AIG Program DIVISION 66

QWIK NOTES

FOR

PROPERTY

REVISED 02/12/2014

KNOWLEDGE BASED UNDERWRITING

A quick reference to basic property standards for Program Administrators

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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These guidelines are MINIMUM requirements and may be superceded by the actual individual Program Underwriting Guidelines.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, are not the focus of our divisional appetite but may be referred to your Program Manager for appropriate underwriting consideration. Incidental catastrophe coverage may be considered subject to complete underwriting documentation and approval from an appropriate authority level.

The profitability of our property/inland marine business is essential to enhance the overall divisional profitability goals. Successfully writing these coverages will help 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. Where the construction date of a building is 1975 of earlier, evidence must be obtained and kept in the file that wiring, heating and plumbing is up to date with all current codes. The signed application affirming updates within the past 15 years is acceptable documentation. If such affirmation is not received, then written confirmation from the insured of such compliance, or loss control reports, will be sufficient documentation.

C. Roof surface updates are particularly important from an underwriting perspective. Older roofs, in disrepair create significant exposure to loss.

For any building with a roof age over 30 years, we should not quote the risk without affirmation, in writing, from a qualified roofing contractor that the roof is is satisfactory condition.

For any building where the roof age is 20 years or greater:

1. We should confirm in all instances that the roof is in satisfactory condition. If not confirmed, we should assure that there have not been recent water damage losses, and be sure we note any water intusion losses during our period of coverage.
2. If a location is situated within any of the following catastrophe prone areas, follow the guidelines presented below:

Locations in catastrophe prone areas:

1. Any location in an area with a RiskMeter tornado and/or hail score of 4 or 5, we must apply the "actual cash value" option to the roof surface.
If you do not receive information regarding the age of a roof, you must apply the "actual cash value" option until written confirmation of an updated roof surface is received and on file.

2. For any building located within a windstorm control zone (as defined in the Windstorm section), where the roof age is 20 years or greater, we must apply the "actual cash value" option to the roof surface. If you do not receive information regarding the age of a roof, you must apply the "actual cash value" option until written confirmation of an updated roof surface is received and on file.

When we are advised that a roof has been "updated" within a period of the past 20 years, so that the above rules would not apply, "updated" must be confirmed to be a complete resurfacing of the roof. Patches, repairs or partial replacement do not qualify as sufficient "updates".

For the purpose of 1 or 2 above, the following will also be considered satisfactory as an affirmation of adequate roof condition:

- Confirmation in writing, from a qualified roofing contractor that the roof is is satisfactory condition; or
- Pictures of the <u>entire</u> roof surface that provides evidence of satisfactory condition (but only for roof surfaces up to age 25 years).

"Actual cash value" option refers to the filed endorsements (both ISO and for our proprietary forms) that apply a valuation of "actual cash value" to the roof surfacing via wording that states: "Replacement Cost Coverage (if otherwise applicable to such property) does not apply to roof surfacing. Instead we will determine the value of roof surfacing at actual cash value at the time of loss or damage." This is applicable for loss or damage by a **covered cause of loss (including wind and/or hail)**,

D. Coverage Extensions (IPIS -*PropertyOne Form / AIU 130 Endorsement (with ISO forms) / "Enhanced"Property Forms*):
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 and underwritten. These are not "throw-in" coverages.

E. Fire Following Earthquake:

This exposure can be severe, especially for risks located within geographical areas rate as 250 Year MMI Zone 7.00 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 an earthquake event;
- Confirm incoming utilities (especially gas mains) are adequately safeguarded;
- For sprinklered risks, analyze protection as outlined in the Automatic Sprinkler section.

F. 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;
- **We will not provide** coverage for loss as a result of damage to or destruction of overhead transmission, distribution or communication lines, Any exception will be rare, and is subject to approval by an appropriate Home Office authority.

G. 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.

H. 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.

I. 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).

J. Vacant / Unoccupied Properties:

- Vacant or unoccupied properties should be considered only when incidental to a larger schedule of properties;
- We should attempt to cover solely for specified perils (named perils excluding VMM preferable);
- If the exposed property has central station alarms, watchman service, or similar protections, we may consider all risk perils upon referral and approval;
- Any such property quoted should be vacant / unoccupied for less than one year;
- If there is a pending sale, or similar valid reason to consider a property that is vacant / unoccupied for more than one year, it may be considered upon referral and approval;
- For any such properties covered we must document our file regarding methods used to secure the building against entry, and the procedures in place for the building owners to check the interior and exterior of the building periodically (minimum once per week) to assure satisfactory condition, no entry gained, no evidence of attempts to enter the building, no evidence of vandalism, etc.

K. EFIS Construction:

EFIS (Exterior Finish and Insulation Systems) is a type of building product that provides exterior walls with an insulated, finished surface utilizing an integrated system of composite materials. EFIS is designed and installed as a complete "system". It is not a trade name, but a term identifying the type of exterior finish system utilized in the construction process of a building. You may see the term Direct Applied Finish Surface (DAFS) which should be considered in the same category as EFIS.

A basic description of EFIS construction is:

- A layer of foam plastic insulation (usually expanded polystyrene) is attached to the exterior wall of a building;
- A reinforced layer consisting of a fiberglass reinforcing mesh is applied to the insulation with an adhesive (base coat);
- A final topcoat (or finish coat) is then applied with a trowel. This is an acrylic finish.

