

### Message from the Chair

by Nancy S. Cahill, CPCU, AU



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**T**he Underwriting Interest Group has been extremely busy and productive during the last few months. The committee met in early May in Phoenix, Ariz., to review progress relative to goals and to continue planning new ways to bring value to our interest group following.

One of our upcoming highlights will be a webinar entitled, "Embracing Technology in Underwriting." This was originally offered as a popular seminar at the CPCU Society's 2009 Annual Meeting and Seminars in a partnership with the Personal Lines Interest Group and Accenture.

We are targeting delivery of this webinar for later in the year, so watch your e-mail for your invitation. The content is focused on the results of a 2008 Accenture survey that measured the degree to which technology has assisted underwriters in performing their day-to-day tasks as well as addressed new trends and issues.

In addition, there is the possibility of producing a webinar based on the

Underwriting Interest Group's exciting luncheon presentation "Weaving in Traffic — What Lies Ahead for Commercial Auto?" held at last year's Annual Meeting and Seminars. **Paul Farrell**, of SafetyFirst Systems LLC, was an excellent presenter and is very excited about reproducing his session for us as a webinar.

We are also engaged in the planning and preparation of two seminars to be presented at the CPCU Society's 2010 Annual Meeting and Seminars in Orlando, Fla., Sept. 25–28.

"Lessons Learned from Recent Catastrophes — Have We Really Skinned the CAT" is a joint project with the Loss Control and Claims Interest Groups. This seminar will focus on what we have learned from past catastrophes and how we have applied that knowledge to help mitigate the impact of future events. The presenters will discuss the exposures and how to mitigate them before, during and after a catastrophe as well as examine

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changes the insurance industry and regulators have made in responding to catastrophes.

The "Commercial Coverage Conundrums — An Interactive Case Study" seminar is being produced in partnership with the Claims and Risk Management Interest Groups. Attendees will participate in group discussions to address coverage problems presented by the panelists, summarize their collective opinions and listen to the panel of experienced claim authorities share their views on the cases.

The Underwriting Interest Group's Annual Meeting luncheon is once again on the agenda and celebrating its 10th year! The guest speaker will be **Carolyn "Cal" Durland, CPCU**, program and relations manager for ACORD. Her topic will be ACORD's new initiatives on how industry standards are published and delivered, and how its standards and forms can help you make the sale.

Perhaps you haven't decided on whether or not you will be joining us in Orlando in September. Hopefully, our seminars, the exciting general sessions and all the other scheduled Annual Meeting activities have whet your appetite for attending. Please register today!

There are so many exciting programs that your Underwriting Interest Group is undertaking. We could use some help. Please consider joining the committee and working together with fellow industry professionals in a rewarding and fun experience. If you have any questions about volunteering to serve on the Underwriting Interest Group Committee, please contact me at nancy.cahill@libertymutual.com or (603) 358-4251. ■

# The Underwriting Interest Group Presents ...

## Underwriting Interest Group Luncheon

**Sunday, Sept. 26, 2010 • 11:45 a.m.–12:45 p.m.**

**Speaker: Carolyn "Cal" Durland, CPCU, ACORD**

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## Commercial Coverage Conundrums — An Interactive Case Study Approach

**Tuesday, Sept. 28, 2010 • 9:45–11:45 a.m.**

**Moderators: Janet L. Brown, CPCU, J.D.,** Boehm, Brown, Fischer, Harwood, Kelly & Scheihing PA

**Presenters: Joshua Gold, J.D.,** Anderson Kill & Olick PC; **Barbara J. Keefer, CPCU, J.D.,** Schuda & Associates PLLC; **Ernest Martin Jr., J.D.,** Haynes and Boone LLP; **Ginny L. Peterson, CPCU, J.D.,** Kightlinger & Gray LLP

*Developed by the Underwriting, Claims and Risk Management Interest Groups*

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## Lessons Learned from Recent Catastrophes — Have We Really Skinned the CAT?

**Tuesday, Sept. 28, 2010 • 1:30–3:30 p.m.**

**Moderator: Jill D. McCook, CPCU, AIS,** State Farm

**Presenters: Debra T. Ballen, CPCU, J.D.,** Institute for Business & Home Safety; **Charles M. Nyce, CPCU, Ph.D., ARM,** Florida Catastrophic Storm Risk Management Center; **Vijay Padmanabhan, MBA,** Air Worldwide Corporation

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**CPCU: Your Bridge to the Future**

CPCU Society Annual Meeting & Seminars  
Sept. 25–28, 2010 • Orlando, Fla.

# The Standard Fire Policy — A Phoenix Arising from the Ashes?

by Jerome "Jerry" Trupin, CPCU, CLU, ChFC



**Jerome "Jerry" Trupin, CPCU, CLU, ChFC**, is a partner in Trupin Insurance Services, located in Briarcliff Manor, N.Y. As an "outsourced risk manager," he provides property-casualty insurance consulting advice to commercial, nonprofit and governmental entities. Trupin regularly writes articles on insurance topics for industry publications and is the co-author of several insurance textbooks. Trupin has been an expert witness in numerous cases. He can be reached at [cpcuwest@aol.com](mailto:cpcuwest@aol.com).

**D**oes the standard fire policy (SFP)<sup>1</sup> belong in the dead letter office? The standard fire policy, also known as the "165-line policy" because its last iteration contained 165 numbered lines, was a major breakthrough at the beginning of the 20th century. Insurance companies were required by law in almost every state to use the SFP or one that was very similar to it.

Prior to that time, each insurance company used its own wording. Because most companies limited their exposure on any one risk, it was common for even small insureds to have two or three policies covering their property; larger firms could have a dozen or more.

