Section 1: Automobile Insurance

Chapter 1 Auto - Overview

Auto insurance companies use various types of criteria when evaluating an auto insurance application. Each car insurance company has specific groups of drivers they will accept and those they may refuse or charge higher rates. It is all based on risk factors. Guidelines are different from company to company, meaning two companies comparing the same driver may arrive at different conclusions. Even so, most companies consider the same risk factors.

During the underwriting process, car insurance applications are placed in a group based on how much money and how many claims the insurance company believes it may have to pay. Software is used for much of the underwriting process. The facts have been entered into software programs relating to past claims service and analysis of existing risk. The insurance company looks at motor vehicle records to determine how many accidents or tickets a driver has received. Many companies also use an insurance history report to see if the driver has made any auto insurance claims and the amount of money that was paid as result of those claims. Although accidents and violations can only affect the rates received for a specified period of time, many companies look back five or more years when deciding whether to accept the risk and issue the policy. Additionally many auto insurance companies look at the individual's credit history if allowed by the state. Insurers use credit history to determine which group the applicant belongs in; they don't look at the actual credit report.

Insurance does not completely eliminate anyone's risk because achieving an infinite number of exposure units is not possible. There may always be some deviation of actual results from expected results. Statistics upon which the predictions are based can never be perfect. Even if the statistics used for predictions are absolutely accurate there is no reason to believe that tomorrow's losses will duplicate the losses of today. Even minute changes in existing conditions can alter the results. As a result there will always be uncertainties in predicting insurance losses.

Auto Insurance

It is a simple fact of life: all drivers cannot be trusted to do what is legal or right. Many states mandate drivers to carry minimum amounts of liability insurance in order to guarantee compensation if they are at fault for an accident. Despite this requirement, not all drivers comply. Therefore it is recommended that individuals carry uninsured motorist coverage. It is never wise to believe other drivers will be responsible enough to have purchased insurance.

An insurance policy is a contract between the insured and the insurance company. The insured pays a premium, which is the price or cost of the policy purchased. The insurance company agrees to pay for the insured's losses resulting from events covered by the policy. Only events covered by the policy will be reimbursed. Property and casualty policies cover such things as fire, burglary, car collisions, and any other item specifically stated in the policy. Policies typically have what is referred to as policy limits. This means there is a limit to the amount of money the insurance policy will pay on a loss, even if the loss exceeds the specified coverage. Obviously it is wise to buy policy limits that are adequate.

If a driver causes an accident or is shown to be at fault for an accident, it will not matter how large or small his or her policy is. Damages will be awarded according to many factors but not the amount of insurance purchased. If the driver receives a judgment for $100,000 for example, and his or her liability policy has a $25,000 limit, he or she will still be required to pay the full amount awarded. People have lost their homes, savings, and other assets due to under-insuring. A higher insurance policy limit not only assures compensation for those who are wronged; it also protects

the insured driver from financial consequences.

Whether a policy is for property and casualty or life and health, insurance policies seldom, if ever, cover every possible kind of loss. If an insured is concerned about a specific cause of loss questions should be asked to be sure whether or not coverage exists. Wise agents always specifically tell their clients of any policy limitations.

Many insurance contracts or policies contain deductibles. A deductible is a specific amount of money that the insured must pay on a claim before the insurance company will begin to pay anything. The deductible is usually per claim or per accident so it may apply as often as a claim or accident occurs. Any losses lower than the deductible amount will be the responsibility of the policy owner. For example, a policy with a $1,000 policy deductible will not cover a loss of $750 because it has not met the deductible amount. The higher the deductible listed in the policy, the lower the premium cost will be. This makes sense because a higher deductible saves the insurance company money since they are not liable for claims under that amount.

It is human nature to want an insurance policy to return the amount of premiums paid, whether through claims that are paid or other types of returns. However insurance is never intended to enrich the policyholder; the intention is to cover risks that could result in losses.

Auto Insurance Basics

An auto insurance policy is a package of different coverages. Most states require drivers to purchase a minimum amount of certain types of coverage, though it makes sense to buy more than what's required. Here we'll present a brief overview of auto insurance. We'll get into the details later.

Liability Insurance

Liability coverage is the core of any auto insurance policy and is required in most states. If an individual is at fault in an accident, liability insurance will pay for the bodily injury and property damage expenses caused to others in the accident, including the legal bills.

Bodily injury coverage pays for medical bills and lost wages. Property damage coverage pays for the repair or replacement of things damaged other than the insured's own car. The other party may also decide to sue the insured to collect "pain and suffering" damages.

Limits for liability are usually presented as a series of three numbers. For example, your agent might say that your policy carries liability limits of 20/40/10. That stands for $20,000 in bodily injury coverage per person, $40,000 in bodily injury coverage per accident, and $10,000 in property damage coverage per accident.

Minimum insurance may not adequately cover an individual in a major accident. This is why it's a good idea to buy more than the state requires. If an individual owns a home or other assets, he/she should consider purchasing more liability insurance because, in most states, the injured person(s) are allowed to sue the other driver who is at fault in a car accident.

Collision Coverage

Collision coverage will pay to repair the insured's vehicle. The insured usually can't collect more than the actual cash value of the car, which is not the same as the car's replacement cost. Collision coverage is normally the most expensive component of auto insurance.

By choosing a higher deductible, say $500 or $1,000, the insured can keep the premium costs down. However, the insured must keep in mind that he/she will have to pay the deductible before the insurance company pays anything on a claim.

Replacement Cost vs. Actual Cash Value

We've described the difference between replacement cost and actual cash value already, but it's a key concept of property insurance. Replacement cost is the amount it would take to replace the vehicle or repair damages with materials of similar kind and quality, without deducting for depreciation. Depreciation is the decrease in vehicle value because of age or wear and tear.

Actual cash value (ACV) is the value of the property when it is damaged or destroyed.

Claims adjusters usually figure ACV by taking the replacement cost and subtracting depreciation.

Sometimes insurance companies will "total" the car if the repair costs exceed a certain percentage of the car's worth. The critical damage point varies from company to company, from 55 percent to 90 percent.

Comprehensive Coverage
Comprehensive coverage will pay for damages to the insured's car that weren't caused by an auto accident, such as damages from theft, fire, vandalism, natural disasters, or hitting a deer. Comprehensive coverage also comes with a deductible, and the insurer will only pay as much as the car was worth when it was wrecked.

Because insurance companies normally will not pay more than the insured's car's Blue Book value, it's helpful to have a rough idea of this amount. If the car is worth less than the cost for the coverage, a consumer is better off not having it at all. Comprehensive coverage is not required by law the way liability coverage often is.

Medical Payments
Pays doctor and hospital bills and if necessary, funeral expenses for the policy owner and members of his or her family living in the same household regardless of who caused the accident.

It is important to realize that liability insurance will not pay for injuries sustained by the policy owner and members of his or her family living in the same household. That is because liability coverage refers only to third-party claims. The policyholder and family members are first parties in the contract. The insurer is the second party to the contract. The third-party is the other driver.

Medical payments insurance covers any passengers riding in the car, including someone else's car being driven by the policyowner and covered family members as long as they had permission to drive the car. Medical payments insurance would also cover pedestrians that were injured.

PIP and No-Fault Coverage
Personal injury protection (PIP) and broader "no-fault" coverages are expanded forms of medical payment protection that may be required in some states. Some states have optional PIP or no-fault coverage. Expanded features include payments for lost wages and child care.

If an individual has a good health insurance plan, there might be little need to buy more than the minimum required PIP coverage.

Some states have "no-fault" laws, meaning the auto policy must pay medical bills for injuries suffered in an auto accident regardless of who caused the accident. The laws were enacted in an attempt to reduce auto-injury fraud and keep insurance cost down.

Uninsured/Underinsured Motorists Coverage
Uninsured motorists (UM) coverage pays for injuries if the insured is struck by a hit-and-run driver or injured by someone who doesn't have auto insurance. It is required in many states.

Underinsured motorists (UIM) coverage will pay if the at-fault driver causes more damage than his or her liability coverage can cover. In some states, UM or UIM coverage will also pay for

property damages.

An individual probably will want to have at least the minimal amount of UM/UIM because if the other driver can't be found, the insured will at least have some coverage for pain-and-suffering damages. We'll be discussing UM/UIM coverage in more depth later on.

Add-on Features
Several supplemental auto coverages are available, either as separate premium items or included in augmented policies.

Rental reimbursement is a common add-on that covers the cost of insuring vehicle rentals from damage or theft.

Coverage for **towing and labor** charges in case of a road breakdown is also common.

Gap coverage for a new car will pay the difference between the actual cash value received for the car and the amount left on the car loan if the new vehicle is totaled in an accident.

Minimum Coverage Requirements
All 50 states have different requirements when it comes to auto insurance. In some states, motorists can't register a car without showing proof that they have liability insurance, while other states use an "honor system" that doesn't ask for proof of insurance until drivers have accidents or tickets on their records.

Premium rates for automobile insurance are higher in cities and suburbs in most cases. That is because there are larger numbers of vehicles in cities and suburbs, which is then likely to also experience the highest number of claims. Rates are rising everywhere however, and ultimately are determined by the number of claims in that particular area.

There are many reasons for rising automobile insurance rates. For example, the type of car driven affects insurance rates. The Highway Loss Data Institute compiles insurance accident statistics for various types of cars. Many insurance companies use such data when setting prices for their insurance. Cars that are expensive to repair will cost more to insure than those that are less expensive to fix. Vehicles more likely to be stolen will cost more to insure than vehicles rarely stolen. Since rates are based on more than just the car however, all factors combined will determine the auto insurance

Leased Cars

If an individual finances or leases a car, the lender may require that the insured select a low deductible. This is because the lender still has an investment in the car. The lender can also require an individual to carry collision insurance in addition to liability to make sure the car is repaired after an accident.

Finance companies and dealers don't want an individual to end up defaulting on his/her lease because they don't have enough insurance to cover repairs and have to pay out of pocket, and they don't want to get a damaged vehicle returned to them at the end of the lease.

Insuring a New Vehicle

Buying a new car can be exciting; insurance is often the last thing on the buyers mind as he or she test drives various vehicles. However, it may be wise to check with one's agent prior to making a decision since the type of car owned can and does affect insurance rates. Some vehicles are stolen more often than others; some vehicles are more costly to repair than others.

Although agents would always prefer their clients immediately notify them of a vehicle change, many insurance policies have grace periods during which a new vehicle is covered even if the

agent or insurer has not been notified of the purchase (30 days for example). During the grace period the old policy will cover the new car. After the grace period has expired there may be no coverage at all, however, or limited coverage.

Generally the old car's coverage will transfer "as is" to the new vehicle. This means that if only the state's required minimum liability was placed on the old car, this is the same coverage the new vehicle will have. Unless the buyer paid cash for their new car, lenders are likely to require full coverage; they want to know they will be reimbursed if the vehicle is totaled in an accident. In fact, lenders often refuse to release funds for the purchase until proof has been received of auto insurance. Often collision and comprehensive coverage is required.

Graduated Drivers Licensing Programs

The Insurance Institute for Highway Safety (IIHS) reports that vehicular crashes killed 5,648 teenage drivers in 2000.

Drivers between the ages of 16 and 19 have the highest crash rates relative to other age groups. The risk of a crash per mile driven among teens is four times higher than for older drivers says Pete Moraga, a spokesman for the Insurance Information Network of California.

States, seeking to curb the high death rate among teenage motorists, have adopted at least one of three components of a graduated drivers licensing (GDL) system. GDL programs allow teenagers to receive full driving privileges in stages. IIHS defines the graduated drivers licensing system as a program that phases "in young beginners to full driving privileges as they mature and develop driving skills." Versions of GDL are found throughout the United States, as well as in Canada, Australia and New Zealand.

More than 40 states have implemented GDL programs since the mid-1990s. A three-pronged system is applied in 34 states, but program guidelines vary widely from one state to the next.

Sound GDL programs have three "distinct phases" to a full graduated system. Beginners must stay in each of the first two phases for a minimum amount of time, with the restrictions lasting until the driver turns 17.

The three steps are a "supervised learner's period," and an "intermediate license," which allows the teen to drive unsupervised with certain limitations and "licensing with full privileges" after completion of the first two phases.

Florida, which in 1996 became the first state to adopt GDL, has experienced a 21 percent drop in teen driver fatalities since the program got started. In South Carolina, the percentage of teenagers involved in crashes declined to 13 percent in 1999 from 14.5 percent in 1998, the year that state's GDL law took effect.

Underage drinking remains an element in teenage highway fatalities, although not as much as before GDL programs got under way. Among drivers 16 to 20 years of age, 22 percent who died in traffic accidents had a blood alcohol level at or above .10 percent. This is a sharp decrease from 49 percent in 1980. In some states, a blood alcohol level of .10 percent is the legal limit. In other states, .10 is well above the level where drivers are considered legally drunk.

Pay-As-You-Go Policies

Most Americans buy auto insurance that is continuous, but pay-as-you-go auto insurance offers an alternative to this tradition. It is based on the number of miles driven. Many people would be surprised to learn that pay-as-you-go driver's insurance has been available since 1998, but it did not become widespread until ten years later. According to Ceres, an environmental advocacy group, more than two dozen companies offer this type of insurance as of 2009. It may be necessary for the state to approve this type of insurance, so therefore, not all states allow it.

California, for example, just approved pay-as-you-go policies in 2011.

Although each company will develop their own way of offer pay-as-you-go coverage, the general idea is the same: the less the car is driven, the less the driver pays for auto insurance. For many drivers, pay-as-you-go equates into big savings on auto insurance rates. The Brookings Institution found that many drivers in the U.S. would save an average of $270 per car on their insurance premiums. Additionally, this type of coverage encourages drivers to be economical when it comes to the number of miles they drive. Obviously, fewer cars on the roads are also good for our health since it means less harmful emissions and pollutants are put into the air.

Safe Drivers Pay Less for Insurance

Aggressive or reckless driving, speeding tickets, and driving while impaired will be reflected in the rates paid for auto insurance. By now, everyone should know this. Even so, we continue to see too many people who disregard safety in favor of speed, road rage, and stupidity.

The National Highway Traffic Safety Administration (NHTSA) defines aggressive driving as "the operation of a motor vehicle in a manner that endangers or is likely to endanger persons or property." Aggressive driving includes a wide range of offenses, such as reckless driving. Even when there is no intent to harm others, actions that do so anyway will be considered reckless. Aggressive driving accounts for more than 6,800,000 wrecks each year. Aggressive driving is a major reason for the insurance rates we pay today.

Aggressive driving includes passing on the right shoulder, tailgating, weaving in and out of traffic, making obscene gestures or shouting obscenities to other drivers, flashing lights, or horn honking in non-emergency situations. Drivers who engage in such behaviors are high risk as far as any underwriter is concerned. Such individuals seem unable or perhaps unwilling to consider the risk they pose to other people on the road, and certainly they don't consider what it does to the premium rates of all drivers who bear the consequences of accidents and even fatalities.

Speeding is perhaps the most common moving violation; unfortunately it is also one of the most deadly. The Insurance Information Institute says that the faster a driver goes, the more deadly an accident will be. According to the National Highway Traffic Safety Administration (NHTS) speeding accounts for one-third of all traffic fatalities. Those who speed endanger everyone around them, not just themselves. The biggest financial hit from speeding violations will not come from the judge in court, but rather from the insurance company issuing the auto insurance policy. Insurers may increase premium rates by as much as 50 percent for just one speeding ticket in a three-year period. Although not all insurers do so for a single speeding ticket, many do. Changing companies may not be possible since once a speeding ticket is issued, all insurers will consider the driver a higher risk.

Insurers take an even dimmer view of driving while impaired, whether from drugs or alcohol. Recently even sleepy drivers are being penalized by their insurer if an accident is the result of the sleepiness. Impaired drivers (from alcohol, drugs or lack of sleep) are considered the most likely to experience an accident.

The economy is forcing many to make tough decisions about their household expenses, including automobile insurance. Many drivers are cutting out some aspects of their auto and homeowner coverage in order to reduce monthly expenditures. According to the National Association of Insurance Commissioner's (NAIC) survey, more than half of United States drivers have changed their insurance coverage or driving habits in order to reduce their auto insurance payments.

Some drivers are staying home more and driving less since the miles driven can affect the rates of premium paid. Nearly 40 percent of those surveyed said they drove less, instead joining car pools, walking to work, using public transportation, or biking when possible. This reduces fuel consumption and costs and, where rates are determined partially by mileage, their insurance

costs. When rates are based on Pay-as-you-go insurance, mileage is especially important.

Many of those surveyed said they have reduced the amount of auto insurance they carry. Roughly 20 percent said they had streamlined their coverage and some, unfortunately, canceled it entirely, even when there were state requirements regarding coverage. Liability insurance is mandated in most states.

Most of the people surveyed did not cancel their coverage entirely, but they did reduce the types of coverage, often carrying only what was state mandated. Extras like uninsured motorist coverage or comprehensive coverage, was dropped entirely even though they would have liked to continue carrying it.

About 20 percent responding to the NAIC survey said they got rid of a vehicle in order to reduce costs. In some cases, two vehicles were traded in for one with better mileage records. Getting a car that goes further on less gasoline seemed practical to many people, even if it meant two workers in the household sharing one vehicle.

These changes were made to deliberately cut automobile costs, for both insurance and fuel.

Some people have attempted to cut automobile costs by registering their vehicles not in the state where they live, but in a neighboring state if auto rates are less there. It means registering with a false address, such as a friends or family members, in order to get the insurer to issue the policy. Obviously, the insurer would not issue the policy unless they believed the applicant lived in the state where issued. It must be emphasized that falsifying an address is insurance fraud.

Those who have been caught using a false address in order to achieve lower automobile insurance rates say they did so because insurers seemed indifferent to the misrepresentation. In fact, we are told that several websites actually walk people through the process of committing this type of fraud. Whether or not that is true, it is still insurance fraud and therefore illegal. Any agent found to be helping their clients do this would likely lose their insurance license or at least be sanctioned by the state.

Auto insurance companies lost $15.9 billion due to premium rating errors for private-passenger premiums in 2009 according to Quality Planning Corporation. Insurance rate evasion, which is what using a false address is called, contributed to these losses. What these drivers may not realize is that it also contributes to the higher rates of other drivers. Part of the problem is the difficulty in detecting this type of fraud. It can be very difficult to prove dishonesty since drivers move often. Thousands of Americans move each day and more than 25,000 vehicles are registered every hour nationwide. So it is not really true that insurers are indifferent to this type of fraud; rather it is just another problem among the many insurers already have regarding fraud.

Distracted Driving

We are seeing new factors affecting car insurance rates. A recent factor has to do with technology. Some groups, such as Focus Driven, compare texting while driving to reckless driving resulting from alcohol impairment. An advocacy group for victims of car crashes resulting from cell phone use has requested states to pull driver licenses of those receiving tickets while texting or using the telephone. It is likely that statistics will eventually be available regarding accidents resulting from texting and telephone use. When this information becomes available to insurers, those statistics will impact automobile insurance rates.

In 2010, according to the Governor’s Highway Safety Association, at least 3,092 people were killed in distraction-related crashes across the United States. In June of 2011 the Transportation Secretary called distracted driving an epidemic and endorsed a national ban on using cell phones behind the wheel.

The Association has also broadened its stance regarding drugged driving. It supports what is called “zero tolerance” laws. Under such laws, a driver could be charged with impaired driving solely for having a drug in his or her system, regardless of the detected levels. The Governor’s Highway Safety Association states that talking and texting on cell phones while driving are two of the most common behind-the-wheel distractions. In addition to the 3,092 people killed, an estimated 416,000 people were injured in distraction-related wrecks. As these factors become national statistics, those statistics will be factored into automobile insurance rates.

The driver’s cell phone is not necessarily the only driving distraction. Although many people automatically think of telephones as the major reason for recent distracted-driving legislation, there are other causes.

Pets have been found to be a driving distraction in many cases. While a dog may be a man's best friend, he does not belong on the driver's lap or even in the front seat. A 2010 AAA survey found that nearly 60 percent of drivers with pets are guilty of at least one distracting behavior while driving with their pet in the car. One-fifth of those surveyed admitted to allowing their pet to sit on their lap while driving. Some said they played with their pet while driving, or even poured water for their pet while driving.

An unrestrained pet in a vehicle is never wise. Besides the threat to those riding in the car, an unrestrained pet may sustain injuries from falls or by being thrown if the driver must suddenly break.

In June 1999 Stephen King was nearly killed by a distracted driver reaching into the back seat of his van to push his Rottweiler dog away from a cooler. Losing control of his van he struck the famous writer head on.

Four out of five drivers report taking their pets along for the ride according to survey results released in August 2010. Only 17% of these drivers used any form of pet safety restraint inside their vehicles. A single distracted-driving accident can cause an individual’s premiums to rise but few pet owners seem to be considering this.

When a pet is injured in an accident, the owner’s car insurance might not cover the veterinary bills. While some collision coverage will pay up to $1,000 for pet injuries most auto policies do not. Dogs also create dangerous distractions for other drivers, such as barking out the auto’s windows or making sudden movements.

We have to wonder what the attraction is to having a pet in the car. In the summer leaving a pet in a hot car can cause its death, which should certainly indicate dogs are better off at home. Younger dogs and puppies are prone to motion sickness and larger dogs can block the driver's view. Unrestrained pets, reported Paws, result in more than 30,000 auto accidents each year in the United States. This translates to a loose pet causing an accident every 18 minutes. A survey conducted by the AAA Foundation for Traffic Safety found that the chance of being in a car crash doubles after just two seconds of driver inattention. The impact of a collision can launch an unsecured dog like a projectile, resulting in severe injuries or death for both humans and the pet. Larger dogs, of course, are the most likely to cause injuries to human passengers when thrown during an accident. An unrestrained 10 pound dog in a crash at 50 miles per hour will exert approximately 500 pounds of pressure. An unrestrained 80 pound dog in a crash at only 30 miles per hour will exert 2,400 pounds of pressure. Children are especially vulnerable to injury from impact with a dog.

Following an automobile crash an unrestrained dog, out of fear or pain, might attack others or impede emergency medical personnel from reaching critically injured persons trapped inside the vehicle. In an attempt to protect injured owners, dogs have been known to become very aggressive towards emergency personnel or citizens simply wanting to help injured passengers.

Dogs thrown out of vehicles after a collision may be in shock and disoriented, often leaving the scene and dying alone when they cannot be found. Some wounded or disoriented dogs have been known to attack passersby or wander into traffic causing other accidents.

Dogs and other animal passengers, if owners insist on bringing them, need to be in approved animal harnesses to protect both the animal and humans. Those who truly love their pets will either leave them at home or use appropriate vehicle restraints for the pet's own protection and the protection of humans. By reducing pet distractions and using safety products to prevent accidents it is possible to prevent increased auto premiums as well since there will be fewer claims.

Obviously children will be riding in cars. Most parents have found themselves turning towards the back seat to attend to children while driving. Parents may also have found themselves being hit by thrown toys, baby bottles, and other items. According to the AAA Foundation for Traffic Safety, children are one of the biggest driving distractions at any given time. Children are four times as likely as adult passengers to be the cause of a distraction resulting in an accident. While there may not be a good solution to this problem, it is important for adults to be aware of the disastrous effects a moment of distraction can have. It is better to pull to the side of the road to attend to a child's needs than to attempt doing it while driving. Most feel education is the best solution to the distractions caused by children while driving. When parents are aware of the dangers posed they can make decisions more effectively.

Many people eat and drink in their cars, although safety experts warn against the practice. This requires removing hands from the steering wheel momentarily to grab a coffee cup or French fry. Few people realize the distraction this poses. Spilling a hot beverage or dropping food in one's lap distracts the individual long enough to cause an accident. Pedestrians have been hit and killed while drivers attempted to retrieve a sandwich or hamburger they dropped.

Listening to the radio while driving is common but music and talk radio can also be a distraction. A dangerous distraction is taking one's eyes off the road to change stations or adjust the radio. Any distraction can cause an accident so it is important to pay attention to the road at all times.

Distracted driving of all types can indirectly affect auto insurance premiums by raising the likelihood of accidents. Approximately 20 percent of accidents involving injuries were the result of distracted driving according to NHTSA. More accidents equate into more claims and more claims mean higher automobile insurance rates.

When a Car is Totaled

What happens when a traffic accident totally devastates an insured's auto? It's not a scenario most drivers want to think about.

When an automobile is substantially damaged, the insurance company has the right to decide that the car isn't worth fixing. The decision to "total" is a function of the car's worth. Minor damage to a 10-year-old Chevy might result in totaling the car, whereas major damage to a brand-new Mercedes might not. Auto insurance claims adjusters usually determine a car's actual cash value by using their company's proprietary database of prices.

Some companies total vehicles at 51 percent of its actual worth: some total at 80 percent. The insurance company will pay the car's actual cash value, minus any deductible on the coverage.

Once a car is totaled, the car goes to a salvage yard where it's auctioned off to the highest bidder and usually chopped up for parts. The insurance company keeps whatever money it got for the car in salvage.

What if an insured doesn't agree with the insurance company's assessment of the damages? What

if the insured really loves his car and doesn't want it taken away? Does he have any recourse?

When a person buys an auto policy, he signs a contract with his/her insurance company. He/she cannot force the insurer to pay out more than the car is worth. That is a part of the contract.

On the other hand, the insured was supposed to be "made whole" by the insurer, meaning he/she should be put back into relatively the same spot that he/she was before the accident.

If the car is a total loss but the insured wants to have it repaired anyway, he/she should be able to retain it. The insurer still has to pay the car's actual cash value, minus the deductible and minus what the company would have gotten for it at the salvage yard.

If it is the decision of the insured to keep the car, the claims adjuster should know up front that he/she wants to keep the car. The insured then will to have to pay for the repairs out of pocket.

If the car is a newer model and its parts would get a lot on the auction block, the insurance company may decide to send it to salvage despite the insured's protests.

In most states, the car is gone for good once it goes to auction. Regulations vary, but in many places, the insured won't even be able to attend the auction without a special license for auto salvagers or auto dealers.

Not Satisfied with the Buyout

People who complain about their total loss settlements generally don't want their old, crashed cars back. Instead, they complain that their insurer didn't give them enough money to buy a similar car.

However, the insurance company's estimate of what a comparable car will cost may differ from the realities of the marketplace. There are many variables that determine the value of the car, such as miles driven, pre-accident condition, special equipment installed, and local market conditions for the vehicle.

If an insured disagrees with the insurance company's assessment of the vehicle, he/she can hire an independent appraiser at the insured's own expense to perform an inspection of the vehicle.

If the insurance company refuses to give the insured more money, the insured has two options: arbitration and litigation.

Arbitration is a process in which they and the insurance company present the facts to a third-party arbitrator. Arbitration can be binding (which means the arbitrator decision is final) or non-binding (meaning the insured can still take the insurer to court if they are unsatisfied). Litigation, as you know, is a lawsuit.

Motor Vehicles and Child Safety

Motor vehicle crashes are a leading cause of injury and death for children in the United States. At particular risk are infants and other children who ride unrestrained or are too close to the instrument panel during a collision.

When used correctly, child restraints and safety belts, according to the American Medical Association, are 50 to 70 percent effective in preventing fatalities and reducing serious injuries. Unfortunately, despite the existence of laws in all 50 states requiring the use of child restraints, many young children still ride unrestrained in motor vehicles.

Tragic reports of children being seriously injured or killed by air bags have raised public awareness and concern about our ability to adequately protect children who ride in motor

vehicles. Air bags can seriously injure or kill occupants, especially those who are not properly restrained in the front seat.

Studies show that when combined with safety belts, air bags are effective in reducing injury and preventing death in adults. But neither safety belts nor air bags are designed to protect infants and other young children, who need protection of appropriate restraints.

Drivers have a responsibility to ensure that all passengers, including infants and children, are properly restrained in the vehicle. All infants should be secured in a child restraint that is appropriate for their age and size.

The back seat is the safer place for all children to be secured. If a toddler or older child must ride in the front seat, the vehicle seat should be adjusted as far back as possible. During the trip, the child's restraint must be properly sitting up against the seat back and not leaning forward.

Safety Precautions
Parents should read and follow the vehicle owner's manual and the instructions provided with the child restraint system for proper usage. It is important that the restraint selected fits securely in the vehicle before the child is transported in it.

If it is necessary to use an infant car bed, parents must be sure it is secured properly with the infant's head resting toward the center of the vehicle.

A rear-facing infant restraint should never be placed in the front seat of a vehicle that has a passenger side air bag, unless the vehicle has an air bag cutoff switch and the air bag is turned off.

A booster seat should be used until the child outgrows it, at which time the child can use an adult safety belt. Shoulder belts should never be placed behind a child's back or under the arm.

Child Restraint Recommendations
The American Medical Association recommends that the proper restraint be used in accordance with the appropriate age and size of the child.

Premature and low birth weight infants: An infant car bed should be used.

Children of normal weight from birth to one year old who do not exceed 20 to 30 pounds (depending on the restraint used): A rear-facing infant restraint should be used.

Children one to four years old of 20 to 40 pounds and 26 to 40 inches tall: A forward-facing child restraint should be used.

Children four to eight years old and of 40 to 80 pounds: A booster seat should be used.

Summary of Child Safety
The following points should be remembered in summarizing child safety.

All infants and young children should be secured correctly in appropriate child restraints.

A rear seat is the safer place for all children to be secured. A rear facing infant restraint should never be placed in the front seat of a vehicle having a passenger side air bag unless the air bag is turned off. If a toddler or older child must ride in the front seat, it is important that the child is restrained properly and the vehicle seat is adjusted as far back as possible.

Air bags do not replace the need for all motor vehicle occupants to be properly restrained.

Unrestrained occupants of any age are at increased risk of being injured or killed in a collision. Unrestrained occupants in the front seat are especially at risk of possible injury or death from an inflating air bag.

The use of child restraints and safety belts is a learned habit. Parents getting in the habit of using an appropriate restraint device the day their baby leaves the hospital and everyday thereafter that they transport their child in a motor vehicle, are establishing reflexive habits that will last for a lifetime.

Informing your clients and customers of these safety tips when not only help them but also the companies you represent. By preventive measures both the insurer and insured will benefit from reduced claims.

Saving on Auto Premiums

Insurance companies would rather not pay claims. Therefore, they offer incentives to insureds in an effort to lessen the chances of a loss. If insureds take steps to reduce their chance of loss, their premiums will go down. Understanding the discounts the insurer you represent offers is helpful in selling policies.

Higher deductible: A higher deductible mean lower premiums. For example, increasing the deductible from $200 to $500 on collision coverage could reduce your premium by as much as 30 percent — potentially saving the insured hundreds of dollars.

No collision and/or comprehensive coverages on older cars: If the insured owns a car that's worth less than $1,800, he/she would probably pay more for the coverage than would ever be collected on a claim.

Buy a "low-profile" car: Cars that are expensive to repair or that have a high theft rate generally have higher insurance costs.

Low-mileage discounts: Some insurance companies offer discounts to drivers who put less than a predetermined number of miles on their vehicles each year.

Discounts for safety features: Most policies give discounts for air bags.

Antilock brake discounts: Florida and New York require insurers to give discounts for cars equipped with antilock brakes. Some insurance companies give the discount no matter what state the insured lives in.

Other discounts: Some companies offer discounts for insuring more than one car, insuring a car and home with them (multi-line discount), having no accidents in three years, being a driver over age 50, taking driver training courses, and having antitheft devices. Plus, remember good-student discounts when you are insuring a family with a student who drives.

The Cost of Driving

Since the first horseless carriage rolled of the line, Americans have had a love affair with the automobile. Sometimes the price we pay for that affinity is high.

Believe it or not, between five and six million auto accidents occur every year in the United States. The majority of these accidents are property-damage only accidents – such as fender benders and rear-ending. Unfortunately, about 2.5 million people are injured each year in accidents and about 40,000 people are killed.

These may seem like high figures, but when you consider the fact that there are tens of millions of drivers on the road each day, accidents are bound to occur. The National Highway Traffic Safety

Administration (NHTSA), which reports accident figures annually in its analysis of motor vehicle traffic crashers, keeps track of the number of accidents that occur so that it can recommend methods for improved highway safety. Its purpose is to help protect people on the roads. The auto insurance industry's purpose is to protect people financially when accidents occur.

Personal Auto Policies

Personal auto policies, often called PAPs, include coverage for the insured auto owner as well as coverage for people injured and damage caused by the insured auto owner or his or her insured auto.

Auto insurance is considered the most important of coverage available through Property and Liability lines because it affects so many people. Virtually every individual and family are at risk for a loss related to an automobile. A minimum amount of auto insurance is required by law in every state of the union.

The Cost of Auto Insurance

Almost everyone is familiar with auto insurance. Commercials flood the television screens about every ten minutes advertising better rates or more comprehensive coverage. The cost of auto insurance is a significant factor to auto buyers, since most dealerships and banks require that a new leased or financed car be insured before it can roll of the lot.

Not all state auto insurance requirements are the same, though most require a minimum amount of liability coverage. Only two states do not require "liability" coverage: New Hampshire and Wisconsin. In place of liability coverage, auto owners in these states must accept financial responsibility for accidents they cause or are partially at fault for.

"Proof of insurance" laws vary by state as well. If you've ever had the misfortune of being pulled over by the police in most states, you've been asked to hand over your license, registration and proof of insurance. Those states require drivers to carry proof of insurance at all times. Some states only require drivers to provide proof of insurance at the scene of an accident, but, since it is pretty difficult to predict an accident, it's best to just keep it in your glove box, even if the state doesn't require it.

An automobile policy is really a combination of several different coverages combined into one package. Some coverage in this package protects you: some protects third parties, and some are even mandatory. Some can be optional. The coverages are priced separately and added together to come up with your total premium.

PAP Coverages – Liability

The most expensive and controversial of the automobile coverage is liability. Basically, liability insurance protects you against the cost of being sued should your negligence while driving cause injury to someone else. Negligence can be defined by stating that you were "driving outside the standard of care" required while you were operating your automobile.

In order for you to be liable, there must be actual harm, often referred to as "damages," which are a result of your bad driving. For example, you could improperly pass a car on a hill or curve without incident and you are not subject to liability from anyone.

Bodily Injury

Should your driving cause injury or death of another, you will be responsible for monetary damages as a result of this accident. This may include the following:

-Medical payments – Costs of the injured person's medical bills
-Lost wages – If the injured is not able to work, you may have to pay lost wages

-Pain and suffering – This is bit of a wild card and can amount to the largest payout on your end

Property Damage
This portion of an automobile policy pays for damages to someone else's property caused by negligent driving. In most cases the damage is to another vehicle, but it doesn't have to be a vehicle. You could hit a guardrail, someone's picket fence, or a utility company's telephone pole and you would be responsible for the cost of repairs to these items.

Of course, you would transfer this responsibility to your auto insurance company under the property damage portion of your policy. Property damage, like coverage for personal injury, does have a maximum benefit, say $50,000. Like personal injury, coverage for property damage is based on negligence. Since the extent of risk for property damage is less than personal injury, the cost is also less.

A recent survey noted that over 50% of all insurance payouts are made for property damage and not for personal injuries. If claims or lawsuits are brought against you, property damage liability insurance provides protection in the form of legal defense and payment for damages that you are legally liable for, up to the limits of the policy.

Liability Limits
When you buy liability insurance you choose the amount of protection that you wish to purchase. You may purchase insurance one of two ways: Single limit or Split limit.

A single limit means that one limit will apply to all claims for bodily injury and property damage arising from a single accident. Single limit liability is usually offered in the following amounts:

-$30,000
-$50,000
-$100,000
-$300,000
-$500,000

Split limit means that these three separate limits apply:

One for each person injured
One for the claims for all persons injured in one accident
One for all property damage in one accident

The choices for split limit coverage are as follows:

-$10,000, $20,000 and $10,000, which is usually expressed as 10/20/10
-$15,000, $30,000 and $25,000
-$25,000, $50,000 and $100,000
-$50,000, $100,000 and $50,000
-$100,000, $300,000 and $100,000
-$250,000, $500,000 and $250,000
-$500,000, $1,000,000 and $500,000

The first two numbers are for bodily injury, with the first number representing per person and the second number per accident. The third number is for property damage.

For example, if your limits of liability were 100/300/50, this would mean that you are protected for $100,000 of personal injury per person, $300,000 of personal injury per accident and $50,000 total for property damage. In comparing the relative values of single and split limits, compare the

following: $30,000 single limit vs. 10/20/10.

In this example, the yield would be the same for all injuries and damages in a single accident. If, however, the insured were liable only for one person's bodily injuries, the single limit form could pay $30,000, but the split limits could pay only $10,000.

Chapter 2 Auto - Coverages

Uninsured Motorist Coverage

Far more people than you believe are driving around with no auto insurance and are causing serious injuries and even death. Then there are those who cause an accident and run from the scene. These are a few reasons why uninsured motorist coverage on your automobile insurance policy is so important. This coverage not only insures you against the "Uninsured Motorist" but also protects you against the "Underinsured Motorist."

It's a Law

Not all states require Uninsured Motorist Coverage, or "UM coverage." In those states that do, the state decides the terms of the coverage, but there are some minor variations from one insurer to another.

One of the things the state will determine about UM is the minimum limit required. Higher limits can be purchased, but that is up to the insured.

Damages in a UM claim are determined by either agreement between the insured and the UM insurer, arbitration between the insured and the insurer, or by lawsuit jointly between the insured against the UM insurer against the other party. As an adjuster, the best case scenario is to be able to settle the claim amicably.

Though it may be tedious having to almost "over-insure" one's self to compensate for the insufficient or non-existent liability coverage of others, it's probably better than having to pay for it completely out of pocket. Yes, one could file a civil suit to recover damages, but when you're dealing with an uninsured individual who cannot afford to pay an insurance premium, the chances of actually receiving a payment through settlement or judgment are pretty slim.

How it Works

"Uninsured" is a simple blanket term for this coverage, but it also helps protect drivers against underinsured individuals. When a driver causes bodily injuries to another in an amount that exceeds the driver's liability coverage, the injured driver's UM will help make up the difference.

It is important to remember that uninsured motorist protection has absolutely nothing to do with property damage. It is for losses for bodily injury only. Here are some important points that you need to know about uninsured motorist:

It is based on fault. Therefore, if you cause the accident, and the other driver was not insured, there are no benefits. It pays you what you would have been entitled to had the other driver been properly insured. Therefore, the other driver, the uninsured driver, must have been liable in order for you to collect.

It pays for pain and suffering. When it comes to court measuring damages in legal proceedings, the measure is the same in uninsured motorist cases as it is under normal liability cases. Medical bills, lost wages, pain and suffering, and loss of consortium are all included in determining what you may receive.

There are three groups that can be covered under the uninsured motorist provision.

-The insured
-Members of his or her household
-Any other person entitled to recover damages

This coverage also applies to injuries sustained while you or an insured motorist injures members of your household as pedestrians.

Some companies can provide you with UNDERINSURED motorist coverage. This protection provides that if you are in an accident and the at fault person is underinsured to pay the total damages, and if you had purchased underinsured protection from your carrier that protection will pay the amount not covered by the other driver's insurance to the maximum of your policy.

Medical Payments Coverage

This coverage under the liability portion of your automobile insurance policy is designed to pay some of the medical consequences that may result from an accident. While the liability portion of the auto policy has fault attached to it, medical payments has no relationship to fault but, in fact, it will pay benefits to eligible beneficiaries for the cost of medical bills and/or funeral expenses to the policy limits.

There are two types of people who are entitled to receive benefits under the medical pay portion of the policy.

-The insured and his or her family members living in the same household
-Any passenger injured while riding in the covered vehicle

Most people do not select large amounts of medical payments since they are usually covered by health insurance either at work or through private purchase, and this could cause duplicate coverage.

It is important to note, however, that medical payments will provide coverage in one area that health insurance will not and that is funeral expense. Medical payment coverage is relatively inexpensive, and it is always a good idea to carry at least a few thousand dollars of coverage. Medical payments do have exclusions. There is no coverage for injuries

-While in a motorized vehicle with less than four wheels
-While using your covered auto to carry persons or property for a fee
-If Workers' Compensation benefits are payable
-While occupying an auto other than your auto, which is owned by or furnished or available for the regular use of the named insured or a family member
-While occupying a vehicle without reasonable leave or permission
-While occupying an auto for business purposes, other than a private passenger auto, owned pick-up or van, or trailer used with one of these

Comprehensive and Collision Coverage

This part of an automobile insurance policy protects your vehicle. Comprehensive coverage provides for protection against the following:

-Fire
-Theft
-Malicious mischief
-Windstorm
-Flying objects
-Hail

-Hitting an animal
-Broken windows

If the damage is considered from a cause "Other than collision," it is more than likely going to be covered under the comprehensive portion of your insurance policy. Comprehensive coverage is often sold with a deductible ranging from $50 to $30.

Comprehensive coverage can be issued alone without including collision coverage, but collision coverage will not be issued unless comprehensive coverage is included.

There are exclusions under comprehensive coverage and some of the more common ones are as follows:

-Electronic equipment not permanently installed. This may include but is not limited to radios, stereos, tape decks, and compact disc players.
-Other electronic equipment included but not limited to CB radios, telephones, two-way mobile radios, scanning monitor receivers, television monitor receivers, videocassette recorders, audiocassette recorders, and personal computers.
-Tapes, records, disk, or other medial used in conjunction with the equipment described in 1 and 2 above.
-If your covered auto or non-owned auto is destroyed or confiscated by governmental or civil authorities because you or a family member was engaged in illegal activities.
-A camper body or trailer that is not shown on the declaration page of your policy.
-Awnings, cabanas, or equipment designed to create additional living facilities.
-Radar detectors.
-Custom furnishings or equipment in a pickup or van such as special carpeting, furniture, bars, sleeping and cooking facilities, height extending roofs, custom murals, paintings, decals, or graphics.

Collision

The collision portion of your auto insurance policy constitutes about one third of its total cost. Collision is defined as "The upset of the auto covered or its impact with another vehicle or object." In other words, there has to be a physical contact between the covered auto and another car, truck, or object, which then causes physical damage to your auto.

The collision portion of your policy is subject to a deductible. The deductible is the amount you must pay before insurance benefits begin paying. Collision deductibles can range from 0 dollars to $1,000. Remember, the higher the deductible, the lower the collision premium.

Should your car be damaged or stolen, the company has the right to choose which of the two following ways it may pay you:

-They may give you an amount that is necessary to repair your automobile or replace the property that was lost.
-They may give you the actual cash value of the damaged property or stolen item. Sometimes people are upset with this method, because the company can deduct for depreciation and adjust for a deteriorated physical condition of your vehicle.

You have heard the term "totaling the vehicle." This occurs when the insurance company decides not to repair your vehicle but to pay you for its value instead. Unfortunately, when the company totals your car you usually receive what the vehicle is worth on the open market. Usually this amount is less than what it will cost to actually repair the car.

It should be noted that collision is not mandatory coverage. You do not have to buy this portion of the policy, and those with older vehicles usually do not. If it's simply not worth the money if the

company is likely to total the vehicle rather than repair it, than purchasing collision is not practical.

Should you have your car financed, that institution will require that you carry comprehensive and collision coverage until the vehicle is paid for, and that institution will want to be listed as what is known as the "Loss payee." This means the institution is the first in line to be paid in the event of a loss.

Collision coverage is not dependent on fault. Regardless of who caused the accident, you are entitled to collision benefits. Collision benefits can be paid to vehicles you don't own. Should you be driving a car you do not own, and are involved in an accident, or the car is stolen while in your possession, benefits will be paid. If you are covered for auto theft, there may be a transportation benefit.

If your car is stolen, you can be entitled to reimbursement for some of the transportation costs that you incur. Benefits are usually $10.00 per day or so and there will be a maximum benefit.

Emergency Roadside Service

Emergency road service is often provided by independent contractors who are part of a membership group such as AAA Motor Club or other national organizations. Emergency towing is intended to remove a disabled vehicle to a place of safety or repair. It is not intended to provide towing to a dealer or auto salvage.

Service normally applies to all properly-licensed, four-wheeled vehicles of the passenger, pleasure, or recreational-type vans, campers and motor home.

Emergency road service can include on the road repair to a vehicle that won't start as a result of a deficient battery or simple mechanical adjustments if they can be made in a safe and effective manner where the breakdown occurs.

