

AAIS

Date: **November 7, 2003**

Bulletin Number: **03-0459**

BULLETIN

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Line(s) of

Insurance: **Farm Properties**
Farm Umbrella

Farmowners
Personal & Premises Liability

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<http://www.aaisonline.com/services/electronicbulletins.html>

COUNTRYWIDE CERTIFIED TERRORISM ENDORSEMENTS AND RATING PROCEDURE REVISED

Reference Bulletin: 02-0550

AAIS is filing revised editions of the endorsements that can be used when the insured accepts or rejects the offer of coverage for loss caused by certified acts of terrorism for use with all farm-related policies. The rating procedure that applies with respect to coverage for certified terrorism loss under all farm-related policies has also been revised and is being filed in conjunction with the revised endorsements.

The filings are being submitted under the File and Use procedures permitted by the federal Terrorism Risk Insurance Act of 2002 (TRIA or the Act). The revised materials will become effective January 1, 2004.

BACKGROUND

TRIA, which establishes the Terrorism Insurance Program (the Program) was signed into law on November 26, 2002. AAIS Bulletin 02-0550 provided detailed information regarding TRIA and the AAIS endorsements originally filed to comply with the Act.

Since the enactment of TRIA, the United States Department of the Treasury (Treasury) has issued a number of rules regarding the implementation of the Program. Treasury's Final Rule addressing the Program was issued on July 7, 2003. The supplementary information provided with the Final Rule indicates that Treasury considers coverage for an owner-occupied farm residence to be a personal lines coverage, rather than a commercial lines coverage, and thus not subject to TRIA. Treasury has also emphasized that any type of crop or livestock insurance, including that which is privately issued or reinsured, is ineligible for coverage under TRIA.

REVISED ENDORSEMENTS

In most states, 01 04 editions of the AAIS endorsements that are used when the insured accepts or rejects the company's offer of coverage for loss caused by certified acts of terrorism have been created to reflect Treasury's published positions with respect to farm risks. Except as otherwise indicated throughout this bulletin, the 01 04 editions of the revised 'FL', 'FO', and 'GL' endorsements described in this Bulletin are being filed under the Farm Properties, Farmowners, and Personal and Premises Liability programs on behalf of companies that have granted AAIS forms filing authority for the respective line(s) of insurance. In most states, the revised 'UM' endorsements described in this Bulletin are being filed under the Farm Umbrella Program on an advisory basis.

The changes made with respect to farm coverages are described under the sub-sections of this Bulletin that address each line of insurance. In addition to the changes made to reflect Treasury's position on farm risks, two other changes have been made in order to minimize the number of state-specific endorsements that were required in response to the previous filing of certified terrorism endorsements:

- A provision has been added under the definition of certified act of terrorism to indicate that no act will be certified by the Secretary of the Treasury (the Secretary) as an act of terrorism if the act is committed in the course of a war declared by the Congress or if losses resulting from the act do not exceed \$5,000,000 in the aggregate. This change has been made to the endorsements that are used when the insured accepts the offer of coverage for loss caused by certified acts of terrorism, as well as the endorsements that are used when the insured rejects the offer of coverage for such loss.
- The capping provision that applies when the Secretary determines that the amount of certified terrorism loss has exceeded the maximum annual liability as set forth by TRIA is activated only when the company has met its deductible requirements as specified by the Act. This change has been made to the endorsements that are used when the insured accepts the offer of coverage for loss caused by certified acts of terrorism, as well as the endorsements that are used when the insured rejects the offer of coverage for such loss in those states where coverage for fire loss caused by a certified act of terrorism is subject to Standard Fire Policy statutes.

Furthermore, previous editions of the endorsements used when the insured accepts the offer of coverage for loss caused by certified acts of terrorism included a provision to indicate that the terms of any terrorism exclusion attached to the policy were amended to specify that such exclusions did not apply to certified terrorism loss. That provision has been omitted from the 01 04 editions, since the endorsements now on file, wherever permitted, to address non-certified acts of terrorism distinguish between those acts of terrorism that are certified by the Secretary and those acts of terrorism that are not so certified.

A description of the changes that are specific to the farm coverages follows. A copy of each 01 04 edition endorsement described below is attached to this Bulletin.