Adjusting losses involving multiple policies, each with different wording, was a nightmare. Furthermore, some of the policies contained language that was anything but friendly to the insured. The 1918 version was amended in 1943, and it is the 1943 version that's referred to today as the SFP. (Note: The "165-Line" 1943 New York Standard Fire Policy can be found in its entirety on pages 6 and 7 of this newsletter.)

The SFP was replaced by the simplified language forms in the mid-1980s, and many regarded it as ancient history. For example, Barron's *Dictionary of Insurance Terms* states: "The New York Standard Fire Policy has become largely obsolete since 1980."<sup>2</sup>

When the simplified policies were introduced, no one shed any tears for the 165-line wording when it was replaced. It was not easy reading. For example, the first sentence in the two-sentence requirements "in case loss occurs" provision runs over 200 words, and the second over 90 words. In addition to simplifying the language, the new wording dropped some clauses that could be the basis for a denial of coverage.

The most important change was the elimination of the SFP increase-in-hazard provision. It read:

"... Company shall not be liable for loss occurring while the hazard is increased by any means within the control or knowledge of the insured ..."

It's surprising how many otherwise knowledgeable insurance people, whose careers started when the 165-line policy was king, have overlooked or forgotten that this clause does not appear in most current property policies.

The increase-in-hazard clause is still found in the ISO Standard Property Policy CP 00 99. That's the form used by state Fair Access to Insurance Requirements (FAIR) plans. An increase-in-hazard provision is also part of the mortgageholders provision that's included in most property forms. It provides that, if the insurer denies the insured's claim because of the insured's acts or failure to comply with policy conditions:

"... the mortgageholder will still have the right to receive loss payment if the mortgageholder ... (3) Has notified us of any change in ownership, occupancy or **substantial change in risk** (emphasis added) known to the mortgageholder."

In effect, this is an increase-hazard provision applicable to the mortgagee, but it voids coverage only if the mortgagee knows of the change and fails to notify the insurer.

Furthermore, the new simplified forms are not always more favorable to the insured than the old ones. In some cases, losses that would have been covered under the old form are excluded under the new ones. To avoid this outcome, 28 states require that the insured receive at least as much protection under the new forms as the SFP would have provided. Table 1 on Page 4 lists those states.

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# The Standard Fire Policy — A Phoenix Arising from the Ashes?

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**Table 1**  
**States That Mandate Coverage Equal to the SFP**

AZ	IL	ND	OR
CA	LA	NE	PA
CT	MA	NH	RI
GA	ME	NC	VA
HI	MI	NJ	WA
IA	MN	NY	WI
ID	MO	OK	WY

Source: American Association of Insurance Services (AAIS)  
[http://www.aaisonline.com/terrorism/SFP\\_NSFPchart.html](http://www.aaisonline.com/terrorism/SFP_NSFPchart.html)

This requirement applies only to perils that the SFP policy covered: fire, lightning and removal due to those perils. Those are the only perils that were covered by the unendorsed SFP; all other perils had to be added to the SFP by endorsement. However, the coverage that SFP did provide can encompass some large exposures that current forms would otherwise exclude. Originally, this was of interest only to textbook authors, but as exclusions have been added to the simplified forms, the SFP has come into play in a variety of situations. Some examples follow.

## Terrorism

Probably the most important area where the SFP laws affect coverage concerns terrorism losses. Sept. 11 led to the introduction of the exclusion of certified acts of terrorism unless the insured elects coverage, but the SFP did not contain a terrorism exclusion; therefore, fire losses caused by terrorist acts cannot be excluded in policies covering property located in many SFP states. Further, while the SFP specifically excluded explosion, it did cover ensuing fire damage. Therefore, fire damage following an explosion caused by terrorist acts would be covered.

Recognizing the state laws regarding the SFP, the ISO endorsement excluding terrorism (IL09530108 Exclusion of Certified Acts of Terrorism) contains

a box to enter the names of states that require coverage at least equal to the SFP. For property located in a listed state, the following exception applies:

"If a 'certified act of terrorism' results in fire, we will pay for the loss or damage caused by that fire. Such coverage for fire applies only to direct loss or damage by fire to Covered Property. Therefore, for example, the coverage does not apply to insurance provided under Business Income and/or Extra Expense coverage forms or endorsements which apply to those forms, or to the Legal Liability Coverage Form or the Leasehold Interest Coverage Form."

Some states that otherwise require coverage equal to the SFP policy passed laws permitting fire resulting from terrorism to be excluded. Table 2 lists those states that require coverage equal to the SFP, but nevertheless permit fire resulting from terrorism to be excluded.

## Innocent Co-Insured or What a Difference a Word Makes

A disgruntled spouse in the midst of an ugly divorce sets fire to the home owned and occupied by the couple. The home is a total loss. Does the couple's homeowners policy provide coverage? The answer is often no. The concealment or fraud condition in the ISO homeowners policy reads:

"We provide coverage to no 'insureds' under this policy if, whether before or after a loss, an 'insureds' has:

- (1) Intentionally concealed or misrepresented any material fact or circumstance;
- (2) Engaged in fraudulent conduct; or
- (3) Made false statements; relating to this insurance."

Note that the provision says coverage for no insureds if an insured has engaged in the prohibited acts. In many states the courts have ruled that the innocent

**Table 2**  
**SFP States That Permit Fire Terrorism Exclusion in Commercial Policies**

AZ	MI	ND	VA**
CT*	MN*	OK**	
ID	NE	PA	
LA	NH*	RI***	

\*Applies to personal and commercial

\*\*Insurance commissioner may approve fire exclusion that does not follow SFP

\*\*\*May be excluded in risks over a certain size

Source: American Association of Insurance Services (AAIS)  
[http://www.aaisonline.com/terrorism/SFP\\_NSFPchart.html](http://www.aaisonline.com/terrorism/SFP_NSFPchart.html)

co-insured, even if he or she is totally a victim and had no prior knowledge of, or participation in the arson, cannot recover under the policy because arsonist spouse is "an insured."