Roadside tire repair is also provided under this coverage. A flat tire will be changed if the insured has an inflated spare. If for some reason due to safety, or if for any reason the inflated spare is not usable or the lug nuts cannot be removed from the flat tire on the vehicle, or if the vehicle has two flat tires and one usable spare, towing is provided in accordance with towing provisions. Towing will also be provided in lieu of a tire change if the tire cannot be safely changed.

Towing

If a vehicle cannot be made to operate safely under its own power, towing from the point of disablement will be provided. Towing provisions usually provide towing for towing to a repair facility within a prescribed distance of the disablement. If the insured wishes to have the vehicle towed outside of the prescribed area, usually an additional mileage charge will apply.

If the insured wants the vehicle towed to a closed garage, the insured must sign a disclaimer of liability for the towing company. The disclaimer releases the towing company from responsibility for the vehicle when it has reached the "closed facility."

Local ordinances may prohibit the towing company from carrying more than one passenger to accompany the vehicle to its delivery location. Flatbed service is available to the insured and may require an additional charge.

Towing service is sometimes delayed as a result of weather conditions, call volume, or equipment availability. Vehicles involved in an accident will be towed provided a police release has been obtained.

Other Roadside Services

Emergency road service organizations, such as the AAA Motor club, also provide services beyond general towing of a disabled vehicle. Such services are outlined below.

Extricating or Winching Service - A service that is normally provided if the insured's vehicle is stuck in a ditch, mud, sand, or other similar situation. The vehicle must be accessible from a normally traveled roadway and require no more than one man, one truck at the scene. Any additional manpower and equipment is usually at the insured's expense.

Fuel Delivery - A limited supply of fuel can be delivered to the disabled vehicle to enable the driver to reach the nearest open service station. The insured must pay for the fuel at the current pump price and the service only applies when government regulations permit it and supplies are available

Lockout and Locksmith Service - This service is provided when a driver loses or locks the vehicle's keys in the car or trunk. In some instances a maximum fee is paid by the insurance company and the balance must be paid by the insured.

Excessive Use of Services - Most "Club" type organizations have a provision that kicks in for excessive use of service. This provision normally kicks in after five service calls within a 12-month period and subjects the insured to the possibility of cancellation of membership.

Reimbursement for Independent Services
When Club-type organizations are used, should a member call other than a prescribed contractor, reimbursement is limited to the amount the Club would have paid the nearest member contract station. When service is requested and is unavailable, reimbursement is based on the prevailing commercial rate for the region where the vehicle was disabled and is subject to the benefits of the membership.

Car Rental/Travel Expense
This provision of the auto policy entitles reimbursement for the expense of renting an automobile while the car is being repaired. It may have a daily expense maximum as well as a total per accident benefit. Some policies also pay benefits for travel expense following an accident that may include food and lodging, providing the insured is more than a certain number of miles from home when the accident occurs.

Automobile Insurance Policy Endorsements

You may purchase extra protection under your automobile insurance policy for an extra premium. These are called "Endorsements." The following represent a few that are available:

Towing and Labor Costs
This endorsement, which we discussed in detail in the previous section, is added to the physical damage coverage, provides reimbursement up to a specified limit to tow your vehicle or pay for on-site labor costs.

Auto Glass Insurance
This endorsement offers a lower deductible or no deductible for when repairing any broken window on your car is required.

Tapes Coverage
Should audio or disc tapes be lost or stolen, or should you have a valuable or extended collection of such items in your vehicle, you may obtain coverage for them via this endorsement.

Sound Components or Equipment
Coverage for your car phone and CB can be acquired under this endorsement.

Drive-Other-Car Endorsement
Optional coverage that broadens the definition of a covered auto to include non-owned vehicles the insured person operates.

Stated Amount
A stated amount endorsement allows the insured and the insurance company to come to agreement on an antique or otherwise unusual vehicle's value, which will be applied to the policy. This is because an antique car is worth more than the cost to replace its engine, parts, etc.

Custom Equipment
Vans and pickup trucks which have been altered or customized to include refrigerators, special carpet, cooking or sleeping facilities can be protected by adding this endorsement.

Non-owner Coverage
Should you know in advance that someone who does not own your car or is not a covered family member is going to be driving your car, you can add this person's name as a covered driver through this endorsement.

Extended Liability
This insurance is used to cover automobiles that are not legally owned by the insured, such as an auto owned by the employer but furnished for the use of the insured, which would not generally be insured.

Miscellaneous Vehicle
This endorsement provides coverage for vehicles that are normally excluded, such as motor homes, recreational vehicles and motorcycles.

Exclusions

The insurance carrier will tell an insured exactly and specifically what will not be covered in its exclusions. Simply stated, if something is excluded, there is no protection afforded by the policy for that item or items. Often exclusions are considered unfavorable because people feel the insurance company gives protection with one hand and then takes it away with the other hand through exclusions.

In reality, exclusions were designed to prevent coverage that would be better sought in other types of insurance. Exclusions are also a method by which the insurance industry can eliminate exposures that could not be covered without charging an unbearable premium.

Exclusions are divided into these two parts:

-Persons not protected
-Vehicles to which coverage does not apply

Typically, liability coverage is not provided to any person

-Who intentionally causes injury or damage
-For damage to property owned or being transported by that person
-For damage to property rented to, used by or in care of that person
-For injury during the course of employment by an employee
-For liability arising from the use of the vehicle as a public or livery conveyance
-That is employed in a business of repairing, storing, parking or servicing vehicles
-That uses a vehicle without permission

Typically, liability coverage is not provided or afforded to the following types of vehicles:

-Motorized vehicles with less than four wheels
-A vehicle furnished, available for the regular use of the person insured other than the covered auto
-A vehicle furnished or available for the regular uses of a family member other than the covered auto

Auto Insurance Provider Rating

In the next section, we're going to get into the factors insurers use to rate auto insurance for the driver. But the insurers themselves are also rated in terms of their quality of customer service, claims experience, rates, etc. JD Power and Associates distributes a rating of auto insurers that measures the following factors.

Overall Experience
This score is based on how customers rate every aspect of their service experience with their current auto insurance provider. This is sort of like the insurer's overall "average."

Policy Offerings
This score is based on how customers rate the variety of coverage options offered by auto insurance providers and the extent to which they meet their needs.

Pricing
This score is based on how customers rate their current auto insurance provider on the price of the policy given the level of coverage.

Billing and Payment
This score is based on how customers rate the timeliness, clarity, and accuracy of their billing statements and the payment process of their current automotive insurance provider.

Contacting the Insurer
This score is based on how customers rate their experience interacting with their current auto insurance provider, whether through a local agent, a call-center representative, an automated phone system, or the company's Web site.

Consumers and insurance agents alike can gain valuable information about an insurer through ratings such as these. A.M. Best's ratings judge insurers as a whole, whereas specific rating systems focus on one line of coverage. This pointed attention to one line of coverage makes it easier for agents to recommend one insurer over another when a client is in need of that particular type of coverage unless, of course, the agent is a staff agent representing one insurer. But, even in that case, knowing where your insurer ranks on the rating system is important, as well.

Chapter 3 Auto - Insurance Rating

Rating Auto Insurance Policies

Several factors are used in determining the cost of auto insurance. They are as follows:

Territorial Rating
The neighborhood where you reside is the largest factor in determining what your automobile insurance rate will be. This is called "territorial rating." Insurance companies take each state, and within that state they break down the various locations into what are known as "territories." They may do this in one of the following four methods:

-Zip code

-Neighborhood
-City
-County

Whatever method is used, companies will resort to their statistical gathering ability to determine what claims they can expect in any particular territory. Since most accidents occur within a few miles of where the vehicle is kept, the insurance industry uses this fact for their reasoning in the pricing mechanism.

Thus, the underwriter can then determine from these statistics the risk of loss for cars kept in each territory. Once this has been done, then a BASE RATE can be determined for each territory. This becomes the starting point upon which the premium is based.

Personal Statistics used in Rating

There three factors are taken into consideration. They are age, gender and marital status.

Age

Since it's known that younger drivers tend to be more accident prone, drivers under the age of 25 are going to pay more for their auto insurance than those ages 25 to 64. It is also known that drivers over the age of 65 have more accidents than younger drivers, and they usually have higher premiums established for them.

Gender

Past experience of claims and statistics prove there is a definite gender difference in the rate of automobile accidents. Statistically speaking young, unmarried males are the worst. Therefore, they will pay more in premiums than females in the same age group.

Marital Status

For the most part, a married driver will probably have fewer accidents than a single driver will. Add children to the married driver and it's found that the driver becomes more cautious and concerned and has even fewer accidents.

You and Your Automobile

What you do with your car when you use it is also an important factor in what it will cost to insure it. The following are commonly used:

-Pleasure only
-To and from work less than five miles one-way
-To and from work five to ten miles one-way
-To and from work more than ten miles one-way
-Business use
-Farm use

The most expensive of these is business use that typically carries a 50% higher premium over pleasure only.

Type of Car Driven

Basically, insurance companies rate the kind of car you drive using the following factors:

-Make
-Model
-Size of engine
-Hardtop or convertible
-Age
-Original cost

-Ease of repair
-Popularity for theft

Your Driving Record
From the time you received your driver's license, your parents advised you on the importance of having a good driving record. Tickets cost money not only for the fine but in increased automobile insurance rates. The fact of the matter is if you have a bad driving record, your chances for an accident are higher than for a person with a good driving record.

Convictions for moving violations and the type of violation are factors that generate higher insurance premiums. For example, speeding tickets will get an underwriter's attention quicker than an illegal left turn. Then of course, drunk driving and running red lights rank up there at the top also.

Purchasing Auto Insurance

As you can imagine, the higher the limits of liability, the higher the cost of an automobile insurance policy will be. A higher deductible on collision and other than collision will lower the cost of the policy. There are also discounts available, based on things such as the number of cars insured by the same insurer and safety features, such as anti-theft equipment and a promise to wear your seatbelt.

Discounts Available
Depending on the insurance company, there are many discounts available. A few are the following:

Multi-Car: Should you insure more than one car with the same company, you will probably receive a discount for doing so.

Multi-Policy: It's always a good idea to purchase as many of your insurance needs as possible from the same company so that you can enjoy this discount. For example, putting your homeowners and automobile policy with the same company affords a definite advantage.

Driver Education: Here discounts are given to drivers who have taken and successfully completed a driver's education course. These are typically offered at local high schools.

Anti-theft: If you spend the money to install an alarm, anti-theft device or a steering wheel locking mechanism, most companies will be willing to give you a discount on the comprehensive premium portion of your policy.

Passenger Restraints: More and more states have now passed laws requiring the use of seat belts. Whether or not the injured person was wearing a seat belt is always a very important consideration given in the processing of claims for injury.

Claims adjusters do not look favorably in the amount that they award to those who were not wearing a passenger restraint at the time of the accident. Statistics have proven it is more advantageous to wear a passenger restraint than not.

Good Driver: Many states now have a space on your driver's license to insert the words "Safe Driver" or "Good Driver". This designation is given to those who have not been convicted of a moving violation or have not been involved in an automobile accident during the last three to five years.

Good Student: Any student who maintains an average grade of B or above can receive a discount of up to 25% of their insurance premium.

Standard Risk: This discount is given to those that meet certain criteria to qualify for it. Factors that are considered in determining a standard risk discount are as follows:

-No tickets within a certain time period
-No accidents within a certain time period
-No drivers under the age of 25
-No drivers over the age of 65
-No high performance vehicles

Anti-Lock Brakes: The anti-lock brake is probably most responsible for reducing the numbers of serious accidents than any other factor other than seat belts and air bags. The anti-lock brake is a computer system that stops a vehicle more quickly and prevents the loss of control through skidding. This reduces accidents and produces discounts.

Air Bags: Before the turn of the century, all automobiles on the road will be required to have air bags for both driver and passengers alike. A great deterrent to serious injury to passengers, the air bag produces big discounts in your automobile insurance coverage.

Auto Insurance Claims

When you are involved in an accident, you are responsible to follow specific guidelines given by your carrier as to what to do and what not to do. Naturally, the assumption must be made that you are conscious and physically capable of doing these things. Included in these guidelines are some of the following:

Notification

A major misunderstanding regarding notification is that regardless of who you think may be at fault, you must notify your carrier promptly. The company needs to be given the opportunity to conduct an investigation if they so desire before too much time passes.

How the Accident Occurred

It is important for you to make notes of exactly how the accident occurred while it is still fresh in your mind. Some things you may wish to jot down that will be helpful for future reference may be the following:

-Time of day
-Weather conditions
-Location
-Road conditions such as construction barricades or heavy traffic
-Contributing factors such as curves, hills, railroad crossings, or traffic control devices

Who was Involved

It is important that you obtain the name, address, home and work phone numbers, name of the other driver's insurance company and the policy number as well as the make, model and license number of any other vehicles involved.

Also, know what injuries were sustained, who was injured, how they were injured, by whom they were transported for treatment and where. For the most part, the police officer will have this information contained in his or her accident report, a copy of which is usually available within a day or two of the accident.

Witnesses

You've heard the phrase there are three sides to every story? Well, witnesses are the ones who tell the third side and usually the correct one. It is very common for those involved in an auto accident to give different versions (often self-serving) on exactly what happened. Therefore, it is vital that you obtain the names and addresses of witnesses who can assist in determining what

happened. Determining fault is a vital issue in exactly what the company may or may not pay in a lawsuit.

The Police
Each state has laws regarding when the police must be notified. Most base it on the amount of damage. However, the policy probably will require that you report the incident to the police no matter what the circumstances. Bottom line is that it is always best under all circumstances to have the police present to take a report.

Cooperating with the Investigation
You may be called upon to either meet with investigators from the company, lawyers of the company, or claims adjusters concerning the accident and other areas of concern. You will need to give them your full cooperation.

Submitting to Examinations
If you or others have been injured in an automobile accident, the insurance company may ask you to be examined at their expense by a physician that they choose. They also may wish to examine what happened in what is called a "deposition." Usually you will receive a subpoena to take a deposition under oath.

Access to Relevant Personal Records
Often, you may have to produce past medical records or information regarding previous accidents. The company may ask you to sign authorizations for release of this information. You must do this unless you feel that you have valid grounds for denying their request.

Policy Cancellation

Sometimes it seems that the first time you submit a claim the company either raises your rates or cancels your policy. How many of you have had the experience of having been with a company 10, 15, or 20 years without a claim, you've always paid your premium on time. All of a sudden, you have an accident, the claim is paid, and then they want to cancel you? How can they do this?

First, the language of the contract permits them to do it. And second, for the most part, the state insurance departments have inadequate enforcement to stop companies from engaging in this unfair practice.

Canceling an Existing Policy while in Effect
Cancellation can occur while the policy is in effect. Although rare, it can happen for the following reasons:

-If you fail to pay your premiums in a timely fashion, the company can cancel you on a 10 days or so written notice.

-A policy is subject to cancellation upon reasonable notice, often 10 days, for any reason during the first 60 days it is in effect. This type of cancellation usually occurs because the insured misrepresented facts or circumstances regarding the issuance of the policy.

-Should your driver's license be canceled or revoked, the company may follow suit by doing the same to your insurance coverage.

-Should you, or a member of the covered family, be convicted of a drunk driving charge, the insurance company will more than likely cancel your policy.

-If you submit a fraudulent claim or misrepresent information to the company in an attempt to obtain benefits to which you are not entitled, and get caught, you will probably be canceled.

Refusing to Renew a Policy at its Expiration
The real fear in the cancellation arena is the fear that the company will refuse to renew a policy at the end of the coverage period. Auto insurance companies do not issue policies that are guaranteed to be renewable. A company can refuse to renew your policy or raise your rates for the following terms and conditions:

-The company has told you at least 30 days prior to the end of the policy period that they will not renew your policy. This is done so that you are able to make other arrangements. However, you must realize that if you have been non-renewed by one company, other companies may not want to take you and this could force you into the Assigned Risk Pool.

-Any refusal to renew must be in writing.

-Although most states allow a company to refuse to renew you for just about any reason, some do not allow it if it is based on age, race, sex or occupation.

No-Fault

As we discussed earlier, there are about a dozen states that impose a "no-fault" law on drivers. The purpose of the no-fault law is to create a system of benefits payable by an insured's own insurer, rather than having to deal with numerous liability claims clogging up the courts. Another cause for this law's creation is the rising cost of Auto Liability coverage.

No-Fault coverage only applies to bodily injury claims, not property damage. The law covers all four-wheel vehicles designed for use on public roads and required by the state to be registered. Mobil home and "governmentally owned vehicles used in mass transit" (AKA city buses), are exempt. Taxis, limos and school buses, though technically meeting the above definition, are also exempt from having to carry No-Fault insurance.

Insureds who are subject to and comply with the No-Fault law are not subject to legal liability for causing bodily injuries to another person(s), regardless of who is at fault. Of course, there are some exceptions to this rule, which we'll go over later.

Since people who are in an accident with someone subject to and in compliance with the No-Fault law cannot seek legal liability damages for bodily injury, this law substitutes that coverage with Personal Injury Protection (PIP), which provides first-party benefits for economic loss, no matter who is at fault.

In some states, drivers must carry PIP insurance by law. There are penalties for failing to do so, including suspension or loss of license and registration. If an owner does not meet the state's compulsory insurance requirements, he or she will be denied the immunities from legal liabilities that the No-Fault law provides. An owner who does not meet the requirements is also responsible for paying the PIP benefits for those entitled to them.

It seems confusing, but that's how what happens when one reads the law. In layman's terms, the No-Fault Law requires drivers to carry PIP so that their own bodily injuries will be covered under their own insurance policies. Why? Because No-Fault means no liability, and no liability means the other driver's insurance won't be dropping a dime to cover the first driver's injuries (and vice versa). If someone foolishly chooses not to carry No-Fault insurance, not only will he or she be liable for the bodily injuries of the other driver, but they'll be paying for their own, too (unless their Medical Payments coverage can do it).

Does No-Fault really mean no one is at fault? Of course not. It means that it doesn't matter who is at fault.

Non-Standard Market

When a risk is particularly hard to place, non-standard and insurance needs cannot be satisfied through the standard market, and when people have bad accident or driving records or have high-powered or sports cars, they may be forced to be placed with an assigned risk facility.

Non-standard companies offer a market usually at a higher than normal price for such persons, as well as for others who are acceptable to the assigned risk plans but who want more than the limited amount of coverage some of those plans offer.

Each auto insurance company doing business in a state must write insurance for those who cannot obtain it in a standard market. The insurance company must write the same percentage equal to its percentage share of that state's auto insurance market. Therefore, if an automobile insurance company issues 20% of the auto insurance in a particular state, then it will have to provide insurance for 20% of those in the non-standard market.

There is an association known as the "JUA" or the Joint Underwriter's Association. This is a form of pooling association that sells insurance to the otherwise uninsurable. All companies writing insurance in a particular state share in the profit and loss of the insurance business written by the JUA.

Usually, a re-insurance facility, which is an organization, that issues insurance-to-insurance companies, will allow companies to transfer percentage of their policies to the re-insurance facilities so that no one can be refused a policy.

Teenage Drivers

While any individual may be distracted while driving resulting in an accident, teenage drivers seem to be especially vulnerable. Teen drivers are more at risk and this is reflected in state laws that restrict their driving privileges and in the higher rates paid for insurance. As we know, premium rates are based on statistical information. Every parent should, therefore, realize that the higher rates they pay for their teenage daughter or son directly reflects the rate of claims for this age group.

A study zeroed in on the moments directly before teen drivers were involved in an accident to determine what decisions and mistakes were involved. This study published in the journal of Accident Analysis and Prevention in 2011 was performed by Children's Hospital of Philadelphia and State Farm insurance company. Researchers took a look at 800 automobile crashes involving teenage drivers to see what common facts emerged. Their findings indicate that the majority of accidents were not caused by aggressive driving or thrill-seeking, as many people might have expected. Instead accidents were caused by:

Failure to scan, which was the reason for 21% of teen-caused accidents. What do we mean by "failing to scan?" Scanning the road visually for potential hazards is routinely done by experienced drivers even though they may not be aware they are doing so. Scanning might be considered a "high level" skill that becomes a habit only after months of experience on the road. Older drivers, with experience, develop the habit of looking to each side and far ahead whereas teen drivers appear to focus only directly in front of their vehicle. This limits their ability to respond to such things as fast approaching cars coming from behind.

Driving too fast. Excessive speed was cited as the reason for 21% of teen crashes. This includes speeding around corners and subsequently losing control of their vehicle. It also includes failing to take into account unsafe conditions, such as icy roads or other weather conditions calling for reduced speeds.

Distractions, such as texting and phone use, caused 20% of teenage driver wrecks. This cause was not a surprise. One distraction that is often unrecognized is having other teenagers in the car

with the driver. Even distractions outside of the car were sometimes the reason for the accident. For example, in one case the teenage driver was distracted when she saw friends standing in front of a mall store, causing her to rear-end the driver in front of her.

Researchers concluded that most teen crashes are not related to emotional aggression or deliberately taking risks but instead were caused by lack of experience. Some researchers feel the solution calls for graduated driver licensing (GDL) laws, which are already on the books in many states. For example, before earning full driving privileges many states require teens to go through a stage that limits the number of passengers allowed in their vehicle with them and bans all cell phone use.

We have known for years that automobile insurance rates have reflected the higher risk teenage drivers pose. We have known for years that inexperienced drivers have more accidents than experienced drivers. This study merely exposed the causes of those accidents, eliminating some of the industry's misconceptions. With additional facts come additional solutions. Hopefully knowing what allows accidents to happen will bring about new solutions to prevent them. As the rate of accidents decline, as we hope they will, automobile premiums will decline accordingly (at least that is the theory).

A recent poll from Nationwide Insurance found that parents are struggling to afford gas and increased automobile insurance premiums for their teenagers. The result seems to be a delay in teens getting their driver licenses. The Texas study surveyed 326 parents of children between the ages of 15 to 19 years old.

Due to higher claims, automobile insurance for teen drivers has been higher than that for more experienced drivers. Adding a teenager to an auto policy in Texas, according to the Nationwide Insurance study, increased the parent's policy cost by an average of $1,100 per year. That does not include the increased cost of gas used or the wear and tear on the vehicle. When gas and other factors are added in, the increase over the year amounts to approximately $4,000. In these tough economic times many families find that unaffordable.

The high cost of teenage driving has resulted in fewer policies being issued that include new drivers. These policies previously made up 5.8% of Nationwide policies in 2008; this dropped to 5.4% in 2011. About 60 percent of surveyed parents said they had to make these cutbacks because they could not afford the additional costs of allowing their teenager to drive.

As we have discussed, higher rates for teenagers are the result of the risk new drivers represent. Young drivers are involved in more accidents and receive more moving violations than older experienced drivers. According to the Insurance Institute for Highway Safety, the crash rate for drivers between the ages of 16 and 19 are five times higher than for drivers older than 20. Death rates for teenage drivers are also higher. IIHS reports that 35% of all deaths among 16 to 19 year olds were the result of automobile accidents.

While death rates are the most alarming statistic, property damage is significantly higher among teenage drivers too. A study conducted in 2000 by IIHS' Highway Loss Data Institute found that collision losses for cars driven by teenagers were more than twice those of vehicles driven by adults. In other words, when accidents occur, vehicle damage was more severe when the driver was a teenager. While there may be no hard facts on this as to cause, most feel it has to do with speed at the time of the accident or inexperience relating to road conditions.

As every agent knows, teenage risk is not the same for every individual. Those with the highest grades in school seemed to have the fewest claims. Therefore many companies offer a good-student-discount for those with a B average or higher. The rate of discount will vary but any discount can be an advantage in today's financial climate. Insurers feel students with better grades tend to be more responsible in all areas of life, including how they drive.

Those who take specific driver education may also have fewer accidents. An approved driver education course demonstrates that the teen is likely to be responsible on the road. Therefore a discount on premium cost may be available.

Automobile crashes are the leading cause of teen deaths in the United States according to the federal Centers for Disease Control and Prevention. More than 80% of teen drivers surveyed by the Allstate Foundation and the National Organizations for Safety have talked on their cell phone or texted while driving. Around 73 percent of teens surveyed in Southern California said they had been exposed to reckless driving (either as a driver or passenger), speeding, and intoxicated driving according to the National Highway Traffic Safety Administration. More than half of teenagers involved in fatal crashes were not wearing their seatbelts.

In some states driving privileges for teenagers are becoming restricted. Driving privileges could become more restricted as states impose additional rules in an attempt to reduce teenage fatalities. Federal legislation that was introduced in March 2011 by United States Senator Kirsten Gillibrand (D-NY) and U.S. Representative Tim Bishop, also of New York, mandate national graduated driver licensing requirements. This includes a three-stage licensing system, a learner's permit at age 16 rather than 15, restricted nighttime driving unless supervised by an adult, passenger restrictions of one nonfamily person until age 18 and fully licensed, and a ban on cell phone use, both texting and telephone usage, until age 18. Under this proposal states have three years to carry out the standards or face penalties that would cost them 3% of the federal highway money in the first fiscal year, 5% in the second year, and 10% in the third year.

Affordable Coverage
There are many reasons why auto insurance premiums rise. Today's new cars are increasingly more complex and, therefore, more expensive to repair. Another factor is the steadily increasing number of vehicles on the roads. As roads become more congested, more accidents are bound to happen. In rush hour traffic one accident often involves more than two cars as chain reactions occur.

Theft is one reason automobile insurance costs are rising. While some cities have more problems with this than others all are affected to some degree. Insurers are concerned with anything that increases the risk of claims and the likelihood of auto theft certainly does so.

Covered under the comprehensive portion of an auto policy, theft coverage pays to repair or replace stolen automobiles and the expensive parts they contain. Some vehicles are stolen merely to harvest specific parts from them. These parts are easily sold on the black market, resulting in claims and higher premiums.

An automobile is stolen in the United States about every 29 seconds. Although this statistic represents a downward trend over the past few years, the dollar amount per claim is increasing because parts are increasingly more expensive. In other words, fewer cars are being stolen but the cost of the claim to replace or repair the vehicle is rising.

Luxury cars with all the latest technology are especially expensive to repair or replace. Bodywork is much more expensive today than it was a few years ago. Insurers pass along the increased risk and higher claim costs to their policyholders. The good news is that automobile manufacturers are getting increasingly good at including technology that reduces theft. However this has resulted in higher theft rates of older cars that do not contain anti-theft technology.

To determine the cost of auto insurance and target possible rate quotes, most insurers consider the following factors:

-**Car price and value**: the cheaper the insured automobile, the lower the auto insurance.

-**Car model and type**: sedans cost less to insure than sports cars; basic models cost less than the luxury models. It is just common sense: the more expensive the vehicle, the higher the insurance will be.
-**Geographic location**: areas with lower crime rates mean lower automobile insurance premiums.
-**Safety measures taken**: such things as locking doors, removing valuables when parking, using well lit areas and other safety measures means lower claims and saving premium.
-**Safety components installed**: items such as airbags, traction control systems, and antilock brakes make safer automobiles. Safer automobiles generally mean lower insurance rates.
-**Tracking systems**: global positioning systems (GPS) like On-Star and LoJack use a hidden transmitter allowing police to track stolen vehicles. This increases the likelihood of recovery which allows lower premiums. Additionally professional thieves often bypass vehicles they know have GPS systems in favor of those that do not have them.

Many cars have interchangeable parts, which is more attractive to thieves. With a few simple changes criminals can find and swap parts from one model to another. This drives up insurance rates in the process. Because the parts or vehicles are easily sold there are some models of vehicles that are most often stolen. Those who drive these particular models should expect more expensive insurance policies due to the increased risk of theft.

According to the National Insurance Crime Bureau popular models include:

Rank by Year, Make, and Model:

1995 Honda Civic

1991 Honda Accord

1989 Toyota Camry

1997 Ford F-150 series pickup

1994 Chevrolet C-K 1500 pickup

1994 Acura Integra

2004 Dodge Ram pickup

1994 Nissan Sentra

1988 Toyota pickup

2007 Toyota Corolla

Trucks are stolen much more often than cars; in fact the ratio is at least three trucks to every one car stolen. Truck drivers are also much more likely to be seriously injured or killed in accidents when compared to cars due to reduced occupant protection.

While theft certainly plays a role in premium costs other factors also affect rates. Medical costs play a major role in the soaring costs of auto insurance since medical care can be extremely high.

Typically rates are set according to three basic desired goals:

-To make enough money to cover all their policyholder's claims and pay the company's overhead expenses.

-To charge higher rates for drivers who file more costly claims and lower rates for drivers whose claims occur less often or are smaller.

-To stay competitive with other insurance companies in the same markets that they hope will be most profitable.

Another factor in rates will be based to some degree on the state in which the driver lives and drives. The insurer must follow state regulations of course. As a result, rates for particular cars and drivers may differ from state to state.

When determining a driver's premium rate one of the first things considered is the amount of risk that particular person represents. We have discussed some of the elements that determine premium rates including age of the driver, the type of car driven, the number of miles driven, and any other factors the insurer considers relevant. Underwriters determine the rate and they may have developed personal prejudices based on past experience. Therefore statistics play a major role in determining rates and preventing underwriter prejudices. Many years of record-keeping supports statistical judgments. A 21-year-old with a sports car will pay higher rates than would a 50-year-old person driving an economy car. The underwriter understands the risk imposed by the 21-year-old driver because he or she has multiple statistics to back up higher premium costs.

Risks are stated in one of three ways:

Preferred, which is low risk;

Standard, which is average risk; and

Nonstandard, which is high risk.

No study on risk analysis would be complete without an adequate definition of insurance. The often-used definition (the transfer of risk) is not totally accurate. A more fully expanded definition of insurance would be either the accumulation of a fund or a transfer of risk, though not necessarily both. In addition it must include a combination of a large number of separate, independent exposure units to make somewhat predictable the possible individual losses. The predictable loss is then shared proportionately by all units involved. This definition of insurance makes the point that both uncertainties are reduced and losses shared. Both are important aspects of insurance.

Insurance policies allow an individual or business to substitute a relatively small defined premium cost for a possibly large, although uncertain, loss. The fortunate many that do not experience a loss will compensate the unlucky few who do.

It is the "cookie jar" classic: many people put cookies into the jar but only a few will remove cookies. A policyholder puts one cookie in but may find him or herself needing to withdraw a dozen. The same application applies to insurance: we each pay a premium on a regular basis and if a loss occurs we withdraw an amount determined to be fair compensation, which is likely more than the premium we paid in.

When a new policy of any type is received both the agent and buyer are wise to check for errors. Upon policy delivery, the agent should advise the policyholder to check his or her policy for errors, including the copy of the application that will be included with the contract. If the issued policy is first sent to the agent he or she should check for errors prior to delivery. Delivering a policy containing errors makes both the agent and the insurer look incompetent.

Insurance products of all kinds have developed a reputation (not always deserved) of being easily misunderstood. There are several reasons for this consumer misconception. Certainly it is a field with a variety of products, each having their own criteria, policy layout, and legal terms. Some insurance fields, such as Medicare supplements, have attempted to standardize products in an effort to make them consumer friendly. Other types, out of necessity, allow great variations. Confusion often arises from a lack of understanding or knowledge of insurance terms. However, many analysts feel a major problem is simply the preconceived idea held by consumers that all policies are unreadable. Because they believe this, many consumers never attempt to read their policies nor try to understand them.

The insurance producer is in an ideal position to help their clients learn how to read and understand the policies they buy. Of course, in order to fulfill this role the agents must understand the policies they sell and be able to communicate this understanding to the buyers.

An insurance policy is the document containing the contract between the issuing insurance company and buyer. The length and complexity of the policy will vary with the type of contract and the depth of coverage. Regardless of the length or complexity of the document, however, the policy will define the rights and duties of the contracting parties.

Insurance policies follow the same basic format, including:

-Declarations

-Insuring Agreements

-Exclusions

-Conditions and Miscellaneous Provisions

-Definitions

Some types of policies will follow this format precisely while others may consist of multiple parts, which must be combined to make a complete contract.

An automobile policy tends to follow this format with easily recognizable parts. Homeowner policies, on the other hand, consist of two parts which must be combined to make the complete contract.

Since endorsements and riders are important to the contract, agents and consumers alike are wise to read them. Endorsements and riders are often used when the standard or preprinted policies do not meet a specific situation. Modification of the standard or mass-printed policy is possible by adding special provisions to the basic contract. The term "endorsement" is used in property and liability insurance; the term "rider" is used in life insurance contracts.

Endorsements and riders are used to complete a contract, alter coverage, or change a policy currently in effect. For example, a standard fire policy is not considered complete until the endorsement is added, describing the property to be covered. Without this endorsement the contract could not state exactly what is insured.

A peril is defined as the cause of a potential loss. The loss may be due to multiple causes, such as accident, fire, explosion, flood, negligence, or theft.

A peril is different than a hazard. A hazard is anything that increases the seriousness of a loss or increases the chances that a loss may occur. There are four types of recognized hazards:

Physical Hazards, which come from material, structural, or operational features. A physical hazard is, as the name implies, something that exists physically.

Moral Hazards involve people and their actions. Arson is a moral hazard because it involves the actions of people.

Morale Hazards are different than moral hazards, as noted by the difference in spelling. Morale (with an 'e' on the end) involves human carelessness or irresponsibility rather than an intentional act.

Legal Hazards come as a result of court actions increasing the likelihood of a loss or increase the size of the loss itself. Due to the lawsuit prone society we live in legal hazards are becoming increasingly common.

We recognize that authorities do not always use the same definitions for the same terms. The terms perils and hazards, for example, are often interchanged from one policy to another and from one text to another. Even with these variations, most authorities consider:

-Perils to be the things that caused the loss and
-Hazards to be the catalysts that bring about or increase perils.

Consumers are increasingly aware that comparing prices may save them money. Every state requires drivers to carry vehicle insurance. Not doing so could result in license suspension or license revocation, fines, higher insurance rates, or even confiscation of personal assets if an at-fault auto accident occurs and someone gets hurt.

Most vehicle insurance is placed on the automobile rather than the driver. However, there is coverage that insures the driver instead of the vehicle. Insurance that is placed on the vehicle (not the driver) will cover an accident or loss even if a non-owner was driving in most cases. Higher insurance rates may result.

Items left in a vehicle are often not covered under a traditional car insurance policy. Such items might be compensated for under a renter's or homeowner's policy however.

Some insurance companies writing auto coverage offer what is called "accident forgiveness" that might keep auto premiums from going up following an accident. Consumers are wise to ask about this although agents are likely to disclose this option if offered by their company.

High-mileage driving raises vehicle insurance rates. It makes sense to charge higher rates to those who are on the roads more often. Insurers base auto premiums partially on the miles driven annually since risk is higher when more miles are driven.

Some people feel it is not wise to make numerous small auto claims since doing so may cause higher premium rates. For those who feel this way it is wise to set up a savings account used for minor damages to vehicles or injuries to others.

It is cheaper to insure multiple vehicles under the same policy versus using separate insurance plans. Bundling cars together earns the insured a discount. Additional discounts may be gained by bundling multiple types of insurance, such as homeowner's coverage, life insurance, or other types issued by the insurer.

Several companies offer discounts to military personnel and their families. To achieve maximum benefits consumers should let the insurer know before being deployed overseas including an anticipated return date.

Both bodily injury and property damage liability plans will pay for legal defense if claims or lawsuits are brought against the policyholder. This is important since legal defenses can be extremely expensive. Generally there will be policy limits however, meaning the insurer will not pay more than a specified amount.

Personal injury protection (PIP) is a broader form of medical payments and it may vary from state to state. PIP covers such things as lost wages and the cost of replacing personal services, such as cooking, in addition to medical payments. Personal injury protection is sometimes called no-fault coverage because it is required in some states having no-fault laws. Even in "fault" states, however, PIP is typically available.

Uninsured motorist coverage pays for injuries caused by a driver without insurance. In many states this type of coverage is mandatory.

Each of the six automobile coverages has its own separate premium. The total cost of the policy is the sum of all its components. It could be said that buying auto insurance is like going to a restaurant and ordering a gourmet hamburger. The bun and meat patty is just the basic meal; everything else, such as lettuce or tomato, is additional. Most people buy at least the minimum insurance protection; if they don't add the extras they may find themselves paying out-of-pocket for other costs.

Legal contracts can be intimidating. Breaking down an automobile policy into its separate parts is often the first step to understanding how it works. By looking at each of the six available components the consumer is able to understand and purchase the parts they wish to have. Some parts are mandated by state law but all parts play a role in complete coverage.

Classic Cars
Generally any insurance company will insure a classic vehicle, but the rates from a standard car insurer may be higher than that charged by specialty insurers, so it may be best to look around for insurance companies specializing in this type of coverage.

Since classic cars may have special value, an appraisal from an appraiser specializing in cars may be sensible prior to seeking coverage. Like artwork or coin collections, cars can have values beyond their repair costs.

Most insurance companies require vehicles to meet specific criteria before the vehicle can be considered collectible or classic. While the requirements may vary from insurer to insurer, usually the following is required:

-The vehicle must be at least a certain age.

-The car must be stored in a locked, enclosed structure such as a garage or storage unit when not in use.

-Often the car must be in excellent condition (restored in other words). Some insurers may deny coverage when the vehicles have too many miles, damage, or extensive wear.

-The car must not be used on a regular basis as a family car would be. It must be drive only for special occasions, car club events, or for limited periods of pleasure driving. Often they may not be drive more than 5,000 miles per year.

Even when the vehicle is a classic car, the owner's driving record is still important. Since collectible cars are often more expensive to repair or replace, there must usually be no major violations. Minor traffic violations, such as parking tickets, are not likely to have an adverse effect,

but any serious infractions, such as speeding or reckless driving, will result in a denial of coverage.

When seeking coverage from a specialty insurer for collectible or classic vehicles, it is likely that the owner will buy what is called "agreed value coverage." This type of contract provides full coverage at a specified collector value that is listed in the policy. This type of coverage is not just for cars; it can apply to collectible dolls, toys, china, or any type of collectible item.

Unlike regular cars that depreciate in value, collector cars may actually increase in value over time. Inflation guard protection is offered by companies that specialize in collectibles. An inflation guard protection is designed to automatically increase the coverage amount placed on collectible cars of up to 8% annually.

Of course, it is also important to carry collision coverage and comprehensive coverage in order to protect the classic car against non-collision-related incidents, such as vandalism.

Delivery Drivers
Delivery drivers have unique automobile insurance needs. A job requiring an individual to make deliveries or perform other errands without a company-provided car must be aware of insurance coverage. The personal auto insurance policy probably will not cover on-the-job accidents including injuries to clients or coworkers riding in the vehicle and damages to goods, property, or other damaged vehicles. Personal auto insurance policies do not cover individuals on-the-job because delivery drivers are considered especially high risk according to the food industry website FoodServiceWarehouse.com. The risk is partially due to the amount of miles driven in a delivery capacity; the more miles driven the higher one's risk of an accident.

It is possible to purchase insurance providing on-the-job auto coverage. The employer might provide what is called non-owned vehicle liability insurance for its employees. Non-owned vehicle liability insurance is a special type of insurance available to businesses that rely on their employees using personal cars.

For those who are independently employed, commercial automobile insurance might be the option chosen. This type of insurance is most commonly used for fleets and large scale transportation businesses. It is also available to individuals such as pizza delivery drivers, providing profession-related liability coverage.

Small independent pizza parlors may not have sufficient coverage, leaving their employees under-insured. Pizza delivery has become such a commercially significant job market that some specialty insurers actually offer coverage specifically for pizza delivery.

RV Insurance
RV insurance was created as special coverage for owners of motorhomes, travel trailers, truck campers, and fifth wheels. There may be financial assistance in these policies for unexpected events that interrupt a road trip.

While standard car insurance protects only drivers and their vehicles, recreational vehicle insurance is more comprehensive; in a way they are a cross between auto and homeowner’s coverage. Since RVs are often lived in for extended periods of time, they are considered “home” by insurers. As a result, they are vulnerable to theft, damage, and the risk of personal injury just as traditional homes are. Without RV-specific coverage, bills due to accident or injury could result in financial problems.

Depending on the insurance carrier, RV owners have numerous options when insuring their Rvs:

-Collision, covering damage to the RV and all its components resulting from collision with

another object (not necessarily a motor vehicle).

-Theft/Vandalism, which reimburses the owner for stolen items from the RV or damage during a break-in.

-Property Damage, which pays to repair the damages an RV driver causes someone else.

-Uninsured or Underinsured motorist, which works just like it does with a car. It covers repairs when the at-fault driver is underinsured or not insured at all.

-Vacation liability, which pays for bodily injury and property damage occurring at a vacation site.

-Towing and labor, which pay when the rig breaks down. This covers the cost of transportation and mechanic time.

-Total loss, which provides a replacement vehicle when the RV is completely destroyed.

Roadside Assistance, which covers charges when the RV owner breaks down and needs help. Even running out of gas is covered.

Most professionals recommend drivers purchase total replacement coverage. Doing so helps guarantee payment in full when the vehicle is irreparable, rather than reimbursement that is based on current market values.

Motorcycle Insurance

As gas prices went up, drivers began looking for cost effective ways to go from point A to point B. Many of these drivers looked at motorcycles as a means of saving fuel costs.

State laws vary, but most require a minimum amount of liability coverage. Some insurance companies have policies specifically designed for motorcycles while others offer coverage as part of an endorsement on an existing auto policy. There may be discounts for bundling policies.

Many states have helmet laws. According the U.S. Department of Transportation, 63 percent of motorcyclists wore helmets in 2008, which was an increase over the previous year (we were unable to find more current figures). Whether or not the driver's state has mandatory helmet laws, most professionals highly recommend using them.

There are factors that determine premium rates for motorcycles, such as the type of bike and its intended use. A high-performance sport bike may cost more to insure than a touring cruiser since sport bikes (like sport cars) tend to be used by those favoring more dangerous habits. Many companies simply look at the size of the engine to determine premium rates.

Some insurers have lower rates when the motorcycle is only used for part of the year, typically during the summer. Since risk is higher in the winter, those who ride yearlong are likely to pay higher premiums since they are riding during bad weather conditions.

Storage is also an insurance issue since motorcycles are easy to steal if left outside in a driveway versus being stored in a secure garage.

As with all vehicles, the driving record of the motorcycle's owner will impact the premium rate charged by the insurer. As always, a clean driving record equates into lower premiums. Even though most people recognize this connection by now, it still needs to be said that safe drivers pay less for insurance than unsafe drivers do.

Mechanical Breakdown Insurance (MBI)
When an individual buys a new car (or even a used car in some cases) the dealership may offer, at the time of purchase, the option to buy extended coverage through a separate insurance policy. Extended warranty coverage is a limited arrangement (typically more limited than the new car warranty) sold by dealers that covers specific components such as the transmission or engine up to certain dates or mileage. A new car at a dealership typically has a factory warranty that provides bumper-to-bumper coverage for a specified period of time or through a specified mileage limit. This factory warranty is primarily meant to cover defects in material and workmanship.

For those who wish more coverage than that offered by the manufacturer mechanical breakdown insurance, called MBI, is an option. MBI is not the same as extended warranty coverage; in fact it is not a warranty at all. Rather it is an auto insurance product sold by insurance companies regulated by the issuing state and guaranteed by state insurance funds. Generally MBI is broader coverage than that offered through extended warranties so many feel it is a better choice. Since mechanical breakdown insurance is paid through premiums, rather than in a lump sum as extended warranties are, the purchaser may drop it at any time by simply discontinuing premium payment. Some MBI policies are transferrable to other vehicles or even to other drivers, but this should not be assumed. Extended warranties may require owners to go to certain repair shops, but MBI allows vehicle owners to go to any repair shop they wish.

Mechanical breakdown insurance may vary from company to company and there are generally restrictions in the policy (as there is in any type of policy). Some companies will only issue MBI policies on vehicles with low mileage at the time of policy issue, but once purchased the coverage continues as the miles pile up. Usually the policies can be renewed up to 100,000 miles or seven years of vehicle ownership. There are deductibles, but the policies cover virtually all parts. Regular maintenance is not typically covered since maintenance is simply part of car ownership.

Like all insurance, MBI must be purchased when the vehicle is new or nearly new in most cases; it is not possible to buy it after an incident occurs in an attempt to get that situation covered. Like all policies, there are exclusions. However, when compared to extended warranties, MBI is often a better choice.

