

# V

Fall 2008

AMERICAN ASSOCIATION OF INSURANCE SERVICES

AAIS

# Viewpoint

## Price Points

Carriers can offer more choices when loss costs incorporate catastrophe modeling



ALSO  
INSIDE

*Outdoor  
wood boilers  
a new hazard*

*Hurt a pet?  
You'll pay  
more*

*The latest  
Builders'  
Risk revision*

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Filed countrywide, the AAIS Boatowners Program provides forms, manual rules, and rating information for insuring privately owned pleasure craft, plus motors and trailers.

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Since it was introduced in the early 1990s, the AAIS Boatowners Program has evolved to include certain defining features:

- Coverage can be written on a stand-alone basis or as an endorsement to another personal lines policy.
- Coverage can be for property only, liability only, or for property and liability.
- Uninsured boater coverage is provided under every policy written to provide liability coverage.
- A simplified rating procedure allows personal lines underwriters to rate watercraft risks for territory, size of boat, operator experience, and other factors with requiring specialized marine expertise.

To learn more about how the AAIS Boatowners Program can help your company, go to [www.AAISonline.com](http://www.AAISonline.com) to hear the comments of Pam Nykaza, AAIS senior product development specialist, the principal developer of the latest Boatowners revision.

For information on affiliating with AAIS for use of the Boatowners Program, contact Rick Maka, director of marketing, at [rickm@AAISonline.com](mailto:rickm@AAISonline.com) or by calling 800-564-AAIS.

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#### Outdoor Wood Boilers

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Look your pet straight in the eye and say: "You are merely an item of personal property. If you are injured or killed by someone else, I am only entitled to receive your replacement cost or fair market value in compensation." . . . . 12

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## [From the editor]

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## From the editor

**A**s this is written, one of our AAIS colleagues is en route to his latest overseas assignment as a member of the Illinois National Guard. Nathan Westby, "Nate," is headed to Afghanistan as a captain and the commander of Charlie Troop, 2nd squadron, of the 106th Cavalry, a unit of the Illinois Guard's 33rd Infantry Brigade.



A photo Nate took in Iraq.

This will be Nate's second deployment overseas, as he previously served in Iraq, in addition to his domestic Guard duties. In 2003-04, Nate's unit was guarding convoys in and around what were then the most dangerous parts of Iraq: Baghdad, Fallujah, Kirkuk, and Tikrit.

In Afghanistan, Nate's brigade will be training members of the Afghan national police force to utilize modern law enforcement practices and win the confidence of the population.

Obviously, this work can be dangerous, but Nate assures us that this particular mission has been going on for some time, and that another U.S. unit has already been identified to replace the 33rd in late August or early September.

Nate never claims to be a hero and did not ask for this mention, but for us, Nate makes the sacrifices of our servicemen and women vivid and immediate. While he spends 10 months in a war-torn country, his wife and infant son--and his colleagues at AAIS--will be waiting and praying for his return.

We are well aware that many of our affiliates have several staff members who are or have been in Nate's situation.

While we debate the course of U.S. policy in the coming years--this column is written before the Nov. 4 election--it is fitting to stop and remember those who give up the comforts of home to serve far away.

We wish Nate and all of our servicemen and women a speedy and safe return home.



Nate Westby

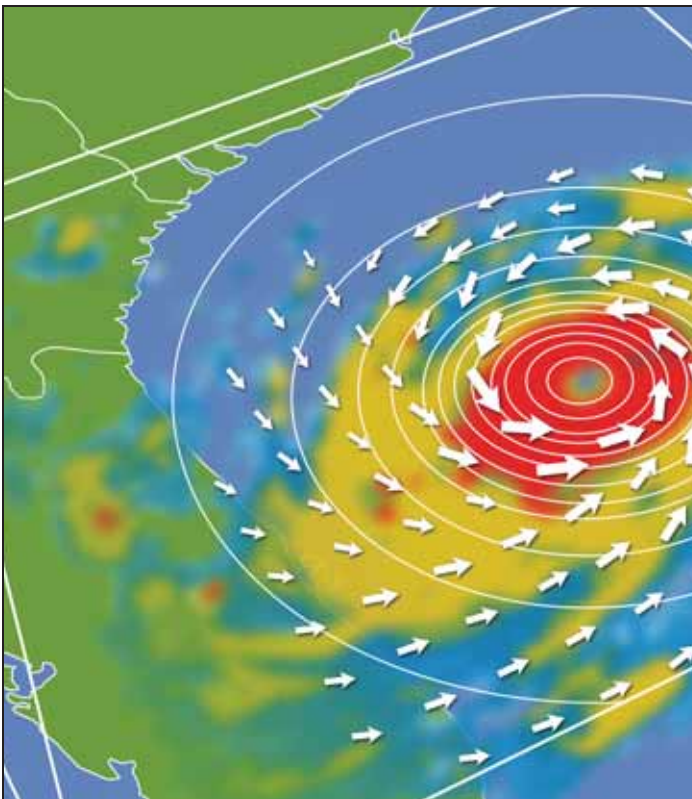
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# Price Points

Carriers can offer more choices when loss costs incorporate catastrophe modeling



Insurance executives probably don't relish discussing how they use catastrophe modeling in property insurance ratemaking.

Not only is the topic obscure and technical but, to the extent it is discussed publicly at all, the discussion usually proceeds on the premise that "cat modeling" benefits insurers at the expense of insureds.

Catastrophe modeling has been criticized by regulators, legislators, and consumer activists as an opaque, process used by carriers to increase premiums on people due to condi-

tions over which they have little or no control.

Among other things, critics of modeling question how processes supposedly grounded in science and mathematics could arrive at varying estimates of insured losses.

Well, there's good reason for that, and there's no reason for insurers to be defensive about catastrophe modeling, now that it has become integral to property insurance ratemaking.

Loss costs development at AAIS demonstrates how the incorporation of catastrophe modeling into ratemaking can benefit consumers, particularly those in distressed coastal markets.

(NOTE: While AAIS develops and files advisory rating information, companies are not required to adhere to it. Companies can and do deviate from AAIS rating information and manual rules, subject to regulatory approval, where applicable.)

## Modeling

AAIS's most recent Homeowners manuals provide loss costs that incorporate modeled data derived from WORLDCATenterprise, software developed by EQECAT, Oakland, Calif.

EQECAT, a subsidiary of Houston-based ABS Group, is among the world's first and leading providers of cat modeling applications for estimating the amount of damage likely to result if natural disasters strike certain areas.

Catastrophe models incorporate huge amounts of data related to natural hazards (fault lines, storm tracks, etc.), other natural

“ The model helps us develop more deductible options our member companies can offer insureds.”

— Greg Jaynes  
AAIS chief actuary



Greg Jaynes

conditions (altitude, soil density, etc.), and building characteristics (masonry, frame, etc.) that affect the frequency and severity of disaster losses. The data is utilized by built-in mathematical algorithms to estimate potential losses for a certain risk or collection of risks.

Traditional loss data is still a critical factor in loss cost development, but historical data often does not reflect increased construction and other characteristics of an area that may have changed considerably since its last major disaster.

Modeling fills in the gaps left by traditional loss data and allows insurers to differentiate more precisely among risks with greater or lesser exposure to loss.

### Price points

To Date, AAIS has utilized WORLDCATenterprise components for three types of events: earthquakes, hurricanes, and wind and hail caused by tornadoes.

The most visible impact of the use of modeled data at AAIS has been a pronounced increase in the number and range of territorial loss costs, according to Greg Jaynes, AAIS chief actuary.

Across the country, he says, the number of AAIS Homeowners territorial “price points” has more than tripled, with more states still left to be developed and filed.

A “price point” refers to the loss cost for a particular policy (such as an HO 0003), for a particular amount of insurance (say, a \$100,000 Cov. A limit), with a particular deductible (say \$500) in a particular territory, with a particular type of construction (e.g., frame).

In the latest AAIS Homeowners manual, there are nearly 500 territorial loss costs for each such classification of risk, with more being developed.