New York has taken an interesting approach to this issue. After reviewing cases holding both for and against innocent co-insureds in a case involving arson by an insured's angry resident-son, the New York Court of Appeals, New York's highest court, wrote:

The plaintiff (the innocent mother) points out that all fire insurance policies are required by law to provide a certain level of coverage (Insurance Law § 3404 [f] [A]), and that the statutory policy excludes coverage only for acts by 'the insured' (Standard Fire Policy, page 2, lines 31 & 32) ... While the phrase 'an insured' is unambiguous, it is clear ... that the language 'an insured' offers an innocent party significantly less coverage than the language 'the insured.' Since the latter phrase is that adopted by the legislature in the Insurance Law, use of the former violates that statute's requirement that all fire policies offer the level of coverage provided in the standard policy."<sup>3</sup>

Thus, because the mandated coverage equal to the SFP would exclude only acts of the insured, not those of any insured, the case was decided in the insured's favor.

## Inland Marine Coverages

A builders risk policy covering the construction of dormitories at Arizona State University included a warranty endorsement that required the insured to conduct a fire watch "during all welding operations or other hot processes." The warranty endorsement provided that "failure to comply with this warranty will render this coverage null and void." The project was destroyed by fire caused by careless welding procedures; there had been no fire watch, and the insurance company denied the claim.

Clearly, such a denial would not stand up if the policy were required to provide fire coverage equal to the SFP. The twist here is that the policy was written on an inland marine form. A majority of the states that require fire policies to provide at least as much coverage as the SFP specifically exempt inland marine forms from that requirement. Unluckily for the insured in the dormitory fire case, Arizona also exempts inland marine.

The insured's attorneys argued that the policy should be classified as fire insurance rather than inland marine, which would give the insured the benefit of the SFP coverage requirement, but the court held that it was properly classified as inland marine and sustained the insurer's declination.<sup>4</sup> A list of the states that apply the SFP requirement to inland

marine as well as property insurance is shown in Table 3.

## Summary

Although the SFP is thought of as a relic of bygone days, it lives on in states that require coverage at least equal to that provided by the SFP. It can affect claims in surprising ways.

## Endnotes

- (1) The Standard Fire Policy is often referred to as the New York Standard Fire Policy. The first state to adopt laws requiring a standard fire policy was Massachusetts, but the law was declared unconstitutional within a year by that state's courts. New York stepped into the breach and was the first state to successfully adopt a standard fire policy, doing so in 1886. In 1918, a revised New York policy was enacted into law in New York, and it was the one that was specified by law in most other states. For a fascinating history of the creation of the policies, see David Rumsey's "The New Standard Fire Insurance Policy of the State of New York," chapter 3 in *The Fire Insurance Contract: Its History and Interpretation*, compiled and edited by, and published under the auspices of The Insurance Society of New York, by The Rough Notes Corporation, Indianapolis, 1922.
- (2) *Dictionary of Insurance Terms*, Barron's Educational Series Inc., Hauppauge, NY. <http://www.allbusiness.com/glossaries/new-york-standard-fire-policy/4957601-1.html>
- (3) *Joretta K. Lane, Appellant, v. Security Mutual Insurance Company, Respondent*. 96 N.Y.2d 1,747 N.E.2d 1270, 724 N.Y.S.2d 670 (New York Court of Appeals — February 13, 2001).
- (4) *Liberty Ins. Underwriters, Inc. v. The Weitz Company, LLC*. 215 Ariz. 80, 158 P.3d 209 (Ariz. Ct. App. 2007).

**Table 3**  
**SFP States that Apply SFP Requirement to Inland Marine as well as Property Insurance**

CA	NH	MN
LA	OR	PA: IM Exemption does not apply to policies covering real property, e.g., builders risk.
ME	RI*	
MO	WI	

\*May be excluded in risks over a certain size

Source: American Association of Insurance Services (AAIS)  
[http://www.aaionline.com/terrorism/SFP\\_NSFPchart.html](http://www.aaionline.com/terrorism/SFP_NSFPchart.html)

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# The Standard Fire Policy — A Phoenix Arising from the Ashes?

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## 1943 New York Standard Fire Policy

### "165 Lines"

1   **Concealment Fraud.** This entire policy shall be void if, whether  
2   before or after a loss, the insured has wil-  
3   fully concealed or misrepresented any ma-  
4   terial fact or circumstance concerning this insurance or the  
5   subject thereof, or the interest of the insured therein, or in case  
6   of any fraud or false swearing by the insured relating thereto.

7   **Uninsurable or Excepted Property** This policy shall not cover  
8   accounts, bills,  
9   and currency, deeds, evidences of debt, money or  
10   securities; nor, unless specifically named  
hereon in writing, bullion or manuscripts.

11   **Perils not Included.** This Company shall not be liable for loss by  
12   fire or other perils insured against in this  
13   policy caused, directly or indirectly, by: (a)  
14   enemy attack by armed forces, including action taken by mili-  
15   tary, naval or air forces in resisting an actual or an immediately  
16   impending enemy attack; (b) invasion; (c) insurrection; (d)  
17   rebellion; (e) revolution; (f) civil war; (g) usurped power; (h)  
18   order of any civil authority except acts of destruction at the time  
19   of and for the purpose of preventing the spread of fire, provided  
20   that such fire did not originate from any of the perils excluded  
21   by this policy; (i) neglect of the insured to use all reasonable  
22   means to save and preserve the property at and after a loss, or  
23   when the property is endangered by fire in neighboring prem-  
24   ises; (j) nor shall this Company be liable for loss by theft.