Please assure that your internal guidelines provide for identification of EFIS exposures, with appropriate underwriting action as defined below.

ALL locations that are of EFIS construction are a Home Office referral.

The main reasons for this limitation rest with the historical problems related to water penetration within the "building envelope" that creates damage to the EFIS system. Most problems are the result of improper installation and / or improper maintenance. Additionally, there is an increased fire risk due to the lack of fire resistance inherent in the materials used.

Any referral should identify the age of the EFIS installation, the qualifications of the installing contractor (to the extent it is available), and the maintenance procedures in place as respects periodic checks for (and repairs where needed) of openings, cracks, resealing around windows, doors, flashing, etc. of the EFIS topcoat.

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 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 sprinklered areas are exposed to freezing temperatures, 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 50, we must rate and underwrite the risk as non-sprinklered).

If the sprinkler grading is below 50, but recent improvements have been made to the sprinkler system, refer to the appropriate Program Manager, or obtain loss control assistance,to determine sprinkler adequacy. If you receive 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.

* Pargraphs H. and I. above shall apply to any amount subject with insured values of $2,500,000 or higher.

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 a 250 year MMI Zone 7.00 and higher to the appropriate authority level.

BLANKET LIMITS

We will not provide blanket policy limits. Limits may be written blanket per location as outlined below. Any exception to this blanket limits restriction will be provided via referral and approval by your Program Manager, or specific authority parameters in your signed Underwriting Guidelines.

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 <u>each location</u>.

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) and Amount Subject:
   1. For TIV purposes, and amount subject calculations, 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, “Enhanced” Property Form (97064), 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;

F. When providing Blanket Per Location coverage, use form 97091 (05/08) Blanket Limit Per Premises Endorsement.

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, “Enhanced” Property Form (97064), 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 building ordinance limits when determining TIV or amount subject.

NOTE: When considering use of PropertyOne, or any other Property Enhancement Forms and Endorsements that provide full Building Ordinance Coverage within the building limits**for buildings constructed prior to 1975 you should obtain confirmation, 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. If there is property at any location we are not covering, the policy should be endorsed to indicate that we are not providing business income or extra expense as respects such property. Without this clarification on the policy, we will be liable for any business income loss, as all business income forms provide coverage for BI as respects loss or damage to property at the location (not just covered property at the location).

B. Obtain specific limits for each location, including the appropriate coinsurance percentage.
   - Compare BI totals to gross sales (to assure adequacy),
   - Check to determine, 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, per the requirements outlined in the Insurance to Value section.
   - 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 we should agree only to the limits provided within our proprietary property forms, being $100,000.
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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.

CATASTROPHE EXPOSURES

Refer to your signed Underwriting Guidelines for limitations to your authority to quote the perils of Earthquake, Flood and Windstorm.

Refer to the sections within this QwikNotes document regarding underwriting considerations for Earthquake, Flood, Tornado and Hail, and Wildfire.

Upon the occurrence of a catastrophic event:

No binder, policy or endorsement may be issued, or otherwise agreed:

- As respects the perils of windstorm, hail or flood, for any property within 100 miles of the seacoast whenever a hurricane has been reported by the National Weather Service to be within 600 statue miles and moving toward, parallel to or in the general direction of such property.
- Within 168 hours of an earthquake event for any location situated in the impacted area of such earth movement (refer to your Program Manager when in doubt)
- Within an area known to be impacted by a flood event, during such event
- Within an are known to be impacted by a wildfire event, during such event

The Company will endeavor to send notification of "suspension of authority" defining the geographical parameters of such suspension, and will subsequently send a reinstatement of authority bulletin at the appropriate time.

However, for some regionalized events, a suspension of authority may not be issued. Therefore it is requested that all Program Administrators exercise prudence as respects quotations, binders or endorsements during a catastrophe event of which they have knowledge.

CRIME

A key element to underwriting Commercial Crime coverage is the controls and procedures implemented by an insured.

The CONTROLS section of the Crime Application should be completed in its entirety, and will therefore provide a good base of information for our underwriting consideration:

1. Audits: Cash accounts and inventories must, at a minimum, have an annual audit by Certified Internal Auditors or Certified Public Accountants;
2. Audit report is rendered to: we expect the report will be provided to either the owner, partners or board of directors for an organization;
3. Are bank accounts reconciled by someone not authorized to deposit or withdraw, and is a countersignature required (if not, who signs…i.e. control in place)
   a. We anticipate a minimum of the following to be in place as respects check signing:
      (i) Any checks issued over $1000 must be countersigned by at least 2 persons. If countersignature can not be instituted an owner or corporate officer must be the authorized signer.
      (ii) The duties of handling in-coming checks and issuance of out-going checks must be handled by separate individuals.
      (iii) Mechanically Affixed Signatures involve computer or non-computer equipment.
         - If computer operated, control over the input and outflow must be restricted to specifically authorized personnel
         - Non-computer equipment (e.g. facsimile signature plate or check writing machine) must be properly secured when not in use. Operational access must be limited to as few designated persons as possible and supervised by an owner/officer
         - Reconciliation-Any employee authorized to reconcile bank account statements should not permitted to handle deposits or sign checks without countersignature.
         - Stamping Incoming Checks-All incoming check must be stamped "For Deposit Only" as soon as they are received.
4. Will securities be subject to joint control of two or more responsible employees (a yes answer is anticipated, or that an owner or corporate officer must be the authorized party);
5. Are all officers and employees required to take annual vacations of at least 5 days. This is an important control, as most employee dishonesty activites are discovered when the perpetrator is not present at the workplace (if not otherwise discovered at audit);
6. Addditional questions that should be considered when limits over $250,000 are being offered:
   a. Do you audit your wire transfer procedures and transactions? How frequently?
   b. What is your internet security protection such as firewalls or intrusion detection system?