Farm Properties Program

The following endorsements are being filed in all states where the Farm Properties forms are on file, except Alaska, New York, and Washington:

FL 0600 01 04, Certified Terrorism Loss

FL 0610 01 04, Certified Act of Terrorism Exclusion (*Standard Fire Policy not applicable*)

FL 0620 01 04, Certified Act of Terrorism Exclusion (*Standard Fire Policy applicable*)

Separate Bulletins will be issued to distribute the revised 'FL' endorsements being filed for use in Alaska, New York, and Washington.

The FL 0600 01 04 indicates that the TRIA capping provisions do not apply to livestock, poultry, other covered animals or unharvested crops under the Farm Coverage terms. The FL 0600 01 04 also specifies that the TRIA cap will not apply to the dwelling coverages when a residence covered under Coverage A is occupied by its owner or when the policy is issued to a tenant of a residence on the insured premises.

Endorsements FL 0610 01 04 and FL 0620 01 04 indicate that the certified terrorism exclusion does not apply to livestock, poultry, other covered animals or unharvested crops under the Farm Coverage terms or to the dwelling coverages when a residence covered under Coverage A is occupied by its owner or when the policy is issued to a tenant of a residence on the insured premises.

Farm Umbrella Program

The following endorsements are being filed for use in all states where the Farm Umbrella forms are on file, except Alaska, Arkansas, and Washington:

- UM 0330 01 04, Certified Terrorism Loss
- UM 0340 01 04, Certified Act of Terrorism Exclusion

Separate Bulletins will be issued to distribute the revised 'UM' endorsements being filed for use in Alaska and Washington. The special editions of the certified terrorism endorsements filed under the Arkansas Farm Umbrella Program, UM 0330 07 03 and UM 0340 07 03, are similar in content to the 01 04 edition UM endorsements described in this Bulletin. Refer to Bulletin 03-0291. No additional filings of certified terrorism endorsements are anticipated at this time for the Arkansas Farm Umbrella Program.

AAIS filings submitted under the Farm Umbrella Program apply on an advisory basis in all states except Virginia. Refer to the Company Action section of this Bulletin for more information.

The UM 0330 01 04 includes new terms that limit the TRIA capping provisions to the umbrella coverage provided for farming and business activities. Under the UM 0330 01 04, the TRIA cap will not apply to the personal, non-business exposures that may be covered by the farm umbrella policy.

When the UM 0340 01 04 is attached to a policy that includes the farm personal umbrella liability provided by form UM 0002, the certified act of terrorism exclusion will apply only to liability arising out of farming or the activities related to an insured's business and not to any personal, non-business exposures. When the UM 0340 01 04 is attached to a policy that includes the farm commercial umbrella liability provided by form UM 0610, the certified act of terrorism exclusion will apply only to liability for the farming exposures covered under the UM 0610 and will not apply to any personal umbrella liability coverage that may be added by endorsement.

Farmowners Program

The following endorsements are being filed in all states where the Farmowners forms are on file, except Alaska, New York, and Washington:

- FO 0600 01 04, Certified Terrorism Loss
- FO 0610 01 04, Certified Act of Terrorism Exclusion (*Standard Fire Policy not applicable*)
- FO 0620 01 04, Certified Act of Terrorism Exclusion (*Standard Fire Policy applicable*)

Separate Bulletins will be issued to distribute the revised 'FO' endorsements being filed for use in Alaska, New York, and Washington.

Under endorsement FO 0600 01 04, the capping provision that is activated when the Secretary determines that the amount of certified terrorism loss has exceeded the maximum annual liability as set forth by TRIA does not apply with respect to the dwelling coverages provided under forms FO-1, FO-2, FO-3, FO-4, or FO 0005.

The FO 0600 01 04 also includes new provisions to specify that the TRIA capping provisions do not apply to livestock, poultry, or other covered animals or unharvested crops under the Farm Coverage terms, or to the personal, non-business exposures that may be covered under the Liability Coverage terms.

Under endorsements FO 0610 01 04 and the FO 0620 01 04, the certified act of terrorism exclusion does not apply to livestock, poultry, other animals, or unharvested crops under the Farm Coverage terms, or to the Dwelling Coverage terms when the policy includes those terms.

When the FO 0610 01 04 or the FO 0620 01 04 is attached to a policy that includes the liability coverage provided by form GL-2, the certified act of terrorism exclusion will apply only to liability arising out of farming or the activities related to an insured's business and not to any personal, non-business exposures. When the FO 0610 01 04 or the FO 0620 01 04 is attached to a policy that includes the liability coverage provided by form GL-610, the certified act of terrorism exclusion will apply only to liability for the farming exposures covered under the GL-610 and will not apply to any personal liability coverage that may be added by endorsement.