Foreign Travel
As more Americans travel abroad, renting cars while they travel, insurance is an important element of vacation planning. Not all auto policies provide coverage on foreign soil. It is always important to check and agents may want to specifically cover this point when they place a policy.

In general U.S. auto insurance will not cover an individual while traveling abroad, but it may cover if the foreign country borders U.S. soil, such as Canada. Even if there is coverage, drivers must be aware that many countries have minimum requirements that exceed those of the United States. For example, Mexico requires drivers to carry civil liability insurance covering them if they cause injury or damage to others. U.S. liability insurance is not valid in Mexico for bodily injury although some U.S. insurance policies will cover insured drivers for physical damages, according to the Insurance information Institute.

Those paying for their rental cars through Visa may have coverage, but this should never be assumed since some countries are specifically excluded, such as Israel, Jamaica, and Ireland. When coverage is extended through Visa, all car rental transactions must be charged to the Visa card for coverage to remain intact; the auto rental company’s collision coverage would then be declined.

Those driving in Europe should check the country’s auto insurance requirements since it may require drivers to buy specific coverage. For example, in Italy, visitors are required to purchase a collision damage waiver and theft protection, according to Auto Europe, and provider of car rental

services in 130 countries.

Driving after drinking in Europe and some other countries can be especially stupid since they often have much tougher drinking-while-driving laws. For example, in Iceland, drivers can be charged with driving under the influence with a blood alcohol level as low as 0.05 percent.

Drivers should not assume anything while traveling in other countries. Whether coverage is obtained through a U.S. policy, a Visa card, or through a travel agency, proof of coverage should be kept with the driver and the vehicle.

Senior Drivers and Safety

While it's true that people of 55 years of age or more are less likely to drive fast or aggressively, they are prone to hearing impairments, slower reflexes and using prescription drugs. Not to mention generally having poorer eyesight.

Then there is the problem of the senior driver who hasn't owned a car for some time. Perhaps he lived in a big city and used cabs or public transportation to avoid the hassles of parking his car. Upon retirement, he moves to Florida and decides he wants to now get a car. The carrier finds that it has been 20 years since the senior had bought auto insurance. The senior now finds that the insurance company is reluctant to accept him because they consider him to be an inexperienced driver.

Transportation Alternatives

Taking the license to drive from an elderly person can rob the driver of independence, but it also may save the person's live and the lives of others, statistics show.

The 86-year-old man who drove his car through a crowded farmers' market in California, killing 10 people and injuring scores of others, is part of a broad age group that generally is considered safe behind the wheel, experts said.

While older drivers do have higher-than-average rates of accidents when measured by collisions that cause injury or deaths per million miles driven, that is mitigated by the fact that they drive far fewer miles than most people.

Drivers age 70 and older also tend to regulate their own driving by restricting when and where they drive.

According to Dan Foley, an epidemiologist with the National Institute on Aging, "Older drivers are a fairly safe group."

For drivers up to age 69, fatal accident rates are far lower on average than for people in their 20s, according to federal highway statistics. After age 70, the rates gradually increase, and drivers 85 and older are involved in fatal crashes at a time comparable only to 16-years-olds, the next-highest category.

Although many people think older drivers should undergo vision testing when their licenses are renewed, experts say vision is not the main problem that older drivers face. It's their basic ability to drive safely.

"When you put your foot on the gas instead of the brake, that is not vision, it's cognition," Foley said.

The regulation of older drivers differs from state to state. In Illinois and New Hampshire, for example, rules are strict: Drivers 75 and older have to take a road test when renewing their licenses. In Nevada, drivers age 70 and older must submit a medical report when renewing their

licenses by mail. Missouri allows people to file confidential reports that an older driver is no longer safe on the road. The state then can require the targeted person to pass a driving skills test or physical examination.

No state formally tests for cognitive impairment among drivers of any age.

"The problem is that not everybody ages at the same rate," said Gerald McGwin, an associate professor of ophthalmology at the University of Alabama Birmingham.

The American Association of Motor Vehicles Administrators, a non-profit group that coordinates policies among the nation's departments of motor vehicles, opposes testing on the basis of age.

"We don't believe that there should be age-based testing," said Jason King, a spokesman for the association. "That's because it does not work."

Experts on aging agreed. AARP, the advocacy group for people 50 and older, and the auto club AAA both argue that people should be allowed to drive as long as they can do it safely and effectively. But how to determine that is a problem.

"When do we start testing?" asked Joe Coughlin, the director of the Age Lab at the Massachusetts Institute of Technology. "Who should we test? And we don't have an adequate test to start with."

Diminished Capacities at Issue

The problems facing older drivers are diverse, according to Martin Gorbien, director of geriatric medicine at Chicago's Rush-Presbyterian-St. Luke's Medical Center.

He said diseases such as arthritis, diabetes, Parkinson's, eye and ear ailments, and various forms of dementia such as Alzheimer's disease can combine to greatly diminish the capacity of older drivers. Gorbien said that even if each problem is not severe, the cumulative effect of several ailments could be serious.

"I've just described five million people," he said of people with such combined ailments. "Instead of focusing on age and disease states, we need to focus on function."

And as Baby Boomers grow older, the problem will increase, King said. There were 19.1 million licensed U.S. drivers age 70 and older in 2001. King also said that by 2020 that number will increase to 30.7 million.

He said people need to start thinking about how they will get around once they are no longer able to drive.

"We want people to think about their driving future the same way they plan for retirement with 401K and regular visits to the doctor," King said.

Indeed the loss of mobility that comes with losing access to driving an automobile means profound life changes and severely limits freedom.

"Driving is like electricity," said Coughlin of MIT. "When you pull the plug, everything goes out."

He and others said local, state and federal leaders need to address ways of dealing with the problem, particularly as the nation's population ages.

"The real policy debate is not the testing or the aging," Coughlin said. "The real issue is that the nation has failed to provide a lifetime mobility plan."

The motor vehicle administrators' group and AARP and other groups offer classes for aging drivers to help them identify problems that occur as people grow older and guidelines for doctors and family members on how to counsel elderly people on the judicious use of their cars.

"We want to keep people in their cars as long as it is safe, because there are so few alternatives," said King of the administrators' group.

Gorbien said doctors have not been trained in how to determine whether a patient age 70 or older should stop driving.

"We need more means of evaluating older drivers," he said, adding that when he met with multiple generations of the same family and discussed whether to stop the eldest member from driving, he used a simple question to focus the middle generation's thoughts.

"I asked if they would let their 3-year-old ride with Grandpa," Gorbien said. "I see a lot of people shaking their heads."

Statistics from the Insurance Institute for Highway Safety indicate older drivers generally are as safe as other age groups until they reach 75, after which they tend to have more accidents.

Drivers 85 and older are about as likely to be involved in a fatal crash as those ages 16 to 19, but they're more likely to die than others in car accidents because their bodies are frailer.

Recently, the University of Connecticut's Center on Aging studied the signs that older drivers were losing their capacity to operate a vehicle safely.

Among these signs were inability to locate familiar places, failing to observe traffic signals making slow or poor decisions, driving at inappropriate speeds, and becoming angry or confused while driving.

Section 2: Personal Property Insurance

Chapter 4 Property – Inland Marine Floaters

Background

The basic homeowners' policy usually contains various limitations and exclusions on coverage. Therefore, persons who are owners of valuable personal property often need broader and more comprehensive coverage than is provided by the basic homeowners' policy. This broader and more comprehensive coverage may be obtained through the appropriate Inland Marine Insurance Policy.

The very first form of personal property insurance coverage was an Ocean Marine policy. The policy was written to provide financial protection for owners of ships in case their property or cargo was lost at sea.

Ocean marine policies insured the cargo from port to port. Later on, a clause was added to also insure cargo while it was being transported on land. As an end result, policy coverage extended from the original point of departure until their final destination point to include both ocean and inland transportation of those goods.

Eventually, a separate policy was developed that dealt only with the insuring of the goods while being transported on land, and the policy became known as an inland marine policy verses an

ocean marine policy.

Inland Marine policies eventually began to provide a broad coverage for other property of a "floating" or moveable nature. Since these policies did not come under any state jurisdiction, they could be tailor made to the need of the insured.

Inland marine policies were offered on an "all risk basis" rather than a "named peril" basis as offered in most casualty policies.

Definition of Inland Marine Insurance

In 1933, the NAIC drafted a definition used in limiting the insuring power of marine underwriters that specified the risks and coverage which could be written as marine insurance. The definition was revised in 1933 and in 1976. In the 1976 version, due to legal concerns, the definition now simply defines and describes the risks and coverage that are subject to marine insurance. This definition has been adopted by many states as a form of identifying a marine policy.

Property that is transported from one place to another, goods in transit (the exception being over oceans), bridges, television broadcasting towers, tunnels, and other instrumentalities of transportation and communication would be covered under Inland Marine Insurance.

Various floater policies can also be used to cover personal effects and property. The floater policy will provide coverage to items that "float" or move along with the covered property while it is changing locations.

Inland Marine coverage was developed from ocean marine insurance in the 1920s. In the early years, the marine insurers covered transportation loss exposure. Fire and casualty insurers had difficulty in competing because the fire and casualty lines had to be written separately, and the rates they could charge were subject to state regulation.

The marine insurers, however, were able to write property and casualty lines under an "all-risks" contract and they were not bound by state regulation.
Inland Marine Floaters Characteristics

Inland Marine Floater Characteristics:

-Tailored Coverage
-Selection of Policy Limits
-Extensive Coverage to Perils Covered
-Worldwide Coverage

Tailored Coverage
A personal articles floater provides coverage for nine optional classes of personal property including these:

-Jewelry
-Coin Collections
-Cameras

This permits the insured to select coverage for the class or classes of property needed. It is also possible to write the coverage separately such as these:

-Jewelry Floater
-Fur Floater
-Coin Collection Floater
-Stamp Floater

-Camera Floater

Selection of Policy Limits
As you know the basic homeowners' policy has limitations on coverage of certain types of valuable property. The insured must look to a floater policy in order to get higher limits of coverage. Also, as a rule, when a basic homeowner's policy combines the value of certain types of personal property with the value of unscheduled personal property it is possible that the combined total may exceed the homeowners' policy limits on personal property. Here again, the floater policy can provide higher limits.

Extensive Coverage to Perils Covered
When a floater is written, it usually provides coverage on a "risks of direct physical loss" basis. The floater covers risk of direct physical loss to the property that is described except for certain losses that are commonly excluded. The commonly excluded losses will be discussed shortly.

Worldwide Coverage
The property described in most floaters will be covered anywhere in the world with the exception of FINE ARTS, which are usually covered only in the United States and Canada.

Policy Provisions of Floaters

The following policy provisions appear in most Inland Marine Floater policies:

-Loss Settlement
-Loss to a Pair, Set, or Parts
-Loss Clause
-Claim Against Others
-Insurance Not to Benefit Others
-Other Insurance

Loss Settlement
Except for fine arts, the amount that will be paid for a covered loss will be the LOWEST of the following four amounts:

-The actual cash value at the time of loss or damage
-The amount for which the insured could reasonably be expected to have the property repaired to its condition prior to the loss
-The amount for which the insured could possibly be expected to replace the property with property substantially identical to the article lost or damaged
-The amount of insurance stated in the policy

The third exception above is going to require the following brief explanation.

The insurance company, at a discounted price, can purchase much of the property insured in a floater. Therefore, the insurance company may want to replace the lost or damaged item rather than make cash reimbursement. Should the insured reject the replacement offer, the insurance company's cash reimbursement will then be limited to the amount for which the insured could reasonably be expected to replace the item.

This amount is the insurance company's discounted price since the insured can be reasonably expected to replace the item at that price.

Loss to a Pair, Set or Parts
In the event that there is loss or damage to a covered property in a pair or set, such as the loss of one earring, the amount to be paid is not based on a total loss. The insurance company may either repair or replace any part to restore the pair or set to its value before the loss or pay the

difference between the actual cash value of the property before and after the loss.

Lost Cause
Under this policy provision, the amount of insurance provided will not be reduced except for the total loss of the scheduled article. If the insurance is reduced because of a total loss of a scheduled article, the insurance company will either refund the unearned premium or apply the unearned premium to the current premium due if the scheduled article is replaced.

Claim against Others
This policy provision is very similar in nature to the subrogation clause. If a loss occurs and the insurance company believes they can recover the payment for that loss from the person or parties responsible, then the loss payment to the insured will be considered a loan that must be repaid out of any funds recovered from others. The insurance company will expect the insured to cooperate with any attempt the insurance company makes to recover from others responsible for that loss. Should the recovery attempt be unsuccessful, the insured will not be required to pay the "loan" on the loss settlement.

Insurance Not to Benefit Others
No organization or other person that may have custody of the property and who is paid for services can benefit from the insurance on the property. The purpose of this provision is to prevent a third party who caused the loss from denying liability for payment because the property is insured. Thus the insurance company's right of subrogation against the neglect party is retained.

Other Insurance
In the event that there is other insurance at the time of loss that applies to the property, that insurance is considered excess insurance over the other insurance.

Insuring Agreement
As a rule, Marine floaters provide coverage to property on an "all-risks" basis. Physical loss to covered property is provided except for the following exclusions:

-Wear and Tear
-Deterioration
-Inherent Vice
-Insects or Vermin
-Mechanical Breakdown or Failure
-Electrical Breakdown or Failure
-Repairing the Property
-Adjusting the Property
-Servicing the Property
-Maintaining the Property

General Exclusions
General exclusions that appear in all floater policies are war, nuclear reaction, and radiation.

Personal Articles Floater
Often referred to as PAF the Personal Articles Floater provides coverage on nine optional classes of personal property. As mentioned earlier, coverage is worldwide except for fine arts. These nine classes of personal property that can be insured are:

-Jewelry
-Furs
-Cameras
-Musical Instruments

-Silverware
-Golfer's Equipment
-Fine Arts
-Postage Stamps
-Rare Coins/Curent Coins

Certain newly acquired property such as jewelry, furs, cameras, and musical instruments will be automatically covered for 30 days, providing that insurance was already written on that class of property.

The amount of insurance on newly acquired property is limited to the lower of 25 percent of the amount of insurance for that class of property or $10,000. The property must be reported to the company within 30 days of purchase in order for the coverage to continue. You will be charged an additional premium for coverage from the date of acquisition.

Jewelry
Coverage on personal jewels applies anywhere in the world. Each item of jewelry must be scheduled with a specific amount of insurance shown for it. This includes watches, necklaces, and rings. Because of the moral hazard, jewelry will be very carefully underwritten. As a rule, the insurance company will require either the original bill of sale or a signed appraisal before the jewelry is insured. The insured must also have satisfactory resources, and the insurance company will want to know that the insured is not in the habit of losing or misplacing articles.

Furs
The Personal Articles Floater can be used to insure these items:

-Personal Furs
-Items Consisting Principally of Fur
-Garments Trimmed in Fur
-Fur Rugs
-Imitation Fur

Again, each item must be separately listed with a specific amount of insurance shown for it. As with jewelry, because of the moral hazard furs are very carefully underwritten.

Cameras
A Personal Articles Floater can also be used to insure the following items. Each of these items must be individually described and valued.

-Photographic Equipment
-Cameras
-Projection Machines
-Portable Sound Equipment
-Recording Equipment
-Motion Picture Cameras
-Motion Picture Projectors
-Films
-Binoculars and Telescopes

Exceptions to the rule regarding scheduling items would be these:

-Miscellaneous Smaller Items
-Carrying Cases
-Filters

…. providing the total value of the blanketed items is not more than 10% of the total amount of insurance on cameras.

Musical Instruments
The following items can be covered under a Personal Articles Floater:

-Musical Instruments
-Instrument Cases
-Sound Equipment
-Amplifier Equipment

Should a musical instrument be used and played for pay during the policy period, it will not be covered unless an endorsement is added reflecting this use and a much higher premium paid.

Silverware
Silverware and gold-ware may also be covered under a Personal Articles Floater. Pens, pencils, smoking implements and jewelry may not be insured as silverware. These kinds of property can be insured as jewelry.

Golfer's Equipment
Golf equipment such as golf clubs and golf clothes will be covered. Other golf equipment may be insured under a Personal Articles Floater.

Clothing contained in a locker is also covered while the insured is playing golf. Golf balls are covered only by fire and burglary, providing there are physical marks of forcible entry into the building, room or locker.

Fine Arts
Fine arts can include the following:

-Paintings
-Antique Furniture
-Rare Books
-Rare Glass
-Bric-a-brac
-Manuscripts

Fine arts are insured on a valued basis, and must therefore be on a schedule with the amount that was paid for that item clearly stated. Damages paid on an actual cash value basis up to the stated value. Newly acquired fine arts will be automatically insured for ninety days. The insured is required to notify the insurance carrier within ninety days of acquisition, and the additional premium due will accrue from date of acquisition. The limit on fine arts property is subjected to 25% of the total insurance.

Fine arts are subjected to these three major exclusions:

-Damage caused by repairing or retouching

-Breakage of art glass windows, glassware, statuary, marble, bric-a-brac, porcelains, and similar fragile articles. However, the exclusion does not apply if fire, lightning, explosion, aircraft, collision, windstorm, earthquake, flood, malicious damage or theft, and derailment or overturn of a conveyance causes the breakage

-Loss to property on exhibition at fairgrounds or at national or international expositions is excluded unless the premises are covered by the policy

Stamp and Coil Collections
These collections are insured for loss anywhere in the world. The stamps and coins may be insured in one of two ways: scheduled basis or blanket basis.

The scheduled basis is suggested if the items are extremely valuable. In this way, each item is specifically listed and insured.

Under the blanket basis, the insurance applies to the entire collection since each item is not separately described. In the event of a loss to a scheduled item, the amount to be paid is the LOWEST of the following:

-The amount for which the property would reasonably be expected to be repaired
-The amount for which the property would reasonably be expected to be replaced
-The amount of insurance

In the event of a loss to an item covered on a blanket basis, the amount paid will be the cash market value at the time of loss. There is a $1,000.00 maximum on any unscheduled coin collection. There is a $250.00 maximum limit on any of the following:

-Single Stamp or Single Coin
-Individual Article
-Single Pair
-Single Block or Single Series
-Single Sheet or Single Cover
-Single Frame or Single Card

The following limit is also applied to stamps or coins insured on a blanket basis. This limit has the effect of a 100% co-insurance clause.

It states that the company is not liable for a greater proportion of any loss than the amount of insurance that the blanket property bears to the cash market value at the time of loss. In other words, say the insured has an un-scheduled coin collection on a blanket basis valued at $500.00. One coin worth $50.00 is stolen. At the time of theft, the entire collection had a current market value of a $1,000.00. The insured's maximum recovery is $25.00. Had the insured purchased $1,000.00 worth of insurance, the $50.00 loss would have been paid in full.

Exclusions
The following is a list of important exclusions that apply to damage to stamp and coin collections from the following:

-Fading
-Creasing
-Denting
-Scratching
-Tearing
-Thinning
-Transfer of Colors
-Inherent Defects
-Dampness
-Extremes of Temperature
-Depreciation
-Damaged from Being Handled
-Damage from Being Worked On
-Mysterious Disappearance

NOTE this exception: If the item is scheduled or specifically insured, or is mounted in a volume and the page to which it is attached is also lost under these conditions:

-Property lost in the custody of transportation companies
-Shipments by mail other than registered mail
-Theft from any unattended motor vehicle
-Losses to property not part of a stamp or coin collection

Personal Property Floater

This floater provides extensive coverage on personal property owned or used by the insured that is kept at the insured's residence. This rider will also provide worldwide coverage when this property is temporarily away from the residence. The property is issued on a special all-risk basis. This means all direct losses are covered except specifically excluded.

Scheduled Personal Property Floater

This floater is used to provide coverage for personal articles and valuable items that do not fall within the nine categories previously listed. Examples of such items are these:

-Dentures
-Typewriters
-Camping Equipment
-Wheelchairs
-Stereo Equipment
-Grandfather Clocks

This is not a complete list but it can be said that almost any kind of personal property may be insured under a scheduled personal property floater. Since coverage is provided on un-filed forms said coverage could be adapted to meet the needs of the individual insured.

Scheduled Personal Property

A question is often asked about when personal property should be scheduled. As a rule, people who own valuable personal property should have it scheduled and specifically insured under a floater policy. Diamond rings, fur coats and other jewelry of high value should be specifically scheduled. These following types of personal property should also be considered for scheduled coverage:

-Unique Objects
-Works of Art
-Rare Antiques
-Paintings
-Stamp Collection
-Rare Coin Collection
-Portable Property
-Cameras
-Camera Equipment
-Musical Instruments
-Sports Equipment
-Fragile Articles
-Glassware
-Statuary
-Scientific Instruments
-Typewriters
-Home Computers
-Business or Professional Equipment

Since the basic homeowner provides coverage for personal or business property only to a maximum of $2,500.00 on the resident premises and $250.00 away from the resident premises it is suggested that the property be more adequately insured by scheduling the property with a stated amount of insurance shown for it.

Un-Scheduled Personal Property
A personal property floater may be used to insure the following thirteen classes of un-scheduled property:

-Silverware, Gold Ware, Pewter ware
-Clothing
-Rugs and Draperies
-Musical Instruments and Electronic Equipment
-Paintings and other Art Objects
-China and Glassware
-Major Appliances
-Guns and Other Sports Equipment
-Cameras and Photographic Equipment
-Building Additions and Alterations
-Bedding and Linens
-Furniture
-All other Personal Property and Professional Books While on the Residence

The total amount of insurance in each of the above categories is the maximum limit for recovery in any single loss in that category. The total amount of the thirteen categories is the total policy limit.

Newly Acquired Property
Any newly acquired property will automatically be covered up to the LOWER of 10% of the total amount of insurance or $2,500.00.

Insurance on newly acquired property may be applied to any of the numbered classes. Newly acquired property at the principal residence of the insured will be covered for thirty days from the time the property is moved there. The coverage on the newly acquired property is subject to the amount of the insurance for each numbered class.

Property Not Covered
Personal property floater will not cover the following personal property:

-Animals, Fish, Birds
-Boats, Aircraft
-Trailers, Campers
-Motorcycles, Motorized Bicycles
-Motor Vehicles Equipment, Motor Vehicles Furnishings
-Property Pertaining to a Business, Property Pertaining to a Professional
-Property Pertaining to an Occupation
-Property Usually Kept somewhere Other than the Insured's Residence Throughout the Year

Additionally, the personal property floater places specific limits on certain property.
For example:

-A $100.00 limit on Money
-A $100.00 limit on Numismatic Property
-A $500.00 limit on Securities, Notes, Stamps, Passports, Tickets, Jewelry, Watches, and

Furs

Chapter 5 Property – All Risks Coverage, Watercraft Coverage

Personal Property Floater Exclusions

The personal property floater also excludes certain losses such as the following:

-Animals owned or kept by the insured
-Mechanical or structural breakdown
-Water damage exclusion clause
-Any work on covered property except jewelry, watches, or furs
-Dampness/extreme changes of temperature except if caused by snow, rain, hail, or sleet
-Bursting of pipes
-Bursting of apparatus
-Acts or decisions of any person, group, organization or government body
-Wear and tear
-Deterioration
-Inherent vice
-Insects or vermin
-Marring or scratching of property
-Breakage of eyeglasses
-Glassware
-Fragile article
-Lightning
-Theft
-Vandalism
-Malicious mischief

Should personal property that is separately described and specifically insured by any other insurance have a loss, it will be excluded under a standard homeowner policy. Therefore, the amount of insurance under a floater policy should be sufficient to pay for losses in full to cover the property.

As a rule, unscheduled personal property under a homeowners' policy is insured on a replacement cost basis. Consequently, the advantages and risks of direct loss coverage under the PPF must be carefully weighed against the possibility of being underinsured.

Personal Effects Floater (PEF)

The PEF is designed for travelers who want coverage on their personal effects while traveling. The PEF will provide coverage on the personal property of tourists and travelers anywhere in the world. However, this will only be in effect while the covered property is away from the residence premises. This coverage will apply to the insured, his or her spouse, and any unmarried children who permanently reside with the insured.

Personal Effects Coverage

Property normally worn or carried by an individual comes under the heading of personal effects. Coverage for personal effects will include personal effects, luggage, clothes, cameras, and sports equipment while the insured is traveling or on vacation.

Property Excluded

The following property is excluded under PEF coverage:

-Automobiles, Motorcycles, Bicycles or Boats

-Accounts, Bills, Currency, Deeds, Evidence of Debts, or Letters of Credit
-Passports, Documents, Money, Notes, Securities or Tickets
-Transportation
-Household Furniture
-Household Animals
-Automobile Equipment
-Salesperson Samples or Merchandise for Sale or Exposition
-Physicians/Surgeons' Equipment
-Artificial Teeth
-Artificial Limbs
-Theatrical Property

All-Risks Coverage

Personal effects will not be covered on an all-risks basis. Risks of direct physical loss to a property are covered, except as follows:

Damage to personal effects from:

-Wear and tear
-Gradual deterioration
-Inherent vices
-Vermin
-Insects
-Damage while property is being worked on

Breakage of articles of a brittle nature unless caused by

-Fire
-Theft
-Accidents to a conveyance

Other Exclusions

In addition to the exclusions previously mentioned, the following exclusions also are present:

-Personal effects are not covered while on the named insured's residence premises
-Property in storage is not covered
-Personal effects in the custody of students while in school are not covered, except for loss by fire

Limitations on Certain Personal Effects

Jewelry, watches and furs are subject to a single article limit of 10% of the total amount of the insurance, with a maximum of $100.00.

Insurance on Watercraft

Watercraft can range in size as follows:

-Rowboats
-Canoes
-Outboard motorboats
-Inboard motorboats
-Dinghies
-Sailboats
-Speedboats
-Houseboats
-Yachts

Hull and Trailer Loss Exposures
Watercraft as well as their equipment, trailers and furnishings may be exposed to a wide variety of theft and physical damage loss. Examples of a few are as follows:

-Two speedboats collide.
-A sailboat is overturned in heavy winds.
-A boat sinks in a severe storm.
-A sandbar strands a houseboat.
-An outboard motor falls into a lake.
-A boat trailer is stolen.
-An explosion seriously damages a boat.

Homeowners' Policy Physical Damage Coverage
Watercraft and trailers are covered under Section One of a homeowner's policy for physical damage and theft. However, this coverage is very limited. The major limitations on coverage are as follows:

Direct loss to:

-Watercraft
-Trailers
-Furnishings
-Equipment
-Outboard motors from windstorm or hail are covered ONLY if the property is inside a fully enclosed building

Theft of:

-Watercraft
-Trailers
-Furnishings
-Equipment

Outboard motors away from the resident premises are specifically excluded.
Watercraft and other boating property are covered only for a limited number of named perils.

Coverage on:

-Watercraft
-Trailers
-Furnishings
-Equipment
-Furnishings

…Is limited to a maximum of $1,000.00.

Covered property is written on an actual cash value basis and may contain a deductible of

-$25.00
-$50.00
-$100.00
-Or more

Covered Perils

The floater can be written on named perils of risks of direct loss basis. Most floaters currently are written on the risks of direct loss basis. The coverage does not include the liability for bodily injury, loss of life, or illness of individuals.

It is assumed that the insured has proper liability insurance under a homeowners' or liability policy to cover any third party bodily injury claims. The floater, however, may provide collision damage liability insurance that protects the insured from a claim for property damage from the owner of another boat, if the insured's boat happens to collide with another boat while it is afloat.

Exclusions
Outboard motor and boat insurance contracts do have exclusions. Some of the common exclusions are as follows:

-Business pursuits
-Use as a public conveyance for carrying passengers' compensation
-If the boat is rented to others
-Use as race boats or speed contests
-Repair or service

Also excluded are loss or damage from:
-Refinishing
-Renovating
-Repair.
The person who is repairing the boat would be responsible for any damage

General risks of direct loss exclusion

Coverage will not be provided for loss or damage from these:

-Wear and tear
-Gradual deterioration
-Vermin
-Marine life
-Rust
-Corrosion
-Inherent vices
-Latent defect
-Mechanical breakdown
-Freezing
- Extremes of temperature

Personal Auto Policy Personal Damage Coverage

An automobile policy is not designed for, nor does it cover, any physical damage to boats. The boat trailer, however, can be insured for physical damage loss under a personal auto policy. The trailer must be described fully in the declarations of the auto policy.

Liability Loss Exposures
When you own or operate a watercraft, you can be exposed to a wide variety of liability losses exposures such as the following:

-A water-skier is injured because of excessive speed
-A speedboat swamps another boat causing it to turn
-A boat runs into swimmers and seriously injures them
-A boat collides with a dock causing property damage
-Two boats collide injuring the occupants

-A child falls overboard and drowns and was not provided with a life preserver by the boat -operator

Homeowners' Policy Liability Coverage

Section II of a homeowners' policy provides personal liability insurance, and it covers certain watercraft loss exposures providing the boat is under a specified size and length. Personal liability provides the insured with protection against bodily injury or property liability that arises out of the use or operation of certain owned watercraft. The liability protection can also apply on an excess basis for certain covered non-owned watercraft.

There are, however, several important categories of watercraft liability that the homeowners' policy excludes from coverage. They are the following:

-Owned watercraft regardless of size with inboard or inboard/outboard motor power

-Rented watercraft with an inboard or inboard/outboard motor power with more than 50 horsepower

-An owned or rented sailing vessel that is more than 26 feet in length

-Watercraft powered by one or more outboard motors with more than 25 horsepower if the motors were owned by the insured at the inception of the policy and not declared or reported. However, watercraft powered by outboard motors with more than 25 horsepower are covered if the motors were acquired prior to the policy period and providing the insured declared them at the time of policy inception or declared them within forty-five days of acquisition.

The above exclusions do not apply when the craft is in storage.

Outboard Motor and Boat Coverage

This type of insurance is designed for those who own motorboats and for those who have adequate personal liability coverage under their homeowner's policy, or under a comprehensive personal liability policy, but desire broader physical damage insurance on their boat. Inland Marine Floater can provide this protection. Although floaters are not standard, they do contain some common features.

Covered Property

The insured selects the property to be insured. The floater can be written to cover the following:

-Hull
-Motor or Motors
-Boat Equipment
-Boat Accessories
-Boat Carrier
-Boat Trailer

Watercraft Package Policies

Many insurance companies have developed special boat owner's policies that combine liability coverage, physical damage coverage, and medical payments coverage.

Boat owner's policies contain certain common characteristics, which are these:

Physical Damage Coverage

Currently most boat owner's policies are written on a direct and accidental loss basis. The insurance company agrees to pay for direct or accidental loss due to covered property under the

physical damage insuring agreement. All losses are covered except those specifically excluded.

The physical damage covers the boat, equipment, accessories, motor, and trailer. In addition, if the boat collides with another boat, gets damaged from heavy winds, or is stolen, the loss is covered.

Liability Coverage
Liability insurance that covers the insured for bodily injury and property damage, liability from a neglect ownership or operation of the boat, is included in a boat owner's policy. Should the insured accidentally damage another boat or injure swimmers, for example, protection is provided under the liability coverage.

Medical Payments Coverage
This is similar to the medical payments found in an automobile insurance contract. Medical payments will be made for all medical expenses incurred within three years from the date of a watercraft accident that causes bodily injury to a covered person.

Under medical payments coverage, a covered person is defined as the insured, a family member, or any person while occupying the covered watercraft. Medical expenses will be paid for reasonable charges for the following:

-Medical
-Surgical
-X-ray
-Dental
-Ambulance
-Hospital
-Professional Nursing
-Prosthetic Devices
-Funeral Services

Other Coverages
The following may also be found in a boat owner's policy:

-Cost of removing a wrecked vessel
-Cost of removing a sunken vessel
-Life salvage

Exclusions
The following are commonly excluded in a boat owner's policy under physical damage coverage:

-Wear and Tear
-Inherent Vice
-Latent Defect
-Mechanical Breakdown
-War
-Nuclear Hazard
-Damage Caused by Repair (except fire)
-Damage Caused by Restoration Process (except fire)
-Carrying Persons for a Fee
-Carrying Property for a Fee
-Renting Covered Property
-Racing Covered Property (except sailboats)
-Speed Testing Covered Property (except sailboats)
-Infidelity of Persons to Whom Covered Property is Entrusted

-Portable Electronic Equipment
-Photographic Equipment
-Water sport's Equipment
-Fishing Gear
-Cameras
-Fuel
-Portable Radios
-Fishing Equipment

The following are commonly excluded from a boat owner's policy under medical expense coverage:

-Intentional Injury
-Intentional Damage
-Renting the Watercraft to Others
-Carrying Persons for a Fee
-Carrying Property for a Fee
-Using Watercraft in a Race (except sailboats)
-Using Watercraft in a Speed Test (except sailboats)
-Losses Covered under Worker's Compensation
-Losses by a Nuclear Energy Liability Policy
-Contractual Liability

Personal Yacht Coverage

This type of policy is for larger boats such as inboard motorboats and cabin cruisers. Personal Yacht insurance provides hull insurance, protection and indemnity insurance, optional coverage and warranties.

Hull Coverage

This protection refers to physical damage on the boat. This coverage also applies to sails, tackle, machinery, furniture, and the boat itself.

This insurance provides "all-risks" protection. For example, if the boat is damaged by heavy seas, collision, flood or sinking because of an insured peril, the loss is covered. A deductible of varying amounts will apply to all physical damage and losses.

Protection and Indemnity Insurance

This coverage provides the boat owner with coverage for bodily injury and property injury on an indemnity basis. If, for example, the boat were to smash into a marina and injures several persons, the loss to the dock, as well as any bodily injury, would be covered under P&I.

Optional Coverages

You may add several options to your personal yacht policy, such as medical payments coverage, liability of the insured to maritime workers injured in the course of employment, boat trailer insurance, land transportation insurance and water-skiing clause.

Warranties

Several warranties and promises are provided with yacht insurance. Should a warranty be violated higher premiums may be required. The major warranties on yacht insurance are as follows:

Seaworthiness warranty
The insured warrants that the vehicle is in seaworthy condition
Lay-up warranty
The insured warrants the vehicle will not be in operation during certain periods, such as winter months

Navigational limits
The vessel will be used only in territorial waters described in declarations
Private pleasure parranty
The insured warrants the vessel will not be hired or chartered

Uninsured Boaters' Coverage

As is the case with automobile insurance where you can purchase uninsured motorist protection, boat packages also include an option for uninsured boat coverage. The company agrees to pay damages that a covered person is legally entitled to recover from an insured boat owner or operator due to bodily injury sustained by a covered person in a boating accident.

Exclusions

The uninsured boater's coverage has several exclusions. Bodily injury from the following are excluded:

-While occupying or struck by any watercraft owned by the insured or family member that is not insured under the policy
-If the bodily injury claim is settled without the insurance company's consent
-While operating a covered watercraft which is carrying persons or property for a fee
-While occupying a covered watercraft being rented to others
-Using a watercraft without a reasonable belief that the person is entitled to do so
-Occupying a watercraft without the reasonable belief that the person is entitled to do so

In the event there should be a disagreement as to whether a covered person is legally entitled to recover damages from the uninsured boat owner or operator, or on the amount of damages, the coverage has an arbitration provision, which states, "Each party selects an arbitrator. The two arbitrators then select a third arbitrator. They have thirty days to agree. If they go beyond thirty days, a judge in a court of law appoints the arbitrator."

Chapter 6 Property – Specialized Coverages

Specialized Coverages

Marine insurance is a broad term including ocean and inland marine insurance. The Nationwide Marine Insurance Definition, published by the National Association of Insurance Commissioners, includes imports, exports, domestic shipments, means of communications, and personal and commercial property floaters as marine insurance.

Ocean Marine

Ocean marine insurance covers ships or hulls, goods or cargo, earnings (such as freight, passage money, commissions, or profit) and liability (known as protection and indemnity). The vessel owner, or any party interested in or responsible for insurable property by reason of maritime perils, may purchase this insurance.

Protection and Indemnity Insurance

Protection and indemnity insurance(P&I) is a broad form of marine liability insurance that covers the operator of a ship for such things as liability to crew members and other individuals on board the vessel, and for damage to fixed objects, such as docks, resulting from the insured's negligence.

Inland Marine Insurance

Inland marine insurance is for coverage of property that involves an element of transportation. The property must be actually in transit, held by a bailee, at a fixed location that is an instrument of transportation, or be a movable type of goods that is often at different locations.

Bumbershoot Liability
Bumbershoot coverage is a particular form of umbrella liability designed for accounts where the principal exposure is marine and involves the operation of vessels and use of docks.

The Bumbershoot covers protection and indemnity, general coverage, collision, salvage charges, sue and labor, all other legal and contractual liability including employers liability, liability under admiralty laws or the Longshoremen's Act, automobile liability, and those hazards usually associated with general liability insurance. Insured's net retention of at least $100,000 is usually required.

Charter Boats
Standard protection and indemnity forms issued in conjunction with Hull insurance policies on vessels exclude coverage on the use of a boat for hire or charter. Under certain circumstances, a P & I form, broader in coverage than a standard general liability contract, is issued to an owner or operator of such a vessel used for carrying passengers for sightseeing, fishing, transportation, entertainment or marine observations on a fee basis.

Coverage for liability also may be arranged on an OL&T liability form with rates set in the specialty market at a surcharged rate. Vessels under 40 feet in length are rated at 50% of those over 40 feet. Coverage usually is subject to a deductible. Liability exposure is of more concern to underwriters than loss or damage to the hull.

Restaurant and serving of alcoholic beverages are also principal hazards on larger vessels.

Ship Charterer Legal Liability
This insurance is designed to protect a vessel chartered against liability incurred for loss of, or damage to, the vessel hired under the charter party. Liability is ordinarily limited to damage caused in loading or unloading or failure to provide a safe berth. Policies may be written on an open basis with a flat premium charged for each voyage, or each voyage may be placed separately.

Ship Repairer Legal Liability
Ship repairer legal liability protects an individual ship repairer, marina or boat yard operator for legal liability to the vessel's owner for damage to the vessel being repaired. This "care, custody or control" coverage provides only property damage liability and may be extended to include insured's legal liability for damage to other property caused by a collision (or otherwise), while the vessel is being repaired or tested.

There are times when situations call for specialized coverage…the type of coverage that can only be realized with an Inland Marine policy.

Some of the types of coverages that can be found in Inland Marine policies are these:

Builders' Risk
Builders' Risk policies cover buildings or structures during the construction, renovation or repair process. While coverage is often tailored to meet the needs of each customer, the vast majority of policies also cover building materials destined to become a permanent part of the building or structure. This property is covered while in transit, at temporary storage locations and while stored at the job site.

Builders' Risk policies are an important insurance product within the construction industry because the vast majority of banks require evidence of Builders' Risk insurance prior to closing on a construction loan.

In addition, two of the most frequently used construction contracts (the Association of General

Contractors and the American Institute of Architects Contract for Construction) contain specific provisions outlining requirements for Builders' Risk insurance.

Even putting these requirements aside, few if any companies can afford to invest in construction without insurance protection.

Any business entity with a financial interest in property under construction, renovation or repair needs Builders' Risk insurance. Typical policyholders include:

-Real Estate Developers
-Building Owners
-Home Builders
-General Contractors
-Municipalities
-Colleges and Universities
-Street and Road Contractors
-Excavation Contractors
-Port Facilities
-Warehouse Operators

Computerized Business Equipment
Computerized Business Equipment policies can cover all types of automated equipment capable of accepting and processing data. While we typically think of computers as the primary subject of this coverage, automated manufacturing equipment, computerized medical equipment, flight simulators and any number of other specialized equipment can be eligible for coverage.

Coverage may also include the software and data used by this equipment as well as business income and extra expense exposures that may arise for a loss to such equipment or data. Coverage typically applies on premises, while in transit and while temporarily away from covered locations. Laptops and portable computers are covered worldwide.

Technology represents a significant investment to many businesses. Computerized Business Equipment coverage is important to any business entity that relies on technology in their daily operations. The greater the dependence on technology, the more important it becomes to purchase specialized coverage on such a critical aspect of consumers operations.

Contractors Equipment
Contractor's Equipment Coverage can cover scheduled, leased and miscellaneous property of the contractor. In addition, coverage is extended to include any similar property of others for which he is liable. Coverage extensions can include these:

-Additionally Acquired Equipment for up to a policy limit on the equipment, which the insured buys, leases, rents or borrows for defined period of days.

-Rental Expense Reimbursement, which pays up to a defined limit in expenses – rent – if covered equipment is damaged in a covered loss.

-Installation Floater coverage extends to property intended for installation while at job site, at any other location, or in transit.

-Valuable Papers coverage provides for such items as blueprints and other documents of value to the contractor.

-Contractors Equipment is owned or leased to perform a specific function. Use of the equipment is directly related to generating revenue, fulfilling a contract or providing

maintenance. Without working equipment, or the means to replace equipment as soon as possible, a contractor's obligations cannot be fulfilled.

-Contractors Equipment policy helps owners expedite the repair or replacement of damaged or stolen equipment. In addition, because of the high cost of the equipment, many banks and lending institutions require insurance on the equipment.

Any business entity with a financial interest in construction or other heavy equipment needs Contractors Equipment insurance. Typical policyholders include the following:

-Real Estate Developers
-Building Owners
-Home Builders
-General Contractors
-Municipalities

Fine Arts
Coverage for works of art at a permanent location, in transit and while loaned to others. Agreed Value Fine Arts coverage ensures that collections are treated properly with a form that addresses the specific collection needs, with availability of breakage coverage, special pairs and sets coverage, and flood and earthquake coverage.

For significant corporate collections, or for artwork and collectibles in commercial settings, Insurers offer comprehensive coverage for a broad spectrum of paintings, sculpture, prints and multiples, as well as more specialized collections of historical, cultural or technological significance.

Who Needs Fine Arts Coverage?
Corporations and commercial accounts may have valuable works of art not specially covered as Fine Arts under standard package policies, and Marine coverage fits the bill.

Installation Coverage
Installation policies insure building materials and components, machinery, and specialized equipment while being installed in a building or structure, or erected or fabricated at a specific location. Typical types of property include heating, ventilating, air conditioning and electrical systems; and wallboard, tile, carpeting and other interior finish material.

More specialized installations include wastewater treatment facilities and controls, pipelines, electrical, telephone and cable television lines, and radio and cellular telephone towers.

Coverage is typically effective from the time the customer's financial interest in the property begins until their interest ceases, including while the property is in transit, at temporary storage locations and while stored at the job site.

The vast majority of Installation policies are written for subcontractors (trade subcontractors in particular). Any business entity having a financial interest in property being installed, erected or fabricated may have a need for Installation coverage.

Typical policyholders include these:

-Specialty Contractors
-Government Authorities and Municipalities
-Utilities (Water, Gas, Telephone, Electrical)
-Manufacturers, Wholesalers, and Retailers of Machinery, Equipment and Materials, Who

also Install what they Sell

Marine underwriting specialists have written all types of installation projects - from low hazard residential electrical systems and tenant finish-out, to helicopter assisted tower installations, to the delicate relocation of erosion threatened lighthouse.

Standard programs offer coverage against risks of direct physical loss or damage (subject to certain policy exclusions), or coverage tailored to a specific, complex project.

Manufacturers
Manufacturers' Output Policy (MOP) includes coverage for the personal property of a business at specific, as well as unnamed locations, including while in transit.

Personal property coverage includes such items as machinery, equipment, furniture, fixtures and stock, improvements, and includes any other similar property of others for which an insured is liable.

Coverage Extensions include: Accounts Receivable and Valuable Papers coverages, and Fire Protection System Recharge Expenses.

Motor Truck Cargo Legal Liability
Motor Truck Cargo policies insure common and contract carriers for loss or damage to cargo in their care, custody or control.

Coverage is provided on a legal liability basis as determined by the contract of carriage between the motor carrier and the shipper (Bill of Lading or other specially negotiated contract). Generally, a carrier is liable for the safe delivery of the property entrusted to them, not only while on their vehicles, but also while temporarily at terminals awaiting shipment.

An insurer's Motor Truck Cargo Legal Liability policy is designed to cover that liability on behalf of the carrier.

Anyone who carries the property of others in return for a tariff should have Motor Truck Cargo Liability including

-Common Carriers
-Contract Carriers
-Non-trucking risks whom backhaul property of others on their own truck

Museums
Some Marine policies offer coverage developed specifically to insure museum-quality objects.

