ZNA Hail Business Strategic Directive

Scope	This document summarizes and explains the Zurich US Commercial Insurance strategic directive for managing hail exposure.
LOB	Property
BU/SBU	All
Geography	United States, Canada
Effective Date	March 29, 2021

1 Risk Assessment

Zurich Hail Zones range from 1 (least damage ratio) to 6 (highest damage ratio).

- **United States:** Hail Zones are identified and applied by county
- **Canada:** Hail Zones are identified by 3-digit postcode.
    - Does not have Zones 4, 5, or 6.
    - Some Zone 2 in Alberta.

Hail events in the United States have increased in frequency and severity; as a result, a clear statement of the hail underwriting approach is needed to effectively manage exposure to loss. The goal is to limit exposure to loss in the high and moderate risk states' counties through exposure awareness, risk selection, policy terms and deductible requirements.

The appetite is for geographically well diversified accounts. With that in mind accounts only located in Zurich Zones 4, 5 and 6 are not in appetite, but that does not mean they cannot be considered for coverage. However, it does mean they need a higher level of due diligence and prudent terms.

It should be a red flag to underwriters when the account consists of what we term "loss driven occupancies" as shown below. Like the statement above, these risks need higher level of due diligence, applying good risk selection (or sometimes declination) and most prudent terms and conditions.

Occupancies	**Comments**
Hospitals	Significant sq ft, multi roof levels, mixed roof types, mix of roof/bldg. ages, HVACs
Education	Difficulty executing expedient repairs if public entity.
Nursing Homes	Typically, one story with a large footprint.
Real Estate (Including Warehouses)	Malls present a significant exposure due to sizeable footprint, skylights, atriums, signage and diminishing funds for infrastructure.
Hotels/Hospitality	Significant exposure due to skylights, atriums, extensive HVACs, signage, awnings, sun shades.
Retail	Significant exposure due to skylights, atriums, HVACs, signage and diminishing funds for infrastructure.

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2 Strategic Directive

This directive applies only when real property coverage applies. Typically, no specific action is needed to address the peril of hail when exposure is exclusively to business personal property and time element coverages.

The Underwriter may work independently without collaboration with a Hail SME if they apply the deductibles as outlined in the Hail Business Strategic Directive.

The Underwriter may deviate and work independently for any account in a state identified below as High or Moderate hazard where:

- the hail exposed TIV is less than $25M, and
- the building TIV is less than $10M

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However, whenever those thresholds are exceeded, in order to deviate from this directive, the Underwriter must collaborate with a Hail SME.

- See the Exceptions below for business classified as “financial institutions”.
- See the Exceptions below for business classified as Direct Markets (using Unicover product).

2.1 Low Hazard States and Hail Zone 1

Typically, no specific hail requirements apply, but with a few exceptions:

- For Western Pennsylvania counties as addressed in the Moderate Hazard States, including Typically Zurich Hail Zones 2-3 section.
- Please give due underwriting consideration to geographically aggregated schedules.
    - As a rule of thumb, if the total covered building footprint is 1,000,000 sq ft or more in a single city, then review and discuss with an identified Hail SME.

2.2 Moderate Hazard States, including Typically Zurich Hail Zones 2-3

For any one premise greater than or equal to 50,000 sq ft building footprint, **a minimum per premises** hail deductible applies per the **Minimum Hail Deductible Table** below.

AL	CO	GA	IA	IL	IN	KY	LA	MI	MN	MT	NC	ND	NM	OH	PA	SC	SD	TN	VA	WI	WV	WY
	*			*				*		*	*		*		*	*			*			*
Roof Sq Ft < 50,000 at location, apply AOP deductible																						
Roof Sq Ft ≥ 50,000 but less than 100,000 at location, apply $50,000 deductible																						
Roof Sq Ft ≥ 100,000 but less than 250,000 at location, apply $100,000 deductible																						
Roof Sq Ft ≥ 250,000 but less than 500,000 at location, apply $250,000 deductible																						
Roof Sq Ft ≥ 500,000 at location, apply 1-3% deductible																						
* Indicates the strategy can be applied to certain counties																						
Flexible roof covers 10 years or older, strong preference for ACV if ACV applied, use lower end of the deductible range																						

Pennsylvania is all Zurich Zone 1 for hail. Loss experience indicates the following Western Pennsylvania counties should be included in this strategy: Allegheny, Armstrong, Beaver, Butler, Cambria, Crawford, Erie, Fayette, Greene, Indiana, Lawrence, Mercer, Somerset, Washington and Westmoreland.