Other information can be obtained from a completed crime application and should be considered during the underwriting process:

1. For premises coverages: what type of premises / safe protection is present (with details);
2. How much cash is held on premise during working hours, and overnight; other valuables such as securities, payroll checks exposures?

3. Messengers: how many are used? Are they accompanied by guards? Is a private conveyance used? Is a safety satchel used?

When there is significant value of stock / merchandise exposed, identify the control over flow and possession of merchandise. There should always be close managerial supervision over the movement of property from one location to another.

Employee Benefit Plans may be included as Insureds. Coverage is provided within the Commercial Crime Coverage Form when the “employee benefit plan” is shown in the Declarations.

If you are authorized to use the Discovery Form, we must attach the Retroactive Date endorsement. The date utilized on the endorsement should not be more than one year prior to the effective date for which we issue our original policy to an insured. For subsequent renewals, we can use the same date. If there is a break in coverage, at any point, we must then change the retro date to be not more than one year prior to the effective date.

EARTHQUAKE

A. We are not a market for Earthquake in Alaska, California, Hawaii or any other areas of significant Earthquake exposure.

B. The earthquake 250 year 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 part of the EQE Ground Shaking result, for locations in states as referenced below. This requirement applies for those states only.

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.

   For any account requiring referral for the peril of Earthquake:

   1. Renewal accounts will be discussed utilizing current modeled results.

   2. New business accounts must be referred to your Program Manager with sufficient lead time (please provide 5 working days) to have the exposed locations modeled. The referral can then be discussed utilizing the modeled results along with all other underwriting information.

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 of 250 year MMI rating 7.00 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 within 250 year MMI Zones of 6.99 or less, the underwriter should confirm superior newer construction and maintenance prior to quoting.

H. Minimum Earthquake Deductibles:
   - 250 year MMI Zones of 6.99 or less: $25,000 per occurrence or per ISO percentage deductibles,
   - Charleston, SC: minimum 2% of value (minimum $50,000 per occurrence), otherwise refer to the appropriate property authority level;
   - All other Zones - refer to the proper property 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.

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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 RiskMeter EQE Ground Shaking result – 250 yrear MMI rating for the specific location being underwritten. RiskMeter will provide the 250 year MMI intensity/zone to which the building(s) are exposed.

EQ determinations via RiskMeter should be performed in the following geographical areas *:

Arkansas	Missouri,
California	Nevada
Illinois	Oregon
Indiana	Tennessee
Kentucky	Washington
Northern Mississippi,	

* RiskMeter does not provide the EQ determinations for Alaska and Hawaii, however since the exposure in both States is significant, they are subject to referral. All California EQ is subject to referral (all RiskMeter information must be provided with any referral). As stated above, we are not a market for AK, CA or HI earthquake coverage, any consideration will be a rare exception.

EARTHQUAKE SPRINKLER LEAKAGE:

1. In areas of RiskMeter EQE Ground Shaking result – 250 year MMI 6.99 or less, confirm appropriate maintenance of system, and that all piping/hangars are in good condition and repair.

2. In RiskMeter EQE Ground Shaking result – 250 year MMI 7.00 and higher:
   - Confirm all information per 1. above, and
   - Confirm that all sprinkler piping is adequately braced / supported, as per current local and state building codes, and
   - Confirm that the openings for all sprinkler piping where it penetrates through walls, ceilings, and suspended ceilings, is installed per current local and state building codes, and
   - Confirm that all sprinklers are installed utilizing flex connectors at all critical junction points within the sprinkler system, 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.

Refer all sprinklered locations within areas of RiskMeter EQE Ground Shaking result – 250 year MMI 7.00 and higher to appropriate authority level.FLOOD

FLOOD

- The Flood Risk Score (from RiskMeter) must be determined for each location and documented within the underwriting file, prior to quoting. A score will be returned that ranks the exposure for a location with a score of 10 to 100
- The report will also return location elevation information, base flood elevation, and distance to various flood zones, HOWEVER we will be using the Flood Risk Score as the output for determining acceptability (or not) of the flood exposure
- The flood risk score shall be used as follows during the underwriting process to determine acceptability of the risk:
- Score 10 to 40 is acceptable to quote
- Score 41 to 50 requires a referral (the referral should include a copy of the RiskMeter report for review of the detail)
- Score greater than 50 will likely not be written as the exposures do not meet our underwriting guidelines. However, the account may be referred for consideration with full detail submitted for review.
- You will be able to use the Birdseye function of RiskMeter to assure proper placement of your property at a location address. (see Appendix I for an explanation of the Birdseye Coding feature)
- For **new business**, pull reports as currently required
- For **renewal business**, if your current RiskMeter report on file is not a Risk Score report and indicates the location is within 500 feet of a Flood Zone A, V, B, D, X(shaded) or X(500) area please pull a new Flood Risk Score Report
- As per current procedures, if you have a multi-building location, pull a report on the key building at that location. Only pull a report on additional building(s) if:
  - the key building report shows acceptable flood exposure at the key building, but
  - The report indicates the potential for unacceptable flood exposure at other building(s) at the location.