The policy insures museum owned property at scheduled locations, on exhibition or on loan to other organizations. The policies also offer coverages for property in transit and the property of others for which the policyholder is legally liable. Coverage is available for art, history, natural history, science and technology and sports museums.

Some insurers also offer coverage for specialized institutions such as aviation and automobile museums.

In the United States, there are more than 12,000 museums eligible for this coverage. The market is expected to expand as the number of specialty museums and local historical societies continues to grow. Many of these smaller museums have no coverage for their collections because they perceive that one-of-a-kind objects are invaluable and therefore uninsurable.

Although an exact replacement is not available, insurance can offer curators the opportunity to supplement the remaining collection with artifacts of the same genre to keep and preserve the mission of the museum. Insurers such as Travelers, and others, provide coverage for these types of unique situations. Whatever the risk, from local special interest museums to large national museums, companies such as Travelers provide Insurance coverage for the art world's special insurance needs.

Scheduled Property
Scheduled Property coverage is designed to cover property that is unique or unusual or is not typically covered under any other marine or property coverage. Coverage is available to protect against risks of direct physical loss or damage (subject to certain inland marine exclusions).

Any commercial property owner with property that travels from location to location or needs coverage for other than real property or contents is a candidate for Scheduled Property.

Scheduled Property is for any business entity that wants insurance protection for unique property ranging from structures outdoors to movable property.

Some of the unusual types of risks eligible for this coverage include:

-Circus rides
-Locomotives and rail cars
-Voting machines
-Transit systems
-Water storage tanks
-Antique and race cars
-Ski lifts

Program can be tailored to the specific property. Scheduled Property is completely flexible in coverage scope. Coverage applies to property wherever it is located - at a specific location, in transit or at a temporary location. Valuation options of all types are available, including agreed amount, actual cash value or replacement cost. Coverage is tailored to the specific types of property.

Transportation

Transportation insurance typically covers shippers' interest in their property while in transit by public motor carrier, contract carrier, railroad, air carrier, or while on their own vehicles. The coverage form is often extended to provide insurance for loss to property while it is being loaded and unloaded.

A Transportation policy pays up to the limit of insurance, regardless of the extent of the carrier's legal liability or the carrier's ability to meet their financial obligations. In today's fast paced world, insureds don't have time to spend collecting reimbursement from a carrier in the event of a loss. Some Transportation policies also pay for certain losses, even when the carrier may not be liable, such as Acts of God (flood, earth movement, etc.). And if the insured ships F.O.B. and cannot collect the invoice amount from the consignee because of loss or damage during the shipment, the policy will cover the insured's interest in the lost or damaged property.

Any business that deals in a product, such as manufacturers, wholesalers, retailers and distributors, need coverage for incoming and outgoing shipments:

Wholesalers and Retailers
Accounts Receivable Coverage covers the cost of re-establishing records of Accounts Receivable, as well as the actual loss caused by damage.

Camera and Musical Instrument Dealers Coverage protects merchandise while at the premises of the insured, in transit, or away in custody of employees. Coverage is also provided for the property of others while in the insured's custody.

Equipment Dealers Coverage allows coverage for dealers' property, such as mobile, agricultural and construction equipment and related accessories.

Fine Art Dealers Coverage provides for dealers' stock and the property of others, which could consist of sculpture, paintings, drawings, lithographs and other types of fine prints, antiques or collectibles.

Floor Plan Coverage Form protects merchandise for sale that has been financed. This Inland Marine form covers the single interest of the dealer or the lending institution or covers their dual interest.

Furriers Block protects a furrier's stock – consisting mainly of furs, fur garments, garments trimmed with fur and fur accessories.

Jewelers Block covers merchandise while at the premises of the insured, in transit, away in custody of employees, and elsewhere.

Transportation Coverage Form covers property shipped via common carrier or owned vehicles.

Personal Umbrella Liability Insurance

A serious personal liability lawsuit can reach catastrophic levels. There have been judgments that do exceed the liability limits carried by the insured. Once these liability limits are exhausted, the insured is often forced to pay a substantial amount out of his pocket. Thus the need for protection against catastrophic lawsuits exists. Those that usually need this protection are these:

-Highly paid executives
-Physicians
-Surgeons
-Dentists
-Attorneys

Do not be mistaken in the assumption that only those listed above need this protection. Considering the increased frequency of liability lawsuits and the complexities of modern living, most people require this protection.

Nature of Personal Umbrella Liability Coverage

The umbrella package is designed to provide the insured with coverage in the event of

-A catastrophic claim
-A lawsuit
-A judgment

The amount of umbrella coverage can range from $1,000,000.00 to $10,000,000.00.

The contract usually covers the entire family worldwide. The umbrella typically covers liability losses associated with these:

-Home
-Automobile
-Boats
-Recreational Vehicles

-Sports
-Other Personal Activities

While it is true that an umbrella policy is not a standard contract, they do have some common features such as these:

-A self-insured retention must be met with certain losses covered by the umbrella policy but not covered by an underlying insurance.

-The umbrella policy provides excess coverage over basic underlying policies, such as personal auto, and homeowners' insurance.

-Coverage is broad and includes coverage for some losses not covered by underlying contracts.

Excess Liability Coverage
The umbrella policy pays only after the limits of the underlying policy are exhausted. Some umbrella policies require that the insured carry certain minimum amounts of liability on the basic underlying contracts. For example, on an automobile policy the minimum required on the basic contract could be

-$100,000.00 per person bodily injury liability
-$300,000.00 per occurrence bodily injury liability
-$25,000.00 for property damage liability
-A combined single limit of $300,000.00

On a homeowner's policy the minimum required on the basic contract could be

-$100,000.00 of personal liability
-If a watercraft is involved, liability exposure requirements may be $500,000.00 of single limit underlying coverage

Broad Coverage

With respect to personal loss exposures, the personal umbrella policy provides broad coverage. The personal policy coverage also covers certain losses that the underlying contract may not cover after a self-insured retention of deductible is met.

These losses include:

-Personal injury
-Libel claims
-Slander
-Defamation of character
-False arrest
-False imprisonment
-Humiliation

Here are five examples of claims that may be paid by umbrella insurance companies:

-The insured slandered two police officers.

-The insured borrowed a tractor and damaged it. After a self-insured retention was met, the umbrella covered the loss.

-The mast on a rented boat broke during a race and seriously injured a crew member.

Primary coverage was not available to the insured.

-The insured rents a car in England and is involved in a serious accident. The personal umbrella covers the loss since only limited underlying coverage was available.

-The insured's spouse rents a motorcycle and is involved in a serious accident. Since the underlying automobile/homeowner contracts do not cover the ensuing third-party claim, the umbrella pays.

Self-Insured Retention
When an umbrella policy, and not an underlying insurance policy, covers a loss, a self-insured retention or deductible must be met.

As you are certainly familiar with by now, a deductible is the amount the insured is responsible for paying before insurance benefits will pay out. For example, in an auto policy, the insured may be required to pay the first $500 of any repair costs before the insured's coverage will kick in – given, of course, that the damage was caused by a covered peril.

In an umbrella policy, as a rule this deductible is at least $250.00 per occurrence and can be higher. Per occurrence means the deductible must be met each time there is a loss.

Personal Umbrella Coverages

Personal Liability Injury
The insured's liability for personal injury is covered under the personal umbrella policy. Personal injury is defined to include the following:

-Bodily Injury
-Sickness
-Disease
-Disability
-Shock
-Mental Anguish
-Mental Injury

This definition can also include these:

-False Arrest
-False Imprisonment
-Wrongful Entry
-Wrongful Eviction
-Malicious Prosecution
-Humiliation
-Libel
-Slander
-Defamation of Character
-Invasion of Privacy
-Assault and Battery (not intentionally committed or directed by a covered person)

Property Damage Liability
Property damage can be defined as physical injury to tangible property and includes loss of use of the injured property.

The umbrella insurance company agrees to pay losses for which the insured is legally liable and which exceed the retained limit.

The retained limit is either one of these:

-The total of all applicable limits of all required underlying contracts and any other insurance available to a covered person
-The self-insured retention if the loss is not covered by the underlying insurance

Defense Costs
Typically, legal defense costs in addition to the policy limits are paid with the personal umbrella policy. Defense costs include these:

-Payment of attorney's fees
-Premiums on appeal bonds
-Court costs
-Interest on the judgment
-Legal costs

However, some personal umbrella policies will include the cost of defending the insured as part of the total loss. It is possible that in a catastrophic judgment the insured may have to absorb part of the loss. Most umbrella policies will provide and pay the legal defense costs of a covered loss if that loss is not covered by any underlying insurance.

Exclusions

Here are some of the more common exclusions found in personal umbrella policies:

Workers' Compensation: Any obligation the insured is legally liable for under workers' compensation, disability benefits, or similar law is not covered. This is very common of insurance policies, as they are not in the habit of covering losses that are already covered by a different policy. For example, an employer's group health plan will not pay medical costs associated with an employee's work-related injury since it is already covered by the employer's workers' compensation insurance. Remember, the purpose of insurance is to make the insured "whole" again. It is not intended to allow an insured to profit from the loss, such as being paid by two insurance companies for the same one loss.

Fellow Employee: Some personal umbrella contracts exclude coverage for any insured (other than the named insured) who injures a fellow employee in the course of employment arising out of the use of one of these:

-Automobile
-Watercraft
-Aircraft

Care, Custody or Control: Damage to property a covered person owns is excluded under all personal umbrella contracts. Most contracts also exclude damage to a non-owned aircraft and non-owned watercraft in the insured's possession. However, most umbrellas will cover damage to

-Property rented to an insured
-Property used by an insured
-Property in the care of an insured

(Those above exclude aircraft and watercraft.)

Nuclear Energy: All personal umbrella policies have nuclear energy exclusion.

Intentional Acts: Any act directed by or committed by a covered person with the intent to cause personal injury or property damage will not be covered.

Aircraft: Any liability arising out of these will be excluded from coverage:

-Ownership
-Maintenance
-Use
-Loading
-Unloading an aircraft

Watercraft: Larger watercrafts are usually excluded such as the following:

-Inboard watercraft
-Inboard/outboard watercraft exceeding 50 horsepower
-Outboard motors of more than 25 horsepower
-Sailing vessels of more than 26 feet long

Business Pursuits: While liability arising out of business activity or business property is usually excluded, this exclusion does not apply to the insured's or a family member's use of a private automobile.

Professional Liability: While many insurance companies do not offer this coverage and virtually all umbrella policies exclude professional liability, some companies will cover certain professional liability loss with an endorsement and by charging a higher premium.

Officers and Directors: This exclusion does not apply to a non-profit corporation or organization. It does exclude coverage for an act or failure to act as

-An officer
-A trustee
-A director of a corporation or an association

Recreational Vehicles: Liability arising as a result of ownership and maintenance golf carts is excluded.

Section 3: Umbrella Insurance

Chapter 7 Umbrella – Introduction

We've just spent a few sections discussing the Personal Umbrella policy, but we're about to go into greater detail as to what umbrella insurance is, who needs it and how risks are assessed.

Why would I need an umbrella insurance policy?
There are many situations where a standard liability policy is simply not enough coverage. An umbrella policy allows you to protect yourself against major lawsuits in two ways. First, the umbrella provides excess liability over underlying coverage. Second, the umbrella provides liability coverage that may be excluded by homeowners or auto policies.

Just what is a personal umbrella policy?
Often times referred to as a personal catastrophe policy, a personal umbrella policy supplements the basic personal liability coverage provided under homeowners' and auto policies. The umbrella was created to protect people from large losses.

What special protection is afforded by an umbrella policy?
Personal injury losses that may be limited or excluded under most homeowners' policies will receive broader coverage under an umbrella policy. As a rule, personal injury does not have a uniform definition. However, just about all umbrellas will refer to personal injury to include bodily injury. Most policies also include these in their definition of personal injury:

Mental anguish, false arrests, wrongful eviction, wrongful detention, malicious prosecution, invasion of privacy, assault and battery, slander, libel and defamation of character.

Are there differences in personal umbrella policies?
There is no standard personal umbrella policy. The insurance coverage, as well as the exclusions, will vary by company. It is important that you compare the costs against the coverage the policy provides. In some cases, it is more important to know what is excluded from coverage. Additionally, you need to know what coverage and limits are required on the underlying homeowners and auto policies.

How the Policy Works

Generally, an umbrella policy pays all of the covered loss that exceeds the limits of the base or underlying policy.

If, for example, the basic policy paid $200,000 on a slip and fall injury and the claim was for $250,000, the umbrella would cover the $50,000 over the basic policy's $200,000 limit.

Deductibles
Usually umbrella liability policies have two types of deductibles. These are also referred to as retained limits. Depending on the loss, one of them pays first before the umbrella pays. If the loss is covered by the underlying policy, that policy pays first up to its maximum limit and then the umbrella policy kicks in. Another consideration is that a loss may occur and is covered by the personal umbrella but not by an underlying policy. In this case, the insured must meet a deductible that is referred as the SIR, which stands for Self-Insured Retention. For example, a $1 million umbrella usually has a $250 SIR that the insured must pay before the umbrella kicks in.

Other Exclusions
Typically, the umbrella policy will exclude losses that are better covered under other policies. Although there are differences, most umbrellas will not cover the following:

-Obligations under workers' compensation or similar laws. If a domestic employee is injured, coverage is afforded under workers' compensation and will not be duplicated under the umbrella policy.

-Damage to property owned by you. This precludes any coverage for property damage best insured under some form of property (homeowners') or inland marine (jewelry floater) insurance.

-Damage to property on which you have agreed to provide insurance. The intent is to prevent the insurance company from paying for a loss that should be insured under some form of property insurance, especially since the insured has agreed to provide coverage.

-Liability arising out of a business pursuit - unless it is covered by your homeowners' or auto insurance. If your homeowners' policy covers some business pursuits (i.e., an office at home), the umbrella will also extend coverage. Some policies also provide coverage to persons who are involved in civic activities, other than a person's regular employment, that may prompt lawsuits.

-Liability arising from your rendering (or failing to render) professional services. This

typically excludes malpractice, which is better covered by malpractice insurance.

-Liability arising from the ownership, maintenance or use of any aircraft. Such potentially catastrophic losses are excluded.

-Liability arising from the ownership, maintenance or use of watercraft not covered under the homeowners' policy (subject to certain restrictions). The umbrella covers small boats that are typically afforded coverage under the homeowner's policy. However, large watercraft are excluded because of the increased liability risk.

-Liability covered by a nuclear energy policy. Nuclear energy policies contain a person's insured or "omnibus" clause that encompasses virtually everyone who may be responsible for a nuclear accident, barring only the U.S. government. If a person should become involved in a nuclear incident covered by a nuclear energy policy, such a person would be covered by that policy and would not need protection under the umbrella. Therefore, coverage is excluded under the personal umbrella policy.

The Process of Risk Management

Unfortunately, an unavoidable part of everyday life is risk. Different people handle risk in different ways. Usually past experience or personal experiences determine how you will respond to uncertainty. Before you can determine the best way to handle a risk, you must be able to identify risk probability and severity.

This is, referred to as risk management. It is the process of

-Determining what exposures to loss exist
-Determining the seriousness of exposures
-Developing a way of minimizing the effect of the loss exposure

The goal of risk management is to make the best possible arrangements ahead of time so that one will not be seriously financially affected when a loss occurs.

Risk management is intended to protect income and assets against unforeseen, unintended or accidental loss.

A risk manager follows these five basic steps in the risk management process:

-Identifying the loss
-Evaluating the exposure and eliminating the severity and frequency
-Selecting the most economical way of handling the risk
-Formulating a risk management plan
-Revising and monitoring the risk management plan

In the next sections, we'll discuss each of these in detail.

Five Basic Steps

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Identifying Loss Exposures
Before a person can "manage" risk, he or she must first identify all the possibilities of loss or the loss exposures to which he or she is subject and that can be guarded against in some way. The term loss exposure is used to describe the property or person facing a condition in which loss is possible and unpredictable. Potential property losses include direct and indirect losses. Potential liability losses are those associated with torts or, to a much lesser extent, breach of contract.

Property Loss Exposures
The individual risk manager begins the risk management process by compiling an inventory of all real and personal property that indicates the amount of property owned and its present value. Real property consists of land and, generally, whatever is erected or growing upon or affixed to it. The definition of real property included the earth's surface, the air above and the ground below, as well as all appurtenances to the land, including buildings, structures, fixtures, fences and improvements erected upon the land. Excluded are growing crops. The term also includes the interests, benefits and rights inherent in the ownership of real estate. Personal property consists of tangible, movable possessions and includes things such as furniture, jewelry, automobiles and recreational vehicles.

After the inventory is complete, the risk manager can identify the possible property loss exposures that should be addressed. The possible causes of property losses that should concern property owners are too numerous to list. However, two basic types of risk that may cause financial loss may classify these losses. These risks include the following:

-Direct physical damage to property caused by perils such as fire, wind, water and other perils that may damage or destroy the property

-Indirect loss that occurs following a direct loss to property by an insured peril and that included additional loss expenses for the extra cost of food, transportation and housing incurred by the insured.

Property may be damaged or destroyed by physical perils, such as fire, smoke, explosion, hail, etc. Deviations from expected individual conduct, such as theft, vandalism, or arson, may be termed social perils that cause property loss. Finally, certain economic perils, which occur less frequently, may result in property loss. For example, people protesting a factory layoff may cause damage to nearby property. Two or more perils, such as fire and vandalism, may be involved in a loss.

Liability Loss Exposures
The term liability may be used in a number of ways. Generally, the term is synonymous with moral or legal responsibility and involves the concept of facing a penalty when a particular responsibility is not met. In this text, we are primarily concerned with the term legal liability, which is defined as the condition of being bound in law to do (or not to do) something that may be enforced in the courts. The law does not recognize moral responsibility alone as legally enforceable, but people who do not meet their moral responsibility may also become legally obligated to pay for another's injuries.

Under our legal system, a person may be held responsible for causing injury to another person or damage to another's property. People are faced with the possibility of having to defend themselves against a lawsuit, even if the suit is groundless. The risk of being held financially responsible for judgments and legal defense and court costs, as well as the indirect expenditures of time, energy and money, is the greatest risk that most people face. Therefore, in addition to

property loss exposures, risk managers must identify these two basic types of liability loss exposures:

-Casualty loss that results from perils such as robbery, burglary, vandalism or arson

-**Liability risk** where the law of negligence is used as the basis to determine whether an individual may be held responsible for the financial cost of other people's bodily injuries or for damage to their property

People may incur liability loss exposures in a number of ways. A person may be held legally responsible for injuries or damages that result from his or her ownership of an auto, recreational vehicle, watercraft or residence premises , from personal or business activities, from obligations assumed under a contract, from the employment of domestic workers, from libel, slander and other personal injury offenses, and from a number of other events.

Individuals may be held criminally or civilly liable, depending on the nature and form of their actions. Criminal liability is clearly established by statute or administrative rules. In a criminal action, a district attorney or attorney general of either the state or federal government initiates the criminal action against the accused wrongdoer. For example, a district attorney will file charges against an accused murderer. If the accused is convicted, the state or federal government imposes penalties.

On the other hand, civil liability is established by statutes, administrative rules and prior court decisions that outline the rights of the parties as opposed to each other. One party normally brings a civil liability action against another party for the wrongs alleged. The litigants at their own expense bring these legal actions (with the court costs usually imposed on the losing party). The sources of civil liability are classified as those arising from the following:

-Contractual or similar agreements
-Torts, which are acts or omissions other than breach of contract
-Equitable actions such as fraud, errors or mistakes
-Actions that do not fall into the first three categories

Remedies based on contractual agreements and tort actions seek monetary damages: those based on equitable actions usually seek some other remedy, such as performance of a contract.

Evaluating Loss Exposures

In the second step of the risk management process, the risk manager must evaluate the loss exposures and decide which risks are intolerable, which are difficult to tolerate and which are tolerable. Intolerable risks are those that are so large that a loss from one might cause a person's bankruptcy. These risks typically include liability risk and the risk of the destruction of a home because of a natural disaster. Difficult to tolerate risks are those that would cause the individual a significant financial loss but that would not lead to bankruptcy.

An example would be the destruction of an automobile. Finally, tolerable risks include loss or damage to personal property that might be large but are not intolerable in terms of the individual finances. An example would be the replacement of a broken windshield.

Having identified the risks, the risk manager then estimates both the maximum possible loss and the maximum probable loss the property owner faces. These two estimates are useful in determining the best way or ways to handle a loss exposure. The maximum possible loss is the worst loss that could possibly happen, while the maximum probable loss is the worst loss that is likely to happen. For example, it is possible for a house located in Arizona to be completely destroyed by flood. However, it is unlikely that such a loss will occur. Therefore, if a house is not located in a flood area, it is usually unnecessary (and sometimes impossible) for the insured to

purchase flood insurance.

After the risks have been classified in this way, the risk manager then evaluates the frequency and severity of each loss. Frequency is a measure of how often a particular event has occurred: severity is a measure of the damage caused by each incident. For example, counting the number of times a person's dog has bitten a neighbor is a frequency measurement, but calculating the medical and legal costs of those bites is a severity measurement. After this step has been completed, the risk manager can decide how to effectively deal with his or her property and liability loss exposures.

Handling Risk

The risk manager may select one or more risk management techniques to handle the risks he or she has identified.

These techniques include avoidance, retention, loss control, non-insurance transfer and insurance. When considering which of the risk management techniques to implement, the risk manager should remember these three general, practical rules of risk management:

-The size of the potential loss must relate favorably to the resources of the one who must bear the loss.
-The possible benefits of taking a risk must be reasonably related to the possible costs.
-The amount of potential loss can usually be reduced or prevented through effective loss control programs.

The risk manager must determine whether it is best to reduce, eliminate or transfer the risk. Let us look at how these general rules of risk management apply when selecting a risk management technique.

First, selecting a technique begins by using information gathered in the second step of the risk management process. The risk manager has approximated the total loss from one event or occurrence and has estimated how often a particular loss is likely to occur (loss frequency) and how much could be lost if a certain event should occur (loss severity). For example, if a homeowner is estimating the potential loss frequency and severity of a fire, the following losses are possible:

-Direct fire and smoke damage to the house and its contents

-Indirect damage in the form of burn injuries to a visitor in the house

-Damage to neighboring property if the fire spreads

-Loss of use of the property because the fire damage makes it necessary for the homeowner to move to another location, at least temporarily

The risk manager should determine the probability and possibility of each type of loss, as well as the loss frequency and severity of those losses.

Second, the risk manager must determine the amount of money that will be available to meet the potential loss. Obviously, this amount will vary widely by individual. To find out how much a person is worth in dollars and cents, he or she should complete a personal balance sheet. This is a financial inventory of all personal assets (that which is owned) and liabilities (that which is owed). The difference between assets and liabilities is a person's net worth.

The balance sheet provides people with a record of their financial progress and can help them with a future savings and investment program. By determining net worth on an annual or semiannual

basis, people can see whether their net worth is increasing, decreasing or remaining the same, and if they are keeping pace with the rate of inflation. They can also determine what portion of their assets could easily be converted into cash if they experienced a property or liability loss and needed cash to pay for the loss.

Finally, the benefits and costs of any available alternative method of handling the risk in certain situations must be considered. In many cases, insurance is the answer. However, other risk management techniques, such as loss prevention or self-insurance, may also be viable options under various circumstances.

Implementing a Risk Management Plan

The fourth step of the risk management process is executing the plan that the risk manager has devised. Insurance coverage, which is the focal point of most individual plans, is usually purchased. The risk manager's objective is to purchase policies that will provide the most comprehensive coverage at the most reasonable cost. Insurance contracts will be one of these three types:

-**Primary** insurance required by law (e.g., automobile liability insurance) or by contract (e.g., homeowners' insurance required under a mortgage contract)

-**Desirable** insurance that provides protection against losses that could financially harm an individual but that would not completely destroy his or her savings (e.g., physical damage insurance protects against damage to the insured's auto)

-**Catastrophic** insurance that provides protection against losses that could financially destroy an individual (e.g., flood, earthquake and personal umbrella liability insurance provide protection against devastating losses)

The risk manager selects limits of liability that adequately cover the risk's probable maximum loss, as well as reasonable deductibles that help to reduce the annual premium for insurance coverage. Because some of the risks faced by the individual may not be insurable, these risks must be handled in some other way. For example, war risk is not covered by insurance so individuals must retain that risk. In other words, if property is damaged or destroyed by an act of war, property owners must pay for the loss themselves.

In the last section, we discussed the process of handling risk and developing a risk management plan. Once the plan has been developed and implemented, it must be monitored. This is the final step in the risk management process.

Monitoring the Plan

The final step in the risk management process involves a well-planned program for monitoring and updating the original plan. This consists of regularly identifying any changes in the risk manager's loss exposures, net worth, ability to personally bear financial losses and so forth. All of these are very important considerations for individuals. Risk management as a process grew out of businesses, insurance management, but insurance is hardly the sole method of treating risk. As noted earlier, there are various alternative methods available. For example, as a person's net worth increases, he or she needs more insurance to protect the possible financial costs of losses to that property, the loss of use of that property, and additional expenses that could arise from such losses. Or, on the other hand, increased wealth might mean that a person would feel comfortable retaining more losses and may, therefore, take a larger deductible to reduce the cost of his or her insurance premiums.

When an insurance agent participates in the risk management process with a client, he or she assumes important responsibilities. The client looks to the agent as a professional who can provide sound advice and, when necessary, can work with other experts in applying the principles

of risk management. When insurance protection is necessary for transferring a risk, the agent will be expected to propose a practical and effective insurance plan that provides proper coverage in the correct amounts to offer adequate protection at the most reasonable cost.

Primary Insurance Policies

The average person selects insurance, with some retention in the form of a deductible, as his or her primary risk management technique. Most people will purchase homeowners' and/or a personal auto policy to cover their loss exposures. The policies are referred to as primary, basic or underlying insurance policies. Although various homeowners and personal automobile forms are in use, most follow a format similar to the programs developed by the Insurance Services Office (ISO). When we refer to any personal insurance coverage in this text, we will be referring to the standard ISO forms.

Handling Liability Loss Exposures

We will primarily be concerned with liability losses in this text. Most people handle the risk of legal liability arising out of their personal acts with personal liability insurance. Because liability losses involve a third party, the insurance company or the courts must make a determination of fault. In the event of a lawsuit involving bodily injury or property damage to another person, the insurance company will provide a legal defense and will pay those sums the insured is legally obligated to pay, up to the limits of the policy. Bodily injury refers to bodily harm, sickness or disease, including injury that results in death. Coverage also applies for any required care or loss of services of anyone whose bodily injury is negligently caused by the insured. For example, at common law, a husband may be entitled to monetary compensation if his wife is injured in an accident and unable to provide certain duties owed to her husband under the marriage contract. These duties are collectively call consortium and the spouse may be compensated for lack of consortium. Additional coverage called property damage coverage applies to damage to or destruction of tangible property, including the loss of such property.

Personal liability insurance may be purchased as a separate policy or, more commonly, it is provided as part of a package policy, either an auto or a homeowners' package. Because these liability coverages are quite similar, we will primarily discuss the homeowners' liability coverages. The liability section of the homeowners' policy protects the insured in at least two ways:

If a claim is made or a lawsuit is brought against an insured, the policy will pay for damages for which the insured is found legally liable, up to the policy's limit of liability, typically $100,000 per occurrence. Higher limits may be obtained for an additional premium. Typically, coverage will apply for claims arising out of the ownership or use of the insured location, personal activities, such as sports or social activities on or away from the insured premises, and actions of a residence employee, such as a cook, maid, nanny or baby sitter, in the course of employment.

In addition to the limits of liability, the insurance company must defend any claim or lawsuit that is brought against the insured for bodily injury or property damage - even if the claim is false, baseless or groundless. In some cases, the policy specifies that the insurer's obligation to settle or defend claims ends when the amount the insurer pays for legal defense equals the policy's limits of liability. As a practical matter and to avoid expensive litigation, most personal liability lawsuits are settled out of court.

As mentioned earlier, individuals who own or operate automobiles may purchase liability protection in the form of an automobile policy. The Personal Auto Policy, for example, includes Part A Liability Coverage, which provides protection against economic loss to an insured for "bodily injury" or "property damage" that arises out of the operation, maintenance or use of an insured automobile. Under this policy section, the insurance company makes these two promises to the insured:

-To pay damages on behalf of the insured for which he or she becomes legally responsible

because of an accident

-To settle or defend any claims under the policy, up to the policy's limit of liability

It is important to note that the insurer has no duty to defend lawsuits or to settle any claims that are not covered under a particular insurance policy. For example, an insurer who provides automobile or homeowners' insurance is not required to defend an insured who is sued by a neighbor for intentionally using a motor vehicle to damage the neighbor's lawn because intentional damage is not covered.

Handling Personal Liability Injury

The personal liability provided under the ISO homeowners' policy specifically covers these two types of liability:

-Bodily injury, meaning bodily harm, sickness or disease, including required care, loss of services and death that results
-Property damage, meaning physical injury to, destruction of or loss of use of tangible property

The policy does not mention coverage for personal injury losses, defined as any injury to another's person, rights or reputation, including torts such as libel, slander or invasion of privacy. Many insurers contend that they did not intend to provide coverage for personal injury liability under a standard homeowners; policy and coverage is often denied on that basis.

When coverage is not provided by the homeowners; policy itself, a personal injury endorsement may be added to the policy to provide coverage for certain offenses committed during the policy period.

The ISO personal injury endorsement does not provide coverage for liability in these situations:

-Arising out of disputes between insureds
-From contracts not related to the premises
-From the injured person's employment by the insured
-Involving a violation of a penal law
-Arising out of business pursuits
-Arising out of civic or public activities performed for pay

Personal injury liability protection may also be extended by a personal umbrella liability policy.

The Structure of Primary Policies

Property-casualty policies usually contain the same policy elements, regardless of what type of property or liability coverages they provide. Each policy begins with a Declarations page that contains information found on the client's application for insurance and any information that is unique to that particular policy. A Declarations page usually contains the name and mailing address of the insured(s), the name of the insurance company providing coverage, the policy number, the inception date and expiration date of the policy, the dollar amount of the applicable policy limits and deductibles, the numbers and edition dates of any forms and endorsements and the premium.

Policies usually contain a separate Definitions section that explains the meaning of certain words that are used in the insurance contract. The defined words may appear in boldface type, italics or within quotation marks. For instance, this section often explains that throughout the policy the named insured is referred to as "you," "your" and "yours" and the insurance company is referred to as "we," "us" and "our." If a word is not defined in the Definition section or in the body of the policy, rules of contract interpretation are used to determine the meaning. For example, technical

words are interpreted according to their ordinary technical meaning and legal words are assigned their usual legal meaning.

The policy's Insuring Agreements provision sets forth the insurance company's promise to pay the insured (or to pay on behalf of the insured) for a covered loss. In return for the insurer's promise, the insured must pay a premium and comply with certain policy requirements which are spelled out in a section call Conditions. The Conditions section states that the insured must, in addition to paying a specified premium, report losses promptly, cooperate with the insurer in settling a loss and avoid anything that might harm an insurer's right to recover damages from a responsible third party. If the insured fails to comply with these conditions, the insurer may be relieved of its obligation to pay for the loss or defend a lawsuit.

Policies also contain a number of coverage exclusions that restrict or eliminate insurance coverage for specified loss exposures. These exclusions appear throughout the policy as well as in a separate section call Exclusions. Finally, some policies may contain various amendments or endorsements to the basic policy provisions. The insurance company or its duly appointed agent must issue these endorsements.

The Need for Umbrella Insurance

People can be held legally liable to pay damages for the bodily injury or property damage caused by their negligence. The need for liability can arise as a result of a person's personal or recreational activities as well as a person's business. Some of the higher liability claims arise when insured's are entertaining guests or permitting people to use their property.

Consider how a jury's desire to punish a negligent person could result in a judgment for damages in the following situations:

-A practical joke misfires and results in a lawsuit for defamation of character.
-A neighbor or guest falls on a person's property, resulting in permanent disability.
-A protective watchdog proves that his bite is even worse than his bark.
-A person's child accidentally breaks an expensive vase while at another person's house.
-A moment's inattention while driving results in a multi-car accident.
-A spark from burning leaves starts a fire that inadvertently burns a neighbor's roof.
-A letter to the editor triggers a libel suit.

At this point, it is important to make a distinction between two terms frequently used in liability suits: coverage and liability.

The word coverage refers to the contractual obligation imposed on the insurance company that agrees to indemnify the insured for sums he or she becomes legally responsible to pay as damages. Liability refers to the legal responsibility of the policyholder to other persons arising out of an occurrence. In some cases, a particular peril will not be covered by the policy and the insurance company is under no contractual obligation to indemnify the insured. For example, assume the insurer issued homeowners' policy covering an insured's liability arising out of the ownership of a certain property. The insurer is under no obligation to provide coverage under that homeowners' policy for an automobile accident that occurred away from the residence premises, even if the insured was at fault. In this case, there may be liability on the part of the insured, but there is no coverage provided under the policy.

On the other hand, there may be coverage under the policy but no liability on the part of the insured. For example, the Personal Auto Policy provides coverage for property damage up to the policy limits. However, if the insured vehicle is stolen and the thief uses the car to damage several lawns in the area, the insured has no liability for the damage. Even if the insured feels sorry for the neighbors and perceives some moral obligation to repair their lawns, he or she has no legal liability to do so. Likewise, the insurance company has no responsibility, either by way of

settlement or as a gift, to make any payment to the neighbors. In this case, while there may be coverage under the policy, there is no liability on the part of the insured.

Insured's should be cautioned to remember that even when there is no apparent liability on the part of the insured or available insurance coverage, the insured may still be sued and found legally responsible. In a civil case, it is possible that the plaintiff, who must establish his or her claim by a preponderance of evidence, may produce evidence that is more credible and convincing than that of the defendant's. And, if the plaintiff's case is more believable, the plaintiff will win.

The settlement the plaintiff receives might be quite substantial because of these three factors:

-The public's attitude toward claims
-The application of the law of negligence
-The jury's opinion about damage awards

Identifying Gaps in Liability Coverage

Insureds routinely believe that their policies cover every possible loss exposure, but this is simply not the case. When a liability loss occurs, insureds may be surprised to learn that there are serious holes, or gaps, in their insurance coverage. As stated earlier, an insurance policy covers the insured only up to its liability limits. Beyond these limits, a liability insurance policy does not protect the insured.

The majority of policies covering liability for bodily injury have two limits: a limit of liability for one person and another limit (usually higher) for any single occurrence, where more than one person is involved. For example, assume an insured has a Personal Auto Policy that covers him or her up to a $300,000 liability limit for bodily injury for each accident or occurrence. If the insured is involved in an accident and is held liable for $200,000 in bodily injury damages, the auto policy will pay for those damages. However, if the insured is held liable for damages in excess of $300,000, he or she will be held personally liable for the additional damages.

The underlying personal liability insurance, in addition to paying only up to certain limits of liability, excludes certain loss exposures.

For example, the liability portion of the homeowner's policy does not cover the following:

-Damage from the intentional acts of the insured
-Damage caused by the rendering or failure to render professional services
-Damage from acts of war
-Damage from communicable diseases
-Damage arising out of business activities

In addition, not all individuals on the insured's property or in the insured's auto are afforded coverage by the insured's primary liability insurance. Residence employees, defined as an employee of the insured whose duties are related to the maintenance or use of the residence premises, including household or domestic services, may not be covered under the liability section of the homeowners' policy if the insured is required to have workers' compensation coverage in force for such employees.

The basic Personal Auto Policy excludes liability coverage for the following:

-Damage caused by intentional acts of an insured
-Damage to property owned by, rented to, used by or in the care of an insured
-Bodily injuries to employees covered under workers' compensation
-Damages resulting from the ownership or operation of a vehicle while it is being used as a public or livery conveyance

-Damages incurred while a party is employed or engaged in the business of selling, repairing, servicing, storing or parking vehicles

Finally, underlying policies generally do not provide liability coverage for unusual loss exposures or for losses that occur outside the United States. For example, the Personal Auto Policy limits coverage to accidents and losses that occur within the policy territory, meaning the United States of America, its territories or possessions, Puerto Rico, Canada, or while the auto is being transported between their ports.

Purpose of Umbrella Policies

The Personal Umbrella Liability Policy was created to expand the insured's liability coverage by filling gaps in the basic liability coverage provided by underlying policies and to reduce the insured's worry, trouble and burden of facing personal litigation on his or her own. Personal umbrella liability coverage is usually sold in units of $1 million or more and may be added to a basic homeowners' or auto policy that is already written by the insurance company. Many companies also write stand alone or separate, personal umbrella policies without writing the underlying coverage. To qualify for stand-alone coverage, however, the applicant is usually required to show proof of certain underlying insurance coverage with other insurance companies. Umbrella policies provide insurance for accidents and other situations not ordinarily covered under primary insurance, subject to a deductible of between $250 and $1,000.

There is no standard personal umbrella liability policy. The policy's forms, format and coverage vary by insurer. This does not necessarily mean that because one company's policy looks more extensive that it is superior to another policy. Rather, each contract should be reviewed to determine which offers the best coverage for a particular policyholder. Regardless of which company is providing the policy, all personal umbrella policies are designed to give insured's and their families' two types of extra liability protection.

They add to the liability of any homeowners', automobile or other liability policies currently in force. Most homeowners' policies provide basic personal liability coverage of $100,000. Auto policies typically contain a combined single limit of $300,000 per occurrence. An umbrella policy supplements these basic personal liability coverages. If, for example, the insured has a standard auto policy with liability limits of $300,000 and a personal umbrella policy with limits of $1 million, the insured is protected up to $1,300,000 if a covered auto accident occurs and the insured is found legally responsible.

These policies are designed to cover liability exposures that other policies do not cover. The personal umbrella policy is designed to cover some of the more unusual exposures, such as personal injury claims, that an insured might face but that are typically not covered under most standard liability policies.

A personal umbrella is the liability counterpart of Difference in Conditions (DIC) insurance, a property coverage that expands insurance written on a named perils basis to an open perils basis and protects the insured against risks of direct physical loss to the insured property, subject to certain exclusions and deductibles. An umbrella contract provides (subject to a deductible) liability coverage where no other liability insurance exists, and in addition provides coverage for liability when the limit of the primary or underlying insurance has been exhausted.

Special Characteristics of Umbrella Policies

The insurance company that issues the umbrella policy provides additional liability coverage over the primary policies, up to the limits listed on the Declarations page of the umbrella policy, even if the same insurer does not provide the underlying insurance. The personal umbrella policy covers any number of accidents or occurrences that occur during the policy term, regardless of how many claims are presented. However, the policy restricts payment for any one accident to the limit listed in the policy (usually up to $1 million per occurrence). In other words, even though the

insurer may pay for ten claims totaling $10 million during a one-year period, it will not pay more than $1 million for any one occurrence.

To limit the insurer's liability, however, many umbrella policies are beginning to offer aggregate limits, meaning a maximum dollar amount that may be paid during the policy period or during the insured's lifetime, as specified in the policy. A policy with a $10 million aggregate limit, for example, may pay several claims for $1 million each, but it will only pay out a maximum of $10 million during a given policy period.

It is important to remember that the personal umbrella is a third party liability policy that covers only another person's claim against the insured. It does not cover damage to the insured's own property, motor vehicles, home or other valuables.

Basic Policy and Components

Personal Umbrella Liability Policies
The insurance industry has developed a number of liability contracts over the years to meet the basic liability exposures of individuals and businesses. It was not until 1960, however, that a personal catastrophe liability contract (or as it is more commonly called a personal umbrella liability policy) was developed. The contract was originally aimed at insurance buyers with the idea of providing broader insurance protection for individuals, especially professionals and wealthy members of society, who were excellent targets for liability lawsuits that could result in significant claims. Today, however, it is not unusual for liability claims to exceed the basic limits of liability afforded by an average insured's homeowners or auto policy. These claims, which may result from personal activities or professional or business pursuits, are usually covered by a personal umbrella liability policy.

As we have said, there is no standard personal umbrella liability policy form or format. Each insurer develops its own policy based on its own preferences and/or the needs of its clients. Because coverage varies by insurer, it is important for the insurance producer and his or her client to examine each personal umbrella policy to make sure that it is not merely an ordinary excess liability contract. An excess policy provides only additional layers of coverage to the coverage already furnished by the underlying policy. The terms and conditions of an excess policy should be precisely the same as those of the underlying policy. A true umbrella policy, on the other hand, provides not only excess liability but also responds to claims that may be excluded in the underlying policy but are not excluded under its own form.

Personal umbrella liability insurance is intended for catastrophe type claims. An umbrella insurer is simply not interested in covering small claims. To support this intent, personal umbrella policies that cover loss exposures that are not covered by the underlying policies are subject to deductibles commonly referred to as a retention or self-insured retention. Most insurers offer minimum deductibles of $250 but offer higher ones for additional reductions in premium. In some cases, an insurance underwriter will require a substantial deductible when a particular risk is not otherwise insurable because of some unusual exposure to loss.

In general, the purpose of a personal umbrella policy is not only to provide million dollar-plus excess limits but also to broaden basic liability protection in several ways.

In most cases, the personal umbrella liability policy is intended to do these things:

-Apply worldwide coverage (where permitted by law), without territorial restriction as is the case with most primary insurance coverage
-Provide liability coverage for the insured who uses certain non-owned automobiles, watercraft and aircraft when this coverage is excluded under Section II of the homeowners' policy

-Include coverage for liability assumed by the insured under certain oral or written agreements
-Cover a broad range of personal injury hazards such as libel, slander, false arrest, humiliation, defamation of character, false imprisonment, wrongful eviction, wrongful detention, malicious prosecution or invasion of privacy
-Provide payment of defense costs when primary insurance does not apply

To adequately protect the insured, a personal umbrella liability policy should serve three purposes:

-It should add an additional amount of liability coverage above the limits provided by the insured's homeowners', personal auto or other underlying policies.

-It should provide insurance coverage for some exposures that are not covered (or only minimally covered) by the insured's underlying policies.

-It should provide protection for the insured against certain catastrophic liability losses that might otherwise cripple the insured financially.

Basic Policy Component Parts

Depending on the preferences of the insurance company, the actual format of the personal umbrella liability policy will vary among companies. In addition, the amounts and types of coverage may also vary.

Regardless of how it looks or exactly what it covers, however, a personal umbrella policy will usually contain six basic components or policy provisions that outline the details of the contract between the insurer and the insured.

Declarations
This part identifies the parties to the contract and defines who and what the policy insures and for what period of time. The premium and amount of insurance are also stated in the Declarations.

Definitions
The contracts commonly used words and phrases are defined in this section to reduce any misunderstandings between the parties about what the insurer intends to cover.

Insuring Agreements
An umbrella policy contains a number of promises and specific obligations assumed by the insurance company, including its duty to pay certain losses on behalf of the insured. In addition to an introductory insuring clause, there may be several additional statements within the body of the policy that must be referenced when a loss occurs to determine both the insured's and the insurer's responsibilities.

Conditions
This policy provision describes the policy requirements with which the insured must comply before the insurer is obligated to pay.

Exclusions
This provision specifically lists causes of loss for which the insurer does not intend to provide coverage.

Miscellaneous Provisions
Some policy provisions, such as the insured's duties when a loss occurs, do not neatly fit into the Declarations, Definitions, Insuring Agreement, Conditions or Exclusions headings. These provisions may be grouped together as Miscellaneous Provisions.

In the following sections, we will briefly describe each of these policy components.

Policy Components

Declarations Page
The preliminary section of each umbrella liability policy contains a Declarations page (also called a "Dec page," or the "Dec") that contains pertinent information about the insurance risk on the basis of which the policy was issued. The insurer, which draws up the insurance contract, is expected to represent clearly the intent and terms of the policy. Therefore, the purpose of the Declarations page is to provide information about who is covered (the named insured), what is covered (the property and perils listed in the policy), when it is covered (the effective dates of coverage), where it is covered (the described location) and why it is covered (a premium has been paid) so that there is no ambiguity.

The entire policy, including any endorsements or changes to the policy, is inserted into a policy jacket that serves the same function as the covers of a book. The policy jacket keeps the Declarations page and all the policy forms in one place, thereby allowing the insured to easily find, read and review his or her insurance policy.

Insuring Agreements
Every umbrella liability policy contains an insuring clause that is a general statement of the promises the insurance company makes to the insured. In addition to this general clause, the policy often contains a number of other guarantees referred to as Insuring Agreements. These Agreements state what the company promises to do, such as agreeing to defend the insured in a liability lawsuit.

