

AIG Division 66

Umbrella Qwiknotes

A general reference manual

Introduction

While most of the information contained in this guide is generic, we offer it to give the Program Administrators staff some insight to the companies basic Umbrella underwriting requirements. In most cases risk grades and hazards will be predetermined for program business and requirements are outlined in the underwriting guideline document for the program. Individual risks may vary and careful attention to variances is always required.

Rating plans and policy forms and endorsements may vary by state. Make sure to refer to the state specific section of this manual for the correct companies, forms and rates in the state of domicile of our customer. If you are using Cover-All, the system should have correct rates and forms.

It is our underwriting philosophy to view the umbrella as a catastrophic contract to provide significantly higher limits of protection against an unforeseen disastrous occurrence and a means for responding to fortuitous loss in the area of the umbrella's coverage extensions, which are not necessarily catastrophic in nature.

Umbrella premiums are very modest in comparison to the limits of liability provided and we strongly emphasize detailed and thorough underwriting. The umbrella policy is not a substitute for primary insurance. Where a known exposure exists, we have to evaluate it and require primary insurance sufficient to protect the umbrella. The coverage extensions afforded, subject to the retained limit, allow for truly fortuitous and unexpected occurrences. If exposures exist in the area of coverage extensions, they too have to be evaluated and primary coverage sufficient to protect the umbrella must be required.

The Umbrella Underwriter has to take the following into consideration:

- Great degree of unpredictability
- Long tail development
- Potential for stacking limits over different policy periods
- Low premiums to limits exposed

The volatility of this casualty line of business necessitates a very disciplined approach to underwriting if we are to maintain long term profitability

Umbrella Overview

Umbrella insurance is excess insurance that serves three basic purposes.

1. **High Liability Limits**

The umbrella policy provides high liability limits above other insurance that the insured has purchased. For commercial accounts, the underlying or primary coverage usually includes Commercial General Liability, Employers Liability, Auto Liability, Liquor Liability or other specialized coverages tailored to the needs and type of business of the insured.

2. **Excess of Aggregate/“Drop Down”**

In addition to providing high limit coverage for a single shock loss, the umbrella is designed to provide coverage when the aggregate limits of the underlying policy have been exhausted by the payment of claims. In other words, the umbrella policy covers over an accumulation of losses that exhaust the underlying coverages aggregate limits.

3. **Coverage for Unknown and Unexpected Liability Losses/“Drop Down”**

The umbrella policy may cover unknown and unexpected liability losses that are not covered by the insured’s underlying policies. It is the purpose of the umbrella to provide primary coverage, subject to the self-insured retention of the umbrella, for gaps that may exist between underlying policies – subject to the umbrella terms and conditions.

Source of Underwriting Information

1. **Application**

A completed commercial umbrella application, signed by the producer must be received prior to providing a new quotation. Use of the acord application is recommended. This includes both the Applicant Information Section (ACORD 1255) as well as the Umbrella Section (ACORD 1315).

In instances of multiple named insureds, it is important that the primary insurance program information (i.e., limits premium, insurer, type and extent of coverage) be reviewed for each entity along with description of operations for each.

2. Other available underwriting information will be in the primary file such as, financial informations, survey’s, loss information, and worksheets.

Umbrella Underwriting Concepts

1. Catastrophe Potential

Underwriting attention should be directed towards severity and catastrophe rather than frequency. Usually frequency is not a problem unless the underlying aggregate has been exhausted. Of course the nature of some frequent loss might cause concern if a severity or catastrophe potential is also present.

The risk grades can be a starting point in your catastrophe evaluation process. The loss severity potential of a class of business is considered in these grades. However, it must be recognized that there are some classes which reflect a high-risk grade solely due to loss frequency potential (e.g. restaurants). Individual severity exposures also need to be examined by the underwriter to evaluate the catastrophe loss potential of a risk.

2. Hazard Identification

Understanding the operation of an enterprise is essential to methodical evaluation of the risk. Unless operations are known, exposure and degree of hazard cannot be said to have been considered by the underwriter.

Generally speaking, we can write business ranging from low hazard with average risk characteristics, to medium hazard with above average to excellent risk characteristics. As the degree of hazard increases, we must require superior risk characteristics. Conversely, as the degree of hazard decreases our underwriting requirements may be less stringent.

Identifying our exposures is the first step in assessing the degree of hazard that exists in premises/operations, products and automobile.

- a. What is insured's operation?
- b. How can it cause BI, PD, PI and AI?
- c. How much damage or injury can result?

If the underwriter can develop sufficient underwriting information to resolve these issues, the risk exposures have been fully developed.

3. Degree of Hazard – Relative BI Hazard

What kind of injury can we anticipate and what is the probability of the insured's operation, product or automobile causing:

- a. Minor injury?
- b. Major injury?
- c. Death?
- d. Multi-injury or Death?