25   **Other Insurance.** Other insurance may be prohibited or the  
26   amount of insurance may be limited by en-  
27   dorsement attached hereto.

28   **Conditions suspending or restricting insurance.** Unless other-  
29   wise provided in writing added hereto this Company shall not  
30   be liable for loss occurring  
31   (a) while the hazard is increased by any means within the con-  
32   trol or knowledge of the insured; or  
33   (b) while a described building, whether intended for occupancy  
34   by owner or tenant, is vacant or unoccupied beyond a period of  
35   sixty consecutive days; or  
36   (c) as a result of explosion or riot, unless fire ensue, and in  
37   that event for loss by fire only.

38   **Other perils** Any other peril to be insured against or sub-  
39   ject of insurance to be covered in this policy  
40   shall be by endorsement in writing hereon or

41   added hereto.

42   **Added provisions.** The extent of the application of insurance  
43   under this policy and of the contribution to  
44   be made by this Company in case of loss, and any other pro-  
45   vision or agreement not inconsistent with the provisions of this  
46   policy, may be provided for in writing added hereto, but no pro-  
47   vision may be waived except such as by the terms of this policy  
48   is subject to change.

49   **Waiver** No permission affecting this insurance shall  
50   provisions exist, or waiver of any provision be valid,  
51   unless granted herein or expressed in writing  
52   added hereto. No provision, stipulation or forfeiture shall be  
53   held to be waived by any requirement or proceeding on the part  
54   of this Company relating to appraisal or to any examination  
55   provided for herein.

56   **Cancellation** This policy shall be cancelled at any time  
57   of policy, at the request of the insured, in which case  
58   this Company shall, upon demand and sur-  
59   render of this policy, refund the excess of paid premium above  
60   the customary short rates for the expired time. This pol-  
61   icy may be cancelled at any time by this Company by giving  
62   to the insured a five days' written notice of cancellation with  
63   or without tender of the excess of paid premium above the pro-  
64   rata premium for the expired time, which excess, if not ten-  
65   dered, shall be refunded on demand. Notice of cancellation shall  
66   state that said excess premium (if not tendered) will be re-  
67   funded on demand.

68   **Mortgagee** If loss hereunder is made payable, in whole  
69   interests and or in part, to a designated mortgagee not  
70   obligations named herein as the insured, such interest in  
71   this policy may be cancelled by giving to such  
72   mortgagee a ten days' written notice of can-  
73   cellation.

74   If the insured fails to render proof of loss such mortgagee, upon  
75   notice, shall render proof of loss in the form herein specified  
76   within sixty (60) days thereafter and shall be subject to the pro-  
77   visions hereof relating to appraisal and time of payment and of  
78   bringing suit. If this Company shall claim that no liability ex-  
79   isted as to the mortgagor or owner, it shall, to the extent of pay-  
80   ment of loss to the mortgagee, be subrogated to all the mort-  
81   gagee's rights of recovery, but without impairing mortgagee's  
82   right to sue; or it may pay off the mortgage debt and require  
83   an assignment thereof and of the mortgage. Other provisions

84 relating to the interests and obligations of such mortgagee may  
85 be added hereto by agreement in writing.

86 **Pro rata liability.** This Company shall not be liable for a greater  
87 proportion of any loss than the amount  
88 hereby insured shall bear to the whole insurance covering the  
89 property against the peril involved, whether collectible or not.

90 **Requirements in case loss occurs.** The insured shall give  
immediate written  
91 notice to this Company of any loss, protect  
92 the property from further damage, forthwith  
93 separate the damaged and undamaged personal property, put  
94 it in the best possible order, furnish a complete inventory of  
95 the destroyed, damaged and undamaged property, showing in  
96 detail quantities, costs, actual cash value and amount of loss  
97 claimed; and within sixty days after the loss, unless such time  
98 is extended in writing by this Company, the insured shall render  
99 to this Company a proof of loss, signed and sworn to by the  
100 insured, stating the knowledge and belief of the insured as to  
101 the following: the time and origin of the loss, the interest of the  
102 insured and of all others in the property, the actual cash value of  
103 each item thereof and the amount of loss thereto, all encum-  
104 brances thereon, all other contracts of insurance, whether valid  
105 or not, covering any of said property, any changes in the title,  
106 use, occupation, location, possession or exposures of said prop-  
107 erty since the issuing of this policy, by whom and for what  
108 purpose any building herein described and the several parts  
109 thereof were occupied at the time of loss and whether or not it  
110 then stood on leased ground, and shall furnish a copy of all the  
111 descriptions and schedules in all policies and, if required, verified  
112 plans and specifications of any building, fixtures or machinery  
113 destroyed or damaged. The insured, as often as may be reason-  
114 ably required, shall exhibit to any person designated by this  
115 Company all that remains of any property herein described, and  
116 submit to examinations under oath by any person named by this  
117 Company, and subscribe the same; and, as often as may be  
118 reasonably required, shall produce for examination all books of  
119 account, bills, invoices and other vouchers, or certified copies  
120 thereof if originals be lost, at such reasonable time and place as  
121 may be designated by this Company or its representative, and  
122 shall permit extracts and copies thereof to be made.