2.3 High hazard states, including typically Zurich Hail Zones 4-6

For any one premise greater than or equal to 25,000 sq ft building footprint, **a minimum per premises** hail deductible applies per the **Minimum Hail Deductible Table** below.

AR	CO	KS	MO	MS	NE	OK	TX
All	See County List	All	All	All but NS Tier 1 -2 Counties	All	All	See County List for N, Mid, S
2-5%	2-5%	3-5%	2-5%	1-2%	1-2%	3-5%	1-5% See County List
Roof area less than 25,000 sq ft - apply minimum location deductible $25,000							
Roof area ≥ 25,000 sq ft - apply minimum location deductible $250,000							
*Atriums, skylights, EIFS/aluminum/vinyl cladding, light clusters, signage should be discussed with Hail SME							

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Per Unit deductibles are not permitted, should be discussed with Hail SME
Roofs 10 years or older, strong preference for ACV. If ACV applied user lower end of deductible range. Maximum deductible caps to be discussed with Hail SME.

2.4 Underwriting Procedure

Identify the applicable states. When available these will be identified in the Policy Center or ZORBA tools.
As a minimum, apply the premises deductibles as directed above.

Example 1:
30,000 square foot building, 2 stories

a) 30,000 sq ft / 2 = 15,000 square foot footprint
b) If the state is Moderate Hazard, apply the AOP deductible (15,000 sq ft is less than 50,000 sq ft)
c) If the state is High Hazard, apply the % deductible, but subject to the $25,000 minimum hail deductible (15,000 is less than 25,000 sq ft)

Example 2:
1,200,000 square foot building, 3 stories

a) 1,200,000 sq ft / 3 = 400,000 square foot footprint
b) If the state is Moderate Hazard, apply $250,000 hail deductible
c) If the state is High Hazard, apply the % hail deductible subject to a minimum $250,000

Example 3:
Schedule of 10 premises with $120M TIV in one state.

Moderate Hazard State		
Description and distribution of premises	The results after applying the strategy when the UW works independently	Hypothetical results after consulting with a SME, and depending on proximity of each premises to one another, i.e. same county, same or adjacent city, same or adjacent zip code?
3 premises are 20,000 sq ft each	AOP occ deductible applies	Depending on AOP deductible size: (e.g. 100K AOP), the AOP occ deductible is applied or (e.g. 25K AOP) the equivalent of the AOP deductible is applied to each
2 premises are 55,000 sq ft each	50K deductible applies to each	One premise is Zone 1, AOP deductible is applied One premise is Zone 3, 50K deducible is applied
2 premises are 110,000 sq ft each	100K deductible applies to each	One premise is Zone 1, AOP deductible is applied One premise is Zone 3, 100K deducible is applied
2 premises are 260,000 sq ft each	250K deductible applies to each	One premise is Zone 1, AOP deductible is applied One premise is Zone 3, 250K deducible is applied
1 premise is 550,000 sq ft	High end of % range subject to a 250K min deductible	Premise is in Zone 2, % range subject to a 250K min deductible Used the low end of the range due to risk characteristics and the customer accepting ACV on older roof

High Hazard State		
Description and distribution of premises	The results after applying the strategy	Hypothetical results after consulting with a SME, and depending on proximity of each premises to one another, i.e. same county, same or adjacent city, same or adjacent zip code?

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	when the UW works independently	
3 premises are 20,000 sq ft each	25K min deductible applies to each	25K min deductible applied to each
2 premises are 55,000 sq ft each	% range subject to 250K min deductible applies to each	Because premises are side by side, after consult, treated them as basically one location and acceptable with 150K deductible at each
2 premises are 110,000 sq ft each	% range subject to 250K min deductible applies to each	Because premises are geographically well separated from others in the state, they are not likely to be part of one occurrence. The highest % deductible did not exceed 250K for each. Applied 250K hail deductible to each.
2 premises are 260,000 sq ft each	% range subject to 250K min deductible applies to each	One premise used the low end of the range due to risk characteristics and the customer accepting ACV on one older roof and not all of the roof is flexible cover, some concrete parking garage. Used the high end of the range due to risk characteristics and the customer not accepting ACV on one 13 year old membrane roof.
1 premise is 550,000 sq ft	% range subject to 250K min deductible applies	Used the high end of the range due to risk characteristics and the customer not accepting ACV on older roof. If not replaced in next year will require ACV or get off the risk.