For example, a toy manufacturer is a risk hazard grade 6. However, the degree of hazard within this referral grade can range from low to high as follows:

<u>Degree of Hazard</u>	<u>Toy Manufacturer</u>
Low	Board games
Medium	Wagons, Dolls
High	Skateboards, Pop guns BB Guns

4. **Degree of Hazard – Relative PD Hazard**

What amount of property damage can we anticipate and what is the probability of the insured's operation, product or auto causing:

- a. Indirect or consequential damage?
- b. Minor direct damage?
- c. Major direct damage?
- d. Loss of use?

For example, a fertilizer and insecticide manufacturer has a high probability of causing property damage. The degree of hazard would be high. However, a canned food processor has a low probability of causing even minor PD, (unless it is pet food or animal food) so the degree of hazard would be low.

5. **Relative Scope of BI and PD**

What is the probability as well as frequency of the insured's operation or product causing:

- a. Small losses?
- b. Medium – size losses?
- c. Large losses?
- d. Catastrophic loss?

For example, a grocery store would produce many small to medium size losses from slips and falls, whereas a manufacturer who would be subject to batch claims, such as drugs, and pharmaceuticals, has a high probability of producing a frequency of large losses. The degree of hazard would be catastrophic.

Generic Exposures and Issues

• **Named Insured**

Identification of the insured is the first and probably the most important step in underwriting the umbrella policy. When underwriting a risk, it is important to know exactly what each entity does and where underlying insurance is placed. We, by definition, cover controlled companies as well as subsidiaries. There are many cases where the controlling interest in an organization can be less than a majority interest. **Individuals other than as a “D/B/A” are not to be listed as named insureds on commercial umbrella policies.**

A limitation of coverage to specified entities endorsement should be used to limit our named insured where required. Where there are subsidiaries or controlled companies which are not to be covered or where the underwriter feels some control is needed on a risk with numerous and/or complicated insureds, this endorsement should be used to list the entities to be covered.

On risks where there are fewer insureds or some are covered elsewhere use the specified entity exclusion (60443 5/94). In this case we are stating that coverage does not apply to the entities listed. List the entities not covered.

- **Additional Insureds**

It is also important to remember that our umbrella policy by definition is covering on a follow form basis any other person or organization, who is included as an additional insured on policies listed in the schedule of underlying insurance but not for broader coverage than is available to such person or organization under such underlying policies. **There is coverage for additional insureds automatically and we should not add them to our umbrella.** The umbrella has no definition for an additional insured. If an entity is included as an additional insured, or “as their interest may appear”, in case of loss coverage may be interpreted to include them as an insured and provide coverage for all of the entities activities.

Do not name entities on the policy except the named insured and their subsidiaries. When asked to add additional insureds, refer the producer to our broad definition of insured.

Underlying Carrier

In most cases we write umbrella over our own primary policies, however coverage other than general liability may be written over other carriers. We require that other carriers have a Best’s rating of at least A-VII. State Assigned risk pools for Workers Compensation are acceptable.

- **Concurrency /Policy Period**

Because of the problems of exhaustion of aggregate limits, the policy period of the umbrella **must be** concurrent with that of the primary general liability, auto liability and garage liability policies.

Upon exhaustion of the underlying aggregate limits, umbrella policies provide excess of the aggregate coverage. In effect, the umbrella policy would then operate as primary insurance.

Because of the problem, all primary policies containing aggregate limits of liability are to have policy periods concurrent with the umbrella policy period

by the 1st anniversary of the umbrella.

The easiest way to handle the situation is to write a short-term umbrella until the anniversary date of the primary GL, AL or garage policy, then issue an umbrella with concurrent dates.

- **Aircraft Liability**

Our umbrella policy excludes BI & PD arising out of ownership, maintenance, operation, use, loading or unloading of any aircraft owned by the insured, or rented to the insured without a crew.

- Excludes owned aircraft and rented aircraft without crew.
- Allows for non-owned aircraft with crew.
- Exclusion does not apply if coverage is provided by a policy listed in schedule of underlying insurance.

When there is a known exposure, **Coverage should be written by A.I. Aviation.**

Owned and non-owned aircraft coverages are not to be scheduled as underlying coverage. Coverages are to be written by A.I. Aviation or other carriers.

Automobile Liability

If underlying auto symbol is not symbol (1) use auto follow Form Endt. #60446.

Automobile is the largest single class of business having losses that penetrate the umbrella layers. (See the generic exposure section on automobile).

It is impossible to predict the size of an automobile loss, but as we all know, losses occur with incredible frequency with some of those losses resulting in damages and injury severe enough to impact the umbrella.

Auto coverages and exposures as part of underlying policies:

1. Commercial auto policy
2. Truckers policy
3. Garage
4. Hired and non-owned coverage
5. Uninsured and underinsured coverage

The most important task in umbrella underwriting of the auto exposure of any risk is to identify and evaluate the actual exposure and obtain sufficient pricing for the exposure and avoid risks that have a high likelihood of a large or catastrophic loss.