In coastal areas, the modeled data also allows for more precise determination of separate deductibles for wind and hail loss, and of premium credits for wind loss mitigation efforts by policyholders.

“Perhaps most importantly for consumers in coastal areas,” says Jaynes, “is that the model helps us develop more deductible options our member companies can offer insureds.

Deductibles are the most important thing consumers have to manage their exposure to catastrophes.”

### Territories

To see how this plays out, consider two newly created Homeowners rating territories in a coastal state. Territory 401 is along the Atlantic coast north, where it is exposed to Atlantic hurricanes. Territory 409 is in the opposite corner of the state, away from the coast with relatively small windstorm exposure.

Using the EQECAT model, AAIS estimates that 35.2% of the losses to a property in the coastal Territory 401 will result from the perils of wind and hail. For inland Territory 409, AAIS estimates that only 8.3% of the losses suffered by an insured property will result from wind and hail.

With the ability to price wind and hail losses separately from losses resulting from other perils, and with the ability to assess separate wind and hail deductibles, a policyholder in coastal Territory 401 can get more benefit from his or her choice of a separate wind/hail deductible.

Rating territory	Wind/hail rating factor	Factor for all other perils, inc. liability	Combined total factor
401 (coastal)	0.352	0.648	1.00
409 (inland)	0.083	0.917	1.00

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Ft Worth, TX	July 13-14, 2009

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## Two properties

To illustrate, consider the options for hypothetical owners of two properties. One property is in coastal Territory 401 and the other is in inland Territory 409; each is insured for a \$100,000 Cov. A limit under an AAIS HO 0003 (open perils on structures; named perils on contents).

Suppose the owners take a very common approach and select a wind/hail deductible equal to 1% of the Cov. A limit, plus a \$500 deductible for losses arising from all other perils.

Since base loss costs are calculated with the assumption of a \$500 deductible, there is no change in the loss costs for the non-wind perils; the deductible relativity is 1.00.

The selection of a separate 1% wind/hail deductible has a considerable impact on the projected wind/hail loss costs, however. A wind/hail deductible at that level is projected to reduce the wind/hail loss cost by 13% in the inland territory, and by 18% in the coastal territory. Therefore, the wind/hail loss relativities are 0.87 and 0.82, respectively.

By selecting the \$500 non-wind and the 1% wind/hail deductibles, the property owner in

### Example 1

Rating territory	Wind/hail rating factor	Wind/hail deductible relativity	Non-wind deductible	Non-w/h deductible relativity	Total deductible relativity
401 (coastal)	1% of Cov. A limit	0.82 (18% reduction)	\$500	1.00 (base level)	0.94 (6% reduction)
409 (inland)	"	0.87 (13% reduction)	"	"	0.99 (1% reduction)

## Example 2

Rating territory	Wind/hail rating factor	Wind/hail deductible relativity	Non-wind deductible	Non-w/h deductible relativity	Total deductible relativity
401 (coastal)	5% of Cov. A limit	0.31 (69% reduction)	\$3,000	0.73 (27% reduction)	0.58 (42% reduction)
409 (inland)	"	0.54 (46% reduction)	"	"	0.71 (29% reduction)

inland Territory 409 realizes an overall deductible relativity of 0.99. That's because he has chosen the base non-wind deductible, and the wind-hail deductible has little impact on his overall rate, because his wind exposure is relatively small.

The property owner in coastal Territory 401 sees a much bigger impact from the same selections, however. His overall deductible relativity is 0.94—which amounts to a 6% savings on premium directly tied to loss costs.

The impact grows even greater for insureds that select even higher deductibles.

Look at what happens if the owners of our two properties select deductibles of \$3,000 for non-wind losses and 5% of the Cov. A limit.

For both policyholders, the \$3,000 non-wind deductible is projected to reduce their non-wind loss costs by 27%, providing a 0.73 relativity to the base loss costs for that portion of premium.

In addition, the 5% wind/hail deductible projects a 46% reduction in wind-related loss costs for the inland property (which translates into a premium relativity of 0.54) and a huge 69% reduction in wind-related loss costs for the property in the coastal territory.

In all, the selection of higher deductibles, and the weighting of deductibles made possible with modeled data, produces savings on the loss cost portion of premium of 29% (a relativity of 0.71) for the inland property and 42% (a 0.58 relativity) for the property in the coastal territory.

The equations for these calculations are shown below.

Projecting this out for numerous territories and deductible options, one can see how AAIS is expanding the number of price options available to insurers and insureds.

That would not be possible without catastrophe modeling. ■

Example	W/H deductible relativity x W/H rating factor	+	Non-W/H deductible relativity x non-W/H rating factor	=	Total deductible relativity
Example 1 401 (coastal)	(0.82 x 0.352)	+	(1.00 x 0.648)	=	0.94
Example 1 409 (inland)	(0.87 x 0.083)	+	(1.00 x 0.917)	=	0.99
Example 2 401 (coastal)	(0.31 x 0.352)	+	(0.73 x 0.648)	=	0.58
Example 2 409 (inland)	(0.54 x 0.083)	+	(0.73 x 0.917)	=	0.71

# Outdoor Wood Boilers

Where there's smoke, there's fire--and water--in a new household exposure

*This article was adapted from a longer report on outdoor wood boilers found in the Personal Lines section of [www.AAISONline.com](http://www.AAISONline.com).*

The good news for residential property insurers is that the use of outdoor wood boilers, a new trend in home heating, does not appear to be as hazardous as wood-burning stoves.

The bad news is that they present different exposures of their own, and insurers have little history of underwriting or rating them.

They'll have to learn, as it is estimated there could be as many as 500,000 outdoor wood boilers in use by 2010.

Outdoor wood boilers (OWBs) are freestanding outdoor boilers that look like small metal sheds and are used to heat water and one or more nearby buildings.

OWBs, which cost about \$5,000 to \$10,000 fully installed, are also known as wood-burning boilers, outdoor wood-fired boilers, and outdoor wood furnaces. Unlike wood-burning stoves, they require electricity for their operation.

The boilers heat water by burning wood in a large firebox, which is surrounded by a "jacket" of water that circulates to the building via underground water pipes.

OWBs are marketed as a safer source of home heat than wood-burning stoves. Theoretically, at least, the fire and smoke are removed from inside a residence to a safe distance outdoors.

## Concerns

Nonetheless, there are concerns about the safety and environmental impact of outdoor wood boilers.

USA Today reported in January 2008 that OWB fireboxes are large enough to allow

owners to burn tires, paletts, railroad ties, construction debris, and trash, releasing harmful chemicals.

According to a consortium created by northeastern states to monitor air quality, one OWB can produce as much pollution as 8,000 gas furnaces or 2,000 oil furnaces.

A 2005 report by the New York attorney general found that even properly used OWBs produce significant pollution because they "burn incompletely, or smolder, resulting in thick smoke and high particulate emissions." (The water surrounding the fire box cools the fire and causes it to burn at a reduced temperature. That, in turn, leads to incomplete combustion and greater smoke.)

According to the Wood Heat Organization (WHO), much of the smoke condenses as flammable creosote on the cold steel internal surfaces. WHO adds that an OWB, connected to a modest-size house, is in the off mode most of the time, particularly during mild temperatures. An OWB emits the most smoke while in the off mode with the fire still smoldering.

Boilers require a large amount of firewood to operate, and manufacturers typically recommend using only dry seasoned wood. However, most owners do not have wood sheds big enough to accommodate the amount of wood required; this can lead to the burning of wet or snow-covered wood, which increases smoke emissions.

While indoor wood-burning stoves have been tested and certified by the US Environmental Protection Agency (EPA) for emissions since 1990, OWBs had not been addressed since they were developed more recently. OWB manufacturers, however, recently worked with the EPA to develop emission standards. The new standards are

It is estimated there could be as many as 500,000 outdoor wood boilers in use by 2010.



expected to lead to a new generation of more efficient EPA-certified OWBs.

## Fire exposure

In most cases, OWBs are built as enclosed units that would be categorized as related private structures covered under the Cov. B limit of AAIS and other residential property forms.