Definitions
In response to complaints from insureds and the courts that the terms used in insurance policies were not clearly defined, the insurance industry developed a section called Definitions that is now contained in every insurance policy, including a personal umbrella policy. Personal umbrella liability policy definitions are not standardized. An insurer develops its own definitions and policy wording, which may later be modified by the underwriter to meet the requirements of the applicant or to adapt to unique situations presented by different underlying forms of coverage. For example, an insurance company's definition of an insured may include the person named in the Declarations page (the "named insured"), the named insured's spouse, any relatives and persons under a specified age and in the care of any of the persons previously named - if they live in the insured residence. However, another company's definition might specifically remove coverage for any person, other than the named insured, using automobiles or watercraft while engaged in an automobile or boat-related business.

Conditions
Like other insurance contracts, the umbrella policy is a conditional contract. The insured must pay the premium indicated in the Declarations and abide with certain requirements specified in the policy. The personal umbrella policy's Conditions component describes the rights and duties of both parties to the insurance contract - the insurer and insured. Conditions are provisions inserted in the contract that qualify or place limitations on the insurer's promise to pay for losses. In addition to being contained in a separate section, a policy's conditions may also be found anywhere in the contract where the insurer intends to limit coverage.

Exclusions
A personal umbrella policy does not cover every risk that the insured faces. For example, many insurers will not provide coverage for perils that they consider being uninsurable, such as war or some other potentially catastrophic event. They also intend to deny coverage under the umbrella if coverage could be better provided by another type of insurance policy or if there are

extraordinarily hazardous conditions present. Finally, insurers exclude coverage for losses that are difficult to measure or for perils that are not needed by the typical insured. Therefore, the personal umbrella policy also contains an Exclusions component that specifically lists causes of loss for which there will be no coverage. The policy may place limitations on coverage or exclude certain perils or types of losses.

Typically, personal umbrella policies exclude the following types of losses:

-Obligations under workers' compensation, unemployment compensation, disability benefits or similar laws

-Business pursuits, professional services and liability resulting from owned or rented aircraft and watercraft excluded under the homeowners' policy

-Property damage to any property owned by the insured or in the care, custody or control of the insured

-Any act committed by or at the direction of the insured with the intent to cause personal injury or property damage

-Personal injury or property damage for which the insured is covered under a nuclear energy liability policy

Although these exclusions are fairly standard, additional exclusions may be listed in the policy. In some cases, the insurer allows the insured to "buy back" certain coverages, such as workers' compensation, for an additional premium. The agent should be familiar with each insurer's exclusions and be careful to point them out to his or her clients so that there will be fewer surprises if a loss occurs that is not covered under the umbrella liability policy.

Miscellaneous Provisions
Some umbrella policies contain provisions that cannot be strictly classified within one of the previous five policy components. These Miscellaneous Provisions might include a discussion of the insurer's production and underwriting rules, its required underlying limits or any other special company guidelines. In addition, any endorsements that add to, delete or modify the provisions in the original contract may be included in this section.

An endorsement is an attachment to an insurance policy that is used to clarify, extend or restrict coverage with regard to perils, coverage periods or premiums. It can be a standard endorsement that is used to fit a general situation,fgvb or it may be worded to fit a particular situation. These special endorsements are called manuscript forms. When an endorsement is attached to a policy, the endorsement's terms normally take precedence over any conflicting wording in the policy. However, if state law requires any provisions in the policy, an endorsement cannot be used to subvert the intention of the required legislation.

For example, the law may hold a person liable for damages if he or she is found guilty of negligently operating a motor vehicle. The personal umbrella and underlying auto policies cannot be endorsed to delete liability for negligence. If endorsements are in conflict with a state regulation or law, the laws take precedent and the policy is read and interpreted as if the conflicting endorsements had not been added. In other words, the original intent and coverage are preserved.

Chapter 8 Umbrella – Legal Contract

Requirements of Legal Contract

A contract is an agreement entered into by two or more parties under the terms of which one or more of the parties, for a consideration, undertakes to do or to refrain from doing some specified act or acts.

In order to be binding on the parties involved, a contract must meet these five basic requirements:

-Offer and acceptance
-Consideration
-Competent parties
-Legal purpose
-Legal form (in some cases)

Let's briefly review each of these requirements.

Offer and Acceptance

A contract is in essence an enforceable promise. In order for a valid contract to exist, there must be a valid offer and an unqualified acceptance of that offer, so that the seller understands the buyer's offer and the buyer understands to what the seller has agreed. In other words, a contract begins with a meeting of the minds.

The general rule is that it is the applicant for insurance who makes the offer, and it is the insurance company that accepts or rejects the offer. For example, the potential insured requests insurance and fills out an application for personal umbrella insurance: the application constitutes the offer. The agent then accepts the offer on behalf of his or her company. Assuming that the other requirements for a valid contract are met, the property casualty agent can usually bind coverage and make it effective immediately. However, the insurer retains the right to investigate, underwrite and cancel the coverage (as described in the policy and in accordance with state law) if the risk does not meet the company's underwriting guidelines. For example, the applicant may not have disclosed several large liability losses that would have made him or her ineligible for umbrella coverage with some insurance companies. In this case, the insurance company may decline to offer coverage. In most cases, the agent cannot bind personal umbrella liability insurance.

Consideration

The second requirement of a valid contract is consideration, which is the value that each party gives to the other. In the case of an umbrella policy, the insured's consideration is the payment of the first premium (or the promise to pay) and his or her agreement to abide by the conditions specified in the policy. The insurance company's consideration is the promise to do certain things that are specified in the policy. This includes indemnifying the insured for covered losses and defending the insured in a liability lawsuit.

It should be noted that the values of the considerations exchanged are not always equal. When the insured purchases a policy, he or she usually pays a relatively small premium in exchange for a comparably large amount of insurance protection. For example, the annual premium for a $1 million umbrella policy might be less than $200, a decidedly unequal exchange of values if a large loss occurs. In fact, for the benefits the insured receives, a personal umbrella policy may be the best buy in insurance. This relatively inexpensive policy raises the insured's liability coverage to a million dollars or more, and protects him or her from personal responsibility for damages.

Competent Parties

In order to be legally enforceable, a contract must be between at least two bona fide parties. A person cannot make a legally enforceable promise to himself or herself. Thus, John Doe cannot agree to sell a piece of property to himself. However, he could agree to deed the property to

himself and his wife as tenants in common.

The parties involved must be legally competent in order top enter into a valid contract. Generally speaking, competent parties are adults (usually age 18 or 21, depending on the state) who are able to understand the terms and conditions of the contract into which they are entering. In some states, however, minors as young as 14 may enter into some contracts. For example, minors have limited ability to contract, which means that the contract of a minor is valid only if the minor does not disavow a contract entered into during his or her minority or shortly after reaching majority (usually age 18 or 21). For example, a minor possesses the limited capacity to enter into a valid contract to purchase property from an adult. Such a contract would be enforceable by the minor against the adult, but would be voidable by the minor. A voidable contract is an agreement that, for a reason satisfactory to the courts, may be set aside by one of the parties to the contract. Contracts made by minors to obtain such necessities as food, clothing or shelter, however, are not voidable by the minor and will be enforced against him or her.

Some entities are excluded parties to legally binding contracts. When a person has been adjudicated insane or is an officer of a corporation who is not authorized to execute a contract on behalf of the corporation, he or she has no capacity to contract. Lack of a capacity would also cover acts of a corporation beyond its powers as defined in the articles of incorporation.

Also considered incompetent is any person who is impaired by reason physical or mental disability, drugs, alcohol, age or any other cause to the extent that he or she lacks sufficient understanding or capacity to make or communicate responsible decisions concerning himself or herself. Therefore, insane and, in certain, intoxicated people are incapable of entering into valid contracts. An illiterate person, however, is not incompetent as long as he or she understands the nature of his or her acts.

Legal Purpose
In order to be enforceable, contracts must be made for some legal purpose. If the contract does not have a legitimate purpose, it would be contrary to public policy to enforce such a contract. For example, Robert may contract with another person to paint his house for a fee. Such a contract is considered legal and binding. However, Robert cannot legally contract with another person to kill his wife. Because murder-for-hire is not legal, it is not considered a valid contract and would not be enforceable in a court of law.

Legal Form
Unless otherwise required by laws, oral contracts can be just as valid as written contracts. Generally, however, an insurance contract must follow a specific legal form and must be in writing to be enforceable. All essential terms of the contract must be complete and certain so that the entire agreement is set forth in writing and nothing material to the contract is left to be agreed upon in the future. Once the policy is issued, changes may be made by endorsement, but only if the insurer agrees to the requested changes.

Knowing Policy Conditions

Insurance policies are conditional contracts that create a continuing relationship between the insured and the insurance company. In the policy's Insuring Agreement, the insurance company promises to pay on behalf of the insured those sums for which the insured is found legally responsible, to provide a defense for the insured or to furnish other services as stated in the policy. However, the insurer's promises are enforceable only if an insured peril occurs and if the insured has complied with certain conditions contained in the policy. Insureds understand that they must pay premiums in order to keep their insurance policies in force, but that is not the only thing they have to do. Additional duties are spelled out in the Conditions section of the policy.

As an insurance professional, you should review insurance policies before they are forwarded to your clients to assure that the policies have been issued as you requested. You should also discuss

the policy with your client to assure that he/she understands what is covered and excluded. You should also be certain he/she is aware of his/her rights and obligations under the contracts so he/she will have fewer problems should a loss occur. We will discuss the important conditions that apply to most personal umbrella liability policies and explain how you can help your insureds to understand this important part of their insurance coverage.

Understanding Policy Conditions

All property-casualty insurance contracts are written subject to certain conditions or prerequisites. The duties of the insured are primarily listed in the Conditions section of the policy. However, other provisions that qualify the otherwise enforceable promise of the insurer may also be found elsewhere in policy forms or endorsements. As explained previously, insureds should fully understand their obligations under their policies because they cannot expect the insurance company to fulfill its part of the contract unless the insured fulfills all of the required policy conditions. Failure to do so may release the insurer from its obligations.

Most of the policy's conditions have to do with such matters as loss settlements, actions required at the time of a loss, cancellation of coverage and suits against the insurer. Under most umbrella contracts, insureds are obligated to report losses in a timely manner, provide any required documentation of losses to the insurer, cooperate with the insurer in investigating, negotiating and settling claims, and avoid any action that would risk the insurer's rights to recover from a responsible third party.

Common Personal Umbrella Conditions

Personal umbrella liability policies contain a number of conditions that describe the circumstances under which the contract is to operate. Insureds should be certain that they understand how these conditions modify, suspend or rescind the original obligations. In the Conditions section of most policies, the insurer explains that the insured must meet a number of obligations before insurance coverage will apply.

For instance, the policy might state the following:

There are certain responsibilities, which you must fulfill (in addition to paying the premium) as a condition for us to provide coverage.

Policy conditions may be classified in one of these two ways:

-A Condition Precedent
-A Condition Subsequent

Condition Precedent

A Condition Precedent is a requirement or qualification that must take place before the contract exists. For example, in a contract of insurance, the insured agrees to pay the premium and the insurer agrees to provide certain insurance coverages in return. The principal duty of the insurer is to provide this coverage, but this obligation is conditioned on the insured's payment of the premium. The failure of the insured to pay the premium (condition precedent) relieves the insurance company of its principal obligation and, in fact, nullifies or voids the contract.

Condition Subsequent

A Condition Subsequent is a requirement that must be met after the contract is in force. For example, the insured must report all accidents and potential claims to the insurer as soon as possible.

A typical clause might read in this way:

In case of a claim or "occurrence" that may be covered by this policy or if a "covered person" is

sued in connection with an "injury" or "damage" which may be covered under this policy, the "covered person" must do the following:

-Promptly notify us or our agent in writing
-Promptly send us copies of any notices, legal documents and any other documents that will help us with your defense
-Cooperate with us in the investigation, settlement or defense of any claim

Assume the insured is involved in an auto accident. The insured feels he or she was not at fault, so the insurance company is not notified of the accident until a year later when the other driver files a lawsuit. Because the insured breached the contract by not notifying the insurance company "promptly," the insurer may be relieved of its obligation to defend and indemnify the insured for that particular loss. The insured's failure to comply with this policy condition does not void the entire contract. The insurer will still respond to other losses during the policy term with the same obligation to defend and indemnify the insured, provided that the insured complies with the policy's terms and conditions.

The things that an insured or other covered person must do as a condition before the insurance company will provide coverage will vary by company. Generally speaking, umbrella insurers will include conditions relating to claims notification, assignment of the policy, cancellation of coverage and legal action against the insurer.

Understanding Insuring Agreements

You'll recall that an insurance contract is an agreement entered into by two parties: the insurance company and the insured. The contract usually begins with an insuring clause (or clauses) called Insuring Agreements that outlines the insurance coverage that the company promises to provide in return for the insured's promise to pay a premium and compliance with the terms of the contract. Technically, complying with these conditions is also a part of the consideration. If a covered loss occurs but the conditions are not met by the insured, the insurer has no obligation to pay.

A rather broad Insuring Agreement might read like this:

"We will provide the insurance described in this policy if you pay the premium and comply with all the terms of the policy."

With this statement, the insurance company (one competent party) enters into a legally binding contract with the insured (a second competent party). Based on the insured's application for insurance (offer) and payment of a specified premium (consideration), the umbrella insurer agrees to provide coverage (acceptance) and issues a personal umbrella liability policy (legal form). In return for the insured's premium and promise to abide with the terms of the policy, the insurer agrees to assume many of the insured's liability loss exposures. The exact terms of the agreement are specified in the various policy provisions.

Coverage Restrictions

At first glance, Insuring Agreements like the one above might appear to cover every loss exposure. However, because it is unlikely that a company intends to provide unlimited coverage, the insurance producer should look for words or phrases in a policy's Insuring Agreements that might restrict or limit coverage. In our first example, the words insurance described in this policy are included to warn the reader to look for additional definitions, conditions, exclusions and miscellaneous provisions throughout the policy that will clarify exactly what the insurer intends to cover under the policy. The policy is not intended to cover every hazard an insured faces. Coverage applies only as described throughout the policy.

Insurance companies may include words or phrases in their Insuring Agreements that have a

special meaning as used in its personal umbrella policy. This interpretation may be quite different from that normally used by the average person. As explained previously, many insurers use boldface type, italics or quotation marks throughout the policy to identify words or phrases that may be used in a special way by the insurer. An insurance producer or insured who is uncertain about what the insurer intends to cover when a loss occurs will usually find that the intended meaning of a term is explained in the Definitions section of the policy. The definitions are included to reduce confusion about what the insurer expects to cover.

For example, the following Insuring Agreements contain a number of accented words:

The company agrees to indemnity the "insured" for "ultimate net loss" in excess of the "retained limit" which the "insured" shall become legally obligated to pay as damages because of "personal liability".

In this case, the insurer wishes to alert the insured that certain words, including "insured", "ultimate net loss", " retained limit" and "personal liability" are used in a way that may be unique to this particular company. The insurance producer and the insured should use the policy's Definitions section to determine whether these terms are used in a way that is familiar to them. Let's review how most insurance companies define these highlighted terms.

Insured
An Insured (or covered person) is defined under most personal umbrella policies as the person named in the Declarations, his or her spouse and any relatives living in the named insured's household. As mentioned earlier, some companies will limit coverage to relatives under a specified age or require that the named insured have custody of child or stepchild in order for coverage to apply. In many cases, any person insured under the named insured's basic or underlying policies is also covered under the personal umbrella.

Ultimate Net Loss and Retained Limit
The intent of an ultimate net loss provision is to limit the insurer's liability to the amount specified in the Declarations less any required retained limits, either specified underlying limits or a retained limit or self-insured retention (a form of deductible). The policy wording will usually go on to explain exactly how and when the insurer intends to make payments under the policy.

A Retained limit provision requires the insured to pay some portion of a covered loss before the umbrella policy pays. A retained limit is the larger of these:

-The total of the applicable limit(s) of all required underlying insurance required by the insurer and described in the Declarations or elsewhere in the policy and any other insurance available to a covered person

-Any deductible required by the insurer or by the state in which the insurer does business

The insured bears the risk to the extent of the uninsured amount. The retained limit or retention applies on a per loss basis to any loss covered under the umbrella policy but excluded in primary underlying policies. The retained limit does NOT apply when the umbrella is simply supplementing a primary policy that has exhausted its limits in the payment of a covered claim.

In other words, before the umbrella insurer makes any payment, the primary coverage must pay first or the insured must meet a specified deductible, such as $250 per occurrence. There is a common misunderstanding that there is a GAP or space between the primary and the umbrella coverage. No such corridor exists. In those cases where the insured has purchased the required underlying primary coverage, the protection applies right up to the top collar of the umbrella. In other words, if the insured has the required primary coverage, only that coverage and the umbrella coverage come into play. The insured is not out of pocket for any deductible.

Personal Liability

In most umbrella policies, the term personal liability means

-Bodily injury, sickness, disease, disability, shock, mental anguish and mental injury
-False arrest, false imprisonment, wrongful entry or eviction, wrongful detention, malicious prosecution or humiliation
-Assault and battery, including death resulting therefrom

Many policies also include injury to or destruction of tangible property, including its loss of use.

To illustrate how an umbrella policy would indemnify an insured for a loss, assume an insured's umbrella policy specifies that its retained limits are the larger of either the minimum underlying comprehensive personal liability limits of $300,000 or $250. The insured's homeowners' policy has a $300,000 limit of liability. The insured is found legally responsible for covered damages of $500,000 when someone is injured. In this case, the primary coverage (the liability section of the homeowners' policy) pays the first $300,000 (the retained limit) and the umbrella policy pays the remaining $200,000. There is no corridor or gap between the primary and excess coverages and the insured pays no deductible himself or herself.

Now, assume that the insured is found legally responsible for slander in the amount of $500,000. Coverage for personal injury damages is not provided under the homeowners' policy. However, coverage is provided under the personal umbrella, up to its policy limits of $1 million. In this case, there is no underlying coverage so the insured must pay the first $250 (retained limit) before the umbrella insurer is obligated to pay the remaining balance of $499,750.

Now, assume that the insured in these examples allows the required homeowners' policy to lapse and is subsequently found legally responsible for covered damages of $500,000 when someone is injured on his or her property. In this case, there is no primary liability coverage available. However, the personal umbrella insurer is NOT relieved of its obligation to pay even though the insured has failed to maintain the basic liability limits required as a condition of obtaining and maintaining personal umbrella liability coverage. Before the insurer pays, however, the insured, in essence, must take the place of the primary insurer and pay the amount that the primary insurer would have paid if the homeowners' coverage had been in force. The umbrella insurer then responds in the same way it would have had the primary liability insurance been in force and that is to act as the retained limit. In this case, the insured pays the first $300,000 (the retained limit) before the personal umbrella insurer pays the remaining $200,000. The insured does NOT pay an additional $250 deductible.

Excess vs. Personal Umbrella Liability

Many insurance producers use the term excess personal liability insurance and umbrella insurance interchangeably. These two insurance coverages are actually quite different and should not be confused. Unlike excess liability that provides additional coverage ONLY if the underlying policy provides coverage for a loss exposure, a typical personal umbrella policy will respond in two ways.

If the listed underlying insurance coverages, such as the homeowners' policy or personal auto policy, are exhausted in the payment of a loss, the umbrella picks up the protection and continues payment on behalf of the insured until the personal umbrella's limit of liability is also exhausted.

If a loss occurs that is NOT insured under the underlying policies, because of policy exclusion or for any other reason, the personal umbrella policy will often cover a loss subject to a deductible, RETAINED LIMIT or SELF-INSURED RETENTION payable by the insured. However, the umbrella policy does NOT cover every loss, and it should be analyzed to determine any coverage exclusions.

Required Underlying Limits

The insurer will include policy language that clearly states the types and minimum limits of liability that the insured must carry. In some policies, this provision is called MAINTENANCE OF INSURANCE OR REQUIRED UNDERLYING LIMITS.

A typical provision might read as follows:

The named insured agrees that as of the inception and for the duration of this policy (1) the following underlying insurance shall be maintained in force for at least the minimum primary limits stated hereafter, and (2) that such underlying insurance insures all residences occupied by the insured and all farms, watercraft and land motor vehicles owned, rented, hired or controlled by the named insured.

As explained earlier, an umbrella insurer does not intend to provide first-dollar coverage. Therefore, the insurer requires that certain primary insurance be in place to provide the first layer of liability coverage if a loss occurs. To illustrate how a claim involving and umbrella policy should be settled, assume the umbrella insurer requires underlying automobile liability insurance with split limits of 250/500/50 (or a combined single limit of $500,000) and homeowners' liability coverage in the amount of $300,000 before it will insure a personal umbrella policy for $2 million.

The insured purchases the required policies in the required amounts, and an umbrella policy is issued. The insured is involved in an auto accident and found legally liable for the other driver's bodily injuries. Damages of $1.3 million are awarded. The insured's auto policy pays up to $500,000 for the covered accident and the umbrella policy pays the remaining $800,000.

To guarantee that the applicant is aware of its underlying insurance requirements, insurers include questions about underlying limits on their umbrella applications. In addition, when the umbrella policy is issued, the Declarations page typically includes information about the insured's primary insurance coverage. The types of loss exposures, names(s) of the insurance carrier(s), policy numbers, and effective dates of coverage and limits of liability are shown. Finally, the policy will include some explanation of how a loss will be handled when the primary insurance required by the umbrella policy is in place.

Failure to Provide Underlying Limits

Although the insured is expected to supply certain underlying limits, these basic policies may be unavailable at the time of a loss for a number of reasons. For example, the insured may have allowed the primary policy to lapse or it may have been canceled for nonpayment of premium. The limits of coverage may be less than required by the umbrella insurer or may have been reduced by payments of losses. The primary insurance company may have become insolvent or it may refuse to pay a claim because a covered person has not complied with the terms of the primary policy.

As stated earlier, umbrella insurers intend to pay only for damages that exceed a retained limit. Therefore, insurers safeguard themselves by having certain coverage exclusions which will apply if the underlying insurance is missing.

For example, a policy might state this

If your "primary insurance" has terminated, is uncollectable, or reduced, this will not void coverages. In these cases, we will pay the same manner as though your "primary insurance" was in force, collectable and with required limits, and you had fully complied with all conditions or agreements.

This provision explains the insurer's intention for provide defense, investigation, legal fees, court costs or any similar fees or costs. However, the insured becomes personally responsible for the

amounts of coverage that would have been in effect if the policies had remained in force. For example, if the underlying insurance would have provided the first $300,000 of liability coverage, the insured must pay that amount BEFORE the umbrella insurer steps in. The insurer has no legal obligation until the retained limit has been met. It should be noted, however, that the umbrella insurer retains the right to enter the matter sooner and provide a defense. This could occur when the insurer sees the opportunity to quickly settle a lawsuit that could escalate if left uninvestigated or undefended.

SUMMARY

The Insuring Agreements contain the promises the insurer makes to the insured. Some umbrella policies have relatively simple Insuring Agreements, while others include a number of definitions, exclusions and conditions within their Insuring Agreements. Regardless of the policy wording, however, the Insuring Agreements provide a general description of the circumstances under which the policy becomes applicable.

In addition to Insuring Agreements, umbrella policies contain a separate section called CONDITIONS, which enumerates the duties of the parties to the contract and, in some cases, defines the terms being used. Many conditions found in an umbrella policy, such as notice of occurrence, assignment and the cooperation of the insured, are common to most property-casualty policies. Other conditions, such as maintenance of underlying insurance and appeals, are peculiar to umbrella policies.

It is imperative that an agent and his/her insured understand these important components of an umbrella policy (or any other policy, for that matter). Not understanding what one's responsibilities are – or not knowing what the insurer is responsible for – can result in a rejected claim or a gap in coverage.

Knowing Policy Exclusions

The personal umbrella policy provides broader coverage than any underlying liability policy, but it is not intended to cover every risk that a person might face. Like other property and liability policies, the personal umbrella includes a number of provisions to clarify that certain perils are not to be covered. The wording of various provisions determines what is specifically excluded under the policy.

We will discuss a number of exclusions or coverage limitations that are commonly found in personal umbrella liability policies. Basically, policy exclusions are intended to prevent the insured from profiting from non-fortuitous losses, duplicate insurance coverage or unusual risks. To this end, a basic personal umbrella policy includes a number of exclusions that modify the policy's Insuring Agreements.

Understanding Policy Exclusions

Insurance policies contain a number of policy limitations or restrictions on specific perils, property, locations or losses for which the insurance company does not intend to provide coverage. The personal umbrella liability policy is no exception. Policy exclusions are usually listed and explained in a separate section of the policy called: "What is not covered;" or "Exclusions." The Exclusions section explains any exceptions to the policy's Insuring Agreements and clarifies the insurer's intentions by limiting or modifying certain aspects of coverage that the insurer plans to provide.

In theory, the policy language should clearly express an insurer's intentions as they might apply to a wide variety of loss situations. Unfortunately, the meaning of certain phrases may be debated, and it is not uncommon for the courts to find that coverage applies to losses that the insurer never intended to cover when the policy was developed.

In an attempt to be certain that an umbrella policy provides or limits certain coverages, an underwriter may issue an endorsement to amend, extend, or completely eliminate coverages in

the basic contract.

It should be clear that, in order to determine what coverage a personal umbrella policy provides, one must study the entire policy including any endorsements and exclusions. In addition to those exclusions clearly outlined in the Exclusions section of the policy, other coverage limitations or exclusions may appear elsewhere in the policy.

Coverage restrictions may even begin with the Insuring Agreements that state

We will pay that portion of the damages for personal injury or property damage a covered person is legally responsible for which exceeds the retained limit.

This restrictive policy wording means that before the insurance company will make any payment for a claim under the personal umbrella, these certain elements must be in place:

-The insurance company will pay only its share of covered losses after certain other conditions are met.

-A covered person as defined in the policy (usually the named insured, a family member or a person using an auto, recreational vehicle or watercraft owned by the insured with the insured's permission) must have been involved in the event.

The covered person must have done something (or failed to do something) that resulted as follows:

-In personal injury, usually defined as bodily injury, sickness, disease, death, disability, false arrest, libel, slander and so on

-In property damage, usually defined as physical injury to tangible property, to another person

-The covered person must be held legally responsible or liable under law, as interpreted by the courts, for the action

The insured must meet a retained limit, usually the larger of the total applicable limits of all required underlying insurance or some set amount, such as $250 or more, before the umbrella policy responds to the claim.

Reasons for Exclusions

An insurance company is not required to explain its rationale for incorporating various exclusions in its policy. However, exclusions are generally used to clarify what the insurer does not intend to cover. Depending on the insurance company's underwriting philosophy, provisions that eliminate coverage for specific loss exposures are included in personal umbrella policies for at least the following five reasons:

Avoid Financial Catastrophe

Exclusions help the insurer avoid financial catastrophe. The theory of insurance is that in paying the relatively small premium, each policyholder has benefited by exchanging the uncertainty of a large future loss for the certainty of a small immediate loss (the premium paid). Pooling of losses is the essence of insurance. However, risks must fulfill certain requirements before he/she can be insured. For example, the chance of loss must be calculable, which means the loss must be determinable and measurable. In addition, the loss should not be catastrophic, so insurers exclude coverage for losses, such as from war or nuclear radiation that involves an incalculable catastrophic potential.

Limit Coverage of Non-Accidental Events
Exclusions limit coverage of non-fortuitous (non-accidental) events - The policy does not intend to provide coverage for occurrences caused by moral or morale hazards. Moral hazards are intentional acts directly attributable to the insured and caused by defects or weaknesses in human character: morale hazards include the mental attitude that may indicate a subconscious desire for a loss. The policy specifically excludes non-accidental losses that may result from these hazards. For example, if the insured intentionally runs over a pedestrian, coverage would not be provided under either the personal auto policy or the personal umbrella policy.

Insurance coverage is provided only for losses that are accidental and unintentional for two reasons. First, if intentional losses were paid, moral hazard would be increased and premiums would rise as a result. A rise in premiums could result in fewer persons purchasing insurance, thereby making prediction of future losses difficult. Second, covering intentional bodily injury or property damage is contrary to the public good.

Standardize Risk
Exclusions help to standardize the risk - If an insurance company were to assume every possible risk facing a policyholder, the insurer would soon be out of business. To prevent adverse selection, an insurance company tries to cover only those risks that meet certain company underwriting guidelines. It would be inequitable to require all insureds to share the costs of covering the significant loss exposures of a few risks. Therefore, any loss exposures that would require special rating, underwriting or loss control, such as aircraft liability coverage or professional liability coverage, are usually excluded from the umbrella policy. In addition, coverages that are not needed by the typical purchaser of a personal umbrella policy are excluded. These coverages include workers' compensation and care, custody or control coverages. People who need these coverages may usually purchase them separately for an additional premium.

Prevention of Coverage Duplication
Insurance is a contract in which the insurer, in consideration of the payment of a premium by the insured, agrees to make good the losses suffered through the occurrence of a designated, unfavorable eventuality. Because property and liability insurance policies are essentially contracts of indemnity, the insured cannot be enriched by a loss and may only receive reimbursement for the actual damage sustained. Therefore, as discussed in previous chapters, umbrella policies are designed to dovetail with the underlying insurance policies and to pick up where the underlying policy leaves off. When the insured receives reimbursement for part or all of the loss from any other source, he or she cannot receive duplicate payment from the umbrella insurer. If two or more personal umbrella policies apply to a loss, each policy pays its share of the loss on a pro-rata basis.

Keeping Premiums Reasonable
One of the most important functions of an insurance company relates to the pricing of its policies. The insurer does not know in advance what its actual costs are going to be for the year, but it relies on the company's past loss experience and industry statistics to determine its rates. Insurance pricing must meet certain regulatory and business objectives in order to keep premiums at a reasonable level. From a regulatory standpoint, an insurer's rates must be adequate (high enough to pay all losses and expenses while earning a profit for the company), not excessive (rates should not be so high that policyholders are paying more than the value of their insurance coverage) and not unfairly discriminatory (similar exposure units should be charged the same rates).

From a business standpoint, an insurance company's rating system should be

-Easy to understand
-Stable over short periods so consumer satisfaction can be maintained

-Responsive over time to changing loss exposures and economic conditions
-Encouraging of loss prevention activities by rewarding insured's with reduced rates for loss control measures that reduce the frequency and severity of losses

Common Personal Umbrella Exclusions

A liability insurance policy promises to pay on behalf of the insured the amount (up to the policy limit) that the insured becomes obligated to pay because of the liability imposed on him or her by law for damages caused by a covered occurrence. As explained previously, the term occurrence is defined as an accident that results in bodily injury or property damage neither expected nor intended by the insured. This definition includes continuous or repeated exposures to conditions that result in injury or damage.

Personal umbrella liability protection is quite broad, but it is possible for the insurance agent and the insured to overestimate the extent of financial protection actually afforded by a policy if they do not fully understand what is excluded from coverage.

Every peril or hazard is not covered. If, for example, a claim arises and the details of the incident show that the source of the claim is an excluded condition or incident, no coverage is afforded under the umbrella policy. The insured would be personally responsible for the expense of investigating and defending the claim. Furthermore, if the insured and the insurance company differ as to the details of the incident, it is the responsibility of the insured to convince the insurer that the incident falls within the policy coverage and should be covered.

Although personal umbrella policy exclusions will vary by insurer, most companies will usually exclude coverage for loss exposures that are better insured under another policy.

Workers' Compensation

Most personal umbrella policies exclude coverage for injuries to employees that should be covered by workers' compensation policy. Workers' compensation insurance covers loss of income, medical and rehabilitation expenses that result from work-related accidents and occupational diseases. This insurance evolved as a means of enabling employers to meet the requirements of the workers' compensation laws of the states in which they operate. Prior to the enactment of these laws, the only recourse open to any employee injured on the job was a negligence lawsuit against the employer - a process that put the employer and the employee on opposite sides of a legal argument.

Briefly, workers' compensation legislation protects workers by providing benefits to a worker or a worker's dependents for injury, disability or disease contracted by the worker in the course of his or her employment. Compensation is made without regard to fault or legal liability. Although specific workers' compensation benefits vary by state, medical and hospital expenses are generally fully reimbursed and monetary allowances are granted for various types of disability. In addition, burial expenses are paid up to a statutory limit.

Care, Custody or Control

Standard liability policies, including most personal umbrella policies, contain a Care, Custody or Control Exclusion. This provision eliminates coverage for property belonging to others that for some reason is in the insured's possession, and that the insured has agreed to assume liability for damage to the property.

The intention of this exclusion is to eliminate coverage for damage to property that

-Should have been prevented by the insured by exercising care
-Should have been covered by some other form of insurance coverage

Unfortunately, courts do not always agree about what constitutes "care, custody or control". The

courts may determine, for example, that leased machinery and equipment or property under construction is considered to be under the insured's custody. Therefore, the insured is held responsible for losses to that property.

Some umbrellas provide coverage if the insured was not obligated to provide insurance coverage for property in his or her care, custody or control and it was damaged. In addition, umbrella coverage usually applies on an excess basis if the primary policy covers the loss.

Nuclear Energy
The personal umbrella policy is not intended to cover the catastrophic risk of a nuclear disaster. In addition, loss caused by nuclear reaction or radioactive contamination, whether controlled or uncontrolled, is excluded from the underlying property and casualty policies. There are specific policies to cover nuclear risk under various pooling arrangements. Nuclear Energy Liability policies, issued by nuclear insurance pools, cover firms that own or operate nuclear reactors and provide proof of a company's financial responsibility if a nuclear accident should occur.

Policies are issued by any of the following or their successors:

-American Nuclear Insurers
-Mutual Atomic Energy Liability Underwriters
-Nuclear Insurance Association of Canada

These insurers issue policies that cover virtually everyone against liability for causing a nuclear incident. Therefore, liability coverage will not be duplicated under the personal umbrella policy.

War Risks
Insurance companies only cover risks that they consider being insurable. Generally, personal umbrella policies have specific wording to eliminate liability coverage for large loss exposures that are considered uninsurable by most insurers. For example, personal umbrella policies usually contain a War Risk Exclusion for losses from war, civil war, insurrection, rebellion or revolution. The insurer is not liable for loss by fire or other perils caused, directly or indirectly, by enemy attack by armed forces, including action taken by military, naval or air forces in resisting an actual or an immediately impending enemy attack. Likewise, damage caused by internal rebellion or other warlike acts is excluded.

Intentional Acts
Any intentional acts of the insured that can be directly attributed to the insured are considered moral hazards and are excluded under most liability contracts. However, in most cases, coverage is provided for unintentional torts caused by the insured's negligence or for the acts of others for which the insured is vicariously liable.

FOR EXAMPLE: If the insured's friend borrows a covered auto and intentionally runs over a mutual acquaintance, the insured would be vicariously liable if the driver was acting as an agent of the insured at the time of the injury.

In essence, the driver while driving the insured vehicle with the permission of the insured is also an insured. However, in this situation, if the insured were driving and the injury was caused by the intentional act of the insured, coverage would be excluded.

Aircraft
Many policies define the term aircraft as a plane, seaplane, amphibian or helicopter, including operating and navigational instruments, radio equipment and other equipment attached to or carried on the aircraft. Aircraft may also be defined as a heavier-than-air or lighter-than-air vehicle designed to transport persons or property through the air. The definition usually excludes coverage for a hovercraft, which is considered to be a recreational vehicle.

Aircraft liability insurance is similar in design to an automobile liability policy and provides coverage for losses arising out of the ownership, maintenance or use of aircraft for which the insured is liable. Under this coverage, two types of bodily injury may be covered: Bodily Injury Liability, excluding passengers, and Passenger Bodily Injury Liability. Typically, Property Damage and Medical Payments are also covered.

Although some personal umbrella policies provide aircraft liability coverage, most exclude coverage for any personal injury or property damage due to the ownership, maintenance, use, loading or unloading of aircraft owned or chartered by the insured. However, if the insured has an underlying aircraft liability policy and it is listed on the personal umbrella Declarations page, some coverage may be provided by the umbrella. In most cases, the insurer will pay the difference between what is payable under the aircraft liability policy and the total legal liability of the insured, up to the liability limit of the umbrella.

Watercraft
Many liability policies, including the Commercial General Liability policy, contain an exclusion for "bodily injury" or "property damage" that arises from the ownership, maintenance, operation, use, loading or unloading of any owned or non-owned watercraft. The personal umbrella liability policy will also typically exclude this coverage.

There is an exception, however, in that this exclusion does not apply to any injury or damage arising from owned or non-owned watercraft while they are ashore and on premises owned, rented or controlled by the insured.

It should be noted that the homeowners' policy provides some liability coverage for certain types of watercraft owned or operated by the insured. For example, liability coverage is provided for non-owned watercraft that are not sailing vessels and are powered by an inboard or inboard-outboard engine or motor power of 50 horsepower or less. When there is underlying coverage, most umbrellas provide excess coverage in the same way that the primary policy covers the insured. For example, if the primary policy covers "property damage" due to the ownership, maintenance, use, loading or unloading of any watercraft under 25 feet in overall length, the umbrella policy will normally pick up the excess liability coverage.

Recreational Vehicles
For insurance purposes, the definition of a recreational vehicle includes vehicles such as snowmobiles, mini-bikes, all-terrain vehicles (ATVs) and any similar vehicles designed principally for use off public roads, whether or not the vehicles are subject to motor vehicle registration. The definition does not include motorcycles.

Some personal umbrella policies exclude liability arising out of the ownership, maintenance or use of recreational vehicles unless the insured carries underlying limits of liability for these vehicles. For example, an insured may add snowmobile liability coverage for $100,000 to a homeowners' policy by endorsement. If the insured also purchases a personal umbrella policy, that policy typically provides excess liability protection for the insured as long as the underlying limits remain in force.

Business Pursuits
Many umbrella policies exclude coverage for liability arising out of a business activity or business property unless the liability results from the named insured's or a family member's use of a private passenger vehicle. The insurer's intention is to limit coverage for any trade, profession or occupation in which the insured is engaged and which might increase the chance of loss. The definition of business pursuits usually applies to any type of usual or ongoing business, ranging from a professional office in the home to weekly garage sales. In many cases, the umbrella insurer will provide coverage for incidental business pursuits if this loss exposure is covered by an

underlying insurance policy, but coverage will be no broader than the underlying insurance coverage.

Professional Liability Insurance
Personal umbrella policies contain exclusions for all claims arising out of a professional person's errors or mistakes made in the performance of the duties of that profession. When a professional fails to meet the standards of skill and care generally accepted for that profession or occupation and causes injury or damage to a client, however, that professional may be held liable and may be required to pay money damages to the injured party. There are two types of professional liability insurance that have been developed to cover this type of legal liability. One is malpractice insurance where the negligent act causes direct injury or harm to a human being. The other is errors and omissions insurance where the negligent act causes losses involving physical things, which in turn may cause damage or injury to both people and property.

Directors and Officers Liability
The personal umbrella policy typically excludes coverage for liability due to the insured's activity as a member of a board of directors or as an officer of an organization other than a charitable, religious or civic nonprofit organization. This exclusion is in keeping with the personal umbrella policy's intention not to provide coverage for business activities that may be covered by another type of policy.

For example, Directors and Officers Liability Insurance (D & 0 Insurance) has been developed to cover the director or officer for liability claims resulting from poor judgment and wrongful acts. D & O Insurance pays on behalf of directors and officers (or reimburses their corporation if the executive receives indemnification) for claims arising out of error, neglect, breach of duty or misleading statement. The policy also provides for legal defense. It will not cover any active or deliberate fraud.

Although the personal umbrella policy excludes liability for business activities, it typically covers liability due to the insured's civic activities. For example, assume that a teacher, for defamation of character, sues the insured and other members of a school board collectively and individually. Most personal umbrella policies would determine that service on a school board is not a "business activity" and would, therefore, provide a legal defense for the personal actions of the insured. It is also possible that the school board could provide defense for individuals in such a matter, and that the board would pay any judgment.

In addition, the personal umbrella usually provides legal defense when an insured is allegedly slandered or slanders someone else. For example, assume the insured runs for a public office and, during the course of the campaign, he or she accuses an opponent of corruption in several newspaper ads and radio spots. If the insured is later sued for libel or slander, the cost of the legal defense and any judgment against the insured will usually be paid by the personal umbrella carrier.

As part of their duties, underwriters do the following:

-Identify and evaluate loss exposures
-Price the insurance product
-Determine policy terms and conditions
-Make the final risk selection
-Monitor and service the account

The series of steps that underwriters use to select, evaluate, and approve (or reject) applicants for insurance is called the underwriting process. An underwriter who understands and observes each step in this process is likely to achieve a profitable book of business for the insurer.

Identifying and Selecting a Risk

The personal umbrella underwriting process begins with the identification and selection of a particular risk. In most cases, it is the property-casualty insurance producer who initially determines whether a risk will be acceptable to the company. In essence, the producer is a field underwriter for the company who often selects the umbrella risk from his or her existing book of business. The producer typically has had personal or business dealings with the applicant and may attest to his or her personal reputation, background and loss experience over a long period. In fact, the insured's long-term relationship with the insurance producer is often the primary reason that a personal umbrella policy is issued.

In many cases, the prospect for umbrella coverage will be an affluent client, although this is not a requirement for umbrella coverage. As we have stated, anyone who has loss exposures that could result in large liability claims is a candidate for personal umbrella coverage. However, the producer should be careful not to select applicants who present loss exposures greater than those assumed by the insurer in its rates or premiums. Risks should be in the good to above-average range to assure that they may be profitability underwritten.

Using Underwriting Information

The insured is usually asked to answer a series of questions on a detailed application for insurance. Although the producer may complete the application, the named insured is usually asked to verify the information and then sign the application. The application requests information about the risk being considered for insurance coverage and, in some cases, the completed application will be attached to and become part of the umbrella policy.

The questions on the application will vary by insurer, but most applications will ask for information in these three specific categories:

-Personal information about the named insured and other members of the household
-Information about real and personal property owned, leased or the insured that might present a liability exposure
-General insurance information that can be used to assist the underwriter in determining a premium to be charged for the umbrella coverage

In the following sections, the information from these three categories will be used to show how to determine whether a risk is acceptable.

After the application has been completed and signed by the applicant, the insurance producer forwards the information to the line underwriter (usually located in the home office) who makes the final determination about whether the risk can be written and at what premium. The home office underwriter analyzes the information provided on the application and measures it against a theoretically ideal risk to judge whether the applicant is a good candidate for insurance.

Personal Information

The underwriter needs personal information about the insurance applicant to determine whether the risk presents any unwanted hazards for the company. The underwriter looks for specific warning signs of potential moral or morale hazard. For example, assume that during the ten years the insured has carried homeowners' and auto insurance with a particular insurer he or she has maintained extremely low limits of liability. The applicant's sudden interest in increasing the underlying limits and obtaining an umbrella may indicate that this is a poor umbrella risk. The underwriter should question what has happened to make the applicant now interested in increased limits.

The application provides the underwriter with basic information about the individual applying for insurance (the named insured) and members of the named insured's household. The information is used to give the underwriter a feeling for the loss exposures faced by the entire household.

The application typically asks for the following details:

-Name, mailing address and residence address of the applicant
-Marital status; age (or birth date) of the applicant and spouse, in states where such questions are permitted
-Occupation and employer of applicant and spouse (if any)
-Information about stability factors, such as ownership of home, years at present address, previous residence address and length of time at that address
-Information about any liability claims made against the insured during a specified period (usually three to five years)

Such information is intended to assist the underwriter in deciding whether the applicant has any unusual exposures to loss. For example, many insurers will decline coverage for people, such as actors, professional athletes and politicians, whose professions or activities expose them to extraordinary publicity and potentially large lawsuits.

Property Loss Exposures
The personal umbrella liability application asks the applicant to describe any residence or other real property owned by the insured that could generate a liability claim. The underwriter is specifically looking for clues about the property, such as inferior construction or poor housekeeping, which might increase the chance of loss.

Because the personal umbrella typically provides coverage on a worldwide basis, the underwriter needs information about all the property at risk.