2.5 Hail Damage Potential Worksheet

When the building footprint is greater than 500,000 sq ft and the Underwriter has sufficient detail to do so, in collaboration with a Hail SME this optional worksheet can be used to provide a more insightful loss estimate and informed deductible decision.

Instructions for use are included within the worksheet.

Tip: This worksheet is very good at estimating the potential loss but it not as accurate estimating the deductible

Hail Damage
Wksht.xlsx

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3 Exceptions

Business operating as branch financial institutions:

- This directive does not apply to the following products:
  Lender's Property Reporting, Mortgagee Protection Policy or Trust Protector Policy
- This directive does not apply to branch locations such as:
  banks, loan offices, credit unions, insurance service offices, etc. with less than 25,000 sq ft footprint per location, or aggregate geographical footprint of less than 500,000 sq ft
- However, this directive does apply if the thresholds above are exceeded.

Business classified as Direct Markets (using Unicover product):

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- All buildings in counties with hail zones 4 and 5, as identified in the spreadsheet found in GlobuZ, the underwriter should consider a 1% wind/hail deductible. All buildings in counties with hail zone 6, as identified in the spreadsheet found in GlobuZ, the underwriter should consider a 2% wind/hail deductible. This is a per occurrence deductible and applies to each building separately.

A per occurrence deductible can be used in lieu of premises deductibles, however it is expected that the occurrence deductible would be at least equivalent to the sum total of the per premise deductibles for all buildings logically included in the occurrence.

- Practically speaking, an occurrence will most likely be limited within one county, and possibly even within just one city.

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4 Deductible Range Job Aid

Low End of State % Deductible Range	High End of State % Deductible Range
Schedule likely more industrial or warehouse without many of the elements shown to the right	Schedule likely more office/retail including heavy exposure to HVACS, skylights, atriums, other roof mounted equipment
Schedule likely more industrial or warehouse without many of the elements shown to the right	Other than roof top, there are fabric sun shades, awnings, umbrellas, EIFS cladding, aluminum or vinyl cladding
A significant portion of the schedule is multi-story with favorable aspect ratio i.e. roof surface to total building square feet	Most of the schedule is one story presenting a lot of roof exposure
Schedule is geographically dispersed, involving multiple states and counties	Schedule is campus/complex, geographically concentrated, involving single (or few) states, adjacent counties, adjacent cities, adjacent zip codes or single shot risk
Customer has generally accepted our terms regarding ACV roofs and/or cosmetic endorsement	Customer rejected our terms regarding ACV roofs and/or cosmetic endorsement
Long term customer, stable schedule with low loss history for perils other than wind/hail	New or short-term customer, prone to divesting and/or acquiring buildings, variable schedule with active loss history for perils other than wind/hail
Roof coverings are flexible including single ply membrane, built up, three-tab asphalt shingle	Roof coverings are more costly than flexible roofs such as copper metal roof or standing seam metal roof and the customer will not accept a cosmetic roof damage endorsement

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5 Appendix – Hail Exposure by County Listing

ZNA US Nat Cat Zones and Maps (Including SCS Data)

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Revision History

Version	Version Date	Description	Contributing SME(s)

1.0	08/01/2014	Original Document	Carol Chavers
1.1	02/03/2017	Revision	Adam Hurley
1.2	05/21/2017	Revision	Jim Merva
1.3	09/26/2017	Added DM Exceptions	Tim Cordes
1.4	08/24/2020	Expanded implementation to broader area Increased the deductibles Included discussion with SMEs for deviation	Jim Merva, Tricia Verhalen
1.5	2/23/2021	Updating the State Deductible Exhibit attachment	Jim Merva, Tricia Verhalen
1.6	3/29/2021	Updated county worksheet and added link to Hail Damage Worksheet	Tricia VerHalen

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