For that reason, outdoor wood boilers may be safer than indoor wood-burning stoves for the residences they serve, but there is still a considerable fire exposure to the boiler units themselves.

Unlike fireplaces and wood-burning stoves, OWBs involve fires that are typically unattended. Similarly, a damper could malfunction without being noticed, causing a unit to overheat. Also, since the units are outdoors, their owners may be less attentive to the buildup of creosote in chimneys and other maintenance issues.

Moreover, the farther a boiler is from a residence, the less efficient it is in providing heat; some have been known to be as close as 10 feet from a house. In one case, a house

burned down after ashes escaped from an OWB and set fire to wood piled near the residence.

Thus, while OWBs may be safer for residences than wood-burning stoves, they still constitute an additional fire hazard under the Cov. A residential property limit.

## Smoke and water

With fire comes smoke, of course, and an exposure, however remote, to first-party claims for smoke damage.

Smoke damage to insured property is generally covered under AAIS Homeowners base forms as long as the smoke damage is sudden and accidental

in nature (see table on page 10).

Those forms have not contemplated covering losses from prolonged exposure to smoke arising from fires deliberately started in fixtures implemented by an insured. (HO 0008, a limited perils form, excludes all loss caused by smoke from fireplaces, even if sudden and accidental.)

When considering a risk that has an outdoor wood boiler, underwriters will need to consider its potential for causing sudden and accidental smoke damage, and how such damage will be distinguished from smoke damage that would occur from normal operation of the wood boiler.

Similarly, underwriters will have to consider whether and how the presence of an outdoor wood boiler expands an insurer's exposure to water-related damage.

The essence of an OWB's operation is to pipe water into a home during cold weather. Any loss due to freezing is typically covered under most residential policy forms, provided the insured has taken reasonable steps to maintain heat in the building or described location.

OWBs involve fires that are typically unattended. Similarly, a damper could malfunction without being noticed, causing a unit to overheat.

## Coverage for smoke damage under AAIS Homeowners forms

Form	Coverage A -- Residence	Coverage B -- Related private structures	Coverage C -- Personal property
HO 0001 Basic	"Fire or lightning" and "sudden and accidental smoke damage" are named perils.		
HO 0002 Broad	"		
HO 0003 Special	Open perils coverage Smoke and soot defined as "pollutants", which are generally excluded. However, emissions of pollutants caused by Cov. C perils (see box at right) are covered.		"Fire or lightning" and "sudden and accidental smoke damage" are named perils.
HO 0004 Contents	No coverage		"Fire or lightning" and "sudden and accidental smoke damage" are named perils.
HO 0005 Special Bldg & Contents	Open perils coverage Smoke and soot defined as "pollutants" which are generally excluded unless caused by a "specified peril". Also, "fire or lightning" and "sudden and accidental damage from smoke" are specified perils covered under the form.		
HO 0006 Unit-Owners	"Fire or lightning" and "sudden and accidental smoke damage" are named perils.	No coverage	"Fire or lightning" and "sudden and accidental smoke damage" are named perils.
HO 0008 Limited	"Fire or lightning" is a named peril. "Sudden and accidental smoke damage" is also a named peril, though loss caused by smoke from fireplaces is excluded.		

Coverage D - Additional Living Costs And Loss Of Rent pays for living costs if the "described location" is made unfit for use as a residence by a loss covered under the property coverages. Also, AAIS Homeowners forms include exclusions for smoke damage arising from agricultural and industrial smudging operations.

Outdoor wood boilers also present a liability exposure as an attractive nuisance.

Some installers insulate and bury waterlines 4-5 feet underground, which should prevent freezing.

Other installers, however, dig a trench that is only one or two feet deep and attempt to avoid freezing by wrapping insulation around the pipes. That type of set-up has a greater likelihood of resulting in frozen pipes.

An Internet search reveals multiple anecdotes of individuals who blame OWBs for their frozen indoor plumbing. One report states that pipes froze even while the unit had a burning fire.

### Liability

According to a December 2007 New York Times article, OWBs have spawned a "rash of lawsuits" and numerous local ordinances across the country. The effect of smoke on neighbors appears to be a leading cause of liability claims.

In one case, an Illinois couple alleged that smoke from a neighboring OWB caused them sore throats and headaches and forced them to move from their home. A family in southern Ontario, Canada, also filed suit claiming that smoke from a neighboring OWB caused health problems. Those cases include elements of bodily injury, which would trigger homeowners coverage.

Outdoor wood boilers also present a liability exposure as an attractive nuisance. The boilers feature untended fires and hot fixtures that

could cause severe injury to curious children.

The contentious issue of smoke emitted from OWBs has led to greater public control of the risk. The following limitations on where units can be operated have been implemented or introduced:

- Connecticut, Maine, and Vermont have enacted laws limiting emissions of OWBs and restricting where the units can be operated;
- Similar legislation has been proposed in other states;
- Numerous counties and municipalities have passed ordinances addressing the smoke from OWBs; and
- Numerous injunctions were issued to shut down the operation of specific OWBs.

With greater public attention being paid to the risks posed by outdoor wood boilers, insurers may find it easier to accept and underwrite these risks. ■



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# Lovable property

## Insurers may find themselves paying more for policyholders' injuries to others' pets

To a pet owner, an animal does not "depreciate" with age, but grows more valuable as a companion and source of affection.

Here is a test for those of you who are pet owners as well as insurance professionals.

Look your pet straight in the eye and say: "You are merely an item of personal property. If you are injured or killed by someone else, I am only entitled to receive your replacement cost or fair market value in compensation."

If you find it difficult or impossible to complete that test, you are part of a growing number of people who claim that the value of a pet is far in excess of what it would cost to acquire a similar animal.

Courts and state legislatures are starting to agree, and the result could be a growing area of exposure for liability insurers.

### Animal law

Affection for pets, also called "companion animals," is driving an "animal law" movement sweeping the United States. This movement seeks to provide animals with certain legal characteristics and protections once exclusively reserved to humans.

The animal law movement is an effort of attorneys and animal advocates distinct from the often radical "animal rights movement." Animal law was recognized as a mainstream field of law in the U.S. in 2004 when the American Bar Association created its animal law committee.

"Various members of the profession are pursuing innovative (animal) litigation," says Barbara Gislason, a Minnesota attorney and a principal founder of the animal law committee. "All over the country, they're pushing the envelope."

Animal law advocates have promoted, with considerable success, several types of initiatives:

- Codification of the right of pet owners to establish trusts to provide for care of pets after the death of an owner;
- Specific consideration for the custody of pets in divorce proceedings;
- Criminal penalties against animal owners who utilize cruel or negligent techniques to discipline or confine pets (such as tethering for extended periods of time); and
- Enhanced valuation of pets as unique forms of property, with correspondingly increased ranges and amounts of damages for injuring or killing another's pet.

Regarding the last two points, Gislason says that her acquaintances who are judges attest to "how dramatically public attitudes [about harm to pets] have changed over the past five years."

The movement was galvanized in 2007 when dogs and cats throughout the U.S. were sickened by tainted, imported pet food.

For perhaps the first time, tens of thousands of pet owners suffered damage from a common or similar source, and discovered that the recovery for their loss could be quite limited. The possibility for class action suits was established, and demands for greater compensation for losses to pets grew.

### Values

As one would expect, animal law in the U.S. developed primarily in a rural setting, where most animals were livestock, easily considered to be personal property with the



typical characteristics of personal property.

There were markets in which the fair market value of an animal could be determined, animals generally depreciated as they aged, and injured animals could generally be replaced with equivalent animals, although some additional compensation might be needed for the loss of an animal with unique abilities.

Pets are a different matter entirely.

Other than for certain pure breeds, there is no market for “used pets.” The best estimation of a pet’s monetary value is the price one would pay for a like animal at a pet store or animal shelter.

Also, to a pet owner, an animal does not “depreciate” with age, but grows more valuable as a companion and source of affection.

For these reasons, animal lawyers have fought, with some success, to increase the value courts attach to pets in cases where a pet is killed or injured due to the malicious or negligent actions of others.