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) **Risk Score 10 to 40:** the Flood deductible shall not be less than $25,000 per occurrence
   c) **Risk Score 41 to 50**: (this requires a referral) 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) **Risk Score over 50:** refer to your Program Manager.

NOTE: The underlying Federal Flood limits must be shown as deductibles. We <u>must not</u> show our coverage as excess coverage.

G. Flood Rating Guidelines and Flood Zone Definitions: see attached.

DEFINITIONS (for informational purposes only):

Zone A: areas of 100 year flood. (all iterations including but not limited to A, A[numbered], AE, etc)

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) and X(500): 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 for any reason DO NOT use the "lettered" references, but USE THE ENTIRE ZONE DEFINITION.

MAXIMUM FEDERAL FLOOD INSURANCE LIMITS AVAILABLE

Building Coverage	Regular Program	
Single-family dwelling	$250,000	per building
Other residential* (except for condominium associations, see below)	250,000	per building
Non-residential	500,000	per building
Contents Coverage		
Residential	$100,000	per unit
Non-residential	500,000	per building

Condominium Associations:
A Residential Condominium Building Association Policy (RCBAP) is available for Condominium Associations as follows:

• Building, fixtures and machinery, improvements as covered by by-laws:	Replacement Cost to a maximum $250,000 per unit.
• Contents owned by the Association:	ACV up to $100,000

FLOOD RATING GUIDELINES

Flood Risk Scores 41 and above: refer to your Program Manager.

Flood Score 10 to 40:

LIMIT (occurrence / aggregate)	RATE on TIV
$500,000 / $500,000	.008
$	
$1,000,000 / $1,000,000	.010
$2,500,000/$2,500,000	.0115
$5,000,000/$5,000,000	.0125

- The policy will be rated on the TIV for that location, using 100% values;
- Since our flood limit will apply as a annual aggregate limit per policy, calculate the average exposure per location by dividing the TIV by the number of locations (NOT buildings but locations)

- A Lloyds scale factor will be determined, based upon the ratio of:

$$\frac{\text{Flood sublimit}}{\text{Average location value}}$$

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

Lloyds Scale is attached to this document by addendum for your use.

DEDUCTIBLE FACTORS

Deductible	Deductible Factors At Average Location Values .		
	over $2,500,000	to $10,000,000	over $10,000,000
$ 25,000	1.00	1.05	1.10
$ 50,000	.94	1.00	1.05
$100,000	.90	.94	1.00
$250,000	.80	.90	.94

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 of values or an application with the full schedule of locations and values **;
   - Obtain a Marshall and Swift valuation replacement cost valuation for all buildings either:
     - valued $750,000 or greater, and / or
     - a building area of 7,500 sq. ft. or greater, and

     attach the valuation output to the underwriting file;
   - Compare the submitted building value to your Marshall and Swift estimate. *If the submitted building value is less than the Marshall and Swift estimate by 15% or more, action should be taken to address the deficiency.* Coinsurance, amended limit, documentation of adequacy for the submitted building value via appraisal or similar document, must be finalized prior to binding;
   - ALSO, for multi-location accounts where all, or many, of the 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. Include this documentation in your underwriting file;
   - Whenever in doubt regarding appropriate valuation, contact your Loss Control Manager or Program Manager;
   - All Marshall & Swift calculations should be saved in the MSB system. The location information is then available within MSB for annual updates at the time of policy renewal.

C. Time Element Coverage:
   - Obtain signed business interruption worksheets for each location with BI value $500,000 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, our binding confirmation should specify that agreed amount coverage will be applicable only for the first 30 days of coverage, and continuation of coverage is contingent upon receipt of such information. If not received within 30 days of binding notice of cancellation should be issued, and can be withdrawn only upon receipt of the necessary documentation, or written agreement from the appropriate Program Manager.

** Signed statements of values (or signed application with the full schedule of locations and 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

Loss control surveys are provided by AIG Programs and its approved subcontractors. The purpose of the surveys is to verify information obtained on the application, improve/enhance the insured's risk management program and to identify "exceptions" or critical information requiring the underwriter's review.

The following guidelines have been developed to ensure consistency in the utilization of loss control throughout the underwriting of AIG Programs accounts. Unless stated differently in program specific underwriting guidelines, the following loss control guidelines should be followed:

1. At inception of any program, the AIG Programs loss control staff will have assisted in the selection of an approved subcontractor and appropriate survey report based on program complexity and size, along with any Consultative services that may be deemed appropriate

   The following survey request parameters are applicable to all lines of business. Therefore, when determining the need for loss control the total account information should be considered along with the property exposures. If you are utilizing a Building Underwriting Report(s) as outlined in the SPI Plus section, the property will not need to be included in any loss control request. However, at the discretion of the underwriter it may be included in the loss control request if more a more detailed survey is deemed prudent.

2. The Program Administrator should request a telephone survey within seven days of the effective date on all new business and every three (3) years thereafter if any of the following applies:
   a. Total combined premium is between $25,000 and $75,000
   b. There is no loss control report in the file or there is but it is more than two years old, and the policy meets the premium threshold indicated in a. above
   c. At the discretion of the underwriter; a telephone survey can be ordered more frequently and regardless of premium size if necessary.