123 **Appraisal.** In case the insured and this Company shall  
124 fail to agree as to the actual cash value or  
125 the amount of loss, then, on the written demand of either, each

126 shall select a competent and disinterested appraiser and notify  
127 the other of the appraiser selected within twenty days of such  
128 demand. The appraisers shall first select a competent and dis-  
129 interested umpire; and failing for fifteen days to agree upon  
130 such umpire, then, on request of the insured or this Company,  
131 such umpire shall be selected by a judge of a court of record in  
132 the state in which the property covered is located. The ap-  
133 praisers shall then appraise the loss, stating separately actual  
134 cash value and loss to each item; and, failing to agree, shall  
135 submit their differences, only, to the umpire. An award in writ-  
136 ing, so itemized, of any two when filed with this Company shall  
137 determine the amount of actual cash value and loss. Each  
138 appraiser shall be paid by the party selecting him and the ex-  
139 penses of appraisal and umpire shall be paid by the parties  
140 equally.

141 **Company's Options** It shall be optional with this Company to  
142 take all, or any part, of the property at the  
143 agreed or appraised value, and also to re-  
144 pair, rebuild or replace the property destroyed or damaged with  
145 other of like kind and quality within a reasonable time, on giv-  
146 ing notice of its intention so to do within thirty days after the  
147 receipt of the proof of loss herein required.

148 **Abandonment.** There can be no abandonment to this Com-  
149 pany of any property.

150 **When loss payable** The amount of loss for which this Company  
151 may be liable shall be payable sixty days  
152 after proof of loss, as herein provided, is  
153 received by this Company and ascertainment of the loss is made  
154 either by agreement between the insured and this Company ex-  
155 pressed in writing or by the filing with this Company of an  
156 award as herein provided.

157 **Suit.** No suit or action on this policy for the recov-  
158 ery of any claim shall be sustainable in any  
159 court of law or equity unless all the requirements of this policy  
160 shall have been complied with, and unless commenced within  
161 twenty-four months next after inception of the loss.

162 **Subrogation.** This Company may require from the insured  
163 an assignment of all right of recovery against  
164 any party for loss to the extent that payment therefor is made  
165 by this Company. ■

# Building Green — What Does That Mean for the Insurance Underwriter?

by Ann Lyon, CPCU, CIC, CRM, ARP, AMIM



**Ann Lyon, CPCU, CIC, CRM, ARP, AMIM**, is an active member of the Underwriting Interest Group and has been involved with the CPCU Society for many years. She is the chief underwriting officer and senior vice president at Builders Insurance Services, a property-casualty insurer, located in Lake Oswego, Ore., specializing in contractors insurance.

In gaining green certification for a building from an organization such as the U.S. Green Building Council (Leadership in Energy & Environmental Design — LEED certification), plans must be submitted that take into consideration many different concepts. All contribute to the overall score, so the reality is that very few green buildings will get certified for the same elements. To help understand the different ways to earn points toward certification, the main categories are described below.

When a developer chooses a site for a project, there are many things to consider. The site should be easily accessible for the occupants and near mass transit; storm water should be managed; light pollution should be kept to a minimum and the heat island effect should be reduced; and, ideally as well, the developer should be recycling a space that has already been developed rather than using natural habitat.

Some ways to accomplish these goals include building vertical and keeping natural habitat space around the structure as well as using natural shading; green roofs; reflective materials; and developing in dense areas where all community necessities are within one-half mile of the building.

Water use is an important element in green building. First of all, an effort should be made to find use for gray water from showers, sinks and baths. Typical use for this kind of water would be for irrigation and flushing. Rainwater and storm water run-off should also be collected and used for the same purposes as gray water. Next, the use of water should be reduced by planting native plants that need little irrigation as well as very little herbicide and pesticides that may damage nearby streams or properties, installing low water use plumbing fixtures and reducing turf grass to a minimum.

Buildings use an enormous amount of energy. In the United States, 36 percent of all energy use is attributable to buildings, which includes 65 percent of all electricity use. In addition, buildings also produce 30 percent of greenhouse gas emissions per the U.S. Green Building Council.

Green building works toward reducing energy use as well as using sustainable sources of energy generation. The building should be oriented on the property to make the best use of energy, and the building itself should be designed to make maximum use of natural light through skylights, sun tubes and windows.

***In the United States, 36 percent of all energy use is attributable to buildings, which includes 65 percent of all electricity use.***

Alternative sources of energy that can be employed to generate electricity or hot water include active and passive solar energy systems, wind energy, water power and geothermal heat. All of these systems will reduce greenhouse emissions as well as save natural resources, and are generally more cost efficient to the building owner over time. HVAC systems are now being designed for energy efficiency, and appliances rated by Energy Star can reduce electrical consumption.

In the actual construction or renovation of the building, it is important to reduce, re-use and recycle. By changing the distance on studs from 16-inch standard to 24-inch spacing, materials are reduced by 30 percent. Building materials that are salvaged from other dismantled structures, as well as sustainable materials such as cork, bamboo, or wheat straw, should be used where appropriate, and local sources should be used as much as possible.

**I**t is difficult to read a newspaper, magazine or web article these days without coming upon information about green buildings. There are tax breaks and incentives, and many local governments are requiring a certain level of sustainability in new construction of public buildings. The term “triple bottom line” refers to “People, Profit, Planet,” which translates to occupant well-being while in a green structure, economic growth from using sustainable systems, and environmental impacts from building green as opposed to traditional methods and means.



Most steel used in the U.S. today is made from at least 25 percent recycled metal, and there are other building components also made from recycled materials. When the building is completed, it should also be set up to continue recycling by the building occupants.

During the construction process, the site should be protected from contaminants. Materials used in construction should not have off-gassing properties, which can be present in certain paints, flooring, adhesives and sealants, composite woods, furniture and fixtures. The building should have all of the air flushed at completion and testing done for the air quality; ventilation should be created to allow as much fresh outdoor air as possible. Temperature controls to reduce energy consumption can include under floor air, operable windows and individual temperature controls. The use of acoustics can also reduce noise within the building, which adds to the occupants' comfort.