The principal targets of “animal plaintiffs” in such cases are veterinarians, pet services

(e.g., kennels and grooming establishments), and manufacturers of pet foods, medicines, and grooming supplies.

However, cases have also been filed against individuals who harmed others’ pets, or whose own pets harmed another’s.

## Courts

Generally speaking, state courts have held to the idea that pets should be regarded as property and valued as such for compensation of their owners.

With some exceptions, state courts have been reluctant to permit damages to be awarded for emotional distress arising

from property damage to a pet, although they appear to be more willing to assess punitive damages in cases where the defendant is found to have acted with malice or gross negligence.

In 2001, the Alaska supreme court ruled that the actual value of a pet to its owner can sometimes be a better measure of its real value than the animal’s fair market value. However, any argument for unique value had to reference specific services provided by the pet, not sentimental value.

In 2004, a Texas appeals court ruled that the “special or pecuniary value” of a dog had to be attributed to its usefulness and services, not to companionship or sentimental attachment. Also, the court ruled that there could be no recovery for mental anguish as a result of property damage.

Given the traditional limitations on recovery for loss of a pet, Gislason says that animal law attorneys have sought to establish a specific tort for injury to a pet.

The growth of veterinary medicine has added a new dimension to the economic

What is considered customary today for medical treatment of pets far exceeds what was considered customary years ago.



“ Many courts have allowed owners to be compensated for a broad range of ‘economic’ damages, including veterinary costs.”

— American Veterinary Medical Association

damages that can be awarded to the owners’ of an injured pet, however.

In a ruling reflected in other jurisdictions, a Kansas appeals court in 2006 ruled that the “reasonable and customary” cost of veterinary treatment could be included in damages, even if the animal in question has no discernable market value.

As any pet owner knows, what is considered customary today for medical treatment of pets far exceeds what was considered customary years ago, and grows by the year.

An “issue paper” posted by the American Veterinary Medical Association (AVMA) states that “many courts have allowed owners to be compensated for a broad range of ‘economic’ damages, including veterinary costs (such as vaccinations and certain treatments), special training costs, costs of breeding, the pet’s purchase price, its breeding potential and other specific, economically measurable items.”

## Legislatures

Where courts may hesitate, state legislatures are prepared to move in.

Numerous bills have been proposed and enacted that would allow pet owners to recover more than the fair market value of a pet injured or killed by another’s malice or negligence.

A bill in the New York state assembly would make anyone responsible for the death or injury of another’s pet liable for veterinary and other “special medical care” expenses, plus court costs, attorneys’ fees, and other reasonable expenses. In addition, the owner of the deceased pet could be compensated for “reasonably expected society, companionship, and comfort.”

A bill in New Jersey would establish economic damages to include a pet’s monetary or replacement value, its breeding potential, veterinary expenses incurred to treat an injury, reimbursement of training expenses, and expenses for cremation and/or burial.

The New Jersey bill specifically addresses the liability of pet owners whose pets cause harm to others’ pets, a growing area of concern to animal lawyers and animal law advocates.

A Massachusetts bill would make the “pain, suffering and loss of faculties” of an injured animal compensable offenses, in addition to the pain and suffering of the animal’s owner.

An Arizona bill seeks to impose a higher level of care shown toward pets by requiring that motorists take “reasonable and appropriate action” to assist others’ pets that are involved in a vehicle accident; the bill would waive liability for injury for someone seeking to provide such care.

## Coverage

Non-economic damages for loss of companionship and for pain and suffering would not be covered under a typical homeowners policy, but economic damages for caring and/or disposing of an animal possibly would.

According to Adam Karp, an animal lawyer based in Bellingham, Wash., homeowners insurers vary greatly in their approaches to settling pet liability losses.

“Some insurers offer the most miserly sums for a purported replacement value of \$60, the



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cost to adopt another cat," he says. "Others will settle for several thousands of dollars for the intrinsic or special value of the so-called property to the owner-guardian.

"If there is an allegation of recklessness or intentional misconduct, there will be an intentional acts exclusion."

To avoid triggering intentional acts exclusions, Karp says that "some attorneys plead negligence when one can barely keep a straight face in making that assertion."

## Exposure

Insurers that use the AAIS Homeowners Program and other liability forms will be happy to learn that the definition of "bodily injury" states that it means "bodily harm to a person."

Inclusion of the word "person" should eliminate any ambiguity that liability coverage for bodily injury might be applicable to non-

human animals. That qualification is not universal in policy forms, however.

Furthermore, the AAIS definition of bodily injury indicates that it does not include any "bodily harm, sickness, disease, or death that arises out of mental or emotional injury, suffering, or distress that does not result from actual physical injury to a person."

Similarly, the medical payments and first aid provisions in AAIS Homeowners liability coverage are written to apply to treatment of bodily injury to human persons.

In short, liability exposure under a homeowners policy is confined to liability for property damage, defined as "physical injury to or destruction of tangible property or the loss of use of tangible property, whether or not it is physically damaged."

*"Some insurers offer the most miserly sums for a purported replacement value of [a pet]."*

*— Adam Karp, animal lawyer,  
Bellingham, Wash.*

Continued on page 32

# Builders' Risk, 2008

Latest AAIS revision clarifies 'soft costs' and implements full equipment breakdown coverage

"Certain costs are usually incurred in lump sums during the delay in construction. The length of the delay has little if any impact on these costs."

— Robert Guevara  
AAIS vice president  
of inland marine



AAIS is acting to address new exposures and enduring issues in the latest revision of its builders' risk policy forms.

At the end of October 2008, AAIS released a comprehensive revision of the forms and endorsements provided in the Builders' Risk section of the AAIS *Inland Marine Guide*, a resource of forms, rating procedures, underwriting guidelines, and other information for the nonfiled classes of inland marine insurance.

The new forms are immediately available for use in most states, but are also being filed in certain states where filing is required, even for traditionally uncontrolled classes. The proposed effective date for the filing is April 1, 2009.

Of particular interest to inland marine construction underwriters will be the new standardized delineation of and distinction between "soft costs" and additional costs for "delay in construction."

That topic has been discussed for years in various inland marine and construction insurance forums, and the latest revisions implement some of the proposals raised in those forums.

As important, however, the new AAIS Builders' Risk revision expands equipment breakdown coverage and tightens language to address the implications of a

2007 federal court decision that could, in effect, increase the exposure of builders' risk insurers.

## Distinction

A major feature of the latest Builders Risk forms revision is the introduction of a new "Delay in Completion Coverage Part" to replace a previous endorsement for covering "soft costs and rental income."



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The new coverage part introduces a distinction between “additional construction expenses” and “additional soft costs” that clarifies the difference between two types of costs incurred when a construction project suffers a delay resulting from a covered physical loss.

For both of those categories of losses, recovery is limited to additional expenses, over and above those that would have been incurred had there been no delay.

The additional “construction expenses” are limited to the following:

- Additional advertising, public relations, and promotional expenses;
- Additional fees for architects, designers, engineers, and other advisers;
- Additional *non-interest* costs for financing, such as commissions and loan fees;
- Additional costs for renegotiating leases;
- Additional fees for accountant and attorney services that were being provided before the loss occurred; and

- Additional fees for renewing or replacing construction permits and licenses.

“What these costs have in common is that they are usually incurred in lump sums during the delay in construction,” says Robert Guevara, AAIS vice president of inland marine. “The length of the delay has little if any impact on these costs.”

For that reason, says Guevara, the additional construction expenses have a single per occurrence limit, and are subject to the basic builders’ risk dollar deductible.

## Soft costs

Soft costs, long a loosely used term in the industry, are now a carefully defined and delimited set of expenses.

Under the new coverage part, additional soft costs are limited to:

- Additional *interest* for money borrowed to finance the construction work;
- Additional real estate taxes incurred during the period of delay;

“ True soft costs grow with time. Therefore, in addition to its own per occurrence limit, the additional soft costs coverage is subject to a limit per 30-day period.”

— Robert Guevara  
AAIS vice president  
of inland marine

- Additional costs to extend leases for construction equipment and temporary office space; and
- Additional costs of insurance premiums to renew or extend coverage.