Personal and Premises Liability Program

The following endorsements are being filed for use in all states where the Personal and Premises Liability forms are file, except Alaska and Washington:

- GL 0310 01 04, Certified Terrorism Loss
- GL 0320 01 04, Certified Act of Terrorism Exclusion

Separate Bulletins will be issued to distribute the revised 'GL' endorsements being filed for use in Alaska and Washington.

The GL 0310 01 04 includes new terms that limit the TRIA capping provisions to the liability coverage provided for farming and business activities. Under the GL 0310 01 04, the TRIA cap will not apply to the personal, non-business exposures covered by the farm personal liability policy.

The certified act of terrorism exclusion under the GL 0320 01 04 will apply only to liability arising out of farming or the activities related to an insured's business and not to any personal, non-business exposures.

STANDARD FIRE POLICY STATES

Endorsements FL 0620 01 04 (Farm Properties Program) and FO 0620 01 04 (Farmowners Program) are being filed for use when the insured rejects the offer of coverage for loss caused by certified acts of terrorism in the following states:

Arizona	Iowa	North Dakota
California	Maine	Oregon
Connecticut	Massachusetts	Pennsylvania
Georgia	Missouri	Rhode Island
Idaho	New Jersey	West Virginia
Illinois	North Carolina	Wisconsin

To date, the states listed above still require that Standard Fire Policy statutes apply to fire coverage for loss caused by certified acts of terrorism. In the last six months, however, a number of states that impose Standard Fire Policy statutes on the coverages provided under Farm Properties and Farmowners policies have amended those requirements with respect to fire loss arising out of terrorism. AAIS will take additional filing action to replace endorsements FL 0620 and FO 0620 with endorsements FL 0610 and FO 0610 whenever a state changes the application of its Standard Fire Policy Statutes.

Note that Standard Fire Policy statutes continue to apply to fire loss arising out of terrorism in the states of New York and Washington. Separate Bulletins will be issued to distribute the special editions of the revised certified terrorism loss endorsements being filed in those states.

REVISED RATING PROCEDURE

Farm Properties, Farmowners, and Personal and Premises Liability

The rating procedure set forth in the Terrorism Losses manual supplement filed for use under the Farm Properties, Farmowners, and Personal and Premises Liability programs has also been revised to reflect the positions published in Treasury's TRIA rules. The revised rating procedure has been filed under the Farm Properties, Farmowners, and Personal and Premises Liability programs on behalf of companies that have granted AAIS filing authority for rating information for the respective line(s) of insurance. Two sample copies of the revised rating information section of the Terrorism Losses supplement to the Farm Properties, Farmowners, and Personal and Premises Liability manuals are attached to this Bulletin. One sample represents the appearance of the rating information for those states in which fire loss is not subject to Standard Fire Policy statutes and another sample represents the appearance of the rating information for those states in which fire loss is subject to the Standard Fire Policy statutes.

Farm Umbrella

The rating procedure set forth in the Terrorism Losses manual supplement filed under Nebraska Farm Umbrella Program has been revised and filed, on an advisory basis, for use under that program. AAIS does not file Farm Umbrella rules or rating information in any other state. The revised rating information section of the Terrorism Losses supplement to the Nebraska Farm Umbrella manual is also attached to this Bulletin.

Changes

The factors currently on file for use in determining the additional premium charge for the portion of certified terrorism loss coverage that is retained by the company have not been revised. However, the

rating procedure now calls for multiplying only the premium for the eligible farm exposures by the factor shown for the acceptance of coverage for certified terrorism loss. (In states where fire loss caused by terrorism is still subject to Standard Fire Policy statutes, the corresponding rating procedure also calls for multiplying the premium for the eligible farm exposures by a fire-only factor that applies when the insured otherwise rejects the offer of coverage for loss caused by certified acts of terrorism.)

The revised rating procedure prohibits the inclusion of property or liability premium charged for exposures arising out of dwellings occupied by the insured. The revised rating procedure also identifies ineligible farm exposures to include livestock, poultry, and any other covered animals. The rating procedure does not include any reference to the premium for unharvested crops, since the incidental coverage provided for that exposure under the Farm Properties and Farmowners programs applies only in very limited circumstances and cannot be specifically increased.

