk of landslide exists
    - Risk of liquefaction exists
    - Risk of both landslide and liquefaction exists
    - No known landslide/liquefaction risk
  - Hail Exposure Report – will indicate a “hail score” that is a hazard rating based upon historical hail activity. The report will return a “score” from 0 (no risk) to 5 (extreme risk).
  - Tornado Exposure Report – will indicate a “tornado score” that is a hazard rating based upon historical tornado activity. The report will return a “score” from 0 (no risk) to 5 (extreme risk).

A copy of the RiskMeter data is required to be maintained within the property underwriting file.

## **APPENDIX II**

**Signed Statement of Values Worksheet**

**Business Income and Extra Expense Worksheet**

**AIG PROGRAM DIVISION  
SIGNED STATEMENT OF VALUES**

NAMED INSURED \_\_\_\_\_

LOCATION OF PROPERTY \_\_\_\_\_

CITY, COUNTY, STATE, ZIP \_\_\_\_\_

A separate statement must be prepared for each location of an account. If a spreadsheet is available which documents the requested details by location, it may be attached to this Signed Statement of Property Values and referenced in Item I. below.

To the best of our knowledge our 100% values are:

DESCRIPTION OF PROPERTY COVERED	VALUE TO THE NEAREST THOUSAND DOLLARS	INDICATE EITHER REPLACEMENT COST OR ACTUAL CASH VALUE
A. Buildings	\$ _____	_____
B. Machinery, Equipment And Fixtures	\$ _____	_____
C. Stock	\$ _____	_____
D. Tools, Records, Patterns, Etc.	\$ _____	_____
E. Property in Yard	\$ _____	_____
F. Property of Others	\$ _____	_____
G. Other _____	\$ _____	_____

H. The value of the following property on the premises is not included and such Property is not to be included in the insurance coverage:

\_\_\_\_\_  
\_\_\_\_\_

I. The attached spreadsheet dated \_\_\_\_\_, provides the Description of Property Covered, Value to the nearest thousand dollars, indicates valuation of Replacement Cost or Actual Cash Value for each location to be insured, and is made a part of this STATEMENT OF PROPERTY VALUES.

DATE: \_\_\_\_\_

SIGNED: \_\_\_\_\_

OFFICIAL TITLE: \_\_\_\_\_

**NOTE:** Please refer to explanatory note on reverse side for assistance in preparation of values for insurance purposes.

This statement of values shall be made a part of the policy by endorsement thereto.

**EXPLANATORY NOTES ON VALUE REQUIREMENTS FOR INSURANCE**

Replacement Value is to be stated as the same site with new material of similar kind and quality AT TODAY'S PRICES.

Actual Cash Value is to be stated as the Replacement Value less actual physical depreciation. (Book value IS NOT appropriate).

Expensed and fully depreciated items whether they be Buildings, Equipment or Tools must be included at their current Replacement and Actual Cash Values unless shown under "H".

- A. "Buildings" includes all permanent structures on premises as well as Fixtures, Fittings and Equipment pertaining to buildings and structures and improvements and betterments in which the insured has an interest. The value of foundations, piping and wiring below the level of the lowest floor is to be included.
- B. "Machinery, Equipment and Fixtures" includes Furniture, Utensils, Furnishings and all Contents except values included under "C", "D", "E", "F", "G" or "H".
- C. "Stock" includes Merchandise, Raw Materials, Supplies, Stock in Process and Finished Goods, values for which are to be determined as follows:
  - 1. Raw materials, supplies and other merchandise not manufactured by the insured, the replacement cost;
  - 2. Stock in process, the value of raw materials and labor expended, plus the proper proportion of overhead charges;
  - 3. Finished goods manufactured by the Insured, the regular cash-selling price.
- D. "Tools, Records, Patterns, etc." includes Tools, Dies, Jigs, Patterns, Flasks, Templates, Records, Manuscripts, Drawings, Tracings, Prints, Data Processing Media, etc. except such items as may be shown under item "F" or "H".
  - 1. Value of Records, Manuscripts, Drawings, etc. should be based on their value blank plus cost to actually transcribe or copy them.
  - 2. Value of Data Processing Media including programs to be based on the cost of replacing the storage device (cards, tape, disk, etc.) blank plus the cost of reproduction from duplicates or from originals of the previous generation of the media and is not to include cost of gathering or assembling information or data for such reproduction.
  - 3. Dies, Jigs, Patterns, etc. that are active or useful or which would be replaced are to be shown at their full replacement cost.
- F. "Property of Others" includes Customers Goods, Property owned by others including Officers and Employees, Leased Equipment, Government Property, etc.
  - 1. If such property is on premises normally, and more or less constantly, and the Insured has assumed liability for it, either formally or informally by custom or choice, value should be shown under "F".
- H. If the Insured acknowledges no liability, and/or the Insured chooses not to include the property under the coverage, then such property should be identified under this item.

When completing this statement both Replacement Value and Actual Cash Value columns are to be filled in, regardless of type of coverage written.