“These costs grow with time,” says Guevara. “Therefore, in addition to its own per occurrence limit, the additional soft costs coverage is subject to a limit per 30-day period.”

As a true time element coverage, the coverage for additional soft costs can be subject to a waiting period deductible, if so indicated on the schedule that accompanies the policy.

This still leaves “general administrative expenses,” which were included among the soft costs in earlier versions of AAIS and proprietary builders’ risk forms.

Under the new AAIS revision, general administrative expenses are split off from additional construction expenses and soft costs and insured separately as a supplemental coverage with its own sublimit.

That coverage pays for necessary and reasonable administrative and clerical expenses that arise out of a construction delay due to an insured loss, and which are over and above those that would have been incurred without the delay.

## Debris

While the new treatment of additional costs following a loss is the fruit of years of industry discussion of that topic, other provisions of the AAIS Builders’ Risk forms have been revised to address a federal court ruling that abruptly expanded the potential exposure for builders risk carriers.

In 2007, a U.S. district court in New Jersey issued rulings on several questions concerning a proprietary builders’ risk policy; the rulings are relevant to most industry builders’ risk forms. (The case in question was Zurich

American Ins. Co. v. Keating Building Corp., known as “*Keating*,” for short.)

Among other things, the court ruled that debris removal costs were limited only to the costs incurred to haul debris away, and did not include the cost of demolishing damaged property so it could be hauled away.

The implications of that ruling, were it to become a precedent, would be that the cost of demolishing damaged property would fall under the basic limit under most builders’ risk forms, not under the separate, and generally lower, debris removal limit. This would effectively increase the exposure for carriers.

“Demolition itself can be quite costly,” says Guevara. “It can entail substantial additional engineering expenses and other costs associated with electricity, permits, scaffolding, and the utilization of demolition contractors.”

To address the potential for additional exposure, the revised AAIS Builders’ Risk forms specify that the coverage extension for debris removal applies to the cost for “demolition, clearing, and removal” of debris. The basic policy limit applies only to the value of the damaged property, or to the cost to rebuild, repair, or replace it.

## Completion

The *Keating* court also determined that the policy in question provided coverage for all additional costs incurred during the project’s delay following a covered loss, not merely those related to the repair or replacement of damaged property.

In making this ruling, the court found that the policy in question was regarded as an “all risk” policy under New Jersey law and, therefore, applied coverage to all losses for which a covered peril was the proximate cause, unless expressly excluded.

Regarding the form itself, the court noted that a different form available to the carrier

Continued on page 20

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## Changing treatment of "soft costs"

The latest revision of the AAIS Builders' Risk forms clarifies the distinction among different types of costs incurred when a project is delayed by a covered loss

	Previous endorsement	Latest counterpart
Endorsement title	<b>Soft Costs, Extra Expense, and Rental Income Endorsement</b>	<b>Delay in Completion Coverage Part</b> (includes rental income and income coverage)
Costs covered (other than extra expense and rental income)	<p><b>"Soft costs,"</b> specified as additional costs for:</p> <ul style="list-style-type: none"> <li>• Advertising;</li> <li>• Design fees;</li> <li>• Professional fees (accountants and attorneys);</li> <li>• Financing (interest and fees);</li> <li>• Lease administration;</li> <li>• Realty taxes;</li> <li>• General administration;</li> <li>• Lease expenses;</li> <li>• Permit fees; and</li> <li>• Insurance Premiums.</li> </ul>	<p><b>"Additional Construction Expenses,"</b> specified as additional costs for:</p> <ul style="list-style-type: none"> <li>• Advertising;</li> <li>• Design fees;</li> <li>• Financing (fees only);</li> <li>• Lease administration;</li> <li>• Professional fees (accountants and attorneys); and</li> <li>• Permit fees.</li> </ul> <p><b>"Soft Cost Expenses,"</b> specified as additional costs for:</p> <ul style="list-style-type: none"> <li>• Interest payments;</li> <li>• Realty taxes;</li> <li>• Lease expenses; and</li> <li>• Insurance premiums.</li> </ul> <p>Additional <b>general administration expenses</b> insured separately as a supplemental coverage.</p>
Limit and deductible	<p>Soft Cost, Extra Expense, and Rental Income each subject to separate limit.</p> <p>Also subject to a waiting period deductible if one is indicated on the soft cost schedule and a limit per 30-day period.</p>	<p>"Additional Construction Expenses" covered up to their own per occurrence limit indicated on an accompanying schedule, subject to the per occurrence deductible of the basic builders' risk policy.</p> <p>"Soft Cost Expenses" are covered up to their own per occurrence limit indicated on an accompanying schedule, subject to a limit per 30-day period, and to a waiting period deductible, if so indicated on the schedule.</p> <p>General administration expenses covered up to their own sublimit.</p>

included language explicitly limiting coverage to the repair or replacement of damaged property, and that the carrier could have used similar language in the policy at issue, which had similar but not identical language.

To avoid potentially open-ended exposure for any and all costs resulting from a loss by an insured peril, the revised AAIS Builders' Risk forms state that coverage is for "direct physical loss or damage," and include a new, comprehensive exclusion for "Delay in Completion and Increased Construction Costs."

To get delay coverage under the revised AAIS Builders' Risk forms, insureds must purchase the endorsement described above.

## Equipment

The latest AAIS revision of the Builders' Risk forms includes a new endorsement introducing comprehensive coverage for major and minor equipment breakdown exposures, including losses that result from the testing of equipment. This endorsement replaces a previous supplemental coverage which

Continued on page 32



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# The federal Office of Insurance Information

A proposal pulled in 2008, it'll be back in 2009



A proposal to create an Office of Insurance Information (OII) within the executive branch of the federal government could prove to be a divisive issue within the insurance industry in 2009.

Industry critics of the proposal fear that the office may constitute a “back door” approach to enacting an optional federal insurance charter.

The OII was first proposed in April 2008, when Rep. Paul E. Kanjorski (D-PA) intro-

duced H.R. 5840, the Insurance Information Act of 2008. The bill, which would create the OII within the Treasury Dept., has a bipartisan group of co-sponsors.

With the bill’s introduction, Kanjorski issued a press release stating that the insurance industry will remain regulated at a state level, but that it was necessary to establish insurance expertise within the federal government so that it could make better decisions regarding national and international insurance.

Among other things, the office would be charged with ensuring that state insurance laws and regulations conform to international agreements. In addition, the office would:

- Collect and analyze data on insurance;
- Report to Congress on the financial conditions and trends in the insurance industry;
- Advise the Secretary of the Treasury on major domestic and international issues regarding all lines other than health insurance;
- Establish federal policy on international insurance matters; and
- Establish an advisory group that would include representatives of regulators, consumer groups, and insurers.

The bill passed out of Kanjorski's subcommittee in July, and the OII concept received the support of Sen. Christopher Dodd (D-Conn.), chairman of the Senate Committee on Banking, Housing, and Urban Affairs.

The idea of an OII seemed to be gaining momentum until mid-September, when House Speaker Nancy Pelosi (D-CA) unexpectedly removed H.R. 5840 from further consideration during 2008.

That action was taken after Rep. Jackie Speier (D-CA) questioned how the measure would affect California insurance rate regulation. (As former chairperson of the California state senate insurance committee, Speier usually favored greater regulation.)

## Two camps

Generally, the insurance industry is divided into two camps regarding the OII.

One camp, including organizations such as the American Insurance Association (AIA), Reinsurance Association of America (RAA), and the American Council of Life Insurers (ACLI), support the proposal unequivocally.

In September, the ACLI wrote to Treasury Secretary Henry Paulson suggesting that the Bush Administration use authority the ACLI believes it already has to establish an OII without authorization from Congress.

According to Willem O. Rijkse, AIA vice president of public affairs, "the OII will help the U.S. Treasury analyze the important role that insurance plays in the domestic economy and will provide urgently needed leadership by the U.S. in international insurance regulatory policy making and trade agreements."