Today's underwriters need to understand that there are benefits and also drawbacks from an insurance standpoint when insuring a green building or covering

the contractors or design professionals that erect the structure. Nontraditional building materials that may be untested over time will likely be used, and differently designed plumbing systems, HVAC and alternative energy generation will be installed. Any of these components could cause problems over time, and we are likely to see newly emerging kinds of losses.

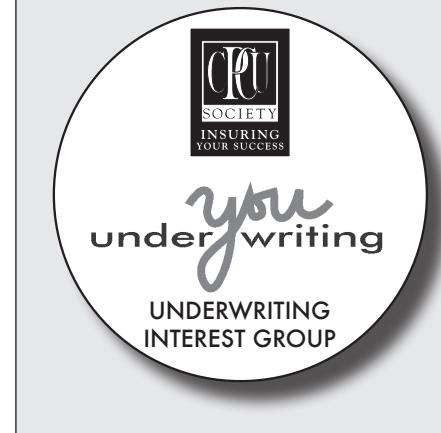
In addition, there has already been some litigation involving owners that contracted for a certain level of LEED certification that would guarantee incentives and tax breaks only to find that the construction did not earn the level promised. A contractor building a green building must make sure that all of the materials, construction methods and details are specified in writing by the design professional, so if a system does not perform as expected, they have the defense of building to specification. There are no hard and fast guidelines on how to underwrite these kinds of exposures, but the insurance professional should be aware of them and ask the appropriate questions to become comfortable with the risk. ■

## The Underwriting Interest Group Committee

*We put the YOU in underwriting.*

*The importance of this slogan is that insurance is still a people and relationship business. People make the difference.*

*Make sure to put the YOU in the underwriting process.*



# CPCU Society/University Student Program — A Look into the Future

by Lamont D. Boyd, CPCU, AIM



**Lamont D. Boyd, CPCU, AIM,** is insurance market director, Global Scoring Solutions, for Fair Isaac Corporation (FICO®), and is responsible for client and partnership opportunities that make use of FICO's credit-based insurance scoring and property risk scoring products and services. Working with more than 300 insurance clients throughout the U.S. and Canada, and speaking regularly to industry and consumer groups, Boyd is recognized as one of the industry's leading experts in predictive scoring technology. Prior to joining FICO in 1993, he served 19 years in underwriting and sales management with a major property-casualty insurer.

**A** unique seminar will be offered during the CPCU Society Annual Meeting and Seminars in Orlando, and we encourage all to attend.

“Risk Management Insurance Students Look to the Future” will provide a view of the property-casualty insurance industry’s need for the “best and brightest” now and in the future as well as a unique view from students currently studying risk management and insurance at two of the top university programs in the nation.

This educational seminar has been described as “specifically designed to help risk management and insurance students, as well as new designees, understand more fully the variety of paths available to them in the property-casualty insurance industry. Of equal importance is an understanding of the value of the CPCU designation and networking opportunities, and how both can help you on your chosen path. Our speakers will include students currently active in risk management and insurance programs, as well as representatives from the industry who will discuss the industry’s need for young, talented individuals.”

The 2010 Annual Meeting Task Force has made a concerted effort to reach out to universities and colleges offering risk management and insurance programs, as well as to local CPCU chapter leaders, to help us achieve the lofty goal of 50 students joining us in Orlando.

Our hope is that all students, new designees and industry veterans walk away from this seminar with great ideas and a clear understanding of what is needed to grow our industry through the development of talented individuals.

We think the CPCU Society is uniquely positioned, in large part due to the direction and support provided by its interest groups and local chapter leaders, to offer a bridge between those who

seek a rewarding future in the industry and those who are seeking key people to contribute to a successful future.

I’ll serve as the seminar’s moderator, while our speakers will include:

- **Stacey Hinterlong** — Stacey is pursuing her MBA with a focus on insurance at Illinois State University (ISU), having graduated with a Bachelor of Science degree in finance and insurance from ISU in December 2009. Stacey attended last year’s CPCU Society Annual Meeting and Seminars on a student scholarship offered by the CPCU Society’s Central Illinois Chapter. She is currently pursuing her CPCU designation, and is very involved in Toastmasters, an international public speaking organization, where she has held many offices including president.

- **Ryan Rolfs** — Ryan is a senior at Florida State University, where he is pursuing a double major in Risk Management/Insurance and Entrepreneurship/Small Business Management. He is a leader in his fraternity, Tau Kappa Epsilon, and is actively involved with the Insurance Society at Florida State University. Ryan plans to graduate from FSU in December 2010 and enter the risk management field.

- **Lynn M. Davenport, CPCU, AIC, AIM, AIS, AIT, GEI** — Lynn is a team manager with State Farm in Greeley, Colo. Her 21-year career includes management roles in fire claims, auto salvage, and claim automation and procedures. Lynn has led several major organizational change and process improvement initiatives in a six-state zone.

Lynn earned a master in business administration in knowledge and learning management through Walden University in 2004, along with a Bachelor of Arts in psychology from St. Mary’s College in Notre Dame, Ind.



She has served as a volunteer leader for the CPCU Society in many capacities, including the board of governors, interest group committees, task forces and the nominating committee.

• **Dave Newell** — Dave is industry relationship manager for the Florida Association of Independent Agents (FAIA) with considerable knowledge and expertise in both the carrier and agency side of the insurance business. Dave was active in the claims association and has served as a board member, past president and catastrophe chair for the Independent Insurance Agents of Tallahassee.