3. The Program Administrator should request a physical survey on all new business and every three (3) years thereafter, or per the renewal interval as stipulated in your underwriting guidelines if longer than three (3) years, if any of the following applies:
   a. Total combined premium is $75,000 or greater
   b. Property amount subject value 5,000,000 and greater or, the value threshold shown in your underwriting guidelines if that is a lesser amount subject value. For accounts with multiple locations, develop a plan to complete location surveys within five years. The plan should be developed in conjunction with the Program Manager.
   c. At the discretion of the underwriter; a physical survey can be ordered more frequently and regardless of premium size, or amount subject total value, if necessary.

   If the underwriter has special instructions or questions they need answered via a survey that are unique to the program or account, such instructions should be outlined in the survey request.

4. The Program Administrator should review the survey report and recommendations (if any) within seven (7) calendar days of receipt. The underwriting file should reflect the review and the date it was done and any underwriting actions, if any, that may be necessary as a result of such review.

5. AIG Programs is responsible for mailing the insured and agent the survey letter and recommendations requesting a response to *essential* recommendations (if any) within 14 days.

6. The underwriter is responsible for follow-up on *Essential* recommendations on or about day 45 that no response or a non-compliance response to *essential* recommendations was received.

7. For Building Underwriting Reports when used for loss control of locations less than $5,000,000 as outlined in the SPI Plus section if there are deficiencies noted in the report, they should be presented by the program administrator as recommendations for remediation with a requested 30 day follow up for response.

PROPERTY TERRORISM COVERAGE

As outlined in Bulletin 2005-07, dated March 4, 2005, it is the intent of the AIG Program Division to provide terrorism coverage for our middle market programs. New business effective April 1, 2005 and thereafter, and renewal policies effective May 1, 2005 and thereafter, automatically include coverage for terrorism. A premium charge of 1% of the policy premium will be shown on the declarations page under the TRIA premium section.

The only exceptions will be:

- **The Event Cancellation Program; and**
- **Any account that has:**
  - **A single location with values of $2,500,000 or more, and/or**
  - **Total account values of $5,000,000 or more; and**
  - **Within any of the zip codes shown below;**

  There is no authority to quote or bind property terrorism coverage until;

  The location detail is forwarded to your Program Manager to have the locations mapped, and to identify the impact of the account locations on our aggregate exposures. Upon return of these details to the appropriate Home Office authority, a determination of our terms and conditions for the property terrorism coverage will be made, and the Program Administrator advised accordingly.
  As with all requests that require review by our modeling unit, please provide at least 4 to 5 days lead time for this review. Exceptions to this lead time requirement will be limited.

  Zip Codes where this limitation applies are identified on the following page. Any updates to these areas of limitation will be provided via Underwriting Bulletins.

PROPERTY TERRORISM COVERAGE, ZIP CODES REQUIRING REFERRAL AND APPROVAL:

CITY	ZIP
New York, NY	
	10001
	10004
	10005
	10006
	10007
	10010
	10016
	10017
	10018
	10019
	10020
	10021
	10022
	10036
	10038
	10048
	10069
	10080
	10104
	10120
	10153
	10168
	10275
	10286
Boston, MA	
	02110
Chicago, IL	
	60601
	60606
	60611
Denver, CO	
	80202
Los Angeles, CA	
	90095

SPI PLUS (underwriting information available through ISO)

AIG has expanded its agreement with ProMetrix (ISO SPI Plus) to allow unlimited on-line delivery of specified ProMetrix property products. With the unlimited agreement, we will make wider use of these products in the underwriting and loss control process.

ProMetrix is a Commercial Property Database which contains underwriting and rating information for over 3.5 million commercial properties and 5 million occupancies. The data is accessed via the ISO SPI Plus online interface.

The following products are included within the new unlimited agreement when delivered on-line:

Loss Costs Quotes and Estimated Loss Costs
Building Underwriting Reports (BUR) – including abbreviated versions
Building Overview Reports
Property Detail Reports

Loss Cost Quotes and Estimated Loss Cost Quotes: Specific Loss Costs are available for larger buildings with higher values, unique construction types, special hazard or those equipped with automatic sprinklers. The ISO Loss Cost Quote will provide the Rating/Construction/Protection Code (RCP) for the specific building/occupancy as well as the Basic Group I and Basic Group II Loss Costs for rating purposes. Estimated Loss Costs may be used when a Specific Loss Cost is not found for a building that is otherwise eligible for specific rating, or if the occupancy has changed. Based on the information that you provide, the system uses the rating rules in the ISO CLM to develop an estimated loss cost quote that may be used for rating until a new specific Loss Cost is developed. You should then order a new **Specific Loss Cost** using ISO's online Application for Services. ISO will then physically inspect the property and provide the requested Loss Cost Quote. A Building Underwriting Report for the property will then become available on-line, usually within 30 days. Do **not** order an Underwriting Survey as the survey is included when the Loss Cost is ordered.

The Building Underwriting Report (BUR) is the principle report that we will incorporate into our underwriting and loss control procedures. It provides extensive information on the construction, occupancy, hazards and fire protection of any risk in the Commercial Property Database. It includes a Relative Hazard Grading using a 1-10 scale to rate a building's features, and a bar graph to compare that building to other similar structures in ISO's state and countrywide database. Additionally, the BUR provides sprinkler information, including the sprinkler grading, the Public Protection Classification, photos and diagrams, as well as other fire safeguards present at the property.