According to Rijkse, there are many recent examples that illustrate the need for insurance expertise and authority in the executive branch of the federal government, including:

- The recent extension of the Terrorism Risk Insurance Act;

- Proposals to expand the federal role in natural catastrophe insurance;
- Ongoing problems in the bond insurance marketplace;
- Trade with Mexico, excluding all cross-border provisions of insurance services under the North American Free Trade Agreement; and
- The Solvency II Directive in Europe, which is not consistent with many state-based insurance standards in the U.S..

The Reinsurance Association of America (RAA) also supports H.R. 5840 and feels an informed federal voice with the authority to establish federal policy on international issues is critical to U.S. reinsurers, who do business globally, as well as to foreign reinsurers, who play an important role in assuming risk in the U.S.

The OII's ability to protect state regulations in international agreements is one reason the National Association of Insurance Commissioners (NAIC) supports the creation of the OII, even though it opposes a federal insurance charter.

The NAIC emphasizes that H.R. 5840 does not establish supervisory or regulatory authority over the insurance industry.

The group also claims that the bill enhances the ability of the states to exchange confidential data with the federal government. (The NAIC has been identified as the eventual provider of information and data to the OII.)

## Lukewarm

The second camp gives only lukewarm support to the creation of an OII, while voicing concern that H.R. 5840 could be just a "foot in the door" toward the creation of a federal charter and regulator.

This camp's concerns are reinforced by some of the co-sponsors of H.R. 5840. Rep. Melissa Bean says the OII "is a vital step

toward reforming our antiquated system of state insurance regulation, which puts the United States at a disadvantage in the global marketplace.”

Rep. Edward Royce, another co-sponsor adds, “I believe it would move us one step closer to establishing an optional federal charter for insurance which would provide a much needed regulatory alternative to the tangled bureaucratic web of state-based insurance regulators.”

The second camp giving only cautious support is led by the National Association of Mutual Insurance Companies (NAMIC) and the Property Casualty Insurers Association of America (PCI).

Of particular concern to NAMIC is the collection of data, such as annual financial statements and market conduct information. NAMIC does not endorse the OII collecting data from only the NAIC, due to questions concerning the confidentiality and protection of collected data.

NAMIC urges the consideration of third-party statistical agents to collect data from insurers. Statistical agents are licensed and regulated by the states to perform these types of data collection and remittance functions.

Another area of concern for NAMIC is the type of information the OII could receive, collect, analyze, or disseminate. Data held by insurers is often confidential, private, or sensitive in nature and as such, proper protections must be included that will appropriately safeguard the integrity and security of that data.

PCI would support data collection by the OII only where there is a clear and compelling reason for collecting the data, and the cost of collection does not outweigh the expected benefits. PCI suggests that all the data collected

by the OII should be kept confidential and be exempt from the Freedom of Information Act.

“On the positive side, it could be helpful to have a stronger, pro-industry voice at the federal level, as well as a centralized repository of insurance expertise to guide Congress and the president,” says Rey Becker, PCI vice president for global issues and research.

“This would be particularly helpful when international issues are involved,” he adds. “However, on the negative side, earlier drafts, as well as potential amendments down the road, have been problematic.”

The National Conference of Insurance Legislators (NCOIL) questions why the NAIC is the designated provider of information and data to the OII, and NCOIL does not support preemption of state laws deemed to be inconsistent with international agreements.

## Still alive

Although H.R. 5840 will not be passed in 2008, it is far from dead and still has bipartisan support.

“The OII would provide a national voice to U.S. insurance interests in the global insurance marketplace,” says AIA’s Rijkssen. “The U.S. is currently disadvantaged in its ability to negotiate the insurance component of international trade agreements.”

The bill’s sponsor, Rep. Kanjorski, has expressed a willingness to work with others on the language of the bill and it is likely that it will be amended during the 2009 session.

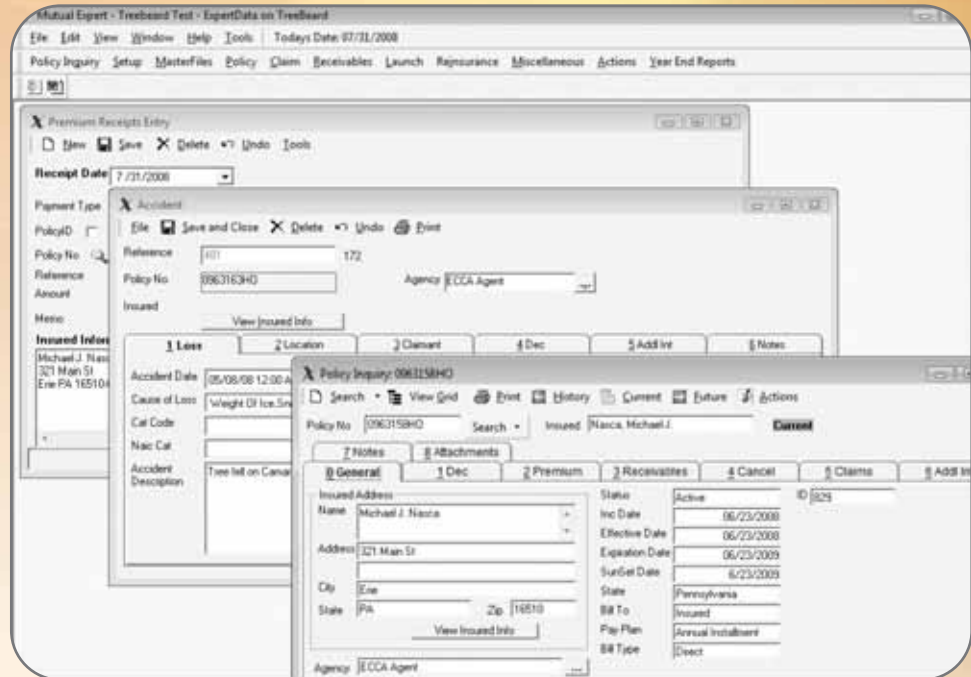
The measure stalled only because a House member who has traditionally not been friendly to the insurance industry had questions concerning specific language.

It is clear that H.R. 5840, or an equivalent, will be back in 2009, and may have a profound effect on insurance regulation in the U.S. ■

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## AAIS files latest revisions to its Homeowners forms

AAIS has begun filing updated versions of its Homeowners base forms and seven Homeowners endorsements. The new forms will be compatible for use with Homeowners endorsements filed starting in 2006 and currently approved in most states.

For the most part, the latest forms provide further “fine-tuning” of provisions regarding loss caused by water. Among other things, the standard water damage exclusion in the base forms is revised to emphasize that:

- The exclusion applies regardless of the cause of an excluded event;
- There is no coverage for loss caused by matter carried by excluded water (e.g., flood-borne debris);
- There is no coverage for water that overflows, escapes, or is discharged from a dam, levee, dike, etc, designed to retain or control water; and
- Provisions excluding loss due to tidal events now include, but are not limited to, tidal waves, tsunamis, tidal surges, storm surges, and storm tides.



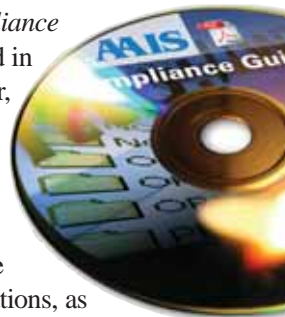
Also, where applicable, provisions addressing loss caused by freezing and accidental discharge are refined to specify types of water loss that are covered or not covered. Minor adjustments are also made in certain forms to the incidental coverage for Collapse and the peril for Vandalism and Malicious Mischief.

The endorsement changes, for the most part, are introduced to reflect the changes in water loss provisions in the booklet base forms.

## Compliance Guide to be reissued with new and revised sections

The newest edition of the AAIS *Compliance Guide*, issued in early October, features new sections on punitive damages and Standard Fire Policy regulations, as well as updated sections addressing disclosure notices, countersignature requirements, company filing actions, and applications, binders, and certificates of insurance.

The *Compliance Guide* is a comprehensive resource of information on rate and form filing requirements, plus other regulatory compliance information, for all 50 states, the District of Columbia, and Puerto Rico. (This resource was called the State Filings Guide until renamed in 2007.)