The application seeks the following:

-Information about all residences occupied by the applicant, type of interest (owned or rented), description of any other buildings on the residence premises, the number of swimming pools at each location

-Information about any farms owned or rented by the applicant, including the acreage and value of any leased property

-Information about all automobiles owned or leased by the applicant, including the type and principal operator of each, where it is garaged and the rate class used for each vehicle

-Information about watercraft owned or leased by the applicant, including manufacturer, model year, type, length, horsepower, location of operation and whether any underlying policy has restrictions on water-skiing

-Information about any aircraft owned or used by the applicant with descriptions of each aircraft and additional information about the pilot

-A description of employer's liability or workers' compensation exposures, including number and type of domestic and/or farm employees

-A description of all business pursuits and business properties of the applicant

-A description of any unusual hazards, such as dangerous animals on the premises, water-skiing activities by any member of the family, child care duties (such as babysitting) by any member of the family, plans to enter a race, contest or exhibition, etc.

General Insurance Information

An underwriter needs as much general information about the risk as possible to properly quote the risk. Rating is based in part on an underwriter's experience and judgment and without fairly complete knowledge of the risk, an underwriter cannot provide a competitive quotation.

At the very least, an underwriter will request the following:

-The policy limits desired and the requested effective date

-A schedule of all applicable underlying policies: automobile, homeowners', boat, recreational vehicles, aircraft, employer's liability or workers, compensation insurance (information typically includes the name of the insurer, policy number, effective dates, limits of liability and the premium per policy)

-Information about other insurance policies in force, such as those providing coverage for business pursuits or business properties (any exclusions or limitations of liability coverage must be noted on the application for the personal umbrella policy)

-Information about any previous personal umbrella insurer, including name of the insurer, policy number, effective dates and reason for changing insurers

-An explanation of the circumstances if any insurer has ever canceled, refused, or denied renewal of a personal umbrella policy for the applicant

Accepting or Rejecting the Risk

Based on the personal, property and general information received on the application and an analysis of that information, the underwriter will make a decision about whether to accept or reject the risk. Many underwriters will not go to great lengths to secure information other than that on an application. They assume that if another insurer willingly provided underlying insurance, the risk should be acceptable for umbrella insurance. However, some insurance companies will write umbrella coverage only if they also write the required underlying coverage. Other insurers write stand-alone policies and do not require that they issue the underlying policies but only that the coverages are in place with some insurance company.

The underwriter determines the acceptability of a particular risk by checking it against a large number of factors known to be related to loss potential. Some underwriters feel that if a property is eligible for a homeowners' policy under another insurer's underwriting guidelines, it is also eligible for umbrella coverage. Most underwriters would agree, however, that even though a risk is eligible for insurance coverage, it might be declined for any number of reasons. For example, the applicant may have an attractive nuisance, such as a swimming pool or a vicious dog, which is not properly safeguarded. Although the primary insurer may consider this an acceptable risk, the umbrella underwriter may be concerned about the likelihood of a multimillion-dollar lawsuit if a child drowns in the insured's pool or is killed by the insured's dog. It is likely that an umbrella underwriter would decline such a risk or require additional safeguards before the umbrella policy is issued. The underwriter may also charge an additional premium for certain hazardous exposure.

Most insurers refuse to issue coverage for persons who are engaged in illegal activities, who have unusual exposures to libel or slander suits, such as broadcasters and newspaper reporters, or whose activities cause them to face significant publicity, such as actors, professional athletes, public lecturers and politicians. The general feeling among insurers is that such persons offer substantial exposure to lawsuits and large liability settlements.

Pricing the Risk

One of the most important parts of a personal line underwriter's job is to determine the proper pricing for various insurance products. The policy premium is determined by multiplying an insurance rate, the dollar amount charged per a particular amount of insurance coverage, by the

amount of insurance needed. Actuaries who collect data and analyze the many factors that determine the relative hazards of different risks usually accomplish the highly technical procedure of establishing rates. The costs of establishing rates would be prohibitive if each insurance company were to maintain its own rating bureaus. A practical method of solving this problem is for groups of insurers to act together to set up a central body to promulgate proper rates. In addition, the pooling of various insurers, experience makes more accurate results possible.

Strictly speaking, no two personal umbrella risks present exactly the same hazards. Even if two applicants have identical dwellings, the structures will differ as to their contents, maintenance, number of occupants and so forth. The applicants will have different types and numbers of automobiles, insurance requirements, loss histories, etc. Because these applicants have different loss exposures, an underwriter will use specific (or schedule) premium rates. The rate is determined by an analysis of the insured's application, which is compared in terms of the relative loss exposures against a theoretical average risk. Using a predetermined average price as a base, the risk being considered is given credit for superior elements, such as fire-resistive construction, loss control devices and high-level maintenance. Risks with hazardous exposures, such as swimming pools, are often surcharged if the underwriter wishes to cover those types of risk.

Issuing the Policy

After the underwriter has analyzed and priced the risk, he or she will usually forward a written premium quotation to the producer. The underwriter will note the general terms of the policy, such as the required underlying limits of liability, the amount of the self-insured retention, the proposed effective date of the policy and so forth. The producer then forwards the information to the insured that accepts or declines the quote. If the insured accepts, the underwriter proceeds with the issuance of the actual policy. In almost all cases, the producer cannot bind or issue personal umbrella liability coverage.

Although the basic coverages do not vary greatly, the policy appearance and format will be quite different. In addition, the underwriter may change the coverages and modify the basic policy by endorsement. The underwriter may wish to amend the general policy provisions to comply with the special needs of the applicant, to cover unique situations also covered by the underlying policies or to restrict certain risks that the underwriter does not wish to cover.

Monitoring the Risk

The final step of the underwriting process is monitoring the risk throughout the policy term to confirm that the decision to write the risk was a good one. The underwriter often works with other departments, such as the accounting and claims departments, to be certain that the premiums are paid in a timely manner and that the insured's loss experience is not excessive. As part of the monitoring step, the underwriter will often follow up with the producer about three months before the umbrella's expiration date to offer a renewal policy. Although most umbrella policies are annual policies without a guaranteed renewal provision, some underwriters will send a notice of non-renewal if the company does not want to reissue the coverage. Sending a notice of non-renewal informs the producer and the insured that umbrella coverage will have to be placed with another insurer and also protects the insurer if there is some dispute about whether coverage should have been in force after a specific date. In some states, this notice may be required by statute.

Basics of Insurance

Now that we've covered the ins and outs of homeowners', auto, personal property and umbrella insurance, we might as well run through the basics of insurance to refresh your memory of the common and basic terms, definitions and concepts of insurance.

Transferring the Risk

Insurance transfers the risk of an uncertainty of a loss from an individual to an insurer. Loss is a factor of everyday life and most people handle small everyday losses on their own, but when

there is a potential for an unmanageable loss, individuals and businesses look for other sources to be protected from financial ruin.

The insurance company fulfills this role and charges a fee or "premium" based on the risk of the loss. The factors that come into play in insuring the risk are

-The certainty of the loss
-The management of the risk
-The reduction of the risk

An example of certainty might be this: Is a home sitting on a mountainside where landslides are an everyday occurrence, or is the home sitting in a subdivision of leveled land where there is no potential of landslide? Another example might be to compare a home situated in a flood plain versus one that is not.

An insurance contract transfers the risk from an individual, a business, or a group of individuals to an insurance company in exchange for a premium. The premiums of many individuals are 'pooled' by the insurance company to create the funds necessary to pay the insureds that suffer the losses.

This method of transferring risk to the insurer is based on statistics showing how many potential losses can occur within a numerical quantity of people. The higher the quantity of people used in establishing the statistics the more accurate the prediction will be.

These predictions are then used by the insurer in establishing premiums to be "pooled" in covering the losses.

Insurable Interest
Before an individual or an entity can be insured it must have insurable interest. Insurable interest is defined as any actual, lawful and substantial economic interest in the safety or preservation of the subject of the insurance from loss or destruction or financial damage or impairment.

In addition to insurability, other criteria are also used in determining if insurance can be used as a vehicle for the transference of the risk.

These other considerations include the following:

-The risk of loss must be definite and difficult to fake.
-The risk must be unexpected.
-The risk must create a financial hardship.
-The loss must be able to be assigned a financial value.
-The cost must be affordable or fractional of the value.
-The loss must be predictable by virtue of a high enough quantity of people to require the same coverage.
-The presence of the "spread of risk" must be available.
-The risk must be pure, not speculative.

Loss Frequency, Reduction and Prevention
Loss frequency, loss reduction, and loss prevention are terms that will be heard over and over again in dealing with property and casualty insurance.

For example, proper training of an employee using a blowtorch or other high-risk machinery would curtail loss frequency. Risk control techniques that diminish the loss frequency come under on the heading of loss reduction.

Installing a sprinkler system in a home, office, or factory would curtail the severity of the damage and thus serve as a risk reduction.

Types of Risk
Spread of risk is defined as the insurers' ability to spread their insured risks over a large geographical area. Pure risk is defined as a risk in which there is no chance of gain - only loss. On the other hand, a speculative risk is defined as a risk that can either result in a loss or a gain.

Peril and Hazards
In discussing property and casualty insurance, the terms peril and hazard need be defined. A peril is defined as the cause of the loss.

A hazard is anything that increases the chances of a peril occurring. An underwriter examines an insurance application to gain an understanding of the hazards in place for a particular risk, allowing him or her to better identify that risk's level. There are the following four distinct types of hazard:

Physical Hazards – Poor health, dangerous hobbies, and high-risk occupations are types of physical hazards.

Moral Hazards – Moral hazards are psychological. People who demonstrate a level of dishonesty in their lives or have been convicted of a felony or DUI may be declined coverage based on their poor morality (in insurance terms).

Morale Hazards – Careless and irresponsible people fall into this category of hazard. An example of a morale hazard is someone who has numerous reckless driving arrests on his or her record. An individual who appears to be indifferent to loss would present a morale hazard.

Legal Hazard – People who demonstrate a tendency to sue others or file frivolous lawsuits are a clear legal hazard for an insurance company and are often declined.

Other Methods of Handling Risk
We all handle risks differently. How one handles risk affects not just the amount of insurance he or she needs, but how he or she will be viewed by an underwriter. In addition to the transfer of risk, which we have already covered, risk is handled by one or a combination of the following:

Avoidance
One of the best ways to handle risk is to avoid situations that could result in a loss. However, avoidance is not a realistic concept. Common sense tells us that avoiding driving when drunk is a good way to handle risk. An extreme example of avoidance would be to not leave home for fear of becoming injured or killed.

Control
Being in control of an area of possible loss is a way to manage risk. Homeowners can help to control the risk of their homes burning down by installing smoke detectors. Individuals can submit to annual check-ups to help control risks associated with their health.

Retention
Personal acceptance of the price of loss is called retention. People who pay their medical bills, as opposed to purchasing health insurance, or the action of selecting a deductible under an insurance policy are examples of retention.

Sharing
This method of handling risk has a group pooling together to share the costs of a loss experienced by one member. In insurance terms, a group of insurers can bank together and share losses so no

one member bears the burden of cost individually.

Section 4: Ethics

Chapter 9 Ethics – General Insurance Basics

Elements of a Legal Contract

Insurance contracts are contracts of a specific nature, and are described as the following:

Aleatory Contract

An insurance policy is an "aleatory" contract, which means that performance depends on the occurrence of an uncertain event. Due to the nature of the contract, each party may not give and receive the same value. The insured who collects for a loss may receive more than the amount of premiums paid, while the insured who never has a loss receives only intangible security.

Personal Contract

Generally, insurance policies are personal contracts between the insured and insurer. Except for life insurance and some marine coverage involving transportation and cargo, insurance is not transferable to another person without the consent of the insurer. Fire insurance, for example, does not follow the property. If an owner sells an insured building and no arrangements are made for transferring coverage to the new owner, no insurance exists. The previous owner no longer has insurable interest, and the new owner has no personal coverage.

Unilateral Contract

Insurance usually involves unilateral contracts. Under a bilateral contract, a promise is exchanged for another promise, and both parties may execute the obligations in the future. Under a unilateral contract, an act is exchanged for a promise. Once the insured pays the policy premium, only the insurer makes promises about future performance.

Conditional Contract

Insurance contracts are also conditional contracts because when a loss occurs, certain conditions must be met to make the contract legally enforceable. For example, an insured might have to satisfy the test of having an insurable interest, and also satisfy the condition of submitting proof of loss.

An insurance applicant is required to exercise "utmost good faith" in providing information on which the insurer must rely. A material fact is an important fact that could change either the decision to provide insurance or the premium. Concealment or false statements about material facts may allow the insurer to declare the insurance void at a later date.

Agents also have responsibilities while forming an insurance contract. If they are not careful, or if they bend the truth, the insurer may lose certain rights, and the insured may gain rights more favorable than those spelled out in the contract provisions.

Ambiguities in a Contract of Adhesion

Any ambiguity must be interpreted in favor of the insured, because the insured has little or no control over policy content

Reasonable Expectations

The reasonable expectations doctrine can be stated as follows: The courts will honor the reasonable expectations of policyowners and beneficiaries, even if the strict terms of the policy do not support those expectations.

The implementation of the reasonable expectations doctrine has resulted in what one author termed "judge-made insurance." The claimant's expectation of coverage, the insurer's part in creating that expectation, and the unfairness of a policy provision are factors that can influence the court to grant coverage where the policy does not provide it.

Indemnity and Subrogation

Most property and liability insurance is written on an indemnity basis - the intent being to make someone "whole" again by paying actual losses while preventing any gain. Many policies also have a subrogation clause designed to prevent an insured from collecting twice for the same loss.

Subrogation is related to the concept of indemnity. It only applies when a third party caused the loss or was primarily responsible for it through negligence. A loss victim usually has legal recourse against the party at fault. Subrogation transfers this right to the insurer when a loss is paid, but only to the extent of the insurance payment.

Utmost Good Faith

The insurance contract requires utmost good faith between the parties. This means that each party is entitled to rely upon the representations of the other, and each party should have a reasonable expectation that the other is acting in good faith without attempts to conceal or deceive.

Representations/Misrepresentations

Most of the statements contained in the insured's application for instance are representations - statements that the applicant believes are true. Under the law, a representation is not considered a matter to which the parties contract, so a policy cannot he voided on the basis of a representation.

Misrepresentation is a written or verbal misstatement of a material fact involved in the contract on which the insurer relies. Misrepresentation will only void the policy if it concerns a material fact. A material fact is a fact that would cause an insurer to decline a risk, charge a different premium or change the provisions of the policy that was issued.

Warranties

A warranty carries greater weight than a representation because it is part of the actual contract. When an application is made part of the contract, all statements on it become warranties. Promises contained in other parts of the contract are also warranties. Under a strict interpretation, any breach of warranty (whether or not material) provides grounds for voiding the insurance.

Concealment

A failure to disclose known facts is concealment. The insurance applicant has a duty to disclose material facts that the insurer could not be expected to know. Generally, an insurer may be able to void the insurance if it can prove that the insured intentionally concealed a material fact. In reality, it is difficult to prove such intent in a court of law.

Fraud

Fraud is a deliberate misrepresentation that causes harm. An act of fraud contains these four elements:

-Someone deliberately lies.
-The intent of the lie is for someone else to rely on that lie.
-Another person relies on that lie.
-The other person suffers harm as a result of relying on that lie.

Fraud differs from misrepresentation in that misrepresentation may be either intentional or unintentional. Fraud is always intentional and involves an effort by one party to deceive and cheat

the other.

Waiver and Estoppel
The legal definition of waiver is the intentional relinquishment of a known right. Sometimes an Insurer or its representative knowingly overlooks a condition or exclusion that would normally have been grounds for denying coverage, increasing the premium, reducing the benefits provided in the policy, or some other material change in the policy. When the insurer or its representative relinquishes the insurer's right of denial or refusal, the act becomes a waiver. Though any policy provision may be waived, the requirement of an insurable interest may not he waived, nor may facts be waived.

If an insurance company representative intentionally or unintentionally creates the impression that a certain fact exists when it does not, and an innocent party relies on that impression and is damaged as a result, the insurance company will be estopped (prevented) from denying this fact. For example, if an agent states or indicates by his or her actions that a particular loss is covered, the insurance company will be estopped from denying that coverage.

Ethical Issues
No matter what line of business we are in, the subject of ethics is important to both management and agents.

It is especially critical to those handling insurance products that in some facet deal with the financial, stocks and bonds industry. It is critical that we keep in mind what is right and what is wrong.

When a person applies for insurance or files a claim, he or she must be able to trust that the insurer is ethical. This is especially true in terms of claim settlement. After all, the only time insurance really matters to the insured is when he or she actually has to use it. If that process is compromised by an unethical agent, adjuster or insurer, insurance is pointless.

Ethical Decision-Making
Making an ethical decision is made simpler when one asks the following three questions: Is it legal? Is it balanced? How will it make me feel?

If an agent or adjuster answers "no" to either of the first two questions, chances are he or she is contemplating an unethical action. A decision that results in something illegal (whether on a civil level, or in violation of company policy) is not ethical.

In terms of balance, an agent or adjuster needs to ask if the result of the decision will benefit everyone involved now, as well as later down the road. If an adjuster approves an auto claim on the condition that the policyholder will use the adjuster's brother's auto shop for repairs, he or she needs to ask whether that little business to his brother is worth the possibility of losing his or her license.

When it comes to how a decision will make the agent or adjuster feel, it is simply a matter of pride and shame. Will the individual be proud of the decision? Would he or she want his or her family to know?

There are many opportunities for unethical behavior in the insurance industry – as with many other areas of finance and protection. An agent or adjuster cannot rely on the "Everyone else is doing it" motto. Ethics and honesty always matter, and there is truth to that other motto: "What goes around comes around."

What is Considered Unethical?
Both senior management and workers closely agree that unethical behavior, although not illegal,

is grounds for termination.

Some examples of behaviors considered serious ethics violations by management include the following:

-Supervisor access to employee health records
-Using resumes to discriminate
-Personal credit checks on employees
-Making misleading promises to employees or contractors

Some examples of behaviors considered serious ethics violations by employees include these:

-Using E-mail to harass co-workers
-Use of drugs at work
-Use of alcohol at work
-Circulating pornography by E-mail
-Falsifying experience on a resume
-Revealing confidential information
-Making misleading statements or promises to customers and clients

Because insurance companies and agents are in a position of trust, ethical behavior is paramount to perpetuating the industry and profession of each agent.

Both the insurer and the agent have an obligation to each other to be truthful and honest with each other through their agency relationship. In some cases, the agency relationship continues and a level of honesty and proper representation is required with the client.

State laws further enforce this requirement of honesty and proper representation through the various state Departments of Insurance.

The Topic of Trust
What is legal is not always ethical, and what is unethical is not always a violation of state or federal laws.

The insurance industry is a business of trust, and although most consumers feel they trust their agents, studies indicate that the average consumer does not have the same concept of other agents or the industry as a whole.

An interesting fact that is presented by consumer surveys and studies is that more than 50 percent of consumers rated trust and ethics higher than professional qualification, which comes in at the bottom of the list of the nine topics surveyed.

Over the years the insurance industry has earned the trust of the consumer, and perhaps more information and public exposure of the history of the industry would serve well to strengthen the public's perception of the industry.

During the great depression and the years that followed, although many individuals lost savings as bank and savings and loans closed their doors, the insurance industry remained solvent and in many cases became a source of funds for individuals.

Through the built up assets of life insurance policies, individuals were able to borrow money to carry them through these very difficult times.

Agent Ethics at Work
Because the industry is made up in a great percentage by independent agents, workplace ethics is

critical to creating sound ethical behavior by agents as they deal with customers and clients. These behaviors must come from within the agent and must be reflexive in nature in order to avoid a dereliction of this responsibility when faced with everyday work demands.

Having to meet either employer work quotas, personally set quotas, or to satisfy a personal need to be the "best" must never stand in the way of meeting the clients' needs and the need to paint an impeccable image of the insurance profession.

Although individuals in every profession are there to serve the needs of supporting themselves or their families, because insurance agents are licensed they are put in a position of trust. Their needs of self preservation must be put aside, and the interest of the client must always be put first. This is also known as "altruism."

Taking Advantage of Consumers' Lack of Knowledge on Insurance
Ethical conduct can easily be violated by selling someone more insurance than they need in order to earn more commission. Or perhaps sell someone a higher commissioned product, even though another policy would serve hiss or her needs better. Although not necessarily illegal both these actions would be unethical, not consistent with meeting the clients' needs and perhaps to a knowledgeable observer be a source of mistrust of the insurance professional and the industry.

Because insurance is a product that requires a most skilled individual to interpret its benefits, an agent's knowledge and recommendations are held to a high level of accountability.

The average consumer has neither the skill nor the ability to interpret the information in a policy accurately or to realize the additional options that may be available to him or her in order to properly meet the needs of his or her situation. An insurance agent plays a vital role in the decision making process and this trust should never be violated.

Win-Win
Selling insurance must be a "win, win" situation for all parties involved in the transaction.

An agent can look at a situation as a one-time sale and try to maximize his or her gain from that transaction without regard for the client's needs or look at it from the point of view that it is the beginning of a long lasting professional relationship. The latter point of view will earn the agent many more transactions, future referrals and commissions, and it can only be accomplished through professional conduct and ethical behavior.

Ethical Principles

Ethical standards outlined by various groups and insurance associations set the standard for ethical behavior within the industry. In many cases these organizations were in place before even state licensing bodies and, as such, actually set the pace for legislation that now governs the industry in many states.

Organizations that have such ethical standards in place include the following:

-The National Association of Life Underwriters
-National Association of Fraternal Insurance Counselors (NAFIC)
-Code of Ethics of the Million Dollar Round Table (MDRT)
-The American College
-The American Society of Chartered Life Underwriters (CLU)
-The American Society of Chartered Financial Consultants (CHFU)
-General Agents and Management Association (GAMA)
-Independent Insurance Agents of America
-American Institute for Chartered Property and Casualty Underwriters

The National Association of Life Underwriters
The National Association of Life Underwriters prescribes to a belief that all members have a combination of professional duty to the client and company and to maintain a balance between these two as to avoid conflict that might injure either. As a result of this belief, they subscribe to a commitment of responsibility that requires the members the following:

-To hold the insurance profession in high esteem and strive to enhance its prestige
-To fulfill the needs of their clients to the best of their ability
-To maintain the confidence of their clients
-To render exemplary service to their clients and beneficiaries
-To adhere to professional standards of conduct in helping their clients
-To protect their insurable obligations and attain their financial security objectives
-To present accurately and honestly all facts essential to their client's decisions
-To perfect their skills and increase their knowledge through continuing education
-To conduct business in such a way that by example will help to raise the standards of life underwriters
-To keep informed with respect to applicable laws and regulations and observe them in the practice of their profession
-To cooperate with others whose services are constructively related to meeting the needs of their clients

The National Association of Fraternal Insurance Counselors
The National Association of Fraternal Insurance Counselors requires that its sales personnel adhere to a position of utmost professional standards to their clients and at the same time maintain a position of trust and loyalty to their society. The highest ethical standards are required of all its members.

Its members must do the following:

-Hold the life insurance profession in high esteem and constantly strive to advance the prestige of legal reserve Fraternal Life Insurance
-Improve their ability and improve their knowledge through regular study and encourage other underwriters to do likewise
-Respect their clients' confidence and hold in trust any personal information
-Present accurately and completely all of the facts essential to have their clients make informed decisions and to always place their interests and welfare above any personal consideration
-Refuse any person or persons any part of their commissions or earnings as an inducement to purchase life insurance
-Submit complete and accurate applications for memberships and insurance on only those persons whom are believed to have the proper moral and medical requirements that conform to the Society's underwriting rules
-Cooperate with all fellow associates in all insurance organizations in furthering the best interests of the Institution of Life Insurance

The Million Dollar Round Table
The MDRT, head-quartered in Park Ridge, Illinois, represents an organization whose members are comprised of individuals who must reach certain production and persistency objectives. Its members must do the following:

-Always place the best interests of their clients above their own direct or indirect interests
-Maintain the highest standards of professional competence and give the best possible advice to clients by seeking to maintain and improve professional knowledge, skills, and competence
-Hold in the strictest confidence, and consider as privileged, all business and personal

information pertaining to their clients' affairs
-Make full and adequate disclosure of all facts necessary to enable their clients to make informed decisions
-Maintain personal conduct which will reflect favorably on the life insurance industry and the MDRT
-Determine that any replacement of a life insurance or financial product must be beneficial for the client
-Abide by and conform to all provisions of the laws and regulations in the jurisdictions in which they do business

American College Code of Ethics
The American College, a fully accredited institution of higher learning, offers courses to life insurance agents across the country. These courses lead to the coveted designations of Chartered Life Underwriters (CLU) and Chartered Financial Consultants (ChFC). The American College Code of Ethics is made up of a professional pledge and Eight Cannons. The Eight Cannons consist of the following paraphrased promises:

-Honor and dignity in the conduct of business
-Avoid practices that would bring dishonor to the profession
-Publicize accomplishments only in manners that enhance the integrity of the profession
-Maintain professional competence through continuing education
-Strive toward a career of distinguished professional service
-Support the institution and organization that strive for professionalism within the industry
-Assist others in the industry striving for professionalism
-Comply with all laws and regulations

Ethical Imperatives
The following imperatives have been established by the CLU and ChFU:

Competently Advise and Serve the Client
Both organizations require that their members provide both advice and service which are in the best interest of the client.

Because insurance agents, real estate agents and other professionals have an understanding about their product which is above the knowledge of their average client, professionals must take care to avoid using this knowledge to the detriment of their client. In other words, they are in a position of trust that cannot be violated in order to serve their own interest.

In a conflict of interest situation, the client's needs must be met ahead of an agent's own needs.

The agent must make a full and concentrated effort to both explore and ascertain through that information the needs of the client.

Consideration and courtesy must be undertaken in referring to other professionals who might also be serving the client. In other words, don't knock the competition whether you're trying to get the sale or discredit them.

An agent must give due regard the principal and agent relationship that exists between himself or herself and the companies they represent.

Agent to Client Confidential Relationship
The relationship between the client and agent is that of a confidential nature and all such information should be kept within that scope.

Because, in order to properly serve the client, the agent must sometimes inquire into areas that

might require the strictest of confidence. The agent must keep this information confidential and use it only for the purpose it was intended, unless released of this obligation by the client.

Continuing Education Requirement
Members of these organizations must maintain and enhance their professional skills and knowledge.

This enhancement can be formal or informal and must, not only include personal education, but also include knowledge of changing laws and legislation to properly inform clients.

Enhancement of Public Regard for Professional Designations
A member must obey all laws governing his or her business or professional activities. Business activities are defined as non-personal activities carried on outside the life insurance community. Professional activities are defined as non-personal activities carried on within the life insurance community.

Through the placement of the guide within the Code, an ethical obligation is created for a member to obey all laws applicable the agent's business or professional activities.

A member must avoid activity that detracts from the integrity and professionalism of the CLU and ChFC designation or other professional designations.

Personal, business and professional activities are encompassed within the scope of the Guide.

Things or actions that might be interpreted of a violation of the Guide include the following:

-Failure to obey a law unrelated to the member's business or professional activity
-A member harming the reputation of another practitioner
-A member unfairly competing with another practitioner
-A member performing activity that might discredit his or her own reputation
-A member discrediting life underwriting as a profession, the institution of life insurance, or the American Society of CLU & ChFC
-A member advertising the designations of the CLU or ChFC or American Society in an undignified manner or in a manner prohibited by the bylaws

Members of these organizations are encouraged to encourage others to obtain the designation.

Members cannot use the CLU & ChFC designation in a false or misleading manner. That is, members alone can use the designations and no advertising shall promote an entire organization as having the designation, when in reality the designation is individually bestowed.

The General Agents and Managers Association
The General Agents and Managers Association (GAMA) of The National Association of Life Underwriters codifies the ethical principles that general agents and agency managers should strive to maintain.

The organization encourages its members to practice the "Golden Rule" by the following:

-Using the best available techniques to select and place under contract only agents and managers that will enhance the professionalism of the profession
-Creating a sales organization made up of full time agents
-Providing adequate training and supervision to render proper service and advice to their clients
-Encouraging all associates to pursue additional and continuous education
-Encouraging all agents and contractors to participate and support the activities of the local

-Association of Life Underwriters
-Presenting fairly and honestly all facts regarding the agency to prospective agents or managers.
-Encouraging any prospective agent or manager to discuss his/her situation with his/her present manager before making a decision
-Taking a leadership role in the advocacy of the Life products as the best benefit to its policy owners

Independent Insurance Agents of America
Independent Insurance Agents of America is the nation's oldest and largest independent agent association. It is a highly regarded consumer advocacy organization and a powerful force within the insurance industry. The Independent Insurance Agents of America makes its presence known both in the media and on Capitol Hill. The association was founded in 1896 by a small group of local fire agents and now has grown to represent over 300,000 agents and their employees.

As it enters its second century of existence, the Independent Insurance Agents of America has expanded its activities to address the many challenges and opportunities that agents today have to face. Through its federation of 51 state associations, as well as its headquarters and Capitol Hill offices, the association provides advocacy, business tools and media visibility to its members.

The Independent Insurance Agents of America represents more than half of all the independent insurance agencies in the country. Its members range from small rural agencies selling personal lines to large commercial brokers handling major national accounts

Independent Insurance Agents of America strive to serve the public by promises to do the following:

-Serve the public through the honorable occupation of insurance
-Provide the full measure of service required of an independent agent
-Recommend the best coverage to meet the needs of the client
-Provide the public with a better understanding of insurance
-Work with national, state and local authorities to heighten safety and reduce loss in a community
-Recognize civic, charitable, and philanthropic movements which contribute to the public good of the community

Independent Insurance Agents of American strive to serve the companies they serve by these things:

-Respecting the authority vested in them by the companies they serve
-Using care in the selection of risks submitted
-Expecting the same from the companies served as is rendered to them

To fellow members, Independent Insurance Agents of America pledge to maintain

-Friendly relations with other agencies, with fair and honorable competition
-Strict observance of insurance laws
-Betterment of the insurance business
-Encouragement of others to subscribe to the same high standards

The American Institute for Chartered Property and Casualty Underwriters
The American Institute for Chartered Property and Casualty Underwriters (CPCU) is an independent, nonprofit organization offering educational programs and professional certifications to people in all segments of the property and liability insurance business. To help them provide professional service to the public, the organization responds to the educational needs of people in

insurance and risk management.

The CPCU offers an online counseling system to help individuals inventory their personal background and interest, making suggestions for appropriate programs of study.

The American Institute for CPCU, through its canons and rules endeavors to maintain a high degree of professionalism and ethical conduct for its membership.

-CPCU members should at all times place the public interest over their own and should encourage non member agents to do the same.
-Members should maintain and improve their knowledge, skills and competence.
-Members should obey all laws and regulations and avoid conduct that would cause unjust harm to others.
-Members should be diligent in performing their occupational duties.
-Members should assist in maintaining and raising professional standards.
-Members should strive to maintain dignified and honorable relationships with others.
-Members should strive in assisting to improve the public understanding of insurance and risk management.
-Members should honor the integrity and respect the limitations placed upon their designation.
-Members should always assist in maintaining the integrity of the Code of Professional Ethics.

Ethical Concepts

There is an entire host of terms and concepts associated with ethics to which you should commit – and not just because you are an insurance agent. Making ethical decisions and behaving ethically is a characteristic beneficial in all areas of your life.

An Administrative Action - when a legal or ethical violation (of an unlawful nature) occurs and a Commissioner or Director takes actions. This includes investigations, hearings, censures, cease-and-desists orders, suspensions, revocations, monetary restitution, fines and referrals to other agencies for criminal prosecution.

An Agent - different from a salesperson in that an agent is regulated by a licensing body, assuming the responsibility of representing someone else, called a "principal." In doing so, an agent must put the principal's needs ahead of her or his own need.

Assumptions - factors used to illustrate values in insurance policies. It is important to understand that assumptions are not always guaranteed to re-occur and must be presented within a realistic scope in order to avoid ethical misrepresentation.

Authority - the power granted an agent to perform acts on behalf of the principal, such as in the case of an agent's ability to bind a policy or other power granted by either the insurer or the insured in an agency relationship.

Bait-and-Switch - the unethical, deceptive, and illegal act of inducing a consumer to a service or product that the salesperson has no intention or does not have the ability to deliver. The inducement is a method to get the consumer in the door in order to sell him another product.

A Buyer's Guide - a standardized disclosure designed to help consumers understand the product. Many states require agents provide this Buyer's Guide at some point during the sales process, especially in the areas of life or annuity products.

Churning - the unethical practice of inducing a client to replace an existing policy for a new one, even though the additional change is not to the benefit of the client.

Civil Liability-s the liability for monetary damages as a result of a lawsuit brought by a private party in a civil court. Individuals and corporations often use insurance to cover such exposure.

A Code of Ethics - a formal set of rules or statements of policy set by professional organizations and made part of the standards for acceptance of membership. Because ethical standards set by organizations often existed before state licensing, often these standards have been used by state regulators as guides to set the pace for legislation for a profession.

Cognosceat Emptor - the opposite of "buyer beware." Today's consumer must be "fully informed" before making a decision. An insurance agent is both ethically and legally obligated to provide both adequate and full disclosure.

A Commission i- what one collects after providing a service or sale. Under an agency relationship, such as the one that occurs in the sale of real estate and insurance, commission is also paid for advice. Therefore, it can never be put ahead of the needs of the client.

A Conflict of Interest - when an individual's self interest competes with the interest of a client or principal.

Continuing Education - a means of maintaining up to date knowledge of legal and product changes in order to best serve clients and maintain professionalism within an industry. It is required for license renewal in most states.

Degree of Care - the extent of legal duty owed by one person to another. In the case of an insurance agent, this degree of care is maximized through the agency relation with the client or principal.

Doctrine of Reasonable Expectations - a legal concept that basically states that an insurance policy will be treated as if it includes certain coverage that an average person would reasonably expect it to include, regardless of what the policy provides.

Dual Agency - a situation created when an agent represents two clients in the same transaction who have competing interests. Dual Agency is legal in most states under outlined procedures and full disclosure to all parties.

Errors and Omissions Coverage - professional liability insurance for insurance agents and real estate agents covering liability for mistakes an agent makes in the practice of his or her profession.

Fiduciary - a term used to describe an individual who is entrusted with certain responsibilities of trust. In an agency relationship, an agent has certain fiduciary responsibilities to his or her client. Among those responsibilities include the handling of client funds and the maintaining of confidential information.

Fraud - when an individual intentionally uses deception in order to induce another party to part with something of value or to give up a legal right to his/her detriment.

A Misrepresentation - an inaccurate statement of fact or an omission of a material fact. Misrepresentations are either unintentional or intentional. Unintentional misrepresentations usually result in administrative and civil penalties. Intentional misrepresentations can result in criminal prosecution as fraud.

Multiple Company Representation - a contractual arrangement that permits an agent to represent more than one company at the same time and choose which company will receive his or her

policies at any given time. Multiple company representation can result in ethical issues if an agent choosing which company to place business with does not take into account the best interest of the client.

Negligence - not taking the reasonable proper steps to protect others from unreasonable chances of harm.

Rebating - the practice of paying a party to the transaction part of an agent's commission as an inducement to purchase the insurance policy. Rebating is illegal in most states or strictly regulated with proper disclosure in the states that permit such activity.

Replacement - the practice involving the use of funds from one policy, either from an existing policy or the termination of a policy, in order to purchase other insurance. Ethical issues arise only if the use of funds to purchase the new policy is not in the best interest of the client or is motivated strictly by the agent's need for commission.

Twisting - the illegal practice of convincing a client to switch policies with no benefit to, or to the detriment of, the client.

Unfair Discrimination - the practice of applying different standards to insureds that have the same risk loss. The practice is both unethical and illegal.

Many of these key words and concepts apply to the area of ethics. A thorough comprehension of these words and concepts will help you reach a better understanding of the ethical issues that face us each day in the exercising of the insurance profession.

Applying Ethics Benefits the Industry

Knowing what ethics are or what is ethical is one thing. Actually applying ethics in your life and in your work is something entirely different. What good would ethics be if we just talked about them? They must be applied in order to affect an industry or individual.

There are many obvious moral benefits to adhering to ethical standards, but there are other benefits of ensuring that ethics are followed in the industry and in the workplace.

Attention to business ethics has substantially improved society. A number of decades ago, children in our country worked 16-hour days. Industrial workers suffered debilitating injuries due to poor work environments, and disabled workers were condemned to poverty and often starvation.

Trusts controlled some markets to the extent that prices were fixed and small businesses were choked out. Price fixing crippled normal market forces. Employees were terminated based on personalities. Influence was applied through intimidation and harassment.

Then, society reacted and demanded that businesses place high value on fairness and equal rights. Anti-trust laws were instituted. Government agencies were established. Unions were organized. Laws and regulations were established.

However, ethics and regulation ride a swinging pendulum. Today it is arguable that government agencies created to fix a problem simply expand and become a problem. Labor unions have gained so much power that they themselves have been corrupted, and bargaining agreements have crippled employers' capabilities for growth. Laws and regulations are established for a reason, but there is such a thing as over-regulation. Everyone knows that with regulation comes red-tape, and it's up to the industry being regulated to do its best to maintain effectiveness and make an effort to ward off bureaucracy if it can.

Ethics programs help maintain a moral course in turbulent times. As noted previously, attention to business ethics is critical during times of fundamental change. During times of change, there is often no clear moral compass to guide leaders through conflicts about what is right or wrong. Continuing attention to ethics in the workplace sensitizes leaders and staff to how to act — consistently.

Ethics cultivate strong teamwork and productivity. Attention to ethics aligns employee behaviors with those values preferred by leaders of the industry. Usually the small office or organization finds surprising disparity between the preferred values of the industry and the actual values in the day-to-day business transactions. Ongoing attention to values and ethics builds openness, integrity and a sense of community for the individual—critical ingredients of a strong leader in the industry.

Ethical standards support individual growth. Attention to ethics in the industry helps an agent face reality, both good and bad, in the industry and in him or herself. In this regard, an agent may feel fully confident and can admit and deal with whatever comes his or her way.

Ethics programs are an insurance policy—they help ensure that policies are legal. There are an increasing number of lawsuits in regard to the effects of services or products on the consumer. Attention to ethics ensures highly ethical policies and procedures in the workplace. Analysts believe it is far better to incur the cost of mechanisms to ensure ethical practices now than incur the costs of litigation later.

Ethical standards help avoid criminal acts of omission and can lower fines. Ethical standards, such as an insurance agent's codes of ethics, tend to detect ethical issues and violations early on so they can be addressed. In some cases, when an organization is aware of an actual or potential violation and does not report it to the appropriate authorities, it can be considered a criminal act. However, ethics guidelines adopted on an industry-wide basis potentially lower fines if an organization or individual has clearly made an effort to operate ethically.

Ethical standards help manage values associated with quality management, strategic planning and diversity management. Ethics programs identify preferred values and ensure that the individual's behavior is aligned with those values. This effort includes recording the values, developing policies and developing procedures to align behavior with preferred standards, and then training personnel about the policies and procedures. Ethics standards are highly useful for managing strategic values, such as expanding market shares, reducing costs, and managing diversity. Diversity is much more than the color of a person's skin—it is acknowledging different values and perspectives.

Ethical standards promote a strong public image. Attention to ethics is also a strong public relations tool. Admittedly, managing ethics should not be done primarily for the reason of public relations. But, the fact that an organization regularly gives attention to ethics can portray a strong, positive image to the public. People see those organizations as valuing people more than profit, as striving to operate with the utmost of integrity and honor. Aligning behavior with values is critical to effective marketing and public relations programs.

The bottom line. Applying ethical standards legitimizes managerial actions, strengthens the coherence and balance of the industry, improves trust in relationships between individuals and groups and supports greater consistency in standards and qualities of products.

Qualities of the Highly Ethical Individual

What makes a person ethical? There are these four basic principles of a highly ethical individual (or organization):

-The individual is at ease interacting with diverse internal and external groups, i.e.,

consumers. The "good of the consumer" is part of the individual's own philosophy and own good.

-The individual is obsessed with fairness. The individual's ground rules emphasize that the other person's interests count as much as his/her own.

-The individual assumes personal responsibility for his actions, and he is responsible to himself first and then to his organization.

-The individual sees his actions in terms of purpose. This purpose is a way of operating that members of the industry or organization highly value. Purpose ties the individual to the organization, and the organization to the environment.

Qualities of the Highly Ethical Industry

Virtually every industry on Earth has its ethical challenges. Understanding the characteristics of an ethical industry supports such industries in drafting codes of ethics and levying expectations of companies and businesses within its arena. The following are characteristics of a highly ethical organization or industry:

-There exists a clear vision and picture of integrity throughout the industry.
-The vision is owned and embodied by top management in the industry, over time.
-The reward system is aligned with the vision of integrity.
-Policies and practices of the industry are aligned with the vision, giving no mixed messages.
-It is understood that every significant decision has ethical value dimensions.
-Everyone in the industry is expected to work through conflicting value perspectives.

Chapter 10 Ethics – Prohibited Activities

Protecting the Consumer

Ethics must be applied to the way in which an agent conducts his day-to-day business in the insurance industry and how he handles his insurance consumers. Agents should strive to maintain business practice standards that are far above the minimum requirements set out by their states. There are serious penalties for circumventing these requirements.

There are several specific areas where the insurance industry regulates the behavior of the individual agent as well as the insurer, in the form of prohibited activities. The following list is not all-inclusive, and agents must be certain to follow the spirit, as well as the letter, of the law. There are other areas where an agent may run afoul of common practices, and it is the responsibility of each agent to maintain high standards.

Prohibited Activities

Agents are required to follow the ethical standards established in their states, and must not engage in the following prohibited activities:

-Misrepresentation
-Altering applications
-Premium theft
-Unlicensed sales
-Forgery or "Windowing"
-Misleading sales techniques
-Illegal rebates
-Discrimination

-Untruthful Policy Replacement coverage
-Untruths in advertising

Misrepresentation
In the normal course of a discussion with a potential client, an insurance agent may say something inadvertently, or make an error in representation about the insurance product that he/she is presenting. Such omissions or errors are not committed intentionally, and the insurance agent does not intend to defraud the consumer. Without malicious intent, such misrepresentations are not fraudulent, although they are still subject to penalties.

It is the responsibility of the agent to make sure he/she is well-versed about the products he/she offers. If there is any uncertainty about provisions or features, it is incumbent upon the agent to research the issue before providing erroneous information to the client.

The following are a few examples of misrepresentation:

-Advising a client that an auto policy will cover liability when it is only for collision
-Telling a prospective client that dividends are guaranteed when they are not
-An agent telling prospects that he/she represents several companies when in fact he/she represents only one
-Talking about a term life insurance policy in such a way to lead the prospective customer to believe that it will have cash value accumulation

Altering Applications
Altering applications, for any purpose, is not permitted. It is illegal and insurance agents must not engage in altering applications. In the past, applications have been altered for a number of fraudulent reasons, including these:

-Changing underwriting information to get a more favorable premium rate
-Switching the type of coverage applied for
-Adding additional zeroes to the amount of coverage applied for

Premium Theft
Of all the prohibited activities, premium theft ranks among the worst offense an insurance agent can commit. In addition to the outright theft of the premium money, failure to turn over a premium on a policy prevents the policy from going into effect. The consumer believes he/she is insured, but in fact, his/her application was never submitted to the insurance company. These situations are quickly discovered if the prospective insured or the insurance company makes any inquiry. Every state insurance department rigorously punishes premium theft.

Unlicensed Sales
As mentioned previously, license regulations help protect the general public and allow the insurance department to maintain standards of uniformity. By licensing individual agents, the state can provide some level of assurance to the consumer that his/her needs will be met by an individual capable of offering guidance and competency. Each member of the insurance industry strives to maintain the standards established, for those who do not may tarnish the reputations of the other members of the industry.

Agents must be licensed properly to sell insurance in the jurisdictions where they do business. A resident license is required for selling within the state where the agent resides. Should an agent sell in another state, he must obtain a non-resident's license to do so. In many states, additional licenses may be required to sell variable products, such as variable annuities or variable life. The sale of products other than life insurance, such as property and casualty or investments, also requires a separate license.

It is the responsibility of every agent to comply fully with the state regulations regarding his/her licensing requirements for all activities in which he/she engages.

Forgery
Like theft of premium funds, forgery is an act that is not tolerated and which is punished severely by the insurance department. Tracing over an authentic signature on one form onto another form is known as 'windowing' and is illegal. Windowing has been used to obtain an illegal policy loan, or to obtain a change of dividend option. In addition to punishment by the insurance department, forgery is also subject to criminal penalties.