The BUR should be utilized as follows:

- As an underwriting tool, during the underwriting process, BURs may be utilized to:
    - Confirm COPE information;
    - Determine adequacy of sprinkler systems (sprinkler grading and sprinkler comments such as alarm, maintenance, etc. are included)
    - Determine risk quality via the Risk Hazard Grading for the location.

  This should be considered during the underwriting process in situations where there is limited underwriting detail provided in the applications for a location(s), or the occupancy dictates a need for additional information to appropriately underwrite a risk. Underwriter discretion is requested.

- BUR's may be used in lieu of Loss Control Surveys for locations with amount subject less than $5 million, if your Underwriting Guidelines require loss control for risks under $5,000,000. When using a BUR in lieu of a loss control report, identify any issues or discrepancies and secure additional information or take action as necessary.
- If the BUR for any location which is eligible for specific rating, but for which there is no loss cost or BUR available, you should apply for a **Specific Loss Cost,** then when the loss cost is available, pull and review the BUR.

Property Details Report and Building Overview Report: These reports may be available on-line for locations that are not eligible for specific rating. The reports contain basic underwriting information and photos obtained from an exterior survey of the building, as well as available public information regarding the location and surrounding area. These reports may be helpful in verifying underwriting information but they cannot be used to satisfy property Loss Control requirements.

All other ProMetrix products are not included in the new unlimited agreement and should not be ordered without a compelling underwriting reason to do so.

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. Actual cash value should be contemplated for roofs over 20 years of age. Refer to Miscellaneous Property Information, page 3, paragraph C. for full details. Locations in any area with a RiskMeter tornado and/or hail score of 4 or 5, for any structure that has a metal roof, we should endeavor to apply the exclusion of cosmetic damage to roof surfacing endorsement that has been filed and is available for use.

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**

VALUED POLICY STATES

Various states have enacted valued policy laws, which can impact our commercial property business. The states are shown below.

When insuring properties in these states, it is imperative that we exercise care to assure that buildings are adequately valued, but are not overinsured. Since the valued policy statutes require payment of the policy limit in the event of total loss to a covered building, we must have confidence that the limit equals the cost to replace the structure. See the Insurance to Value section as respect building valuations.

There are instances when a building will have a higher than expected cost to replace. This may be due to superior construction quality, high quality improvements and betterments or build-outs, or other similar enhancements to the property. These characterisitics should be considered, and identified, where the requested limits are above that anticipated for the occupancy.

When providing building coverage in a valued policy state:
In the event the requested limit for a building exceeds the calculated ITV by more than 25%, we should obtain feedback from the submitting broker / agent that provides details of the building construction and build-outs that may impact value. We do not necessarily want to decrease the requested limit, but rather document our underwriting file with the characteristics that generate such increased value.

As always, if there are questions or concerns regarding any risk, please contact your Program Manager for input.

Valued Policy States:

Arkansas
Kansas
Louisiana
Massachusetts
Mississippi
Missouri
Montana
Nebraska
New Jersey
North Carolina
North Dakota
Ohio
South Carolina
South Dakota
Tennessee
West Virginia

In these states, there is a provision for “Insurer’s option to replace damaged property” (in lieu of paying the policyholder the insurer may elect to replace the damaged property without contribution from the policyholder).
California
Florida
Iowa
Minnesota
New Hampshire
Texas

WINDSTORM

A. Coastal business is not a focus of the 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 <u>no authority</u> 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 <u>before</u> quoting.

Renewal accounts will be discussed utilizing current modeled results.

New business accounts must be referred to your Program Manager with sufficient lead time (please provide 5 working days) to have the exposed locations modeled. The referral can then be discussed utilizing the modeled results along with all other underwriting information.

C. **Windstorm Control Zones**
   a) Any location eligible for Windstorm Pool coverage (see J. Below);
   b) Locations north of Delaware through and including Maine within 1 mile of the mainland coastline, EXCEPT:
      i. All islands off of the coastline must be considered as within the wind control zone, irrespective of any measured "distance to coast";
      ii. The entire land area of Long Island is deemed to be within the wind control zone;
      iii. All of Cape Cod is deemed to be within the wind control zone.
   c) Locations from Delaware southward, through and including Virginia, within 25 miles of the mainland coastline;
   d) Locations from North Carolina southward, through and including Texas (but excluding Florida) within 50 miles of the mainland coastline;
   e) Florida (entire state)
   f) Hawaii (entire state)
   g) 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. **<u>Minimum</u> 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 where we require underlying cover by wind pools are: Florida, North Carolina, South Carolina, Texas, Louisiana, Alabama, Mississippi, Georgia. All other locations subject to the following minimum deductibles.