The new punitive damages section includes a table indicating which states allow punitive damages for direct or vicarious liability to be insured, plus other points of information regarding that topic. The new Standard Fire Policy (SFP) section indicates which states have SFP laws and any exceptions to those laws.

The *Compliance Guide* is provided for no additional charge to all AAIS member companies. Non-AAIS companies interested in purchasing the *Compliance Guide* can contact Rick Maka, director of marketing, at [rickm@AAISonline.com](mailto:rickm@AAISonline.com), or by calling 800-564-AAIS.

## New riggers' form added for legal liability coverage

AAIS has introduced a new base coverage form in the Riggers' Coverage section of the *Inland Marine Guide*, a resource of policy forms, rating procedures, underwriting guidelines, and other information for the traditionally nonfiled classes of inland marine insurance.

Riggers' insurance is written for contractors that specialize in hoisting heavy equipment or fixtures onto structures. With the introduction of the latest form, the Guide now provides two base forms for that class:

- A revised Riggers' Coverage form, described in a previous Advisory and press release, provides open perils coverage for loss to property of others in the

Continued on page 28

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AAIS had a record turnout for its 2008 Main Event and interest is already strong for 2009. Pencil in the date now, and watch for more information in Viewpoint and other AAIS communications.

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insured's care, custody, or control, regardless of the insured's negligence in causing a loss.

- The new Riggers' Legal Liability Coverage form, also covers loss to property of others in the insured's care, custody, or control, but only if the insured is found legally liable for a loss or damage, and only up to amount of the insured's liability.

The new form is available immediately for use in most states, and has a proposed effective date of Feb. 1, 2009 in those states that do not exempt inland marine insurance from form filing requirements.

## Other new and revised endorsements issued for *Inland Marine Guide*

AAIS recently released several new or revised endorsements and corresponding schedules for the *Inland Marine Guide*. Among the new endorsements are:

- A Motor Truck Cargo endorsement that can be used to limit coverage to vehicles that are specifically scheduled;
- A Transit endorsement that can be used to put transit coverage on a reporting basis;
- General endorsements for excluding coverage for loss at selected locations caused by a named tropical storm or hurricane, or for excluding loss caused by wind-storm or hail.

In addition, a new sewer backup coverage endorsement has been released so that coverage can now be offered separately from the revised earthquake and flood coverage endorsement.

These endorsements are available for immediate use in most states, and will be filed in states that do not exempt the traditionally nonfiled classes from filing requirements. The proposed effective date of the filings is January 1, 2009.

## New law establishes 'no prejudice' rule in New York

New York Gov. David Paterson recently signed a bill prohibiting insurers from denying a claim simply because an insured failed to provide timely notice of the claim.

As reported in the Spring 2008 edition of AAIS's *Viewpoint* magazine, New York had been the last major jurisdiction to hold that timely notice was a "condition precedent" to coverage. Under that rule, insureds could lose their coverage if they failed to meet contractual conditions for reporting a claim.

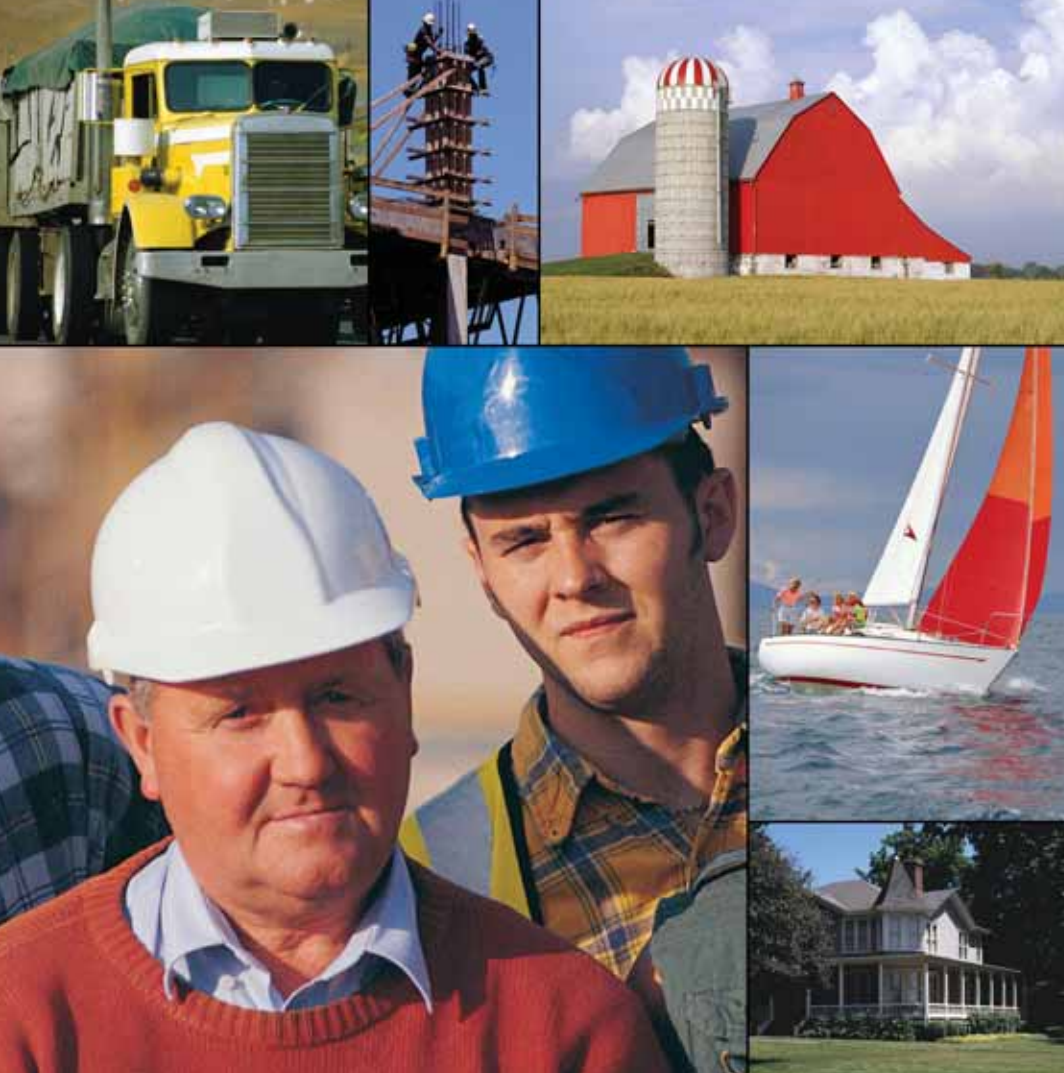
Under the recent New York law, if an insured under an occurrence form reports a liability claim within two years of its occurrence, the insurer must provide coverage unless it can demonstrate that a delay in reporting the claim prejudiced the insurer's ability to defend against it.

If a claim is reported more than two years after the occurrence, then the law shifts that burden of proof to the insured or other claimant, who must demonstrate that the insurer was not prejudiced by the delay.

Regarding claims-made policies, the law specifies that claim-made policies may require that claims be reported within the policy period, a renewal policy period, or any extended reporting period.

Among other things, the *Viewpoint* article reported on a small but growing tendency for states to require that the "no prejudice" standard be written into insurance

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## PERSONAL

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 Personal Monolines  
 Personal Umbrella

## COMMERCIAL

Artisans  
 Businessowners  
 Commercial Monolines  
 Commercial Umbrella

## FARM & AG

Farmowners  
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 Farm Umbrella  
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## INLAND MARINE/ OUTPUT

*Inland Marine Guide  
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contracts. The latest New York law explicitly requires a provision in occurrence forms specifying that failure to give notice shall not invalidate a claim unless the failure prejudiced the insurer.

With the latest law, effective Jan. 19, 2009, the “no prejudice” rule is effectively the law of the land, but with some variations from jurisdiction to jurisdiction as to who bears the burden of proving prejudice. (The new law applies to policies issued on or after Jan. 19, 2009, so the “condition precedent” standard may still apply to policies issued prior to that date in New York.)