Misleading Sales Techniques
Misleading sales techniques violate the consumer's trust and harm the industry by offering a product that the agent does not actually intend to sell. Sometimes known as a 'bait and switch' tactic, a misleading sales tactic often involves offering one product that looks almost too good to be true, and then offering in its place a similar or substandard product. In most cases, the "too good to be true" product was never available in the first place.

An ethical insurance agent is always careful never to make a promise, or offer a product, which cannot be delivered.

Illegal Rebates
Rebating offers buyers of larger policies more leverage for financial incentives and harms buyers of smaller policies. The buyers of the smaller policies, in effect, end up paying more for their policies. In the two states that allow rebating, it is heavily regulated by their insurance departments.

Examples of rebating are these:

-Giving anything of value to the customer for buying insurance
-Giving back the premium, in whole or in part, to the customer
-Advising the customer of benefits or funds that will be received but which are not specified in the contract

Discrimination
It is against the law to discriminate against individuals in the same class regarding the availability, terms, benefits, premiums, rates, or dividends pertaining to any policy of life, health, or property-casualty insurance.

Untruthful Policy Replacements
Also known as twisting, this situation occurs when an agent advises a policyholder to let his current policy lapse, or to surrender it, so that a new policy can be purchased. Although this is not always a misleading situation, in some cases an unscrupulous agent may convince the policyholder to let a valid policy lapse just to purchase a new one on which the agent will reap commission.

For replacement of coverage to be legal, there must be proof that the policyholder will be better off with the new policy. To use the offer of a replacement policy just as a sales technique, however, is unethical.

There are specific procedures regarding when an agent can replace a life insurance policy. These procedures are regulated by most states. Among these procedures are the requirements that the policyholder must be provided a written explanation of exactly what the replacement means, as well as notification of the insurance company that the policy is to be replaced.

Determining the best interest of the policyholder always should be foremost in an agent's list of

priorities. If a policy has been in effect for a long time, the policyholder may not be eligible for the same coverage and rate on a new policy. Policies that have been building cash value may be undermined by replacement with a new policy that will take many years to accumulate the same level of cash value.

Untruths in Advertising
An advertisement is generally defined as any printed or published material intended for the general public. Advertisements and sales materials used with the public have direct impact on an agent's sales and sales practices.

Advertising regulations differ from state to state, but the following list encompasses the rules most commonly applied by the states:

-Advertisements must be truthful, and must not have the "sin of omission," or failure to include information in an attempt to mislead the consumer.

-It must be clear that insurance is the subject of the ad.

-Ads that tout unusually high claims settlements are usually considered misleading unless the ad specifically states that the amount is unusual. Ads may not imply that claims settlements will be generous beyond the terms of the policy, or that a policy owner will receive special treatment that is not specified in the policy.

-Technical terms and illustration may not be used if their meaning is not clearly understandable to the individuals who might purchase the product. Required disclosures must be set out in plain language.

-If using statistics in an ad, they must be relevant and factual. The source of the statistics must be identified in the ad.

-Ads may not offer anything that is in violation of public policy or law.

-Ads may not offer anything of value that is outside the express terms of the policy advertised.

-It is not allowable to make unfair comparisons of policies or any of their terms.

-Testimonials from third parties must really reflect the true opinion of the third party and must relate to the exact policy that is being advertised.

-Premium amounts stated in an ad must be for the exact coverage described in the ad.

-Ads may not create the impression that the advertiser or a policy is being recommended or backed by any state or federal government agency. If an ad refers to policy approval by state authorities, it must also disclose that all legitimate insurance policies receive such approval.

Ethics are Number One Priority
The work of an insurance professional plays an important, though sometimes unrecognized, role. The insurance professional is part of the insurance industry's public relations team. The agent meets the public every day, and the way an agent conducts his business leaves a lasting impression relating to the insurance industry as a whole.

Cutting down the Competition
Insurance agents must maintain a level of professionalism in their attitudes toward their

competitors. An agent must avoid criticizing other agents, as it harms the competitor, puts the critical agent in a bad light, and leaves a bad impression of the insurance industry in general with the prospective client. If unchecked, misleading or harmful criticism of another in the industry may lead to revocation of the license of the agent who is guilty.

Lofty Goals
A professional in the insurance industry must set lofty goals, and adhere to a set of high personal ethical standards, as well as comply with the minimum legal standards established by the state. These minimum legal standards create safeguards to protect the consumer, but professionalism requires more than just meeting these standards—it means exceeding these standards. An insurance professional achieves this goal by putting his clients' interests ahead of his/her own.

Trust is the Key to Success as an Agent
Maintaining high ethical standards is beneficial for the client and the agent. Put simply, people like to do business with people they trust. An agent who maintains high standards is going to have more success in business than the agent who does not maintain those same high standards. Genuine respect and concern for the client motivates the professional agent to act ethically. Agents who are tempted by an individual or find themselves in a situation in which they are pressured to act in an unethical matter must consider the long-term results of those actions, and the result it may have on the agent's career.

Some industry leaders advise that in perhaps no other industry is the element of trust as important as it is in the insurance business.

Making a Difference

-Just why that element of trust is crucial to an insurance agent's professional role is evidenced by the services an agent performs. Consider some of the following areas where an insurance agent serves the client:

-An insurance agent may provide the financial planning tools that enable a child to go to college by assisting his parents with trusts or life insurance.

-An agent may assist business partners in designing a buy-sell agreement or business continuance plan that will save the company in the event of a partner's death, or casualty to the business.

-An agent may assist a couple plan their retirement years, and give them the tools to spend a worry-free retirement.

-An agent may provide a comfortable lifestyle for survivors of a policyholder, by providing a product to the policyholder that was designed to enable them to remain in their home, and continue their normal standard of living.

-Insurance agents clearly present an essential service in our society.

Chapter 11 Insurance Fraud - Your Role in Claims

According to Progressive Insurance (2001), almost one in ten people in American would commit insurance fraud if they knew they wouldn't be caught. Three in ten people would not report insurance fraud if they knew it was occurring. One in four people believe it's okay to exaggerate claims to make up for deductibles (Insurance Research Council, 2000). Talk about a lack of ethics – and we're talking about the public!

So how does fraud affect you? It's quite simple – when it costs more for a business to provide a product or service, the business must raise its price. To the insured, this means higher premiums.

As an agent, insurance fraud represents one more thing you have to be on the lookout for as you vet risks. In terms of ethics, this means notifying the authorities if you suspect or have knowledge that fraud is taking place. It also prohibits you from participating in any type of scam, such as sending automobiles damaged in staged accidents to a particular mechanic who collects money for unnecessary service and rewards you with a kickback.

Fraud in Auto Insurance

Some of the most rampant fraud in property and casualty insurance occurs in connection to Personal Injury Protection or PIP, as it's commonly called.

PIP is an extension of car insurance available in some states that covers medical expenses and, in some cases, lost wages and other damages. PIP pays benefits regardless of who is at fault and is mandatory in some states, especially those with "no-fault" laws.

Fraud in PIP is committed by insureds, not agents, but it's something you need to be on the lookout for.

The Insurance Research Council reported in 1996 that one in three bodily injury claims involves fraud. You would think insureds would have second thoughts about those fraudulent claims if they knew the research council also reports that fraud adds $5.2-$6.3 billion to the auto premiums that policyholders pay each year.

Some people go as far as to stage fake car crashes in order to file equally fake claims. This brings PIP fraud into the realm of medical insurance fraud, as these same people go on to fake vague soft tissue injuries and consult doctors who don't conduct the most thorough of examinations because they want the business.

Dealing with fraud is a serious issue for property and casualty insurers, which paid out as much as 11 to 30 cents of each claim dollar toward "soft fraud," according to the Insurance Research Council – Insurance Services Office in 2002. Soft fraud is the term used to describe small time fraud and is of what the majority of property and casualty insurance fraud consists. Increased efforts to combat fraud at the time this survey was taken were reported to be "moderately" effective, if at all. It would probably help if these insurers actually thoroughly investigated fraud. The Insurance Research Council – ISO also reported in 2002 that less than one in four insurers investigate insiders such as employees and agents who commit premium fraud.

Fraud Motivated by National Disasters

When disaster strikes, such as a hurricane or flood, insurers experience a massive influx of claims for property damage. Unfortunately, this presents an opportunity for individuals seeking to file fraudulent claims based on the assumption that since there are so many being filed, insurers will be more interested in getting them settled than thoroughly investigating them.

On the flip side, national disasters also represent an enormous amount of benefit payouts to insurers. This leads to debates over whether damage was caused by the hurricane winds or the subsequent flooding. Consumer advocates and yes, lawyers, are always on the lookout for this type of fraud following a national disaster.

Insurers in states where hurricanes are common prepare for this, as do their respective legislatures. If you live in a state that experiences national disasters that cause extensive property damage, you are already familiar with the kinds of fraud the storm brings in.

Fraud in Homeowners Insurance

Fraudulent claims are one the reasons why adjusters are so important to insurance companies. Here is an example of insurance fraud that occurred in Texas:

Several individuals purchased two-story homes in a scheme to defraud their home insurers. In each case, furniture was removed from the house and replaced with damaged furniture. Then, with the use of garden hoses, the individuals systematically flooded the interior of the house causing excessive water and mold damage.

The insurer would be notified by the insureds who claimed that a leak from a broken pipe occurred while the owners were away. Before the insurance adjuster arrived, the leak would be repaired.

Homes in the greater Houston area, Bay City and Austin were used in this scheme. Those involved in the scheme were homeowners, independent sub-contractors, vendors and service providers in filing claims and repairing damages to the homes. They fabricated bills from repairing appliances to furnishings, clothing and electronics.

Twelve of the Texas Department of Insurance's Fraud Unit Investigators along with Federal Law Enforcement Officers were involved in this investigation, which has become the Fraud Unit's largest crackdown on fraudulent insurance claim filings. Seven individuals were convicted in U.S. District Court, Houston and sentenced to more than 31 years for their part in a scheme to defraud homeowner insurance companies out of more than $5,000,000.

The Hall of Shame

The Coalition Against Insurance Fraud takes the time to appoint spectacular cases of fraud to its "Insurance Fraud Hall of Shame."

Some of its inductees includes a teacher who paid two failing students to "steal" and destroy her car so she could file a theft claim and get a new car. She lost her job and spent a few months in jail.

Another more disturbing case involved a deeply in debt former tycoon who burned his own home down with his 90 year old mother inside, claiming she committed suicide and caused the fire. Not surprisingly, his prison sentence was a little longer than the teacher (about 189 years and nine months to be exact).

As you can see, insurance fraud ranges from the mildly humorous in a "I can't believe they thought they could get away with that" way to the morbidly criminal, such as the ungrateful son above.

Insurance Sales

Selling an insurance policy is not something an agent makes up as he or she goes along. In fact, any type of sales can be reduced to a science. There are many opinions about the best way to present a product, get the prospect's trust, and "seal the deal." In ethical terms, it's a little simpler. Your ethics may be what gets the sale, more so than your technique.

Trust

An insurance agent is much more than a suit and a selection of brochures. You are a professional and you must be perceived as one in order to gain your prospect's trust. If you arrive to an appointment with a possible applicant disheveled, unorganized or worse, uninformed, you've lost the sale before your presentation even began.

So much about sales is based on trust. People will buy from someone they trust – not someone who is impatient or fails to answer questions thoroughly. Trust and ethics are connected in that you want your professionalism, knowledge and ability to serve your prospects to be what gains their trust - not your skill in "tricking them" into trusting you.

During your sales presentation, your prospective client trusts that what you're saying is true. He expects that the benefits you claim are part of the policy you're offering are real. A misleading presentation or failure to disclose pertinent information during this phase can 1) lose you the sale or 2) void the policy because of a tainted application process.

The bottom line is to be trustworthy - not just act as though you are. Doing a good job in gaining your clients' trust will likely result in referrals, anyway, so it's a win-win situation for you (and them).

Your Role in Claims

Since so many claims filed by individual insureds are property claims, it would be very helpful for you to be able to discuss not just the things that are covered by the policy, but how claims will be handled if the insured must submit one.

Though you are the agent and not the adjuster, since the relationship between the insured and the insurer will have been forged by you in the beginning, it is common for an insured to contact you about a claim before contacting the insurer or being approached by an adjuster.

A great way to be prepared for this is to familiarize yourself with the Unfair Claims Settlement Practices Act, which was drafted by the National Association of Insurance Commissioners (NAIC) and adopted in almost every state. Here is a brief description of this Act, though it is best for you to get a copy of your own state's version.

The Unfair Claims Settlement Practices Act

The practice of settling claims is regulated closely by state insurance commissions. This is done for these two reasons:

-The very purpose of collecting money from policy owners is to pay claims.
-Claims that go unpaid, are altered, or are delayed in payment can significantly affect other areas of the insured's financial situation.

The Unfair Claims Settlement Practices Act provisions are meant to protect insureds and claimants from claims settlements that are deceptive, misleading or unfair.

These provisions are in place to guide both insurance companies and the adjusters who represent them. The following are considered unfair claims practices:

-Misrepresenting relevant facts or insurance policy provisions relating to coverage at issue
-Failing to recognize and act reasonably promptly upon communications with respect to claims arising under insurance policies
-Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies
-Refusing to pay claims without conducting a reasonable investigation based upon all available information
-Failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed
-Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear
-Compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts ultimately recovered in actions brought by such insureds
-Attempting to settle a claim for less than the amount to which a reasonable person would have believed he or she was entitled by reference to written or principal advertising material accompanying or made part of an application

-Attempting to settle claims on the basis of an application that was altered without notice, knowledge or consent of the insured
-Making claims payments to insureds or beneficiaries not accompanied by statements setting forth the coverage under which the payments are being made
-Making known to insureds or claimants a policy of appealing from arbitration awards in favor of insureds or claimants for the purpose of compelling them to accept settlements or compromises less than the amount awarded in arbitration
-Delaying the investigation or payment of claim by requiring an insured, claimant, or the physician of either, to submit preliminary claim report and then requiring the subsequent submission of formal proof of loss forms, both of which submissions contain substantially the same information
-Failing to promptly settle claims where liability has become reasonably clear under one portion of the insurance policy coverage in order to influence settlement under other portions of the insurance policy coverage
-Failing to promptly provide a reasonable explanation of the basis relied on in the insurance policy in relation to the facts or applicable law for denial of a claim or for the offer of a compromise settlement

Have your state's version of the Unfair Claims Settlement Practices Act handy when the call comes from a distraught client who is dealing with a lengthy or frustrating claim process. It will help you to recognize any failures on the part of the adjuster handling the claim or by the insurer, and will further build the relationship you have with the client.

After all, being a good agent doesn't end when you deliver the policy. Being a good agent means supporting clients when they need you, even if all you can do at that point is provide information.

Section 5: Underwriting

Chapter 12 Underwriting - Objectives

Major Goals of Underwriting

Underwriting of all types is designed to accomplish these three major goals:

-It helps the company to achieve underwriting gains
-It contributes to society
-It assists in maintaining a strong, solvent industry, which can serve the public in the future

Each of these goals must be recognized and understood before changes in practices can be successfully adapted to the new regulations and pressures.

Underwriting Gains

The first goal of underwriting is to help to achieve underwriting gains. In stock companies, these gains can be called "profits." With mutual companies and reciprocals, the gains result in increased dividends or surplus. In all cases, the goal is to be able to show a modest gain after losses and expenses are paid.

Underwriting contributes to these gains by selecting applicants who fit within the parameters of the rates which have been developed. Every rate structure contemplates a certain type or class of risk.

Underwriting has the responsibility of accepting and retaining those properties and exposures which fit the expected pattern. Underwriting gains cannot be achieved by accepting applicants

whose probability of loss is greater than that which is anticipated by the rates.

Applying contract provisions, which are contemplated by the rate structure, can make a further contribution. Coverage cannot be unduly broadened, exclusions cannot be removed and conditions cannot be waived without jeopardizing the expected underwriting gains.

Rates, contracts and selection are closely related. Improper use of any of them can destroy all hope of underwriting gains. If any of the three is inadequate, one or both of the others must be adjusted accordingly or underwriting losses will occur.

Total responsibility does not fall on underwriters. Those who promulgate rates and those who draft contracts carry a share of the burden. But in the final analysis, it is the underwriter who must select applicants who fit the rates and contract provisions which are designed to produce underwriting gains. If artificial restraints are imposed on underwriting, either rate must be increased or contracts restricted. Otherwise, underwriting gains cannot be realized.

Contribution to Society

Insurance contributes a great deal to society. In fact, it is difficult to imagine how this civilization could exist without insurance. Society benefits from insurance by the reduction in uncertainty which insurance provides. With this lessening of uncertainty, people can buy and furnish houses, establish manufacturing and processing firms, stock warehouses and retail establishments, and conduct the distribution of goods.

If this uncertainty was not reduced, people could not embark on these ventures. Perhaps more importantly, lending institutions would not be able to finance these enterprises, so anything beyond a cottage-type of business would be almost impossible.

Most of the recent strides in industrial and technological fields would have been unthinkable, and most consumers would not have been able to accumulate the volume of goods which marks the affluence of society.

Insurance supplies a good share of the funds which finance long-term investments. The accumulation of capital, which is needed to guarantee the payment of future losses, can be used to promote expansion in home ownership as well as in business and industrial fields.

Another major benefit of insurance is the competition, which results from the stability and reduction of uncertainty, which is present in our economy. Small firms can compete with large enterprises because they do not need to accumulate large sums of money to help survive disasters. The protection given to insurance permits every firm to survive both heavy losses to property and claims for liabilities. Thus funds can be used for growth, and society benefits from the resulting competition.

Underwriters are the focal point through which most of the benefits of insurance are supplied to society. It is underwriters who arrange to protect almost every conceivable type of loss and in amounts of insurance which meet the needs of society. When new exposures to loss arise, underwriters develop methods of insuring those exposures.

A major contribution of underwriting is being certain that the insurance needs of society are met. This imposes a burden upon underwriters to conduct their operations in such a manner that society does benefit from insurance. Availability, affordability, capacity and solvency are some of the goals of underwriting.

Two important aims of underwriters are to support activities which will benefit society and to oppose changes which will tend to restrict these benefits. Not only underwriters must analyze the immediate results of changes but also their long-range effects.

Every underwriting action and every underwriting rule or guide should be considered in light of the ultimate effect on society as a whole.

Changes in society and in its demands are having an effect on underwriting practices. Adaptation to these pressures will be required if underwriting is to survive. The leader of a producer's organization, in a speech referring to the current mood of the "day of the consumer," said this:

"...The forces impacting on the industry will stimulate a review of its responsibilities.... some authorities believe that the insurance industry did such a great job of convincing people of the need for insurance that it is now regarded as a necessity to which the public is entitled. If insurance today is a social and economic necessity, then the industry has an obligation to society. While insurance products and services are needed, there is reason for improvement."

Maintain a Strong Insurance Industry

The greatest contribution that underwriters can make to their companies and to society is to help maintain a strong and solvent insurance industry.

Underwriting gains, as discussed in the previous section, are an essential element in maintaining this strength. Another factor is steady, solid growth. This requires an analysis of markets and a selection of applicants who represent a broad, desirable spread. Still another element is an ability to meet the needs of buyers of insurance, for only in this way can insurance companies survive.

In all of these areas, underwriting contributes best when it classifies and accepts applicants on the basis of reasonable criteria which is equitably applied. A constant objective of underwriting must be to analyze selection standards, to change the standards and classifications when conditions require and to administer them fairly in daily activities.

Society benefits directly from the existence of strong and stable insurance companies. Only this type of insurer can meet the needs as described earlier. The future demands of a changing society will place new burdens on the insurance industry.

New energy requirements, advanced technologies, the challenges of space travel, the opportunities for increased leisure activities, the opening of markets in undeveloped lands and all of the other possibilities which will be presented by the brave new world to come—all will require even more insurance protection than is available today. A strong, solvent insurance industry is a necessity if artificial brakes are not to be applied to these many new possibilities for fortune and growth.

The future of underwriting is the analysis of characteristics of applicants in order to find meaningful factors upon which to base underwriting selection. This is the challenge of the future for underwriters. Laws and regulations will impose new rules. Pressures will cause others to lose their effectiveness. But underwriting must survive if a strong insurance industry is to exist. This will require adaptation by underwriters, through the use of revised approaches, which will achieve the established objectives.

The Chairman of the Texas Insurance Board, in speaking about the related subject of rates, made this thoughtful statement, which applies to all aspects of insurance:

"It is as important to guarantee the consumers of this state a strong, viable insurance industry as it is to guarantee equitable rates. No artificially suppressed rate can ultimately be beneficial to our state's policyholders."

Underwriting in Response to Regulation

Underwriters can react in many different ways to rules and regulations that are adopted. If they

do not consider carefully the ultimate consequences, they may react in ways that will damage their reputations. In the long run, the damage will be irrevocable and will affect the entire insurance industry.

The only truly viable alternative is to underwrite with more applied intelligence and knowledge. This will include securing more facts, evaluating applicants as individuals, making objective analyses and taking prompt action in conformity with the laws and regulations.

As a starting point, underwriters must know why certain rules or guides were used in the past. For example, the applicant's occupation was not a factor because there wasn't anything wrong with people who were engaged in certain occupations.

They were not wicked, dishonest nor abhorrent. Rather, experience has shown that persons in certain occupations tended to be unstable. They moved around a great deal.

This instability can be a problem to insurers, so caution was used in accepting applicants who were engaged in certain occupations. The occupation should not have been a firm rule but just a guide (although it is likely that some underwriters used it as an unacceptable factor).

Suppose that occupation is prohibited as a factor in underwriting. The instability of the applicant may still be a problem. If this is discovered to be the case, the application may need to be rejected. The reason for the rejection is not occupation, but instability. The latter can be indicated by factors other than occupation and may need more investigation to discover.

Occupation cannot be used as a reason for underwriting action, but it can still point out the need for more facts, which may make the application unacceptable. If unstable conditions are not found, and other factors are not present, the application should be accepted.

Obtaining Objective and Subjective Information

The key to better underwriting is to secure all relevant information. No longer will it be enough to find out a few facts, such as occupation, and then take action.

Both objective and subjective material can be secured, depending upon the circumstances and the management of the insurer.

Objective information is the most reliable data is that received from objective outside sources. Motor vehicle reports and accident information from the file is the most common for vehicle insurance. The condition of the property, photographs, a doctor's report of physical impairments and the length of driving experience are other examples for various lines.

Subjective information is purely personal and private information that may be used under some circumstances. Ordinarily, this is best if secured from the applicant, not from outside sources. After all, what a friend or neighbor says about an applicant should be accepted with a grain of salt. The application, telephone verification and a renewal questionnaire are devices which are used to get facts from applicants and policyholders.

Some insurers have used psychologically oriented self-completion questionnaires as investigative tools for new applicants, particularly for personal automobile insurance. Some of these sources may arouse antagonism from applicants or producers, but they are illustrations of the sources that are available.

Right to privacy laws and other restraints imposed by government can restrict the information which can be secured. This situation only makes the underwriter's job more difficult and requires more innovation to locate permissible data.

Analyzing Information

The first step in underwriting still requires the securing of as much relevant information as is necessary or available. The second step is analysis of the information. There are two different ways of looking at applications: by class and by individual risk.

Traditionally, personal lines have been subject to class underwriting. This means that classes or groups are identified as being problems and are not written. Underwriters recognize that some individuals in each class would be acceptable.

However, it would be more expensive to locate them, and there is usually not much information readily available upon which to make the decision. If an exception is made and a loss occurs, criticism may result. On the other hand, there will be no criticism if the applicant is rejected.

Commercial lines more commonly use individual risk underwriting. More complex factors are present, and premiums are high enough to permit more investigation. In most companies, certain groups have been identified as presenting problems, and these may be on an unacceptable list.

Still, exceptions are made for meritorious applicants based on individual characteristics. This pattern is common among larger commercial risks: smaller ones may be handled more on a class basis.

This traditional difference between class and individual risk underwriting is disappearing in today's social and regulatory climate. People no longer tolerate being handled as members of a class without regard to individual characteristics.

Many of the laws and regulations are aimed at precisely this factor. Since some physically impaired people are good drivers, it is no longer permissible to reject them simply because other physically impaired people may be problem drivers.

Rather, the rules prohibiting the use of certain characteristics require that each person be considered on the basis of individual factors alone.

The analysis of applicants, under government regulations, must include a study of individual characteristics, not just the group to which the applicant belongs. This does not necessarily involve a great deal more time and expense.

Instead, it takes only a little more effort to consider if the applicant is different, in some relevant way, from the other risks of the same type. If so, the differences must be analyzed.

This type of analysis is new for most underwriters, particularly those handling personal lines. Education, training and frequent audits will be needed.

Making a Decision

The third step in underwriting is to make a decision and take action. This can be a perilous part of the process, or it can be a golden opportunity to serve the public and the industry.

The manner in which underwriting guides are written and the way that the reasons for adverse action are stated can be very important. This is the point at which the true intentions of the companies are measured. Underwriters should avoid using words like "location," "sex," "age" and "marital status" when rejecting or canceling insurance. These may be factors to be considered in the evaluation, but they cannot be used as the primary reason for rejection. Reasons must be given, and these should be specific.

Underwriters must stop using such general terms as "condition of the property." The public insists upon knowing why adverse action is taken. The reasons must be clearly explained. Action must be

taken promptly. Restrictions place a burden on underwriters to avoid procrastination. Many states prohibit cancellation of new policies after a "discovery period"—usually about 60 days.

Non-renewals are often permitted only if notice is sent to the policyholder well in advance of the expiration date. These rules require prompt and firm action, preventing the delays which previously marked the decision-making process of some underwriters.

In summary, underwriters must avoid the specific use of factors which are prohibited, although these factors may be used as indicators along the path. Applicants and policyholders must be analyzed as individuals, not as members of a class or group. Actions must be taken promptly and always in compliance with the laws. Rejection or cancellation may be taken only for relevant reasons, and never because of factors, which are prohibited. The reasons must be explained in specific terms.

The previously mentioned are the general approaches, which must be followed by underwriters under government restraints. As a first step, management of the company should outline general principles, indicating how underwriting is to be conducted.

These principles, which should be stated in broad terms, will give the necessary guidance to underwriters.

It is obvious that compliance with all laws and regulations should be the cornerstone of these principles. Then, general statements are needed as to the degree of investigation to be followed, the method of communicating decisions and the handling of complaints. Such a statement of principles will supplement the underwriters' knowledge of general approaches to be used and will provide a broad base of guidance for future underwriting.

Specific Practices

Desk underwriters need specific instructions on practices to be followed when they encounter situations of the types described in previous sections. While general statements are helpful, they are inadequate for the day-to-day handling of individual risks.

Statements of general principles must first be developed and adopted by insurance company management. Such statements are needed before desk underwriters can make decisions which follow the wishes of management. Without such statements, underwriters can be expected to continue the old practices which have led to the current atmosphere of criticism and demands for change.

Desk underwriters, using the statement of principles, must make decisions on individual risks. This is the focal point of all of the sound and fury being heard throughout the country. This is the level at which the decisions are made on individual risks. If those decisions are in compliance with both the laws and the expectations of the public and the regulators, all will be well. If they are not, further restrictions will be imposed. Those restrictions will have an even greater impact on the ability of insurers to decide upon the types of business they wish to write.

Underwriters must learn of the laws and regulations affecting the insurance being considered. Controls must be established to be certain that both new and existing laws and regulations are communicated to all underwriters. Next, supervisors must conduct enough audits to be certain that desk underwriters are following all of the applicable laws and regulations.

Much more than this is needed, however, if underwriting is to survive as it is known today. The spirit as well as the letter of laws and regulations must be followed. Most rules have loopholes if someone looks hard enough for them. If underwriters find loopholes in laws or regulations and underwrite on that basis, further restrictions will be adopted to close the loopholes.

Complaints and criticisms must be heard. When reasonable adaptations to underwriting practices can be made to meet those objections, this should be done. Not every complaint must be met, or no underwriting could exist for long. The problem is to separate those that are reasonable and logical from those that are not. The application of these principles will not be easy. The reasons for each type of criticism must be known. The old practices must be modified in many respects.

Loss History

Underwriters considered the history of past losses to be the best predictor of future losses. A basic and very important part of underwriting is the estimation of an applicant's future loss potential. The record of past losses was secured whenever possible, and the losses were analyzed carefully.

For vehicle insurance, the accident record was used. For other liability and property exposures, the record of past paid losses was the best source. In all cases, the underwriter analyzed both frequency and types of losses.

From these studies of past losses, many underwriters prepared rules or guides on the maximum number of losses that were permitted in order for a risk to be acceptable.

Accident Record

In auto insurance, the accident record of the driver was the most important. It affected the underwriting of many personal and commercial risks. Several statistical studies have verified what underwriters had asserted for a long time: a driver who has had accidents is more likely to have a future accident than a driver who has not had an accident. Furthermore, the more accidents a driver has had, the more likely it is that he or she will have future accidents.

The most recent three-year period was ordinarily used in statistical studies, as well as in underwriting. However, an underwriter was interested in trends and patterns and would give some consideration to a longer period of time if the information was available.

Accident Rates

Statistics demonstrate that, as a group, drivers having accidents during one time period are substantially more likely to have accidents in a future period. Underwriters, unable to determine precisely which drivers would have accidents, tended not to accept those who had shown, as a class, that they would have more accidents in the future. Accordingly, the practice was to reject a driver who had incurred prior accidents.

The actual number of past accidents that were permitted depended on the rate structure and market orientation of the company. Whatever the number, underwriters tended to make a first screening by the accident record.

Fault

One refinement sometimes used was whether the applicant had been at fault in the accident.

Studies of accidents, such as those conducted by the California Department of Motor Vehicles, include all losses, so there is no distinction between at-fault and other accidents. Actually, some people who study these factors feel that most accidents could be avoided by proper defensive driving - leading to the conclusion that even those drivers not charged with responsibility for an accident could have avoided it in many cases. The next time, they may be held to be partly at fault, or the other driver may be uninsured, so a bodily injury payment must be made under Uninsured Motorists coverage, regardless of fault.

Finally, since the Motor Vehicle Reports (MVR) do not show fault, there is no means of determining the facts short of getting a copy of the police report, which is time consuming. The only alternative is to accept without question the statement of the applicant, who is naturally biased and ordinarily unwilling to admit to fault. For these reasons, many underwriters did not

consider the question of fault in an accident.

The number of past accidents over a period, such as two years, has been a fundamental guide to automobile underwriters. Often, the number of accidents was counted without regard to such refinements as severity or type because those factors did not appear to be as important a fact as accident involvement.

The MVR is the primary source of information concerning past accidents. Some information is received from questions on the application, but this was generally felt to be unreliable because people forget dates and circumstances and are inclined to minimize their own past errors.

An inherent weakness of the MVR is the fact that it reveals only accidents that are reported to the department of motor vehicles. Many accidents are never reported. An accident that results in no bodily injury and only minimal property damage does not need to be reported. Even excessive losses might not be reported if the parties so agree and no law enforcement officer is involved. An accident that occurs on private property does not need to be reported. An accident that occurred in another state may not appear on the MVR, although all states are supposed to exchange such information. Finally, some state recording of accidents is so slow or of such poor quality that the MVR reports are of questionable accuracy.

Thus, the MVR does not give all of the factual information about accidents. The underwriter, knowing the importance of complete information and predictability of future accidents based on past accidents, would try other sources. The previous insurer should have all accident data on file, so arrangements can be made to exchange such factual material. Neighbors of the applicant usually are aware of accidents, and inspection reports may elicit information from them.

Traditional underwriting practices, therefore, used all available sources to learn about past accident involvement of all drivers in order to avoid the writing of those risks which had incurred more than the allotted number of accidents during the past specified period.

Traffic Violations

The traffic violation record of drivers was almost as universally used as the record of accidents. In some instances, violations were even more important, especially for commercial risks.

Statistical evidence again supports the suspicions of underwriters that a driver who has had violations is more likely to have future accidents than a driver with no violations. The number of occurrences, as with accidents, indicates the likelihood of accidents in the future.

Two terms are used somewhat interchangeably by underwriters. “Citation” means that a motorist has been cited by a law enforcement officer for an alleged infraction.

“Conviction” means that a court has found the motorist guilty or that the motorist has forfeited bail, which is tantamount to pleading guilty. Both of these terms could be called “traffic violations.”

The difference is that some people who receive citations may be found not guilty and thus receive no conviction. To the extent that this occurs, underwriters should not use citations because some of them may not result in convictions, which would imply that the person involved was not at fault in the violation.

As a matter of practice, underwriters tended to use whatever was available. If both citations and convictions could be determined, the latter were used. If only citations were available, ordinarily they were used, without the expensive process of learning if an actual conviction resulted. The daily conversation of underwriters may have used either term, without implying that one or the other was more likely to be used in underwriting.

Types of Traffic Violations
Traffic violations come in varying degrees, from very serious to harmless. Underwriters, in an effort to develop a workable arrangement, tend to divide violations into the following three groups:

Major: These are the most serious. Drunk driving is the most common. It is customarily called DWI (driving while intoxicated) or DUI (driving under the influence of intoxicating beverages). Also included are such violations as reckless driving, hit-and-run, involuntary manslaughter, driving while a license is suspended or revoked and engaging in a speed contest on public roads.

Other Moving Violations: The bulk of the remaining violations are in this group. Included among them are speeding, improper turns, improper lane changes, tailgating, failure to yield and failure to stop for a traffic control device.

Equipment Violations: These are citations issued for defective lights, improper equipment, no inspection sticker and similar violations.

Underwriters would look at the kind of violations, the frequency and the time period. For example, one major violation might have been permitted during the past five years, but none in the past three years. Not more than two other moving violations may have been permitted during the past three years.

Equipment violations seldom were included in rules, but they do give an underwriter a clue to the maintenance of the vehicle and the responsibility demonstrated by the owner.
"Accident Rates by Number of Accidents in a Prior Period"
Law enforcement activity varies among the states. Some state patrol departments are more active, and more inclined to give citations than others. An underwriter tried to learn of the practices in those states that his or her office handled, and to take this into account when judging the weight to be given to citations.

However, any frequency of citations was a cause for underwriting concern. If some states give few citations, and most drivers seldom are cited for their infractions, it was even more serious when an applicant showed a long string of citations. Some underwriters considered citations to be more important than accidents because an accident can be subject to such outside influences as weather and road conditions, while citations are issued only if the driver violates a law.

There is seldom any means of discovering a traffic violation record other than with an MVR. However, tendencies toward speeding, reckless driving, “jackrabbit starts,” and other unsafe practices are usually known by neighbors. The traditional underwriter sometimes ordered an investigation report, requesting specific information on such practices from neighborhood informants. A tendency toward unsafe driving, whether it’s demonstrated by citations or not, is cause for concern to the underwriter and it is considered to be good underwriting to use the complete driving record in the selection process.

Non-verifiable Record
One problem with the driving record remained. The underwriter was sometimes unable to acquire the driving record, either because it was unavailable or because the driver was newly-licensed. Judgment had to be used in these cases.

A driver who recently moved into the state should have had a record available from the previous state. The former driver’s license number was usually requested, so that an MVR could be ordered from that state. But what about a driver whose record could not be secured? For instance, picture an applicant who had just returned from a three-year stay in Saudi Arabia, where he/she worked in the oil refineries. He said that he/she had no accidents or citations, but how could the

underwriter verify this? Was it proper to write such a risk at the preferred rate?

Consider another applicant, one who had only recently been licensed (usually this was a youth, but sometimes older people do not learn to drive until later in life). With no record, could the underwriter assume that the record would be clean during the coming year? In cases like this, underwriters often applied a surcharge as a means of protection against the unknown exposure or used this as one factor in the selection process. Both non-verifiable driving records and newly licensed drivers were considered to be factors of concern to underwriters.

Property Losses

The record of past losses of the types for which coverage was requested was important to property underwriters. For example, on homeowners' policies, information was desired on past fires, windstorm damage, thefts, vandalism and other perils, if included in the policy.

Unfortunately, the somewhat accurate information that can be secured on accidents incurred by automobile risks is not available to underwriters for other lines. There are no studies by government bodies that indicate the average loss expectancy of dwellings and commercial risks. Also, no government body collects or disseminates information about past losses.

The claims files of an insurer could be used by an underwriter in an attempt to determine expected loss frequency and the effect of past losses on future claims. Underwriters did make such studies, although the results were seldom conclusive. The best conclusions seemed to be that a condition that caused past losses would, if not corrected, cause future losses. Inadequate wiring, a worn roof and a pattern of burglaries in the neighborhood would be cause for concern as to future loss expectancy.

The problem of how to find out about past losses still remained. An underwriter could use the company's claim records on policies that had been on the books for a period of time. On new business, there was no equivalent to an automobile insurance risk MVR. Most applicants were asked about past losses, but underwriters considered their answers unreliable.

The only solution was to secure the actual loss information from the previous insurer, and a practice developed of exchanging such information. This practice was similar to that used by automobile underwriters to secure information on losses that were not reported to a department of motor vehicles. By reciprocal arrangements, underwriters could exchange facts about losses on policyholders.

Property underwriters seldom established rules as to the number of losses which were permitted. Rather, they weighed the numbers and types of losses against other factors.

The type of loss was particularly significant. A fire from inadequate wiring probably would be repeated unless the wiring problem was corrected. A small loss from negligence, such as from a cigarette in a sofa or from a grease fire in the kitchen, might well have been a large loss under less fortunate circumstances, and the next one might be a total loss.

On the other hand, a series of unrelated or relatively uncontrollable claims might not be a cause for concern. An example is a theft of a bicycle from the yard, a hailstorm that marred the paint on one side of the house and water from a stopped-up sink, all which occurred within a period of three years.

Commercial property underwriters followed similar practices. They secured information on past losses from any available source and weighed the factors without establishing firm guide rules.

Liability Losses

Personal or commercial liability losses were handled in the same way as property losses. Again, no

government source was available for analysis or as a source of information. Facts about past losses were often secured from prior insurers. The frequency and types of losses were analyzed and a decision was made, using no specific rules.

On personal lines, the degree of control and the steps taken to correct the situation were the most important. A vicious dog, an unfenced swimming pool and a broken step on the front porch are examples of hazardous conditions that an underwriter might have used as reasons to reject a risk, if uncorrected.

On commercial lines, different occupancies caused more varied hazards, but they were handled the same way as personal lines. An underwriter would be concerned about slip-and-fall claims in a market, loose carpeting in a restaurant and blind intersections in a shopping center. As with other types of losses, the aim was to find the previous loss pattern, analyze the causes, determine the corrective steps taken and compare this information with other factors before arriving at a decision.

Underwriting the Lines of Insurance

The previous discussion concerning driving records was concerned primarily with private passenger automobiles because it's an easier way to convey the use of such information in underwriting. However, the driving record of an applicant can be used in underwriting of other lines of insurance, commercial and otherwise. In this section, we'll be discussing that as well as other factors used in underwriting.

Commercial Lines

The driving record was considered to be as important on commercial vehicles as on personal vehicles. A truck driver who had several accidents or received several citations would not be considered as good a risk compared to one whose record was clean. The most common rebuttal was that most truck drivers drove many more miles than the ordinary person and were more likely to have accidents or receive citations. This argument was refuted by the existence of many truck drivers with excellent driving records, despite the larger number of miles driven.

Not only did underwriters use the commercial driving record in reviewing commercial risks, they also used commercial accidents and citations in personal underwriting and vice versa. A driver who had problems while driving a truck for work would most likely have the same problems driving his personal automobile. Similarly, the type of driving that would cause accidents in a personal car would also cause accidents in a commercial vehicle. Many state MVRs did not show the type of vehicle, so all underwriters tended to use the complete driving record.

Boats

The driving record on a vehicle tended to demonstrate the attitude of the boat operator toward safety and the rights of others, underwriters felt. Thus, the operation of a boat would be subject to the same personality traits that affected the operation of an automobile. For this reason, the automobile driving record, as shown by the MVR and other sources, was used by boat underwriters. Another consideration was the boat's power. The more powerful the boat, the more the concern the underwriters gave to the driving record.

Dwellings

The link between the driving record and the maintenance of a home was less direct. However, underwriters felt that the attitude of a person toward owned property was demonstrated by the driving record. A person who drove with reckless abandon would tend to maintain a home in the same manner. Since maintenance of the home was an important factor in the underwriting of residential fire insurance, the driving record was one consideration used in some cases.

Condition of Property

Although the attitudes and habits of the insured were of primary importance for the underwriting

of most insurance lines, the condition of property was not far behind. Almost all types of insurance involve property in one way or another, whether it is a vehicle, a building, or personal property. Underwriters were concerned when the property was not maintained in good condition because this not only led to more losses on the property, it also indicated that a person lacked responsibility.

Condition of Automobile
A vehicle that was in poor condition, perhaps with non-repaired damage, was usually unacceptable to most underwriters. You've likely seen these cars on the road – the plastic sheet window, red-tape tail light replacement, missing back bumper, or dented door are all examples of non-repaired damage that an underwriter may frown upon.

Physical damage coverages could not be written because of the difficulty of determining whether new or old damage needed repair after a loss. But liability coverages were also refused in many cases on the grounds that the car's poor maintenance showed that the owner was not interested in presenting a good appearance, which could give an unfavorable impression to a jury in case of a lawsuit. Furthermore, an owner who was not interested in the appearance of the vehicle was probably not interested in its mechanical maintenance, which could lead to accidents because of faulty brakes or steering.

The opposite of poor maintenance was also a concern to underwriters of vehicles. These were the cases when owners would paint or otherwise alter the vehicle in a manner that would either make it a show-off car, a high performance car, or both.

Many types of alterations were used: decals, "mag" wheels, wide tires, raised rear ends and other enhancements. Sports cars were the earliest and most often involved, but vans and pickup trucks were soon altered in similar fashion.

The problem to an underwriter was that these people exhibited strong show-off tendencies, which could lead to taking unnecessary chances and careless driving. Underwriters also felt that if the power of an engine was increased, that power would be used, which could be dangerous.

Condition of Buildings
A building that was poorly maintained was unacceptable in many cases. The appearance of a building gives a good indication of the attitude of its owner or occupant. A lack of concern is indicated if a dwelling needs paint, has broken windows or has a yard littered with old tires or abandoned cars. It was felt that such an occupant would not properly maintain the electrical or heating systems of the home, and this neglect could lead to losses. The same feeling applied to commercial buildings.

"Pride of ownership" was a phrase used by underwriters to indicate a desirable situation. It indicated that the occupant or owner desired to maintain the appearance and condition of the building. Where "pride of ownership" was present, the risk was usually acceptable for fire insurance.

Even automobile insurance was affected by the condition of the building. Underwriters reasoned that the same attitude that caused a person not to care about the appearance or condition of a dwelling would be reflected in driving habits.

A person who was not concerned about the effects on other people of poorly maintained property would not be concerned about their rights on the highway. Safe driving is largely a matter of attitude, so underwriters tended to not accept automobile applicants who demonstrated a poor attitude toward their property and neighborhood. Some automobile insurance was rejected because of the poor maintenance of the dwelling in which the applicant lived.

Risk Factors

Age of Buildings

The age of a building is an important factor in its condition. After a few years, buildings can present problems from worn-out and obsolete systems. Electrical circuits deteriorate, and the addition of much new equipment such as appliances in a home can result in an overload. Heating systems wear out and controls can fail, which could lead to losses. Plumbing systems deteriorate and can cause losses under policies that insure water damage. Unless the electrical, heating and plumbing systems are modernized, underwriters may not accept older buildings.

"White elephant" is the term used to describe a building designed for an occupancy that is no longer efficient or practical. Such a building is relatively old, having seen the area around it change. One example is a dwelling in an area that is now so completely commercial or industrial that it is not suited for residential occupancy.

Another example is an old commercial building that has not been remodeled to handle current technology and really cannot be adapted economically. Every large city has examples of old manufacturing plants that cannot meet today's air pollution or energy-efficient standards and that would cost more to adapt than to build a new plant.

Underwriters were cautious in handling such risks because an extreme moral hazard could be created when a building is worthless as it stands. The owner may actually be better off financially if the property is destroyed rather than maintained. This situation created a classic moral hazard that might have made the risk unacceptable.