The following common exposure characteristics should be considered with the reality that our umbrella policies are excess and only respond when losses exceed underlying limits.

1. **Number of Vehicles**

The potential for a large loss exists whether there is one owned auto or a hundred. The potential for that large loss increases as the number of vehicles increase. We find it difficult to set up firm numbers where the risk becomes unacceptable but consideration should be given to our NHIG overall strategy to reduce the impact of auto as a percentage of our total book. Auto should not be more than 40% of the premium of total commercial account for primary coverage. Following this rule of thumb should control our umbrella exposures for auto.

2. **Motor Vehicle Reports – MVRs**

In most cases, it is not necessary to order MVRs solely for an umbrella policy. When NHIG writes the primary automobile coverage, the underwriter should review the driver profile and available MVRs in order to evaluate the catastrophe exposure.

Ordering MVRs is warranted for an umbrella risk presenting a heavy auto exposure where NHIG is not the primary carrier.

3. **Operations**

- **Length of Haul** – A risk that regularly travels long distance presents greater exposure due to driver fatigue, unfamiliar roads and equipment failure. On the other hand, short distance travel within a large metropolitan area may present even greater exposure due to traffic congestion, time delivery constraints, and multiple stops.
- **Routes Traveled** - Mountain roads, ice, snow, fog areas and heavy rain also contribute to loss potential.
- **Average Daily Use** – Vehicles that are constantly on the road are more likely to generate a loss than ones parked all day.
- **Personal Use-Auto** – Large sales fleets may get a lot of non-work related use. i.e.: after hours, spouse and children.
- **Trip Leases** – Trip leasing is typical of “gypsy operator”, truckers who lease to several carriers. They will generally haul anything and everything, anywhere and everywhere.
- **Passenger Hazard** – Buses, livery, multiple injury exposure results in multiple lawsuits from one accident.
- **Non-ownership** – Increased legal exposure from employers using their own vehicles on behalf of the insured – usually i.e. law firms, real estate companies, visiting nurses, social workers, newspaper delivery, and pizza delivery.

4. **Drivers**

Age, MVRs, experience, caliber, turnover and method of remuneration all can effect potential for loss.

5. **Equipment**

Size, weight, age, condition, and maintenance all effect loss potential.

6. **Management**

Experience, supervision, pay scale, training, financial condition and safety standards are underwriting concerns on every risk.

7. **High Hazard Vehicles**

Risks that have more than an incidental exposure to the high hazard auto listed here, (greater than 10% of fleet) should be referred to the Program Manager prior to binding.

High Hazard Auto Exposure

1. Acetyline gas – explosion, fire, loading and unloading
2. Ambulance – emergency vehicles – passenger hazard, invalids
3. Anhydrous ammonia – fire, explosion, toxic chemicals
4. Auto dealer – customer usage, extensive personal use, drive-away
5. Auto driving schools – passenger hazard – inexperienced drivers
6. Auto parts stores – young drivers
7. Auto truck repairs – customer usage, young drivers, completed operations
8. Auto racing
9. Auto retail delivery – young drivers
10. Carnivals – itinerant workers – employee caliber, young drivers
11. Cattle or livestock dealers – load stability, shifting overturn
12. Chemical hauling - explosion , fire, toxic chemicals, loading and unloading
13. Concrete mix in transit – heavy loads, stability, congested areas
14. Drive yourself u-haul – no control over driver

15. Excavation contractors – dump trucks & trailers, heavy loads
16. Explosives
17. Fairs – (see Carnivals)
18. Farm labor – inexperienced operators, passenger hazard multiple injury, old equipment
19. Fruit, vegetables or poultry dealers – congested areas, old equipment, unbalanced loads
20. Garbage trucks – heavy trucks, congested areas, load stability, toxic waste
21. Gasoline dealer or distributor – fire, explosion, heavy weight, loading and unloading
22. Hay haulers – load stability, old equipment, fire, inexperienced operators
23. Heavy equipment haulers – load stability, weight, loading and unloading
24. House moving – load stability, loading and unloading
25. Ice cream/Good Humor – lures children into street
26. Iron & steel hauling – heavy weight, load stability, loading and unloading
27. Junk dealer – load stability, young drivers, old equipment
28. Moving vans – load stability, long haul, tight schedules, extra heavy
29. Newspaper delivery – tight schedules, non-owned, loading and unloading
30. Police vehicles – emergency use, hot pursuit, passenger hazard, congested areas
31. Public transportation, school buses, church buses, passenger hazard, multiple injury inexperienced operators
32. Salesmen fleet – extensive personal use, after hours, spouses and children

Foreign Exposures

- **Products**

Evaluating the loss severity potential of a product involves understanding what the product is, including the application and end users. If the product is a component, is it a critical part? What type of damage or injury will a malfunction cause and how serious will it be? Are there foreign manufacturers?