## Maple Technologies develops system for AAIS Agricultural Output Program

Maple Technologies, LLC, Manalapan, N.J., is currently developing a client implementation for a large global insurance carrier that will be implementing the AAIS Agricultural Output Program (AgOP) in the first quarter of 2009.



Maple Technologies is a software development company whose primary focus is web application development for the insurance industry. Maple’s main product, Aspire, is a comprehensive web-based Internet insurance policy and claim management system. Through integration of web and database technologies, Aspire allows real time access to data while offering

responsive policy and claim management capabilities.

“Agribusiness is not unlike any other highly specialized sector we currently service and support,” said Nicholas Teetelli, CEO of Maple Technologies. “Through our strategic affiliation with AAIS we can be assured that we will have the technical resources to ensure that our Aspire Information System product meets the demands and responsibilities required to support this specialized industry.”

“Our affiliation with AAIS offers us unique opportunities to establish presence in another sector that requires specialized technology services,” said Matthew R. Blackley, founding member and chief technology officer of Maple Technologies. “We look forward to working with the AAIS team to expand our role and responsibilities in servicing this marketplace.”

To learn more about the Maple Technologies, contact Teetelli at (732) 863-5523 or at [nicholas.teetelli@maple-tech.com](mailto:nicholas.teetelli@maple-tech.com).

## First Internet Solutions develops rating system for AAIS Homeowners Program

Insurers that use the AAIS Homeowners Program now have access to an online rating system developed to support its most current rating instructions.

First Internet Solutions, Sheboygan Falls, Wis., recently

announced that it has adapted its “Universal Rater Web-Service Application” to support the 2007 AAIS Homeowners Program manual.

First Internet Solutions is an application service provider (ASP) that develops, supports, and manages remotely hosted, fully integrated technology applications for the



## First Internet Solutions

property/casualty insurance industry.

Universal Rater is a Microsoft .Net® web service that can be easily used by any existing policy processing or quoting system. Rating information is maintained in a user-friendly manner and available to anyone with knowledge of the steps required to rate a policy.

“Universal Rater is a non-technical product designed for underwriting staff,” says Kathy Schuette, marketing manager for First Internet Solutions. “You don’t have to know systems to use it. You simply need to know the rating steps.”

“It looks great,” says Janice Nieman, AAIS director of technical product support, about the Universal Rater application adapted for the 2007 AAIS Homeowners manual.

“It’s easy to follow, easy to update and maintain, and provides a good interpretation of our Homeowners manual rating instructions.”

For information on using Universal Rater to support the AAIS Homeowners Program, contact Schuette at [kschuette@inetsol.com](mailto:kschuette@inetsol.com), or by calling 920-467-1200, x211. ■

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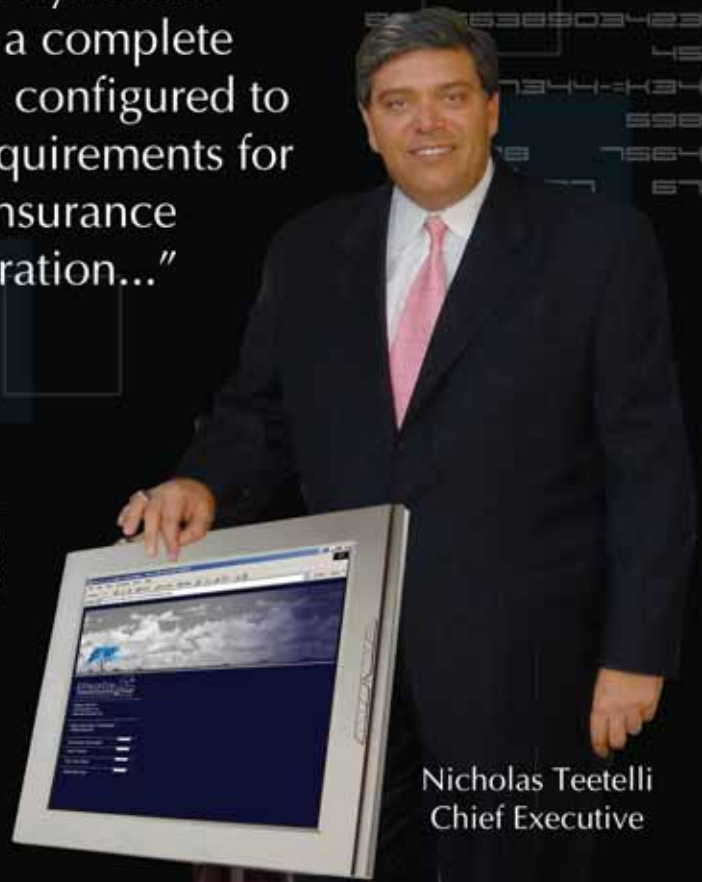
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Nicholas Teetelli  
Chief Executive

**Lovable Property** continued from page 15

Personal liability forms in themselves do not address issues of valuation. As is typical, AAIS Homeowners and personal liability forms agree to pay all sums, up to applicable limits, that an insured is legally liable to pay for property damage as defined.

In addition, the forms include a standard “Damage to Property of Others” provision that pays up to \$1,000 per occurrence for damage to the property of another caused by an insured, regardless of liability.

This provision plays essentially

the same role as medical payments coverage does for bodily injury; it provides a way to settle small claims and keep them out of court.

In the past, most claims for injury or death to another’s pet could be settled well within that limit, even if customary (for the time) veterinary expenses were included in the damages.

With the level of damages being contemplated today, it is increasingly possible that insured damages for injury to a pet will exceed the “Damage to Property of Others”

limit under a homeowners or personal liability policy, even if some of those damages are not covered under the policy.

As the AVMA issue paper states: “The increase in the amount of litigation alone will increase the number of settlements--settlements reached not because the defendant admits liability, but because the insurance carrier believes settlement will be a cheaper resolution than a successful court defense.” ■

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**Builders’ Risk** continued from page 20

provided only limited coverage for relatively minor equipment exposures.

As with many AAIS equipment breakdown coverage parts, the new Builders’ Risk endorsement was developed in consultation with The Hartford Steam Boiler Inspection & Insurance Co., and adapted from the equipment breakdown coverage developed for the AAIS Commercial Output Program.

Previously, the supplemental coverage for equipment breakdown provided coverage up to a schedule limit for direct physical loss to covered buildings and structures due to explosion, rupture, or bursting;

mechanical breakdown; and electrical currents. (The coverage for explosion, rupture, or bursting was limited to the pipes, boilers, turbines, or steam engines where the loss occurred.)

The new endorsement provides expanded coverage for “accidents” to covered equipment as traditionally established under “boiler and machinery” coverage.

“Covered equipment” is defined as any equipment that generates, transmits, or utilizes energy, or which operates under vacuum or pressure during normal use, provided the equipment otherwise qualifies as covered property under the base

Builders’ Risk form.

“Accidents” are defined as a range of occurrences within covered equipment, and the coverage for loss caused by an accident extends to all covered property.

On the equipment and testing schedule that accompanies the endorsement, carriers have an option whether to indicate a separate limit applying to each loss from a covered accident, or whether to cover losses under the base policy limit for buildings and structures.

The equipment breakdown coverage can also be extended to the delay in completion coverage. ■

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## The AAIS Agricultural General Liability Program

You can't effectively insure today's agribusinesses with modified farm and commercial products from yesterday.

The new AAIS Agricultural General Liability (AgGL) Program is the first standardized general liability program specifically designed for farms and agribusinesses.

The AgGL provides broader coverage and more endorsements than most farmowners programs, as well as more agricultural classifications than found in most CGL manuals.

For learn more about this important program, go to [www.AAISonline.com](http://www.AAISonline.com) for:

- An article on the AgGL from the previous edition of Viewpoint
- Audio files with commentary on the program by Sherry Taylor, AAIS manager of farm and agribusiness
- A brochure on the AgGL and its companion program, the AAIS Agricultural Output Program

### To learn more,

contact Rick Maka, AAIS director of marketing, at [rickm@AAISonline.com](mailto:rickm@AAISonline.com), or by calling 800-564-AAIS

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