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

a. 0 to 1 miles from the mainland coast, 1% to 2% of value, minimum $10,000 per occurrence, EXCEPT;
b. any island exposures 2% to 3% of value, minimum $25,000 per occurrence;
c. 0 to 1 miles from the coast on Cape Cod (Barnstable County) 1% to 2% of value, minimum $25,000 per occurrence; and
d. Over 1 mile from the coast on Cape Cod (Barnstable County) 1% of value, minimum $10,000 per occurrence;
e. Long Island (Suffolk County) 1% to 2% of value, minimum $25,000 per occurrence; and
f. Long Island (Nassau County) 1% of value, minimum $10,000 per occurrence;

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

Distance from mainland coast	Deductibles
0 to 15 miles	2% of value, minimum $25,000 per occurrence
Over 15 miles to 25 miles	1% of values, minimum $10,000 per occurrence

IV. **Locations North Carolina, South Carolina and Georgia:**

Distance from mainland coast	Deductibles
0 to 10 miles (all subject to referral)	5% of value, minimum $50,000 per occurrence

Distance from mainland coast	Deductibles
Over 10 miles to 25 miles (all subject to referral)	2% of value, minimum $25,000 per occurrence

Distance from mainland coast	Deductibles
Over 25 miles to 50 miles (all subject to referral)	Minimum $10,000 per occurrence

V. **Alabama through Texas:**

Distance from mainland coast	Deductibles
0 to 10 miles (all subject to referral)	5% of value, minimum $50,000 per occurrence

Distance from mainland coast	Deductibles
Over 10 miles to 25 miles (all subject to referral)	2% of value, minimum $25,000 per occurrence,

Distance from mainland coast	Deductibles
Over 25 miles to 50 miles (all subject to referral)	1% to 2% of value, minimum $10,000 per occurrence

VI. **Florida:**
5% of value, minimum $50,000 per occurrence
(all subject to referral)

VII. **Hawaii:**
Risks located within the State of Hawaii must have:

- 5% of value, minimum $50,000 per occurrence for locations on the island of Kauai, and
- 2% of value, minimum $50,000 per occurrence as respects locations on all other islands.

(all subject to referral)

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 statue 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. The state wind pools have web sites available where you can obtain details per coverage available. You can identify the sites with any search engine.

K. For clarity, the following definitions of terms used above are provided:

- Windstorm Control Zone: these are geographic areas, defined by distance to coast as determined by RiskMeter, where <u>underwriting authority</u> is restricted and specific windstorm underwriting requirements are required;
- Wind Pool: is a state backed underwriting facility in which insureds may purchase windstorm coverage. The geographic areas in which wind pool coverage is available differs from our company windstorm control zones, with the wind pool regions are more limited in scope than the windstorm control zones. The key use of wind pool access is the availability of higher deductibles on our policies for the windstorm and hail causes of loss.

Please remember that the windstorm control zones as referenced above dictate the authority restrictions as outlined in your Underwriting Guidelines.

L. **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:

Available Wildfire Risk Score states are Alaska, Arizona, California, Colorado, Florida, Idaho, Montana, New Mexico, Nevada, Oklahoma, Oregon, Texas, Utah, Washington and Wyoming.

- Check each location within RiskMeter for a Wildfire Risk Score. The result will provide a score that ranks the exposure for a location with a score of 0 to 100. The wildfire risk score shall be used as follows during the underwriting process to determine acceptability of the risk:
  - Score 0 to 60 is acceptable to quote
  - Score 61 to 75 requires a referral (the referral should include a copy of the RiskMeter report for review of the detail)
  - Score greater than 75 will likely not be written as the exposures do not meet our underwriting guidelines. However, the account may be referred for consideration with full detail submitted for review.
  - You will be able to use the Birdseye function of RiskMeter to assure proper placement of your property at a location address. (see Appendix I for an explanation of the Birdseye Coding feature)
  - For **new business**, pull reports as currently required
  - For **renewal business**, if your current RiskMeter report on file is not a Risk Score report and indicates the location is within 1,000 feet of a medium or high brush fire hazard area, please pull a Wildfire Risk Score report.

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 and requires a login ID, password and member ID. If you do not have RiskMeter access, check with your Program Manager for assignment of your member ID.

The following information is available from RiskMeter.

- Flood Risk Score report –
  - A score will be returned that ranks the exposure for a location with a score of 10 to 100
  - The report will also return location elevation information, base flood elevation, and distance to various flood zones, HOWEVER we will be using the Flood Risk Score as the output for determining acceptability (or not) of the flood exposure
  - The flood risk score shall be used as follows during the underwriting process to determine acceptability of the risk
    - Score 10 to 40 is acceptable to quote
    - Score 41 to 50 requires a referral (the referral should include a copy of the RiskMeter report for review of the detail)
    - Score greater than 50 will likely not be written as the exposures do not meet our underwriting guidelines. However, the account may be referred for consideration with full detail submitted for review.

You will be able to use the Birdseye function of RiskMeter to assure proper placement of your property at a location address. (see *Birdseye Geocoding / One click ruler* below).

- You will be able to use the Birdseye function of RiskMeter to assure proper placement of your property at a location address. *See Birdseye Geocoding / One-click ruler paragraph below addressing appropriate placement of structures for correct exposure identification.*
- 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 – Florida, North Carolina, South Carolina, Texas, Louisiana, Alabama, Mississippi, Georgia. The lookup will indicate if a location is within the designated state wind pool area of eligibility.
- Wildfire Risk Score: see previous page for description.
- US Quick Quake – provides a Modified Mercalli Intensity (MMI) [use the 250 year result] at the location (other information included on the report will be local soil conditions, the name and distance to the closest fault, identification of the controlling fault).
- 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).

Birdseye Geocoding / One click ruler: If any location is situated on a large plot of land, and there is an identified Flood or Wildfire Zone proximate to the risk (per RiskMeter), it is important to check the placement of the risk by the RiskMeter software, as the system normally positions the risk at the "mailbox" location near the street. Inaccurate placement of the building by the system may incorrectly identify the Flood exposure. Use of the Birdseye Geocoding (risk placement feature) of RiskMeter will allow appropriate positioning of the risk and therefore more correct exposure identification. ALSO, the "One-click ruler" function within the RiskMeter software will allow exact measurement of distances. IF NEEDED RISKMETER OFFERS WEB BASED TRAINING FOR THIS, AND ANY OTHER FUNCTIONS OF THEIR SYSTEM.