- **Territory**

Keep in mind, the umbrella is broader than the underlying coverage provided by the CGL. The umbrella does not limit worldwide coverage to injury or damage arising out of products made or sold by the insured in the United States (its' territories and possessions), Puerto Rico and Canada. **The suit does not have to be brought in the U.S. We become the primary insurer if the insured has foreign operations and does not have primary coverage. See sections on foreign liability.**

The ISO commercial general liability and automobile liability policies limit coverage to occurrences taking place in the United States of America (including its' territories and possessions), Puerto Rico and Canada. In addition, the ISO CGL coverage form covers suits in all parts of the world if:

- (1) The injury or damage arises out of:
 - (a) Goods or products made or sold in the U.S. (including its' territories and possessions), Puerto Rico and Canada, or
 - (b) The activities of a person whose home is in the territory described in (a) above, but away for a short time on your business, and

- (1)The insured's responsibility to pay damages is determined in a "suit" on the merits in the territory described (a) above or in a settlement we agree to.

Our umbrella policy has no territorial limitation, therefore, world wide coverage is automatically provided for occurrences and lawsuits anywhere.

Our umbrella policy merely states that the BI, PD, PI and AI must take place during the policy period and is caused by an occurrence happening anywhere in the world.

Because of our broad approach to foreign liability, we must identify and underwrite any foreign exposure. Our umbrella policy should not be allowed to be a substitute for primary coverage.

When an identifiable foreign exposure exists, primary foreign liability coverage is required. U.S. companies may have exposure for:

- 1) Foreign sales
- 2) Foreign operation

1. Foreign Sales

Since our umbrella policy has no territorial limitation as respect to products liability, we must determine if products are sold outside the U.S. etc., and if there are regular and continuing foreign sales of domestically manufactured products, primary foreign product liability is required. **If the risk does not want to purchase primary foreign product liability coverage, the exposure should be excluded from the umbrella policy or the risk should be declined.**

Generally the risk should be written using our World Risk product.

- Minimum underlying limits \$1,000,000/\$2,000,000
- Schedule the foreign products liability in the schedule of underlying policies
- Underlying Foreign Carrier must be “A-7” rated
- Attach foreign liability follow-form endorsement - 57710 - 6/93 or foreign liability exclusion follow-form endorsement - 60419 - 5/94

2. Foreign Operations

Whenever a risk has foreign locations or operations, a primary foreign liability policy is required. Foreign coverage could also be required for incidental operations depending on the degree of exposure.

For foreign locations or operations, the underwriter should contact the AIU underwriter. He or she will understand the local legal environment and coverage requirements in the foreign country/countries and can assist in determining adequate underlying coverage and limits.

Underlying coverage should include:

- General liability including products
- Auto liability
- Employer’s liability

Note: The preferable method of providing underlying foreign coverage is through purchase of a difference in conditions liability policy (DIC) through AIU. This type of policy fills any underlying coverage gaps and limits to the level of U.S. coverage. Other underlying carriers can be acceptable upon approval from American Home

- Use follow-form foreign liability endorsement – 57710 – 6/93 or use follow-form foreign liability exclusion – 60419 – 5/94

Sexual Abuse, Misconduct/Child Molestation

This exposure **must** be excluded on all risks that have children (under the age of 18) or mentally challenged adults (including the elderly) who are in the entrusted care or under the supervision of any insured.

Normally, the risks with this exposure include but are not limited to:

- Vocation training schools
- Schools – Day care centers
- Child care cooperatives
- Scouting organizations
- Athletic associations – little league, pop warner, soccer, etc.
- Social service organizations
- Churches
- School bus contractors
- Governments
- Camps – day or overnight
- YMCA's – YWCA's
- Foster care
- Big brother
- Adoption agencies
- Home health care
- Group homes for adults
- Child counseling
- Nursing homes
- Retirement center

Watercraft

Our umbrella policy covers liability for watercraft only on a follow-form basis arising out of the ownership, maintenance, operation, use, loading or unloading of any watercraft owned by the insured or rented to the insured without a crew.

We are willing to cover incidental owned watercraft provided they are:

- Less than 26 ft. for owned – 51ft. for non-owned
- Not used for racing
- Not rented, leased or chartered to others
- Less than 40 MPH rated speed
- Not used as a livery for persons or commodities
- The power is not in excess of manufacturer's specifications
- Minimum underlying limits of \$1,000,000 – no sub-limits for water skiing
- **No jet skis**

Personal Umbrella's

- We are not a market for Personal Umbrella

Lead/Lead Paint Exposure

It is mandatory that we attach the lead paint exclusion or lead exclusion to all umbrella policies.

Note: The underwriter should check the state exception pages for states that have not approved the lead exclusions. Coverage should not be bound if the risk is listed below and the state has not approved the lead exclusion.