Dave graduated from the University of North Florida in 1984 and began his insurance career in 1987 as a claim representative with a large property-casualty insurance carrier. In July 2008, Dave joined FAIA in his current capacity as the association's citizens'

liaison, InVest staff director, and an instructor for the FAIA Education Department.

Please mark your calendars to join us in **Orlando on Sunday, Sept. 26, 9:30–11:30 a.m.**, for a unique educational seminar guaranteed to make you think about how we each can and should contribute to the property-casualty insurance industry's future. ■

## The Institutes Announce New Elective Component for CPCU Program

Working in close cooperation with industry professionals, designees, training experts and the CPCU Society, The Institutes announced on July 7 that they have modified the CPCU program to ensure that it continues to meet the industry's needs in an ever-changing and competitive marketplace.

Effective immediately, the CPCU program will include an elective component as a part of its education requirement, which consists of four foundation courses, one elective course and three concentration courses (personal or commercial).

Individuals pursuing the CPCU designation will select one elective course from among 10 options in seven functional areas. The elective choices are as follows:

- AAI 83 — Agency Operations and Sales Management.
- AIC 34 — Workers Compensation and Managing Bodily Injury Claims.
- AIC 35 — Property Loss Adjusting.
- AIC 36 — Liability Claim Practices.
- ARe 144 — Reinsurance Principles and Practices.
- ARM 56 — Risk Financing.
- AU 65 — Commercial Underwriting: Principles and Property.
- AU 66 — Commercial Underwriting: Liability and Advanced Techniques.
- CPCU 560 — Financial Services Institutions.
- ERM 57 — Enterprise-Wide Risk Management: Developing and Implementing.

# 2010 ISO Commercial Auto Forms Revision

by Arthur L. Flitner, CPCU, ARM, AIC



**Arthur L. Flitner, CPCU, ARM, AIC**, is a senior director of knowledge resources at The Institutes in Malvern, Pa., where he participates in The Institutes' product development process. Flitner is the author of numerous textbooks, writes articles for insurance trade publications and gives presentations on technical insurance topics at industry meetings, workshops and webinars. His main area of endeavor is in the teaching of commercial property and liability insurance contracts. He previously was associate editor of *The Fire, Casualty, and Surety Bulletins* of the National Underwriter Company.

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**I**nsurance Services Office Inc. (ISO) has revised its commercial auto forms and endorsements with a June 1, 2010, effective date in most states.

While some insurers may delay adoption of the revised forms and endorsements for months or even years after the effective date, proactive producers and risk managers will want to get an overview of the changes before they actually encounter them.

ISO has filed new editions of its Business Auto Coverage Form (BACF), Garage Coverage Form (GCF), and Motor Carrier Coverage Form (MCCF), as well as several endorsements used with these forms. At the same time, ISO plans to withdraw its Truckers Coverage Form (TCF), which has become outdated because of changes in motor carrier regulations.

Going forward, the MCCF will be used instead of the TCF. Under ISO manual rules, the MCCF can be written for a person or an organization providing transportation by auto in the furtherance of a commercial enterprise, while eligibility for the TCF is limited to a person or an organization engaged in the business of transporting property by auto for hire.

For example, the MCCF can be written not only for a motor carrier that transports property of others for hire, but also for an insured that transports only its own property by auto (not just property of others) or that transports people (as opposed to property).

Other than ISO's withdrawal of the TCF, changes to the other coverage forms and endorsements range from being only editorial to having a light to moderate effect on coverage.

Noteworthy changes that apply equally to the BACF, GCF and MCCF are as follows:

- The supplementary payment applicable to costs taxed against the insured in a suit that the insurer defends has been clarified to state that it applies only to court costs taxed against the insured, and that the insurer's payment for such costs does not include attorneys' fees or attorneys' expenses taxed against the insured. Attorneys' fees for which the insured is held liable are covered by the auto liability insuring agreement in each of the commercial auto forms because the plaintiff's attorney's fee is normally a percentage of the damages awarded to the plaintiff that has made the claim against the insured.
- Additional wording has been added to the Fellow Employee exclusion to extend the exclusion to wrongful death claims made by the survivors of an employee who is killed on the job because of a fellow employee's negligence.
- The existing exclusion of physical damage coverage for electronic equipment has been modified so that it will no longer exclude electronic equipment that receives or transmits audio, visual or data signals, as long as the equipment is permanently installed in the auto (or is removable from a housing unit that is permanently installed in the auto). However, the revised forms limit coverage for such equipment (including sound-reproducing equipment) to \$1,000 per accident. Higher limits are available by endorsement.
- The "wear and tear" exclusion applicable to physical damage coverage has been reworded to apply only to loss "due and confined to" wear and tear, freezing, mechanical breakdown, electrical breakdown and road damage to tires. The "due and confined" language, also found in ISO's Personal Auto Policy, replaces language in the commercial forms that was aimed at achieving the same effect.

For example, if an electrical breakdown occurs, the insurer will not pay the cost of repairing or replacing the damaged electrical component because the loss was “due and confined” to the electrical breakdown. However, if the electrical breakdown causes a fire that then destroys the covered auto, the fire damage to the rest of the auto would not be confined to the electrical breakdown. Accordingly (assuming the auto is covered for comprehensive or specified causes of loss), the fire damage to the rest of the auto (other than the component initially damaged by the electrical breakdown) would be covered.

ISO has also introduced these new commercial auto endorsements:

- CA 04 44 — Waiver of Subrogation, which amends the subrogation condition so that it does not apply to the entity listed in the endorsement if subrogation is waived before the accident or loss under a contract with the entity.
- CA 23 98 — Trailer Interchange Coverage, which allows this coverage to be added to the Business Auto Coverage Form for a private carrier that enters into trailer interchange agreements and wants to obtain this coverage.
- CA 04 45 — Golf Carts and Low Speed Vehicles, which allows coverage for golf carts and other low-speed vehicles that are not subject to financial responsibility or other motor vehicle insurance laws and thus would not otherwise meet the definition of “auto” in ISO commercial auto forms.