- A copy of the RiskMeter data output 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 <u>not included</u> 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.

	First Month	*Each Subsequent Month*	*Last Month*
Temporary Location(s):			
❑ Rent	$__________	$__________	$__________
❑ Fixtures, machinery & equipment	$__________	$__________	$__________
❑ Telephone / communications	$__________	$__________	$__________
❑ Transportation expenses	$__________	$__________	$__________
Moving, hauling, installation:	$__________	$__________	$__________
Advertising, notifications;	$__________	$__________	$__________
Purchase of additional services:	$__________	$__________	$__________
Employee expenses:			
❑ Overtime	$__________	$__________	$__________
❑ Travel allowances / transportation	$__________	$__________	$__________
❑ Additional staff	$__________	$__________	$__________
Additional transportation, shipping costs	**$__________**	**$__________**	**$__________**
Other additional expenses incurred:			
❑ Describe:			
____________________________	$__________	$__________	$__________
____________________________	$__________	$__________	$__________

Total number of months required to recover from total destruction of property: _________.

First month total _______________ **(a)**

Last month total _______________ **(b)**

Intervening months (monthly value) _______________ **x (total months –2) = ______________(c)**

TOTAL EXTRA EXPENSE (a+b+c) **_________________.**

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:

   $\frac{\text{Total number of months (2. above)}}{\text{12 months}}$ X 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:_____________________

APPENDIX III

Lloyds First Loss Scale

Revised Lloyd's 1st Loss and Excess of Loss Scale

A	B	C	A	B	C	A	B	C	A	B	C
1	22.4	77.6	4.5	39.6	0.4	34	77.3	22.7	69	87.1	12.9
1.1	22.9	77.1	4.6	40.2	59.8	35	77.6	22.4	70	87.3	12.7
1.2	23.5	76.5	4.7	40.8	59.2	36	78	22	71	87.6	12.4
1.3	24.1	75.9	4.8	41.3	58.7	37	78.4	21.6	72	87.8	12.2
1.4	24.7	75.3	4.9	42.9	58.1	38	78.8	21.2	73	88	12
1.5	25.2	74.8	5	42.5	57.5	39	79.2	20.8	74	88.3	11.7
1.6	25.8	74.2	6	44.8	55.2	40	79.5	20.5	75	88.5	11.5
1.7	26.4	73.6	7	47.1	52.9	41	79.9	20.1	76	89	11
1.8	27	73	7.5	48.2	52.9	42	80.2	19.8	77	89.4	10.6
1.9	27.5	72.5	8	49.4	50.6	43	80.4	19.6	78	89.9	10.1
2	28.1	71.9	9	51.3	48.3	44	80.8	19.2	79	90.3	9.7
2.1	28.4	71.6	10	54	46	45	81.1	18.9	80	90.8	9.2
2.2	28.7	71.3	11	55.1	44.9	46	81.5	18.5	81	91.3	8.7
2.3	29	71	12	56.3	43.7	47	81.8	18.2	82	91.7	8.3
2.4	29.3	70.7	13	57.4	42.6	48	82.1	17.9	83	92.2	7.8
2.5	29.6	70.4	14	58.6	41.4	49	82.4	17.6	84	92.6	7.4
2.6	29.8	70.2	15	59.7	40.3	50	82.7	17.3	85	93.1	6.9
2.7	30.1	69.9	16	60.9	39.1	51	83	17	86	93.6	6.4
2.8	30.4	69.6	17	62	38	52	83.2	16.8	87	94	6
2.9	30.7	69.3	18	63.2	36.8	53	83.4	16.6	88	94.5	5.5
3	31	69	19	64.3	35.7	54	83.7	16.3	89	94.9	5.1
3.1	31.6	68.4	20	65.5	34.5	55	83.9	16.1	90	95.4	4.6
3.2	32.1	67.9	21	66.6	33.4	56	84.1	15.9	91	95.9	4.1
3.3	32.7	67.3	22	67.8	32.2	57	84.4	15.6	92	96.3	3.7
3.4	33.3	66.7	23	68.9	31.1	58	84.6	15.4	93	96.8	3.2
3.5	33.9	66.1	24	70.1	29.9	59	84.8	15.2	94	97.2	2.8
3.6	34.4	65.6	25	71.2	28.8	60	85.0	15.0	95	97.7	2.3
3.7	35	65	26	72	28	61	85.3	14.7	96	98.2	1.8
3.8	35.6	64.4	27	72.7	27.3	62	85.5	14.5	97	98.6	1.4
3.9	36.2	63.8	28	73.4	26.6	63	85.7	14.3	98	99.1	0.9
4	36.7	63.3	29	74.1	25.9	64	86.0	14.0			
4.1	37.3	62.7	30	74.8	25.2	65	86.2	13.8			
4.2	37.9	62.1	31	75.6	24.4	66	86.4	13.6			
4.3	38.5	61.5	32	76.3	23.7	67	86.7	13.3			
4.4	39	61	33.33	77	23	68	86.9	13.1			

A = Primary Limit as % of total limit
B = % of premium allocated to primary
C = % of premium allocated to Excess