The rules published by Treasury use the terms 'combined risk coverage' and 'hybrid policies' to refer to policies that cover both risks that are eligible for coverage under the Terrorism Risk Program and risks that are not eligible under the Program.

Farm-related policies that cover dwellings occupied by the insured, animals, and/or personal liability exposures are examples of such 'hybrid policies'. The Treasury rules allow companies to allocate a portion of the premium for such policies in calculating the Direct Earned Premium under the Program.

In determining the additional premium charge for the portion of certified terrorism loss coverage that is retained by the company, companies are advised to estimate the portion of the premium that represents the coverage for those exposures that are not eligible for coverage under TRIA. The premium for those exposures that are not eligible for coverage under TRIA can then be subtracted from the total policy premium prior to applying the terrorism factor. As stated above, the additional premium charge for certified terrorism coverage should not be based on the property or liability premium charged for exposures arising out of dwellings occupied by the insured or premium that applies to coverage for livestock, poultry, and any other covered animals.

COMPANY ACTION/WEB SITE POSTINGS

The materials described in this Bulletin are being filed under the TRIA provisions waive state prior approval requirements for filings through the end of year 2003.

Farm Properties, Farmowners, and Personal and Premises Liability Programs

The endorsements and rating information described in this Bulletin for use under the Farm Properties, Farmowners, and Personal and Premises Liability programs are being submitted on a File and Use basis, effective January 1, 2004. The filings are being submitted on behalf of those companies that have granted AAIS filing authority, respectively, for forms and rating information for the Farm Properties, Farmowners, and Personal and/or Premises Liability programs.

Any company action required to adopt the revised endorsements and rating information will be posted to the Terrorism section of the AAIS public Web site at www.AAISonline.com. Such postings will include state-specific rating information, listings of applicable terrorism endorsements, company action comments, filing numbers, and any other information needed to implement the revised terrorism materials in a particular state.

Farm Umbrella

Except in the state of Virginia, endorsements UM 0330 01 04 and UM 0340 01 04 are being submitted on an Advisory basis, effective January 1, 2004. Affiliated companies will be required to take action in order to adopt those endorsements. Companies affiliated for the Nebraska Farm Umbrella Program will also be required to take action in order to adopt the revised rating procedure. The company action information required to adopt the Farm Umbrella filings is will be posted to the AAIS public Web at www.AAISonline.com.

SUPPLIES/AAISDIRECT

Forms and Endorsements

The endorsements described in this bulletin have been released to CCH Insurance Services, the exclusive printer of AAIS forms and endorsements. Call CCH Insurance Services at 800/382-2424 to order AAIS forms and endorsements in paper printed format. Call CCH Insurance Services at 800/782-9481 to order the text of AAIS forms and endorsements in a variety of electronic formats.

AAIS also offers the text of forms and endorsements in limited electronic formats. Call Debbie Hurley at 800/564-AAIS for more information.

Updated forms and endorsements listings will be available from AAIS by December 1, 2003.

Rules and Rating Information

After December 1, 2003, all future orders for affected manuals will automatically include the revised Terrorism Losses manual supplement.

AAISdirect

The attached endorsements and the revised rating information sections of the Terrorism Losses manual supplements will be posted to AAISdirect prior to January 1, 2004 for the access of affiliated companies that are AAISdirect subscribers.

ATTACHMENTS

- FL 0600 01 04, Certified Terrorism Loss
- FL 0610 01 04, Certified Act of Terrorism Exclusion (*Standard Fire Policy not applicable*)
- FL 0620 01 04, Certified Act of Terrorism Exclusion (*Standard Fire Policy applicable*)
- FO 0600 01 04, Certified Terrorism Loss
- FO 0610 01 04, Certified Act of Terrorism Exclusion (*Standard Fire Policy not applicable*)
- FO 0620 01 04, Certified Act of Terrorism Exclusion (*Standard Fire Policy applicable*)
- GL 0310 01 04, Certified Terrorism Loss
- GL 0320 01 04, Certified Act of Terrorism Exclusion

- UM 0330 01 04, Certified Terrorism Loss
- UM 0340 01 04, Certified Act of Terrorism Exclusion
- Sample: Supplement to 'State Name' Manuals - Terrorism Losses Rating Information (*Standard Fire Policy not applicable*)
- Sample: Supplement to 'State Name' Manuals - Terrorism Losses Rating Information (*Standard Fire Policy applicable*)
- Supplement To Nebraska Farm Umbrella Manual - Terrorism Losses Rating Information

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