The age limit used by underwriters depended somewhat on the territory. As a general rule, dwellings over 25 years of age were written cautiously, and those over 50 years were handled with extreme care. Commercial buildings were given more latitude, but the same concerns were present.

Inspection reports were ordered frequently on older buildings in order to secure information about condition and upkeep. Photographs were also common, either in conjunction with an inspection report or with the application on all buildings over a specific age. The ordinary inspection reports and photographs gave information on the general condition of buildings, but did not answer the critical questions about electrical, plumbing and heating. Only a complete engineering type of report gave good data on those items, and such a report was too expensive to use on dwellings and small commercial buildings.

For the above stated reasons, underwriting guides usually contained a specific age beyond which risks would not be written. Experience had taught underwriters that older buildings often presented abnormal hazards, and it was too expensive to secure reliable reports that would indicate if the conditions actually existed in specific risks. Many older buildings would not be acceptable, so the class was placed on an unacceptable list. Exceptions would be made only in extreme cases.

Value of Buildings

The value of a building depends upon its size, age, location and type of construction. Values can be quite low where there is a combination of great age, small size and substandard construction. On dwellings, any one of these factors can result in very low market value and actual cash value.

A good clue to the desirability of a building is its valuation. A low value may indicate an old structure with the inherent problems described above. A minimal amount of insurance may reveal that the size of the building is small, which increases the likelihood of total loss. Also, low value may be caused by construction that does not comply with current code requirements or by the use of substandard materials.

On dwelling and homeowners' policies, the replacement cost provision is included in almost all forms. A requirement of this provision is that the dwelling be insured at least 80 percent to replacement cost. An older structure usually has a substantially lower actual cash value than replacement cost. For example, a 35 year-old house may have a replacement cost of $100,000, but an actual cash value of $50,000. Even at 80 percent, the minimum to replacement cost is $80,000, which is $30,000 more than the insured might expect to receive in a sale.

It was generally accepted that such over-insurance created an invitation for arson, and the moral hazard was considered to be too great. For this reason, underwriters would not write these policies on dwellings where the disparity between replacement cost and actual cash value was too great. Sometimes the rule took the form of a blanket prohibition on homes over a certain age, as a simple means of achieving the desired result.

Valued policy laws created special problems on valuation. In states where they apply, they raise the specter of over-insurance because they require payment of the policy's face amount in case of a total loss. A moral hazard is thus created in some instances because a property owner can actually collect more than the value of the property by purchasing insurance for a higher amount. In those states, underwriters were careful about the amount of insurance, and sometimes refused to write coverage where they suspected that over-insurance might be present.

Occupancy of Buildings

The type of occupancy had a substantial effect on the desirability of a building, as it was seen by underwriters. The occupancy could substantially increase the chance of loss, so certain occupancies were on the unacceptable list.

On dwellings, owner-occupied homes were considered to be preferable. Tenant-occupied homes were underwritten very cautiously, and vacant structures were on most lists of undesirable risks. Business occupancies in a home were not accepted in many companies, and underwriters even rejected any dwelling where the hazard was increased by such hobbies as picture-frame making, furniture refinishing and antique collecting.

On commercial risks, the occupancy is obviously an important factor of desirability. Even in this class, however, underwriters often tended to list many occupancies as unacceptable, without considering that the risk could be reduced substantially by the use of fire walls, segregated operations, automatic fire extinguishers and other protective measures.

Protective devices can be used to improve almost any building. Fire alarms and burglar alarms are effective in all structures. Smoke alarms are helpful in dwellings. Burglar alarms, dead bolts, barred windows and similar measures can help to prevent theft losses in both commercial and dwelling buildings. Fences and walls can help liability exposures where there are such hazards as swimming pools.

Underwriters used inspection reports to obtain information on occupancy and protective devices. Full inspection reports were used, with information secured from neighborhood informants or from the insured. Producers were asked to secure data, and photographs were required in some cases. Even drive-by inspection reports gave some information on occupancy and other important factors.

Neighborhood

Even though the condition of property was faultless, a risk might be undesirable because of the neighborhood in which it was located or garaged. Thefts, fires and vandalism can cause damage to property, no matter how well it is maintained. The environmental hazard is important in almost every line of insurance.

A stable or improving neighborhood was desired by underwriters. A deteriorating neighborhood pointed toward so many problems that acceptability lists often specified them, either by a general description or a specific delineation of a territory.

"High-crime" and "urban core" areas were other terms used to describe deteriorating neighborhoods. In such areas, automobile theft and vandalism is high, particularly if the vehicle is not kept in a garage at night. Thefts from dwellings, vandalism to homes and even fires in residential property can be caused by the conditions in the neighborhood, regardless of the maintenance and housekeeping of the dwelling itself. Robberies in such commercial occupancies as liquor stores and gas stations generally are more common in these areas, and theft from warehouses and other occupancies is greater.

A neighborhood can be a hazard to property, even if it is not of such a nature that it could be called "deteriorating." A dwelling in a commercial neighborhood is more likely to be damaged by fire from an explosion in a nearby chemical factory or a fire in a neighboring lumber yard. If the neighborhood is a forest or brush area, a building can be exposed to serious fire losses.

These increased hazards were recognized by underwriters. Experience with risks that were exposed to such chances of loss was enough to convince an underwriter that the rate did not contemplate such exposures. Rules were adopted that prohibited the writing of risks that were garaged or located in hazardous areas. These rules applied to automobile, dwellings and commercial risks, and for most types of policies.

Age

Automobile and commercial vehicle insurance is affected by the age of drivers. Even homeowners' insurance may show different loss patterns by the age of occupants.

Youthful Drivers

Youthful drivers are involved in a substantially higher rate of accidents than are all drivers. Drivers under age 30 comprise 33.9 percent of the motoring population in the United States but are involved in over half of all accidents.

Traffic fatalities also are considerably higher for youthful drivers than for the average, according to data compiled by the National Highway Traffic Safety Administration and the Department of Health, Education and Welfare. The Highway Users Federation analyzed the data and stated this:

"...In applying U.S. Census Bureau projections...the traffic fatality rate per l00,000 population was 53.3 for 18 year olds, more than two and one-half times the national average of 21.1 for all ages. The only other age with a fatality rate greater than 50 was 19 year olds, with 51.7 per 100,000..."

Elderly Drivers

Elderly drivers have also presented problems. As a person's reflexes slow, their ability to react is reduced. As muscular flexibility drops, an elderly driver's ability to look back while changing lanes or backing out of a parking space is reduced. Probably every driver will some day be a problem, unless death intervenes before that time or the person stops driving.

One of the conclusions of the UCLA-DMV Driver Vision Research Project, was this:
"...mileage is a factor related to accidents. When the accidents are adjusted by miles driven...we find that older drivers have high accident rates per exposure unit. The adjustment of accident rates by mileage results in the younger and older drivers having the highest accident rates, where the middle-age drivers have the lowest."

Furthermore, the director of the California Department of Motor Vehicles was quoted as saying this: "Notwithstanding that older motorists drive less, and compensate for their handicaps by greater caution, the accident involvement of drivers over 75 is almost as great as that of drivers

under 20. Insurance companies know this. Their reluctance to renew the auto insurance of the elderly accounts, as much as anything, for older people giving up driving."

According to the above article, the four principal handicaps of older drivers are "diminishing vision, hearing, reaction time and reduced ability to understand complex traffic situations."

Another research project on elderly drivers which concluded: "All groups in the automobile insurance industry are in agreement that senior drivers present a serious problem today. There is every indication that the problem will increase sharply, if for no other reason than the increase in the number of potential senior drivers.

"While senior citizens must be defined in terms of the commonly used chronological age bracket of 65 years or over, it is apparent that functional age would be a more accurate criterion in evaluating the physical abilities of a senior citizen. It is true that gradual deterioration of body functions begins at birth and gradually becomes more pronounced in differing degrees for each individual. At present, there is no suitable method of measuring gradual physical body breakdown. Thus, it is necessary arbitrarily to categorize the senior citizens as being 65 years of age or older."

Faced with conclusions like these, underwriters naturally tightened up the acceptability rules for senior drivers. At the same time, surcharges were imposed for operators over age 65, sometimes in steps as the age progressed.

Most automobile insurance rating plans have reduced rates for lower annual mileages. Since most elderly people drive fewer miles, they got the lower rates. However, as indicated previously, their accident rate is high when compared with mileage. Thus, the results were poorer for this age group.

Age Restrictions

Underwriters used age restrictions as a means of controlling the problems caused by age. Rate was considered inadequate to handle the exposures. Youthful driver rate classes were unprofitable for many years. Elderly drivers were eventually surcharged to compensate for the added exposure, but these surcharges were later removed under pressure.

Underwriting rules were common, as they referred to the age of the drivers. Those under age 25, (sometimes under 30), were not written alone. If the insurer handled the family's business, a youth's car may be written, but not otherwise. This was particularly true for unmarried youths. The rule often excluded drivers over age 65, 68 or 70, unless the risk had been insured with the company for a period of time prior to arriving at that age.

Commercial vehicle insurance was subject to the same factors and often used the same rules. Inexperienced, immature, youthful drivers could be a real hazard when driving the many miles required of most commercial operators and the large trucks often used. A truck fleet that hired such youthful operators was underwritten with extreme care. Some underwriters preferred to exclude all drivers under age 25. Elderly drivers were usually removed by mandatory retirement plans, but where they did continue to drive, cautious underwriting was used.

Even dwelling fire insurance was affected by the age of the insured. Elderly residents often were unable to maintain the premises properly because of lack of income and loss of mechanical ability. The property often tended to be older. Also, there was little possibility of desirable related business, such as automobile or life insurance. While age rules were seldom published as such, underwriters used caution in writing residential fire or homeowners' insurance on elderly people.

Youthful occupants of a home or apartment were more likely to have low values in personal property and less stability than middle-aged persons. Minimum value rules sometimes excluded this class. Age rules alone were seldom used, but other factors were significant. The most

important of these other factors were sex and marital status.

Gender

Underwriters have long recognized that there are differences between the sexes from an insurance standpoint.

Automobile accident involvement differs considerably by the sex of the driver. Males have a higher percentage of accident involvement at every age bracket. Males have 1.7 times as many accidents as females.

Another report showed a different automobile insurance problem. The Traffic Injury Research Council of Canada related a study of the driving habits of Canadians and gave the findings in its annual conference report. It revealed that "during a random sampling of motorists over a period of months, the percentage of males discovered drinking while driving was twice that of females."

Based on such studies, plus experience, underwriters used to refuse to write youthful male drivers as a class, particularly when they were not married. Obviously, this is not the case anymore.

Marital Status

Underwriters preferred married persons living with their spouses and with one or more children. It was generally accepted that this group had stability and predictability, avoiding the increased hazards and uncertainties of other types of living arrangements.

Other relationship statuses introduced different and new risks that underwriters had to consider. Did divorce pose a moral risk? How about people who rush into serious relationships that involve moving in together, but fall apart quickly? How does a person's success or failure at love really affect his or her risk level? Well, underwriters have learned a few things over the years, and while certain aspects may suggest discrimination, examining a person's stability in relationships that involve cohabitation is something underwriters must do.

Mingles

The term "mingles" refers to people of opposite sexes who live together as though they were married, but who actually are single.

This type of living arrangement is not new. It probably has existed during most of history. It has been called by different terms, such as "cohabitation." In many states, the continuation of this arrangement can lead to common law marriage, which can have the same impact on insurance underwriting as the more traditional type of marriage.

The problem with mingles from an insurance standpoint is the instability and lack of certainty about the future. An automobile underwriter likes to know who will be driving the car and with the temporary arrangement of mingles, this cannot be known. A homeowners' underwriter wants to know who owns and who will be using the property, and again "mingling" makes this uncertain.

The difficulty is that one who mingles may change living partners with ease. If an automobile policyholder is a young woman, her present mingling partner may be acceptable as an occasional driver, but what if he leaves and another man takes his place?

The underwriter would not know of his driving record, if indeed any notice was given of his presence in the "home." Or, worse, the other partner might have a poor driving record, but has his own car, so it is alleged that he will never drive her car. Underwriters would not accept that allegation, believing that if her car was blocking his in the driveway, or his car was in the garage for repairs, he would use her car to run down to the market.

In many states, permissive users cannot be excluded and, in others, they can be excluded only by

name. Therefore, it is not a viable alternative in many cases to cover one partner and not the other. The problem remains even if the present partner is acceptable and provision is made for notification of any change of partners, since the cancellation laws could restrict an underwriting action on an existing policy if a new partner was unacceptable.

Homeowners' policies generally cover personal property "owned or used by the insured." Suppose that a policy is issued to a young woman living alone. Then a young man moves in with her under a mingling arrangement. Serious questions arise as to the extent to which her policy insures his property. If he supplies a television set and other furniture, could it be said that she does not "use" them? At best, the risk is almost certainly not insured to value. At worst, his property or his living habits might not be acceptable, but his presence may not be revealed to the underwriter. Even if it were revealed, it would be costly to investigate him, and again the law might prohibit underwriting action.

For these reasons, underwriters did not want to write insurance for people who were in this type of living arrangement. The guides to unacceptable risks often included such items as "unmarried persons living together."

Such guides did not say that unmarried persons living together were prohibited. There were situations which were acceptable. If the arrangement was quite stable, the underwriter could conclude that the inherent instability of this lifestyle was not present in this case.

At some point in time, a common law marriage was assumed by the laws of many states, or the underwriter could assume that a similar result had been attained. When the arrangement between two people had continued for five or more years, or some such period, many underwriters would accept the risk, if other factors were satisfactory.

Single, Separated, Widowed and Divorced

Builders of homes have adopted the abbreviation "SSWDs" to refer to the "single, separated, widowed and divorced" people who are buying homes in increased numbers. Members of this group have caused concern to underwriters for many years, both in homeowners' insurance and automobile insurance.

The basic problem with SSWDs is instability. In many cases, the present is filled with turmoil and the future is uncertain.

Singles of any age are generally less stable than married persons. This is reflected in their driving of automobiles. Single drivers for both sexes have more than one and one-half times as many accidents as married drivers. This problem also carries into property insurance, because these persons tend to travel more and may live with different persons of the same or the opposite sex.

Separated persons offer a special problem with instability. Being neither married-living-with-spouse nor divorced, their future is unknown. Emotional problems often exist which can adversely affect the driving. If the insured on a homeowners' policy is separated, there may be inadequate arrangements for the maintenance of the property.

Widows and widowers are the best of this group. There is more likely to be an emotional adjustment after a period of time which can be traumatic. Both associates and future living conditions may be uncertain. Many of the people in this category have adjusted well, but some have not, and underwriters needed to determine the group to which an individual applicant belonged.

Divorced persons present insurance problems, particularly during the early stages of the divorce. Emotional turmoil is common, often having an adverse effect on driving patterns. Problems arise concerning the division of property, as well as its care and future location. Some divorced persons

go through a period of extreme social activity, which can affect all aspects of their lives.

All unmarried persons presented potential difficulties to underwriters. Not every individual was a problem, but it was not easy to separate them. The type of investigation which could reveal the facts was not always available or practical. Therefore, underwriters often listed unmarried applicants on caution lists, to be written only if the potential instability and emotional problems were not present.

Occupation

The occupation of an applicant has long been considered to be a good indication of the chance for future losses. Occupation was believed to demonstrate the type of exposures that could be expected, as well as the inherent hazards of some occupations.

Travel

Certain occupations seem to offer increased chances that a loss will occur because of excessive travel. Some automobiles are driven far more than average because of the requirements of the job. Sales people who use their cars in their work are a prime example. They may drive considerable distances every day. In addition, their minds may be more on the sales approach they will use with the next prospect than with the road conditions around them. The increased mileage and possible inattention were believed to present greater potential for loss than the average driver.

These same travelers also caused concern to the underwriters of homeowners' and theft policies. In this case, all occupations that involved a considerable amount of travel were suspect, even though the travel was by air. Persons who travel overnight must take clothes, toiletries and incidentals, and these are usually packed in luggage which is fairly compact. The ease of transporting the luggage makes it easy for thefts. Many occupations involving travel will require an above-average wardrobe, whether to impress a sales prospect, to give a neat appearance before fellow employees in other branches, or to look impressive when speaking before a group or meeting.

The luggage may also contain samples, valuable articles, cameras and other targets for thieves. There have been actual cases where a diamond merchant was robbed of the display stock that he or she was taking to a sales exhibit, with the loss in the hundreds of thousands of dollars.

Coupled with this propensity for transporting expensive articles in compact containers is the fact that the property often is left unattended in exposed places. Airline terminals and hotel lobbies are places where luggage often is left for periods that are long enough for a theft to occur. Luggage is left in motel and hotel rooms, and many employees of a transient nature have keys that can provide easy access into rooms. A person who travels by car may leave both personal and business property in the car, unattended, while in a restaurant, a gas station or while checking into a hotel or motel. A traveling salesperson, conscious of his or her appearance, may have a number of expensive suits or other clothing inside the car—a tempting target for a thief.

For all of these reasons, underwriters used rules that attempted to exclude from acceptance those people who traveled extensively. Automobile underwriters used a rule like "persons who travel more than 25,000 miles in a year."

Homeowners' underwriters used such rules as "applicants who travel extensively in their work" or "applicants who are away from home on business more than 15 weeks a year." Commercial crime underwriters specified protective measures for high-valued property that might be carried in the course of business, and refused those who did not comply. The measure of actual increase in exposure in all cases was difficult, so underwriters tended to refuse those applicants whose travel exposure appeared to be above average, using cut-off points which had been determined by experience with past losses.

Transients
Some occupations are of the transient type. Requiring little training in most cases and offering few benefits by longevity, these jobs attract the "floater." Many of these people prefer to move around frequently. They do not want to be tied down to one job or to one location for a long time.

Some of these occupations are relatively unskilled, and neither require nor encourage remaining on one job for an extended period. Examples are restaurant and cocktail bar employees (dishwashers, waiters, cooks, etc.), car washers, bowling alley employees, hotel employees (maids, bellhops, desk clerks, etc.), pool hall employees, service station attendants, janitors and domestic employees.

Other occupations of the transient type may require more skill, but the nature of the work seems to encourage drifting. Examples of these are barbers, beauticians, merchant seamen, oil field and mine workers, house painters, dock workers, bartenders, commercial fishermen and taxi drivers.

Still other occupations require movement in order to follow the seasonal patterns inherent in these jobs. Some examples are circus and carnival employees, construction workers, farm laborers and race track employees.

Certain other occupations that require a transient type of living can pay large salaries, which increases exposure to drugs, alcohol and theft. This category includes professional musicians, actors and actresses, dancers, other entertainers and professional athletes. Among other hazards is the increased exposure to suit because of the prominence and income of many of these people.

All of these groups were underwritten with great care. The lack of stability was believed to increase the chance of loss on automobile and homeowners' lines. Being transients, policyholders might be difficult to locate if testimony was needed for a court defense or if a signature on an endorsement was required. Premium collection might be more difficult. Occupations of these types were listed by underwriters on caution or unacceptable lists.

Other Types
Certain other occupations presented unique situations that concerned underwriters. Some of these might be unexpected, while others are logical even to a person not trained in underwriting. These occupations appeared on many underwriting lists and were handled with care by personal lines underwriters.

Military risks often combine many of the undesirable features of automobile insurance: youthful drivers, unidentified permissive users and frequent transfer to new locations. For years, many underwriters refused to write military risks because of these problems. Later, some exceptions were made in the rules for older members of the armed forces (over 30 years of age, for instance), for those in the higher pay grades and for commissioned officers.

Sometimes exceptions were made for those who lived with spouses off base. These exceptions were made with care because of the inherent problems associated with this group.

Students were excluded for many of the same reasons as military risks. Inexperience, lack of control over driving and a tendency toward long weekend trips were areas of concern to underwriters. Again, students who were married and living with spouses were often accepted. Otherwise, the group was rejected, unless the company also insured the family of the student.

Illegal activities were the mark of a number of occupations, all of which were excluded as completely as possible by underwriters. Drug smuggling, importation of illegal aliens and similar activities were those intended to be kept out by the general classification of "those engaged in illegal activities." Aside from the ethical questions involved in furnishing insurance to such

persons, there were the increased hazards of night driving, possible shootings and unfavorable impressions as witnesses. Any occupations that appeared to fall within these categories were excluded from acceptance.

Stability

A thread running through many of the foregoing factors is the stability of the applicant. However, stability itself can be a requirement for all lines of insurance.

In personal lines, underwriters requested information on a number of areas in order to determine the degree of stability. How long has the applicant been on the present job? How many jobs has he or she held in the past few years (specified number of years)? How long at the present living location? How many addresses in the past five (or so) years? Rules often were established to determine acceptability based on these items.

The types of residence and address also were considered. An automobile applicant who lived in a hotel or motel was not accepted by many underwriters, because such living quarters ordinarily indicated a transient, unstable type of person. Likewise, if the mailing address was a post office box, the application was declined. Underwriters were concerned with possible difficulties in locating the insured in case of suit and the ability to collect premium.

Tenants, as a class, were known to change their living addresses more often than owners of homes. Every move changes the exposure to loss—on an automobile because of neighborhood crime patterns and unfamiliar traffic, and on property because of physical characteristics of the property and environmental hazards. Many times, a tenant will move and not notify the insurer, thereby causing coverage questions. The loss ratio on tenant homeowners' policies was almost always higher than on other forms, which appeared to substantiate the fears of underwriters. For these reasons, tenants were less preferred than homeowners, and underwriting rules often reflected this feeling.

Many of the questions asked by underwriters on applications were designed to show the stability of the applicant. Combinations indicating instability were cause for rejection, along with specific rules concerning the number of jobs, the number of moves and how long one resided at the present address.

In commercial lines, stability was indicated by the length of time the applicant had been in business. Small retail stores and service establishments were particularly subject to bankruptcy after only a short time in business. Various studies have shown that only a small percentage of business ventures survive the first few years. One writer on the subject put it this way:

"About 600,000 new businesses open their doors in the United States each year. Almost an equal number quit and go out of business. Only about one in five new businesses lasts as long as 10 years—some go bankrupt and others close up shop after paying off their creditors."

For a new business, a reputation is not yet established, inexperience is common and under-capitalization is not unusual. If a business fails, the insurer may have difficulty in collecting premiums due. The moral hazard is increased if the owner sees the business starting to fail. Maintenance of equipment also suffers because of the lack of funds. Commercial underwriters often used rules to attempt to screen those risks that have not demonstrated their stability. A common requirement was that the applicant must have been engaged in the business for at least one year.

Social Maladjustment

People who have difficulty coping with today's economic system exhibit a type of instability. Those who are on welfare or who have trouble with credit collection agencies are underwritten cautiously.

Attitude
The attitude of the applicant is a major part of the concern of underwriters in personal lines. Maturity and responsibility are critical in driving a car and in maintaining property. Attitudes toward the rights of others and one's relationships with others demonstrate the type of person who is applying for insurance.

The importance of attitude is expressed in the following comments from an article on underwriting:

"As part of the 'Fatal Driver Profile' compiled by the U.S. Department of Transportation, investigators conducted a separate psychological evaluation of more than 200 fatally injured drivers who were found most responsible for fatal accidents in the Baltimore area over the past five years. To determine the attitudinal characteristics of these drivers, family, friends and colleagues were interviewed. It was found that these drivers were significantly different from the norm, displaying more belligerence, negativism, verbal expansiveness and general psychopathology, regardless of their age or alcohol involvement. Analysis of the Baltimore data indicated a slight correlation with alcohol usage, but not with age, prompting investigators to conclude that psychological factors might be more important than either age or alcohol use in causing fatal accidents."

Faced with this type of information, underwriters attempted to determine the psychological make-up of applicants. A risk was declined if the "attitudinal characteristics" were not normal.

Criminal Record
A large number of all crimes are committed by people with a prior record of criminal activity, according to many reports.

A person who had been convicted of a crime was considered by underwriters to be more likely to commit another crime than a person who had no police record. Furthermore, the associates of a person with a criminal record were believed to be less trustworthy than average. Automobile underwriters were concerned with driving attitudes, particularly as they involved the rights of others. The possible use of the automobile in a crime or its use by unsavory associates also was considered. Court appearance in case of suit was still another factor.

Homeowners' underwriters were aware of the impact on maintenance of property if the insured had no sense of personal responsibility. Parties attended by other criminal elements might cause damage to the premises. Both moral and morale problems were felt to exist. Commercial underwriters had special problems, because employees of many firms handle money, drive expensive equipment or work on loading docks with valuable products. The opportunities for committing a crime are plentiful in most commercial establishments. Underwriters were uneasy if employees in such situations had criminal records. An extreme situation was presented to bond underwriters, where the honesty of the employee was the subject of the protection.

Every line of insurance was adversely affected if the insured, an associate or an employee was more interested in causing a loss than preventing it. A past record of crime convictions was felt to be a fairly reliable indicator that such a person might cause a future crime. For these reasons, most underwriters listed persons with a criminal record as unacceptable.

Mental Incompetence
A lack of mental competency can create all kinds of problems for insurers. Such a person can cause direct damage to persons or property. Inattention and lack of proper care of property can lead to serious consequences. Defense in a court suit is greatly hampered by evidence of mental incompetence. The very uncertainty caused by this condition may be the greatest difficulty because the entire structure of insurance is built upon the ability to predict the future from past

events.

There are many degrees of mental incompetence, of course. Some such people can operate very well in society, with few associates ever learning of the impairment. Others are generally harmless but can change quickly. Some of these people are docile, while others tend to be violent. When the condition gets too severe, forcible detention in an institution is needed, although under modern treatment it is often preferable to release the patient to family members if possible. Some people have been hospitalized for treatment of mental or nervous conditions. Whether this means that the person is "mentally impaired" is a matter of judgment. There are so many factors to consider that definition is difficult.

An underwriter cannot be expected to distinguish the problem cases from the harmless. The increased chance of loss from those who might be violent or irresponsible is so great that underwriters felt that they did not dare to take a chance, trying to accept those who appeared to be "safe." Accordingly, it was common practice to exclude all persons who had given evidence of mental incompetence.

Physical Impairments

Insurance underwriters were taught that selection, classification and rating were based on the Law of Large Numbers, which operated only with a large number of relatively homogeneous risks. Individual applicants who did not fit within that pattern were a matter of concern to underwriters.

Persons with physical impairments were one of the most obvious of the groups who did not fit the normal pattern. Usually the impairment is visually observed by others, but this is not true in all cases. Allowances for the handicap may be made in some aspects of society, but the impairment may not be tolerated in other areas.

All physical impairments have the potential for difficulties to insurers. Special adaptations often are needed, which can increase the value of property in some cases and reduce it in others. Jury members who are sympathetic as individuals may be critical as jurors, tending to give the benefit of the doubt to the non-handicapped.

Many types and degrees of physical impairments exist, and underwriters try to separate them into groups to facilitate their handling.

Loss of Limb

Probably the largest group includes those with such physical handicaps as the loss of a body member or the inability to use a member. There are few difficulties on lines other than automobiles, although adaptations of a home to accommodate the handicap may affect the value for others.

Automobile underwriters are greatly concerned with these physical, or motor, impairments. Modern traffic is difficult enough for a person with full physical capabilities, as is demonstrated by the millions of accidents each year. When an arm or a leg is missing or cannot be used, new problems exist. Great strides have been made in adapting automobiles to handicaps and in training impaired persons to use these adaptations. Special equipment can be secured, often at government expense, which will permit a reasonable degree of vehicle control, given proper training. The difficulty is that underwriters cannot determine, with the sources available, which of these persons are capable of operating with these adaptations and which are not. The existence of special equipment and training in its use does not guarantee that the person will then be a good driver.

The department of motor vehicles of one large state studied its program of taking action on the licenses of "P&M" (physically and mentally impaired) drivers and thus concluded:

"To a great extent, these programs are justified from a purely traffic safety perspective. Statistics show that the accident rate of P&M drivers is substantially inflated over the population rate, even when adjustments are made for extraneous factors, and that some of the increased risk is caused by the disability. Prior to their hearings, P&M drivers were found to have two to five times as many accidents as other drivers. For the lapse, physical and mental groups, the accident involvement rate was approximately two and a half times the population rate, and for the drug, alcohol and lack of skill groups, it was substantially higher...The proportion of P&M subjects' prior accidents that involved a single motor vehicle striking a fixed object was 2.4 times greater than those for drivers without known disabilities....Virtually all medical authorities agree that certain medical and physical conditions cause increased risk...There is also a considerable body of epidemiological evidence that some P&M conditions increase the probability of accident involvement."

In order to compensate for the uncertainty, automobile underwriters tended to reject all applicants who were physically handicapped with motor disabilities.

Seizures
A completely different type of physical impairment is the "seizure." It includes diabetics, epileptics, spastics and persons with heart ailments. Again, the principal concern is with the operation of automobiles, although fire and other property losses could be caused by a seizure.

Automobile underwriters are concerned with an impairment which might interfere with the safe operation of the vehicle. A sudden seizure or blackout has been known to cause serious accidents. Injections and oral drugs can control many of these difficulties, but results are not guaranteed. Relapses or changed conditions may occur. The patient may fail to take the medication as prescribed for any one of many reasons. Even where control has been attained, this fact is hard to verify.

The usual sources of information are of little help in this area. Neighborhood informants may confirm that problems have existed, but they cannot give factual data on the degree of control attained. A doctor's statement often is the only good source available. Even this is of little help in many cases, because the statement may be couched in medical terms, obscure to an underwriter, or may be inconclusive as to the effect of the control on the patient's ability to drive. An underwriter can take little comfort from a statement which says that the impairment is capable of control with (named but unfamiliar) drugs, which may enable the subject to live a reasonably stable life. The underwriter needs to know if the ability to drive a car has been impaired.

Faced with these uncertainties, automobile underwriters usually listed as unacceptable all applicants who have been subject to any type of seizures or blackouts.

Hearing Impairments
A person with impaired hearing may possess the skills that permit the operation of a vehicle and may be able to converse with other trained people by signing. These abilities may be offset by an inability to know about emergency vehicles or other traffic problems, and to hear barking dogs or other evidence of danger to property. The latter problems can cause some difficulty when underwriting a policy, but this seldom is considered to be a problem. The major concern is with the operation of an automobile.

Persons with hearing impairments usually can use hearing aids of one type or another. While these vary in their ability to compensate for the loss, they can give warning of adverse traffic conditions, such as emergency vehicles or honking horns. Other persons with severe hearing impairments cannot be helped in this way and are greatly limited in their ability to respond to sounds. It is the latter group which is usually called "deaf" by lay persons, generally implying a hearing impairment so great that they are unable to carry out normal functions such as conversation.

Since the operation of an automobile in modern traffic requires knowledge of surrounding conditions, severe hearing impairments caused concern to underwriters. The inability of persons with relatively impaired hearing to correct their hearing problems has caused automobile underwriters to automatically reject them. "Deaf persons" or "persons with severe hearing impairments" were on the lists of unacceptable risks for most companies, in one form or another.

Alcohol and Drugs

People who use alcohol and drugs are less able than others to control their driving ability and maintain their property. This may not be true at all times, but the occasions when this occurs are unpredictable. For those who demonstrate a history of abusing such substances, a significant moral hazard is presented. This is one which cannot be ignored by underwriters – especially in terms of auto insurance when there are legal implications to consider as well.

Alcohol

People have used alcohol as a method of changing their attitudes toward circumstances since the dawn of time. Today, many people who drink are called "social drinkers." Seldom are they considered a problem by underwriters. However, such people may, on special occasions, drink too much. This can cause accidents while driving automobiles or commercial vehicles, can result in fires from carelessly discarded cigarettes, or can cause industrial accidents.

Underwriters who encounter these social drinkers who have had losses are understandably cautious. It is often difficult to draw the line between "social drinkers" and "problem drinkers." Therefore, a person who had incurred a loss while drinking was often rejected for insurance. At the very least, a substantial surcharge in rates was used to compensate for the increased hazard which could exist.

Many studies have confirmed the fears of underwriters concerning the impact of drinking upon the ability to drive. The United States Department of Transportation conducted a series of Alcohol Safety Action Projects in four American cities, starting in 1983. As an example of the findings, the Boston study "indicated that 39 percent of fatal accidents examined involved alcohol directly, a combination of alcohol and other drugs, or other drugs alone."

The ongoing studies of the California Department of Motor Vehicles emphasize the role of drunk drivers. These strong conclusions were drawn from the latest studies.

"The drunk drivers are one of the major causes of serious accidents on the highways... drunk drivers are involved in 35.4 percent of the fatal accidents and 13.3 percent of the injury accidents. These figures apply to drivers who had been drinking any amount. These figures may be underestimates because not every instance of drinking is discovered by the investigating officer...the percentage of fatal accidents caused by drinking is estimated to be between 30 to 50 percent."

The problem of underage drinking was analyzed by the Western Insurance Information Service. The article contained the following conclusion:

"Drinking is another factor that impairs driving ability. Drivers under 18 have the worst collision involvement without alcohol. With alcohol, their collision involvement multiplies three-fold. On an even broader scope, drinking and driving is the biggest killer of people under 25. In addition, arrests for intoxication of those under the age of 19 have almost tripled in ten years."

After reading the results of such studies, it is not surprising to find that both personal lines and commercial lines underwriters are extremely careful when considering any applicant where alcohol is involved. It was difficult to separate occasional drinkers from problem drinkers, so most underwriting guides simply listed "excessive users of alcohol," or similar wording, to show

unacceptable risks. The point at which drinking became "excessive" was typically a matter of judgment.

Drugs
People have used drugs for centuries; however, they have only recently become a problem for underwriters.

Definitions are difficult. Alcohol may be called a drug, but ordinarily it is handled separately. Most drugs that are used are beneficial, such as in many types of medicine. It is true that some medicines may cause insurance problems. An example is the drowsiness encountered by some people after taking medication. Obviously, extreme drowsiness could reduce reaction time and increase the chance of a traffic or industrial accident.

The term "drugs," as it is used in the news media and the insurance industry, refers to such mind-changing drugs as marijuana, heroin, cocaine and the like. These are not taken for medicinal reasons. Rather, they are used to alter one's behavior.

Various studies have shown that a majority of high school students have smoked marijuana at least once. Obviously, a one-time trial "on a dare" or "just to see what it is like" will not concern an underwriter. Beyond that point, problems can arise.

The line between an occasional drug user and a heavy drug user or addict is difficult to determine. The habit is relatively recent when compared with alcohol. The extent of continued use, and the degree to which users attempt to lead normal lives, is still unknown. A heavy drug user or addict probably is totally uninterested in buying insurance, so the underwriter has no reason to be concerned. Others, however, may own homes, drive cars and work with vehicles or machinery. The degree to which the drugs affect the judgment and abilities of the user is of great concern to the underwriter in these latter cases.

Studies have not been conducted on the effects of drug use to the extent that they have on the effects of drinking. Some studies refer to "alcohol and other drugs," such as the Boston study referred to earlier. Even the official data often fail to separate drugs from other causes of accidents.

Underwriters feel that people who use artificial means to alter their behavior can be a problem. This is particularly true if the alteration results in loss of muscular control or hallucinations. Habitual drug users, therefore, are considered unacceptable to most underwriters, both personal and commercial. The wording in the rules referred to "habitual users of drugs," or "excessive use of drugs."

Foreign Born
A particularly difficult group for underwriters to handle is composed of those who were born in foreign countries or raised in a non-English environment. Some of these people have no difficulty in handling the English language, so there are no selection problems. Others, however, cannot handle the language, and these people can be a cause for concern, particularly in automobile insurance.

People who cannot read English, or cannot read it well, will naturally find it difficult to operate in our high-powered, communication oriented society. Many highways and expressways operate at fast speeds with signs flashing by the driver. Off-ramp signs, road repair warnings and lane instructions appear quite suddenly in many cases. A driver who cannot read these signs, or who needs time to understand them, can be in serious trouble. Accidents could result.

Another problem with such people is their difficulty in understanding messages sent by the insurer. It is not uncommon for insurance companies to mail to the policyholders such items as

premium notices, amendments to the contract at renewal and questionnaires that request information. Sometimes the latter must be answered, such as a selection of coverage options desired when an amendment is made to a No-Fault Law. Policyholders who cannot read these messages may cause repeated follow-ups, misclassifications or even termination of coverage.

In most lines of insurance, the policyholder may need to appear in court as a defendant. A person who cannot read or speak English well is placed at a disadvantage and usually will adversely influence the jurors.

Many of these foreign-born people do not become citizens of the United States. These factors were taken into account by most underwriters. When selection guides were published, they often contained such items as "persons unable to speak English well," "persons unable to speak or read English," or "non-citizens of the United States."

Related Business

Some classes of business, as well as individual risks in any class, are borderline for acceptance. Underwriters often included, in their analysis, any other policies insured in the company.

One reason for requiring related business was the economy of investigation that could result. A small tenant homeowners' policy supplied too little premium to be able to afford much investigation, but the underwriter might have wanted to know more about the applicant. If an automobile or two were also insured for that applicant, much of the desired information usually was secured under that coverage. Stability, occupation, attitude, drug addiction and other factors are the same for all lines.

Similarly, a small boat policy could be underwritten better if the facts about the driving record, as well as the stability and responsibility, could be obtained from automobile policies.

Some lines of insurance were more profitable than others. An underwriter who was asked to accept a less profitable line might want to "sweeten the pot," by requiring one of the more profitable lines. Thus, applications for automobile insurance on a youthful driver often would be more acceptable if the parent's cars were also insured with the same company. The addition of a homeowners' policy on the family could make the risk even more palatable.

A degree of overlapping exists between some types of policies as regards the settlement of claims. For example, a burglary of a home might involve both a personal articles floater and the unscheduled portion of contents on a homeowners' policy. If these two coverages were written in different companies, each of them would need to conduct an investigation into the loss.

It would be more efficient to have both coverages in one company. Another example is a theft of an automobile, which might also involve scheduled or unscheduled property that was in the car. Still another example is an umbrella policy, where the claims handling on liability cases is tremendously complicated by having two or more companies involved in the loss. Thus, there are advantages from a claims standpoint to writing all coverages in one company.

Coverage advantages were achieved by account underwriting because gaps could be avoided if all policies were in the same company. Competitive advantages also were gained by keeping other producers from having close contact with the insured.

"Account underwriting" is a concept practiced by many underwriters. One test book describes it in this way:

"Account underwriting refers to the concept that the profitability of a particular insured's business should be determined on an overall basis. All other things being equal, business handled as an account may receive better treatment than a single policy. A request for additional coverage or

unusual coverage might be met with little resistance if the files indicate that the insured has been loyal (and profitable) over a period of years. A request for a personal umbrella, for example, might be processed without hesitation for a known account; whereas an unknown applicant would be investigated quite thoroughly before the policy was issued."

For these reasons, underwriters not only desired the related business, but sometimes required it. The acceptability rule for a youthful driver as the principal operator of an automobile might have read "Acceptable only if all cars in the household are insured in the company." An unmarried applicant for a tenant homeowners' policy might have been accepted "only if the automobiles are insured in the company."

Prior Insurance

The name of the previous insurer was usually requested by underwriters. With this information, a better picture of the risk could be obtained.

Past losses could be determined from the prior carrier. Automobile losses that were below the financial responsibility reporting requirements seldom appeared on the MVR. No central agency existed that furnished past losses on other lines. It was naive to expect the applicant to report, accurately and completely, the past losses on a voluntary basis. Investigation reports seldom developed this information. The only reliable source was the previous insurer. Obviously, the name of that insurer was needed before a request for the loss history could be requested. The importance of securing this type of information was stated this way:

"The actual record of a policyholder is much more reliable as an indicator of future performance than most other items. Underwriters depend heavily upon the principle of predicting the future by an analysis of the past. The problem, when an underwriter is considering a new applicant, is that he does not have the previous experience. It may not be available to him through any other source; even the application may contain errors or misrepresentations as to facts of previous losses....The books of the previous insurer are sometimes made available to the underwriter, giving him access to this valuable information...the most important information that can be received from previous insurers is that concerning losses...These facts can probably be secured elsewhere but it is quicker and easier to obtain them from the previous insurer...This information can be helpful to an underwriter in determining the facts about the applicant."

Another item of interest to underwriters was the type of insurer with whom the previous insurance was carried. Many insurance companies specialize in one type of risk: preferred, standard or substandard. An underwriter looking at an application for preferred rates would be concerned if the prior insurer was a substandard company. Why was the applicant insured in such a company before? Had the risk improved so much that it was now properly assigned to a preferred category? The fact that prior insurance was with a substandard insurer did not make the risk unacceptable for preferred rates, but it did raise questions. The only way the potential difficulty could be identified was to get the name of the previous insurer.

What happened if the prior insurer was shown on the application as "none" or "unknown?" This indicated either that the applicant did not previously carry insurance or that the name of the prior insurer was being withheld for some reason. Absence of liability insurance appeared to indicate a lack of responsibility on the part of the applicant. Absence of property insurance raised the question as to why the person now has decided to secure insurance. Was there some thought of arson?

Of course, there could be a logical explanation, such as the purchase of a new car to replace an old one, or a person who had just learned to drive, or an effective sales effort on the part of the producer. Certainly, the situation raised questions in the mind of the underwriter and further information or explanation was needed. If there was a prior carrier indicated but the name was not given, the obvious reaction was to wonder what the applicant was hiding. Was it, in fact, a

case of no insurance? Or did the applicant not want the underwriter to be able to verify the loss history? The underwriter would want satisfactory answers before accepting such an applicant.

A common underwriting requirement was the name of the previous insurer of the type of insurance being applied for and perhaps the policy number and expiration date. If this was not furnished, a rule was invoked that might read "unacceptable: applicants with no prior insurance during the past six months," or "one year or two years," etc.

Prior Cancellation

Underwriters reviewing an application for insurance often would ask, "Where did it come from and why?" The first part of this question was discussed previously. The second part, the "Why?" was even more critical.

The producer may have sold the applicant on the advantages of changing the insurance to this underwriter's company. The applicant may have sought out the company because of advertising, word of mouth or other reasons. No underwriting problems were presented by these reasons for changing insurers. However, some applicants were looking for insurance because they had been rejected, canceled or non-renewed by a previous insurer. These are the cases that raise warning flags for underwriters.

All insurance companies want to write business. Without it, companies cannot grow or prosper. When an insurer therefore refuses to write a policy or to continue one, there has to be a reason. Some of the reasons may be perfectly harmless as far as the succeeding underwriter is concerned. Perhaps the previous insurer is retiring from a class of business or from a territory. Perhaps it is non-renewing all of the business of a particular producer. Few, if any, of these actions would be taken if the books were profitable, but many good risks could be terminated along with the less desirable ones.

The usual reason for cancellation or non-renewal is the discovery of factors that make the risk unacceptable. The driving record is the most common, but any of the other factors used by underwriters could be the reason. In these cases, the next underwriter may not want the risk either. This conclusion is not always correct, because different companies have different requirements and aim at different segments of the market. As a general rule, it is a cause for extreme caution on the part of the next underwriter.

The trouble is that it is difficult to find out the true reason for termination in many cases. Underwriters are reluctant to share subjective information, such as an uncooperative policyholder during the settlement of a loss. To avoid possible challenges, even allegations of libel or slander, underwriters often would not share such information, even over the telephone. The result was that the next underwriter really did not know why the policy was cancelled or non-renewed.

One study emphasized the problem this way:

"...a cancellation or refusal to renew issued by an insurer, for whatever reason, has constituted a virtual condemnation to the residual market. The reason for this lies in the fact that when, after such cancellation or nonrenewal, the individual applies to another insurer among the first questions on the application for insurance will be whether he has been rejected, cancelled or refused renewal by any other automobile insurer. When the answer is affirmative, the second insurer is unlikely to incur the trouble and expense of analyzing the reason and will simply reject the application."

The concern of the person who wrote the above comment was that these risks then land in the involuntary market. While this is to be regretted, it does confirm the standard practice used by underwriters for many years. Since it was difficult to find out why the other insurer rejected, cancelled or non-renewed the risk, and since the reason might also make the risk unacceptable in

the next company, underwriters often rejected these risks automatically. A common rule in the non-acceptable list was something like “risks that have been rejected, cancelled or non-renewed within the past three years.”

Underwriting Conclusion

As you can see, a great deal of thought goes into the underwriting of risks. A skilled underwriter must rely on his or her experience as well as understanding of the current risks people face and how certain factors, such as the ones we’ve discussed over the last few sections, increase or decrease risk.