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FIRE INSURANCE

Fire insurance companies admitted in California are permitted (subject to their charter limitations and their California certificates of authority) to write all lines of insurance excepting life, title, mortgage and mortgage guaranty insurance. Most fire insurance companies in addition to fire are writing such classes as riot and civil commotion, explosion, windstorm, hail, earthquake and sprinkler leakage. While forms of policies are generally standardized in these classes, a statutory form of fire policy is prescribed by the Insurance Code for the writing of fire insurance and must be used by all fire insurers in California except as follows:

1. Mutuals must print thereon such by-laws and mutual conditions as will define the liability of the policyholder.

2. Reciprocals may insert such provisions not in conflict with law as are made necessary by the transacting of business on the reciprocal plan.

3. County mutuals have a standard form of their own containing additional clauses pertaining to the policy application, the policyholder's liability for assessment, if any, cancellation and assignment.

The standard fire policy is an "interest" policy, i.e., it insures the interest of the insured in the property described but does not require that such interest be that of sole and unconditional ownership. The agent, broker, and solicitor must be thoroughly familiar with the risk to be insured and with all the terms and conditions of the standard policy in order to know what changes are necessary to be made by endorsement to give the insured proper coverage.

The standard fire policy is composed of five basic parts: declarations, insuring agreements, exclusions, conditions, and miscellaneous provisions. In the standard fire policy, there is no clear distinction made to set off these five basic parts. In order for the new licensee to understand the standard fire policy, we have grouped together the different provisions into these five basic parts.

DECLARATIONS

The "declaration" appears on the first page of the standard fire policy. Generally, it will contain the following information:

1. The name of the insurer, the policy number, insured's name and mailing address, inception and expiration dates;
2. A space for listing amounts of insurance, rates and premiums for the coverages insured.
3. The number of items or locations, amount of insurance for each item or location, a description and location of the property covered. The description will normally include the type of construction, type of roof and occupancy of the building covered or containing the property covered;
4. The identifying number of the endorsements being added, a space for identifying a mortgage, and the signature of the agent, if necessary.

INSURING AGREEMENTS

The "insuring agreement" will read: "In consideration of the provisions and stipulations herein or added hereto and of (the above specified) dollars premium, this company, for the term of this policy at the location involved, to an amount not exceeding (the above specified) dollars, does insure (named insured) and legal representatives, to the extent of the actual cash value of the property at the time of loss, but not exceeding the amount which it would cost to repair or replace the property with material of like kind and quality within a reasonable time after such loss, without allowance for any increased cost of repair or reconstruction by reason of any ordinance or law regulating construction or repair, and without compensation for loss resulting from interruption of business, or manufacture, nor in any event for more than the interest of the insured, against all loss by fire, lightning and by removal from premises endangered by the perils insured against in this policy, except as hereafter provided, to the property described herein while located or contained as described in this policy, or pro rata for five days at each proper place to which any of the property shall necessarily be removed for preservation from the perils insured against in this policy, but not elsewhere." The insuring agreement is the heart of the contract. It states what the insurer is legally obligated to do under the contract. To better understand the insurer's obligation, we

should know the meaning of the following phrases which make up the insuring agreement:

1. In consideration of the provisions and stipulations herein or added hereto.

Herein - those provisions and stipulations in the standard fire policy.

Added hereto - those provisions and stipulations contained in the endorsements that are added to the standard fire policy to increase the scope of the policy. It is important to remember that when the conditions in an endorsement conflict with the provision in the policy, the conditions of the endorsement prevail over those stated in the policy.

2. Does insure (the named insured) and legal representatives-

The **named insured** - will be all persons named in the policy as having an insurable interest in the property. This would include all loss payees and mortgagees named in the policy.

Legal representatives - any executor or administrator of an insured who dies during the policy term, or the person appointed by law to supervise the affairs of a minor or of an insane or incompetent person.

3. To the extent of the actual cash value of the property at the time of loss, but not exceeding the amount which it would cost to repair or replace the property with material of like kind and quality

Actual cash value - actual cash value means replacement cost less depreciation. If part of a 20-year old building is destroyed by fire, the company will pay what it would cost to restore the building to the condition it was in before the loss. The company is not required to pay to restore the building to the condition it was in when new, simply because the building wasn't new.

But not exceeding the amount which it would cost to repair or replace the property with material of like kind and quality. If a 10 year old couch which costs $900 was destroyed by a fire, the company will pay enough to buy a used couch comparable in make and quality in today's market. Recovery may be limited to $300 because the insured had the use of the couch for ten years.

NOTE: While the definition of "actual cash value" given above is still the most accepted definition, there was a court ruling in California in 1970 that says "actual cash value" is synonymous with "fair market value". In arriving at this interpretation, the court noted that the insuring agreement was to indemnify up to "the extent of actual cash value . . . but not exceeding the cost of repair or replacement". If actual cash value is synonymous with "replacement cost less depreciation", then paraphrasing of the insuring agreement would be: "to pay replacement cost less depreciation but not exceeding the cost of . . . replacement". Obviously, replacement cost less depreciation can never exceed the cost of replacement. Therefore, actual cash value has to be subject to a different interpretation. The court interpretation of "actual cash value" as being synonymous with "fair market value" should be of concern when there is a wide variance between "fair market value" and "replacement cost". When the replacement cost exceeds the fair market value the insured would be wise in comparing the difference between open and value policies.