Examples of risks that could present major exposure to lead include:

- **Risks having lead paint exposures** – schools; daycare facilities, habitational occupancies including apartments, condominiums, cooperatives, boarding houses, rooming houses, dormitories, housing projects; government subdivisions, banks, lending institutions, and real estate owners and managers.
- **Risks that could have an inherent or serious lead contamination exposures** – lead smelting, storage battery manufacturing/recycling, fine china, porcelain, earthenware manufacturing and importers, clay products manufacturing, brass foundries, printers, cable manufacturing, paint manufacturing, food processors, water companies, painting contractors, welding, plumbing, truckers, firing ranges, fishing weight manufacturers, etc.

Self-Insured Retention/Deductibles in Primary Underlying

Any umbrella to be written over a large self-insured retention or deductible (10,000 or greater) in the primary must be referred to the Home Office for approval prior to binding.

- **The umbrella SIR should be the same or greater than the primary SIR or deductible.**

Generally we are not a market for such umbrellas; these should be referred to American Home.

Self-Insured Retention Umbrella

The Program Manager may waive the SIR requirement of the umbrella in any state except New York or Texas. New York requires a \$10,000 SIR. Texas requires \$25,000.

Endorsement Usage

The proper use of endorsements is a vital part of successful umbrella underwriting. They serve to preserve the catastrophe nature of the umbrella by restricting or eliminating coverage in the instances where primary coverage does not exist. They clarify who is an insured and the extent of coverage provided when a comprehensive insurance program is not in place for a given entity.

- **Following form endorsements** ensure that the umbrella policy follows a primary coverage with respect to insuring agreements, conditions and exclusions. It is important to understand the overall effects of these endorsements.
 1. Umbrellas can be limited to that provided by the scheduled primary policy – not to be broader than primary.
 2. Umbrella coverage can be broadened to that provided by the scheduled primary policy.
- Where primary coverage is not standard, it may be desirable to follow-form to avoid confusion over coverage. In most cases, this results in the use of following-form endorsements to limit umbrella coverage where it is broader than the primary so that known drop down exposure can be avoided.

For example: if the underlying auto coverage is not written with symbol 1, the umbrella could drop down over the SIR to provide coverage for any auto. In this case, we would want to use the follow-form auto endorsement to prevent this.

Exclusion Endorsements

The most important rule to remember about exclusions is:

If you exclude any exposure in the primary coverage by endorsement, don't forget to exclude the exposure in the umbrella. If the underwriter forgets to follow the exclusions used in the underlying, then the umbrella policy will become primary over the SIR for indemnity and will be primary on a defense basis.

Uninsured/Under-Insured Motorist Coverage

The New Hampshire and National Union filed umbrella policies have an exclusion built into the form for UM/UIM, however; this exclusion is not valid in the following states:

**Florida
Indiana
Louisiana
New Hampshire
Vermont
Maine**

The AIG Companies are taking the position that an exposure risk may exist even if you are writing coverage on non-admitted paper. Many of the state statutes refer to "any" policy that provides automobile coverage and do not differentiate between admitted and non-admitted paper.

We view this coverage as first party insurance and we do not want to provide coverage for this exposure in our umbrella. If the insured has the option to decline the coverage by signing and rejection, then we should obtain such signed rejection prior to the effective date of coverage. If our insured is not willing to reject UM, or rejection is not permitted, than we

should not write the umbrella. All State regulations regarding Cancellation and non-renewal Must be strictly adhered to.

The required selection/rejection forms that you should use are currently provided by state in the AIG Program Division Program Administrator Guide to UM/UIM/PIP. The following replace those requirements for UM/UIM with regard to Commercial Umbrella.

Refer to the following forms for selecting/rejecting coverage in the umbrella policy.

Florida	62574	08/98
Indiana	62589	05/95
Louisiana	62596	06/98
New Hampshire	63589	04/98 (not available for use on primary)
Vermont	63594	10/95

The following procedures should be applied to all risks written, (admitted or not), with autos garaged or domiciled in the six states or risks with national or regional fleets that expose us in those states. These procedures apply without regard to the insured's state of domicile or the legal address on the declarations page.

Despite the fact that we do not wish to write the Umbrella if UM/UIM is included, we understand circumstances on renewals may require us to provide the coverage. The following includes instructions for the uses of the forms under any circumstance:

Florida - 62574 (08 98)

The maximum umbrella excess limit you need to offer is \$1,000,000. If the policy limit is greater than \$1,000,000 the insured may elect the \$1,000,000 lower limit. If the proper selection/rejection form is mailed at least one month prior to inception, but is not received, you do not have to provide UM/UIM coverage if you mailed the selection/rejection form by certified mail, signature required and include the signed certified mailing receipt in the underwriting file. Conversely, if you did not mail the selection rejection form and retain proof of mailing, then UM/UIM coverage could be deemed to apply regardless of the insured's intent. On renewal, you do not have to re-send a selection/rejection offer if the file already includes either a signed form or a signed certified mailing receipt. If the renewal file does not contain the signed form or proof of mailing, then you must re-send the selection /rejection offer and document the file.