**AIG PROGRAM DIVISION  
BUSINESS INCOME AND EXTRA EXPENSE WORKSHEET**



**BUSINESS INCOME WORKSHEET**

Net Profit (Loss) \$ \_\_\_\_\_

Plus Fixed Operating Expenses (that continue to be incurred):

Depreciation \$ \_\_\_\_\_

Insurance \$ \_\_\_\_\_

Utilities (if any) \$ \_\_\_\_\_

Taxes (property, unemployment, etc) \$ \_\_\_\_\_

Rent \$ \_\_\_\_\_

Lease Payments \$ \_\_\_\_\_

Interest Expense \$ \_\_\_\_\_

Advertising \$ \_\_\_\_\_

Services Purchased from Others \$ \_\_\_\_\_

Salaries – officers, other salaries and other payroll expenses that *necessarily continue* \$ \_\_\_\_\_

Other expenses that necessarily continue:  
Describe:  
\_\_\_\_\_ \$ \_\_\_\_\_  
\_\_\_\_\_ \$ \_\_\_\_\_  
\_\_\_\_\_ \$ \_\_\_\_\_

Ordinary Payroll for \_\_\_\_\_ consecutive calendar days: \$ \_\_\_\_\_

\* Minimum 90 consecutive calendar days

\* Attach information stating positions and payroll that will continue

Total 100% Business Income - Profit (Loss) Plus Continuing Expenses / Ordinary Payroll \$ \_\_\_\_\_

Take 100%, 90%, 80% or \_\_\_\_% (coinsurance) X \_\_\_\_\_%

Total \_\_\_\_% Business Income Limit \$ \_\_\_\_\_

**EXTRA EXPENSE WORKSHEET**

Extra Expense is the extra monthly cost(s) incurred to continue operations as your business recovers after a physical loss. This worksheet is designed to help determine the extra monthly costs necessary to continue operations after such physical loss. There are typically higher expenses realized during the first month of recovery, and additional "close down" expenses incurred during the last month.

	<u>First Month</u>	<u>Each Subsequent Month</u>	<u>Last Month</u>
Temporary Location(s):			
<input type="checkbox"/> Rent	\$ _____	\$ _____	\$ _____
<input type="checkbox"/> Fixtures, machinery & equipment	\$ _____	\$ _____	\$ _____
<input type="checkbox"/> Telephone / communications	\$ _____	\$ _____	\$ _____
<input type="checkbox"/> Transportation expenses	\$ _____	\$ _____	\$ _____
Moving, hauling, installation:	\$ _____	\$ _____	\$ _____
Advertising, notifications:	\$ _____	\$ _____	\$ _____
Purchase of additional services:	\$ _____	\$ _____	\$ _____
Employee expenses:			
<input type="checkbox"/> Overtime	\$ _____	\$ _____	\$ _____
<input type="checkbox"/> Travel allowances / transportation	\$ _____	\$ _____	\$ _____
<input type="checkbox"/> Additional staff	\$ _____	\$ _____	\$ _____
Additional transportation, shipping costs	\$ _____	\$ _____	\$ _____
Other additional expenses incurred:			
<input type="checkbox"/> Describe:			
_____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____
<b>Total number of months required to recover from total destruction of property:</b>	_____.		
<b>First month total</b>	_____ (a)		
<b>Last month total</b>	_____ (b)		
<b>Intervening months (monthly value)</b>	_____ x (total months -2) = _____ (c)		
<b>TOTAL EXTRA EXPENSE (a+b+c)</b>	_____.		

**COMBINED BUSINESS INCOME AND EXTRA EXPENSE LIMIT CALCULATIONS**

1. Your TOTAL 100% BUSINESS INCOME LIMIT (from page 1): \$\_\_\_\_\_.
2. Your estimated total number of months from date of physical loss until operations are back to normal, if extra expense dollars are not provided (in the event of a total loss of property):  
\_\_\_\_\_.
3. Your estimate of Business Income amount for the duration of loss:  
$$\frac{\text{Total number of months (2. above)}}{12 \text{ months}} \times \text{TOTAL 100\% BUSINESS INCOME} = \$_____$$
4. Your estimated percentage by which your Business Income amount in item 3 would be reduced utilizing Extra Expense expenditures to mitigate your Business Income loss, by assisting you to remain operational (partially or in total): \_\_\_\_\_%
5. Estimated Business Income reduction by use of Extra Expense (line 3 x line 4): \$\_\_\_\_\_
6. Your estimate of actual Business Income loss with Extra Expense (line 3 – line 5): \$\_\_\_\_\_
7. TOTAL EXTRA EXPENSE (from page 2): \$\_\_\_\_\_
8. Your estimate of **Total Business Income and Extra Expense** (line 6 + line 7) \$\_\_\_\_\_.

DATE: \_\_\_\_\_

SIGNED: \_\_\_\_\_

OFFICIAL TITLE: \_\_\_\_\_