4. Without allowance for any increased cost of repair or reconstruction by reason of any ordinance or law regulating construction or repair - if the property did not meet specific building code requirements before the loss, the insurer would not be required to pay for making it meet the building code requirements during the repairs after a loss.

5. Without compensation for loss resulting from interruption of business or manufacture - the standard fire policy is intended to cover property against all direct loss by fire and lightning. There is no coverage for indirect or consequential losses. These consequential losses can be insured under a separate policy.

6. Nor in any event for more than the interest of the insured - the insurer is not required to pay more than the extent to which the insured might suffer financially. The insured should never make a profit from a loss, but should be restored to the same position financially that was held before the loss.

7. Against all loss by fire. lightning and by removal from premises endangered by the perils insured against

in this policy-

All loss by fire - fire is combustion sufficient enough to produce a flame or glow. Fire is classified as either friendly or hostile. A friendly fire is one intended to serve a useful purpose such as in a stove or fireplace, even though the heat or flame from it may become excessive and extend beyond the place where the fire was created. Loss by a friendly fire is not covered under the standard fire policy. A fire becomes hostile when it extends beyond the place where the fire was created. Loss by a hostile fire is covered by the standard fire policy.

Lightning - is a discharge of atmospheric electricity, which may cause damage to the property.

Removal from premises endangered by the perils insured against - One of the duties of the insured is to protect the property from further damage during a loss, the insurer extends the protection from the location stated in the policy to the new location to which the property was necessarily removed to protect the undamaged property. This coverage is extended for five days.

8. Except as hereinafter provided - this phrase in the insuring agreement allows the policy to be changed by adding endorsements to change perils insured against, conditions and exclusions.

EXCLUSIONS

The **"exclusions"** in the standard fire policy will normally appear on the second page, or exclusions may also be included in any endorsements being added to the standard fire policy. At this point we will review only those in the standard fire policy. There are two types of exclusions in the standard fire policy: (1) eliminating coverage of uninsurable and excepted property; (2) eliminating coverages for losses caused by certain perils.

Uninsurable and excepted property - The policy shall not cover accounts, bills, currency, deeds, evidences of debts, money or securities; nor, unless specifically named hereon in writing, bullion or manuscripts. The reasons for excluding these properties are the ease with which they can be concealed and removed, lending them to fraud. Also, it would be hard to prove the amount of money destroyed in a fire. These properties can be insured in some cases by using endorsements or property forms.

Perils not included - This policy shall not be liable for loss by fire or other perils insured against in this policy caused, directly or indirectly, by: Enemy attack or action taken in resisting enemy attack; invasion; insurrection; rebellion; revolution; civil war; usurped power; preventing the spread of fire, provided the fire did not originate from any of the perils excluded by the policy; neglect of the insured to use all reasonable means to save and preserve the property at and after a loss or when the property is endangered by fire in neighboring premises; order of civil authority, except acts of destruction at the time of and for the purpose of preventing the spread of fire, provided the fire did not originate from any of the perils excluded by the policy; loss by theft.

CONDITIONS

The **"conditions"**. appear on pages one and two of the standard fire policy. Conditions are those provisions of a policy which call for the insured to perform certain duties. If the insured fails in the performance of these duties, it may relieve the insurer from liability under the policy. These duties can be required before a loss, after a loss, or both before and after a loss.

Duties of the insured **before a loss**:

Pay the premium…….in the first sentence of the insuring agreement "In consideration of the provisions and stipulations herein or added hereto and of the above specified dollars premium", it should be noted if the insured does not pay the premium, no contract exists.

Conditions suspending or restricting insurance: cannot increase the hazard, within the insured's control or knowledge. If the insured secured a fire policy covering a dwelling, and then converted the dwelling to a storage shed for explosives without the consent of the insurer, the coverage would be suspended; the described building, whether intended for occupancy by owner or tenant,-cannot be vacant or unoccupied beyond a period of 60 consecutive days; there is no liability upon the part of the company as a result of explosion or riot, unless fire ensues, and in that event for loss by fire only.

Under these duties, the contract is suspended. A suspended policy is automatically reinstated when the conditions causing the suspension no longer exist. However, the suspension does not extend the term of the policy nor create any right for refund of any portion of the premium.

Duties required of the insured **after a loss**:

1. Give notice in writing to the insurer without unnecessary delay.
2. Protect the property from further damage.
3. Separate damaged from undamaged property and put it in the best possible order.
4. Furnish a complete inventory of destroyed, damaged and undamaged property showing in detail quantities, costs, actual cash value and amount of loss claimed.
5. Within 60 days after the loss, unless such time is extended in writing, render-proof of loss sworn to and containing specified particulars.