Indiana - 65289 (05/95)

The maximum umbrella excess limit you need to offer is \$1,000,000. If the policy limit is greater than \$1,000,000 the insured may elect the \$1,000,000 lower limit. If the proper selection/rejection form is mailed prior to inception but is not received, you must provide the maximum UM/UIM limit of \$1,000,000. On renewal, you are required to re-send the selection/rejection forms for signature prior to inception. In this state the selection rejection form must be obtained every year.

Louisiana - 62596 (06 98)

The insured may elect variable limits as long as they are consistent with limits AIG has filed. If the policy limit is greater than \$1,000,000 the insured may elect the \$1,000,000 lower limit. If the proper selection/rejection form is mailed prior to inception but is not received, you must provide the umbrella/excess policy limit.. On renewal, you are not required to re-send the selection/rejection form if the insured previously rejected coverage or selected a limit lower than the policy limit.

New Hampshire - 63589 (04/98)

The insured can reject UM/UIM coverage, but otherwise their only selection is the policy limit. If the proper selection/rejection form is mailed prior to inception but is not received, you must provide the umbrella/excess policy limit. On renewal, you are required to re-send the selection/rejection forms for signature prior to inception. In this state the selection rejection form must be obtained every year.

Program Administrator procedures:

If the insured does not submit a properly executed selection/rejection form, the policy should be issued at full limits for UM/UIM, including the full limits charge.

- **If the insured properly rejects coverage prior to inception, a copy of the rejection request needs to be made a part of the policy.**
- **If the insured properly selects the policy limit or a limit less than the policy limit, but not less than the \$1,000,000 limit which is the lowest limit for which Umbrella rates are filed prior to inception, a copy of the selection request needs to be made a part of the policy.**
- **A UM endorsement that coincides with your umbrella/excess policy wording needs to be included.**
- **If the insured properly rejects coverage after the inception date, it is acceptable to allow either a flat cancellation or a pro rata cancellation of the UM premium charge, depending on what your current procedures are for similar requests (ie: if you currently allow coverages to be flat cancelled back to inception, if the request to do so is received within 10 days from when the policy incepted, then you may do the same for UM). The S/R form needs to be made a part of the policy.**
- **If the insured properly selects a lower limit on policies greater than \$1,000,000, after the inception date, it is acceptable to change the full limits charge to a lower limit charge, depending on what your current procedures are for similar requests. The S/R form needs to be made a part of the policy.**

-If the insured properly selects the full limit after the inception date, the S/R form needs to be made a part of the policy.

- **If the insured improperly rejects or improperly selects policy limits or a lower limit before or after the inception date, a new form and instructions need to be returned to the insured. It is recommended that you highlight in the instructions where the error occurred. The original S/R form needs to be maintained in the underwriting folder. The corrected, properly executed S/R forms needs to be made a part of the policy.**

Vermont - 63594 (10/95)

UM/UIM coverage is required. If the policy limit is greater than \$1,000,000 the insured may elect a lower limit. Since coverage is mandatory, you must renew including UM/UIM. If the insured elects to reduce their UM/UIM limit, they need to request it in writng. Copies of such requests must be maintained in the file.

- **Per Location Aggregate/Per Job Aggregate**

(The per location aggregate/or per job aggregate should not be written in the umbrella.) There are too many legal liability issues that can be assessed to multiple locations that could stretch or compound our limits beyond our intent at the price for exposure of umbrella pricing. On the other hand, with complex, multi-location or multi-project risks, consideration should be given to requiring general aggregate limits in the underlying coverage to apply on a per location and/or per project basis. Our reasoning is that if the insured has a significant job site or location loss, which wipes out the primary aggregate limit, we as the umbrella underwriter, don't want to provide our limit at all job sites or locations as primary limits for the remainder of the policy terms.

- **Limits of Liability**

- Refer to specific authorities

Situation Referrals:

- Any umbrella with 1st million premium over \$25,000.
- Personal umbrella.
- Sexual abuse coverage
- UM/UIM on ANY risk located in Ohio.
- Jones Act coverage.
- Federal employee act coverage.
- Any trucking business, unless specific authority is granted..

- Request for lower employer's liability underlying limits may be referred. However, the following states have various statutes, which allow for the exclusive remedy of workers compensation coverage to be breached: Texas, Ohio, West Virginia, New York, Illinois and California. We will not drop below our minimum attachment point of \$500,000 for accounts with exposures in these states.

The current Program Administrator Underwriting guidelines and Authority will be defined in the specific underwriting guidelines. These are listed as examples of major areas to usually avoid.