In addition, ISO has modified the Limits of Insurance and Deductibles provisions applicable to garagekeepers coverage in the Garage Coverage Form to clarify that



the full limit of insurance is available if a loss exceeds the sum of the deductible and the limit of insurance. In other words, the deductible is subtracted from the full amount of the loss, not from the limit of insurance. The same change has been made to the Deductible provision applicable to trailer interchange coverage in the Motor Carrier Coverage Form.

The definition of “customer’s auto” in the GCF has been expanded to include situations in which the named insured, with or without the owner’s knowledge or consent, has lawful possession of a land vehicle or trailer for service, repair, storage or safekeeping. For example, if a towing company took possession of an abandoned vehicle at the request of the police, this vehicle would meet the definition of “customer’s auto” for purposes of garagekeepers coverage in the GCF.

Various other changes have been made to these GCF endorsements to maintain consistency between them and the ISO Commercial General Liability Coverage Form: CA 25 08 — Personal Injury

Liability Coverage — Garages; CA 25 10 — Fire Legal Liability Coverage — Garages; and CA 25 14 — Broadened Coverage — Garages.

This article has mentioned only the more significant changes in the 2010 commercial auto forms and endorsements. For complete details, those with access to ISO Circulars should see Circular LI-CA-2009-103. For the associated revisions of manual rules and loss costs, see Circulars LI-CA-2009-104 and LI-CA-2009-105. ■

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### Have questions?

Contact Dick Vanderbosch, CPCU, at (970) 663-3357 or [rbosch@aol.com](mailto:rbosch@aol.com)



Oriental Pearl Tower in Shanghai, China

# Will a New Insurance Exchange Improve Insurance Markets?

by Aaron Brandenburg, ARM

**Aaron Brandenburg, ARM**, is an economist and statistical information manager with the National Association of Insurance Commissioners and has been with the organization for five years. He conducts econometric and statistical research for the NAIC and its members on a wide range of issues. His work has involved diverse insurance issues including catastrophic risk, rate regulation and the economics of insurance. Prior to joining the NAIC, Brandenburg was an economic analyst with Shook, Hardy and Bacon, where he was responsible for the development of economic and econometric experts, the drafting of regulatory submissions and general analysis of market and economic issues. He is currently working toward his CPCU designation.

**Editor's note:** This article originally appeared in the June 2010 issue of the Regulatory & Legislative Interest Group's newsletter.

Recently, the term "insurance exchange" has worked its way into the mainstream lexicon as the federal government considers instituting an insurance exchange as part of its efforts to address health insurance reforms. The details on this exchange remain preliminary and undefined, but it is important to note that, outside of the health world, an insurance exchange is actually close to being up and running.

The Council of Insurance Agents and Brokers, which represents commercial insurance brokers and agents worldwide, has partnered with LexisNexis Risk Solutions and FirstBest Systems Inc. in developing a Web-based insurance exchange for agents and brokers. The exchange will employ intellectual property developed by Marketcore Inc. The exchange, initially open to mid- and large-market commercial property-casualty

lines, will give agents and brokers access to a single system where they can submit insurance applications in an attempt to fill business for their customers.

The exchange will allow agents and brokers to submit insurance applications in a single step, real-time process. Agents will be able to see the availability, price and coverage differences in insurance products from a variety of insurance carriers. Currently, brokers have to interact with separate carriers in different systems, creating a very inefficient and time-consuming process. Attempts at building a similar insurance exchange were never seen to fruition, but advancements in technology helped make this current version a reality.

The existence of an exchange should provide numerous benefits to the workings of insurance markets. The movement away from separate systems to a single system will reduce redundant work for insurance agents and brokers. This will free up time for brokers to place more business or spend additional time on each customer's needs. Because brokers will enter all data at once and send submissions to multiple carriers, brokers will be able to provide more competitive quotes to their customers — and more quickly than ever before.

The ability to see insurance product availability, coverage and pricing differences will allow the broker to place the coverage in a manner that best suits the customer. This helps the customer by providing a broader choice of insurance products and access to additional carriers of all sizes and types. In addition, smaller customers will be aided as brokers will have additional resources and an easier way to place small business with the broad array of options within the exchange.

New markets will be open to numerous participants, both at the broker and customer levels. Carriers will benefit by

being exposed to more customers, while brokers and their customers will benefit by being exposed to more carriers and products. Increased competition may lead to a fall in prices. Carriers will be able to more easily differentiate their products by offering innovations, tailoring to customers' needs or offering better pricing.

In today's financial climate, there is a widespread call for greater transparency within markets. This exchange will provide a real-time, comprehensive marketplace where transactions will be much more transparent. Brokers and other observers will be able to track trends in the marketplace as they happen, allowing them to have greater and more timely knowledge of new products, changes in terms and conditions, and movements in pricing.

The pilot program for mid- and large-market commercial lines is scheduled to begin in the fall of 2010, with full production set for early 2011.

The exchange will initially focus on commercial lines, but it is expected to eventually cover all sizes and lines of property-casualty risks.

It is likely that there will be numerous benefits that arise from this new insurance exchange, primarily in terms of providing more efficient and transparent markets to the insurance industry. It will be interesting as we move forward to monitor the extent to which these benefits are realized and if lessons can be learned for instituting insurance exchanges, such as for health insurance, in the future. ■



# Underwriting Interest Group

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## Underwriting Trends

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