1. Aviation Products and Liability with respect to airframe, engine components and control equipment
2. Directors and Officers
3. Bodily Injury for railroads that transport fare paying passengers
4. Vehicles used in speed contest or to haul explosives
5. S.E.C. Liability
6. Pollution Liability – except hostile fire
7. Products Recall
8. Professional Liability other than cosmetic stores, dental labs, hearing aids, pet grooming, pet stores, print shops, barbers, beauticians, druggists, optometrists, funeral director, cemetery professional, opticians, librarians, school nurses, school or camp infirmaries with no employed physicians, physician assistants or dispensing of drugs, and miscellaneous professional liability which is included in ISO general liability classifications.
9. Environmental Impairment Liability
10. Reinsurance assumed by the Reinsured except:
 - a. Agency reinsurance
 - b. Reinsurance assumed from companies under the management or control of the Reinsured or from other AIG companies
11. Any liability from the manufacturing, processing or exclusive wholesale distribution of tobacco products
12. War
13. Liquor liability if insured is in the business of manufacturing alcoholic beverage

UMBRELLA RATING GUIDE

NEW HAMPSHIRE COMPANIES

Applicable to Form 60533 - 6/94-and corresponding rates filed and approved for New Hampshire Companies and "a" rated states. Refer to Filing Status sheet 97-CU-03, and specific state tab.

This procedure is included in Cover-All. A spreadsheet rating tool is also available. If needed, please contact your Program Manager.

Please note that the rating values shown per unit etc. may vary from the filing documents provided under tab 3. These rates are used in the "a" rated states. In other than those states shown as "a" rated in the filing documents, the filed ranges apply. Rates outside of ranges must be referred to the Program Manager at AIG. IF Cover-All is used, rates should be OK, subject to authority granted in the underwriting guidelines for the program. This plan is not applicable in the states of KS, LA, MA, NM, OH, TX, VA and VT. (See Filing status sheet for NU-C-174 and state exception pages under state tabs.)

The following Rating Formula is predicated upon the Risk carrying Minimum Underlying Limits (or Retained Amounts) as indicated below; (These minimums are applicable to both New Hampshire and National Union filings)

COMMERCIAL GENERAL LIABILITY POLICY

- A) Premises/Operations,
Contractual, Personal Injury
And Advertising Liabilities: \$1,000,000 Each Occurrence
\$2,000,000 General Aggregate
- B) Products/Completed
Operations Liability: \$1,000,000 Each Occurrence
\$1,000,000 Aggregate

BUSINESS AUTOMOBILE POLICY

- A) Automobile Liability: \$1,000,000 Each Occurrence

WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY POLICY

- A) Employers' Liability: \$ 500,000 Each Occurrence
Note: See situation referrals \$ 500,000 Each Employee For Disease
\$ 500,000 Aggregate for Disease

MISCELLANEOUS LIABILITY POLICIES

- A) Watercraft Liability: \$1,000,000 Each Occurrence
- B) Foreign Liability:
1) All Other CGL: \$1,000,000 Each Occurrence
\$1,000,000 Each Aggregate

- C) Product/Completed Operations \$1,000,000 Each Occurrence
\$1,000,000 General Aggregate
- D) Automobile \$1,000,000 Each Occurrence

Note: Underlying insurers must have Best’s Rating of (A-) VII or better, or be written in a state approved risk pool.

To calculate the premium for the first million of umbrella excess coverage, the following designated factors must be applied against the base underlying premium for CGL and miscellaneous coverages. The base underlying premium is defined as manual premium less experience and schedule credit, but before deductible credits.

Base Underlying Premium = Written Premium before deductible credits.

For automobile coverage, per unit rates are to be used.

The underwriter must assess the risk’s potential to incur a catastrophic loss, i.e. level of severity. The severity guide is designed to assist the underwriter in selecting an appropriate pricing factor from the range of designated factor.

SEVERITY GUIDE

FOR ALL STATES EXCEPT AK, FL, GA, MT and WA

Under Lying Risk Hazard Grade

- | | | |
|-----|-------------------|---------------------|
| 1-2 | Low Severity | Minimum to Midpoint |
| 3-5 | Moderate Severity | Midpoint to Maximum |
| 6-7 | High Severity | Maximum and Beyond |

Table A Rating – First Million GL and Auto

Designated Factors

Coverage	HG 1-2	HG 3-4-5	HG 6-7
CGL/Prem/OPS	15%	30%	40%+
Products	20%	40%	50%+

Note: Only one rating option should be used - Prem/OPS or products completed OPS. Therefore, the underwriter must determine which method represents the predominant catastrophic exposure for general liability.

Various miscellaneous liability coverages are to be priced by applying a factor of 10% to 50% of each underlying premium.

TABLE A

**Auto unit rates based on population of metropolitan areas.
Rates are – xs of \$1,000,000 each occurrence.**

Vehicle Type	Population 500K		Population 500K-1,000		Population over 1,000	
	Local	Intermediate	Local	Intermediate	Local	Intermediate
PPT	270	330	415	525	660	820
LT	550	660	770	880	990	1100
MT	825	935	1045	1155	1265	1375
HT	1100	1210	1320	1430	1540	1650
XHT	1925	2090	2255	2420	2585	2750

Note: Incidental long haul increase factors by 1.50%. Occasional trip, one or two vehicles over 250 miles - less than 10% of operation no over night.

Buses:

Up to 8						
PASS	250	300	350	400	450	500
8 +						
PASS	500	600	700	800	900	1,000

Definitions:

Local - under 100 mile radius
Intermediate - 101 to 250 mile radius
Long haul - over 250 miles radius: refer to appropriate level of authority if regular and more than 10% of operations.

**The final premium for the first million of umbrella will be the sum of all the above.
The first million premium may be modified by schedule rating Table E.**

Reminder: Use follow-form auto endorsement if the underlying coverage symbol is other than symbol 1 for auto liability or symbol 21 for garage.

TABLE B – Each million X/S of 1st million

In order to calculate a premium for the limits excesses of the 1st million, the following factors are to be applied to the modified premium of the 1st million umbrella premium.

\$1 million x 1 million x primary	50%
\$1 million x 2 million x primary	40
\$1 million x 3 million x primary	35
\$1 million x 4 million x primary	30

Subject to MP per layer - see below

Table C – Each Million X/S 5 Million X/S Primary

75% of proceeding million for each million.

Subject to MP per layer - see below

Table D – Minimum Premiums

First \$1 Million	\$2,500 Minimum Premium
Each additional Million	\$1,000 Minimum per

Note: Addition pricing flexibility may be obtained by referral to the Program Manager.

UMBRELLA RATING GUIDE

NATIONAL UNION

SEE STATE FILING DOCUMENTS FOR TEXT OF RATE FILING

Applicable to Form 57697- 6/93-Filed and approved for National Union and used in the states of CA, KS, LA, MA, NM, OH, TX, VA and VT. (See Filing status sheet for NU-C-174 and state exception pages under state tabs.)

This procedure is included in Cover-All.

NEW HAMPSHIRE UMBRELLA JUDGEMENT RATING TABLE
(New and Renewal)

TABLE E

		MODIFICATION RANGES		
		CREDIT	DEBIT	
A.	Fire Life Safety	-10	+10	
B.	Premises Condition, Pollution Exposures	-10	+10	The followings States limit judgment rating to: + or -25%.
C.	Insurance Program Adequacy- Certificates from Subcontractors Additional Insured Status	-10	+10	
D.	Premises Security Guards Lighting, Employee Training	-10	+10	
E.	MVR's Young Drivers Elderly Drivers, Convictions	-10	+10	AZ DE IA OH
F.	Vehicle Maintenance Program	-5	+5	OR
G.	Vehicle Age, Distance Traveled, Load Type	-5	+5	
H.	Safety Program	-5	+5	
I.	Quality Control Program	-5	+5	
J.	Management Experience	-5	+5	
K.	Employee Selection	-5	+5	
L.	Advertising, Broadcasting, Publishing	-5	+5	
M.	Foreign Sales	-5	+5	
N.	Foreign Operations	-5	+5	
O.	Aircraft, Watercraft	-5	+5	

Judgement modifications that exceed 25% - new and renewal – must be referred to the Program Manager on a prior approval basis. Judgement modification cannot exceed 40% credit – new and renewal.

All judgement modifiers selected on the judgement rating table must be consistent with underwriting information on file.

Underwriter: _____

Manager Approval _____

Date: _____

Date: _____

NATIONAL UNION
JUDGEMENT RATING TABLE

Special characteristics of an Umbrella/Excess risk may serve to heighten or lessen Its overall desirability. The Schedule Rating may be applied to the Final Premium for the First \$1 million of Umbrella/Excess Liability coverage. The Maximum Credit or Debit a risk may receive is (50) percent.

RANGE OF MODIFICATIONS

	Credit	Debit
A) Classification/Coverage Peculiarities *		
1) Non Standard Deductible/SIF; Vs:	20%	20%
2) Variance in Standard Aggregate Limits or in Application of Aggregates:	20%	20%
3) Other Classification/Coverage Peculiarities:	20%	20%
B) Loss Control & Safety		
1) Formal Loss Control & Safety Program:	10%	10%
2) Employed Safety Director	10%	20%
3) Pollution Control Program:	10%	10%
4) Accident Investigation:	10%	10%
C) Quality Control Policy	10%	10%
D) Vehicle and Equipment		
1) Formal Schedule of Maintenance:	5%	5%
2) Manual or Automatically Operated Equipment/Machinery:	5%	5%
E) Employees		
1) Hiring Practices:	5%	5%
2) Training:	5%	5%
3) Stability or Employment:	5%	5%
F) Premises - Condition and Care	5%	5%
G) Management		
1) Years In Business:	5%	5%
2) Financial Condition of Risk:	5%	5%
3) Attitude - Cooperative:	5%	5%

*The Maximum Credit or Debit for this group of characteristics is thirty (30) percent.

Judgement modifications that exceed 25% - new and renewal – must be referred to the Program Manager on a prior approval basis. Judgement modification cannot exceed 40% credit – new and renewal.

All judgement modifiers selected on the judgement rating table must be consistent with underwriting information on file.

Underwriter: _____

Manager Approval _____

Date: _____

Date: _____