In addition, the insurer ***may require*** the insured to perform the following **duties after a loss:**

1. Furnish verified plans and specifications, if obtainable, of any building, fixtures or machinery destroyed or damaged.
2. Exhibit remains of property.
3. Submit to examination under oath and sign the statement.
4. Produce for examination all books of account, bills, invoices, and other vouchers, or certified copies thereof if originals are lost.

Duty of the insured **before and after a loss** occurs.

The entire policy shall be void if the insured before or after a loss has willfully concealed or misrepresented any material fact concerning the insurance, the subject of the insurance, the interest of the insured, or swears falsely. The insured is required to furnish the truth to the insurer.

To better understand this duty, it is necessary to know the following definitions:

Concealment - the neglect to communicate that which a party knows, and ought to communicate. With reference to insurance generally, a material concealment, whether intentional or unintentional entitles the injured party to rescind the insurance contract.

Representation - is a statement made as part of the negotiation leading up to a contract and may be oral or written. A representation is false when the facts fail to correspond with its assertions or stipulations.

Material fact - materiality is determined by the probable and reasonable influence upon the other party in forming an estimate of the disadvantages of the proposed contract.

The "miscellaneous provisions" of the standard fire policy would be all the remaining provisions not included in the first four basic parts:

Assignment - This provision states that the policy cannot be assigned except with the written consent of the insurer. An assignment is the transfer of the legal right or interest in a policy to another, generally in connection with the sale of property. If the benefits of a contract are used as collateral to secure an indebtedness, the person being assigned the benefits receives only a stipulated amount not to exceed his/her interest as it may appear.

Other insurance - This provision states that other insurance may be prohibited or the amount of insurance may be limited by endorsement.

Other perils or subjects - allows the standard fire policy to be endorsed to provide coverage for other perils and other subjects of insurance.

Added provisions - permits additional provisions regarding extent of insurance and contribution of company (e.g. co-insurance).

Waiver provisions - prohibits waiver of conditions except as authorized in the policy and then only in writing.

Cancellation of Policy - This provision allows the insured to cancel the policy at any time. When the insured terminates the policy, the refund of paid premium is based on short-rate cancellation. If the insurer wishes to cancel, it too may cancel at any time, but must give the insured (5) days written notice. When the insurer terminates the policy, the refund of paid premium is based on pro rata cancellation. In addition, if the refund is not included with the cancellation notice, the insurer is required to include a statement that refund will be made on demand.

Pro rata cancellation - is one in which the earned premium is proportioned to the time the coverage has been in effect.

Short rate cancellation - is one in which the earned premium is calculated according to an established short rate table which includes an extra charge to the insured over the pro rata premium. This change is made to absorb part of the expense incurred by the company in the issuance of the policy which would otherwise have been absorbed throughout the policy period had it remained in force to its normal expiration date.

Flat cancellation - is the cancellation of a policy without any premium charge. Such cancellation nullifies the contract from its inception. This usually occurs when the policy is returned to the company prior to the effective date or when no liability existed under the contract either because of no exposure or because coverage was afforded under another policy.

Mortgagee interest and obligation - in the standard fire policy the mortgage clause recognizes the existence of a mortgage on property and provides that the mortgagee named in the policy shall:

1. Be given ten days written notice of cancellation.
2. Submit proof of loss within 60 days after notice is given to the mortgagee that the insured has failed to submit a proof following loss.
3. Be subject to the provisions relating to appraisal, time of payment and of bringing suit.
4. Subrogate to the insurer all rights of the mortgagee to the extent of payment made to the mortgagee, when no liability existed as to the mortgagor or owner. An example of when no liability existed to the owner might be if a loss occurs after the owner increased the hazards within a building and the policy was suspended at the time of the loss. The suspension coverage would not affect the mortgagee.

The mortgage provisions of the standard fire policy may be changed by endorsement.

Pro rata Liability - this provision states that the insurer shall not be liable for a greater proportion of any loss than the amount insured shall bear to the whole insurance covering the property against the peril involved, whether collectible or not.

Example 1 - " In proportion that the amount of each policy bears to the whole insurance covering the property"... An insured's property is insured for $10,000 in four companies, each company's policy is in the amount of $2,500. A fire damages the property to the extent of $800. Each company's liability will be computed by the following method:

Coverage of 2500 / Total insurance 10000 = 1/4 of $800 or $200 each.

Total recovery of $800, four times the $200.

Example 2 - "In proportion that the amount of each policy bears to the whole insurance covering the property, whether collectible or not"... It now develops that one of the four companies involved is insolvent. The three solvent companies will use the same method.

Coverage of 2500 / Total Insurance 10000 = 1/4 of 800 or $200 each.

In this case the total recovery is $600, three times the $200. Since the three solvent companies had no control over who the insured was doing business with, they are not responsible for more than their proportion to the total. In this case the insured must bear the $200 which was uncollectible from the insolvent company.

***NOTE**: If two or more insurers cover the same property the written portions of all policies, including all endorsements or riders, should be identical. This is known as "concurrent or uniform" policy coverage. If they*

are not identical, the variance in the policies may result in impairment of the insured's ability to collect the full loss.

Example 3 - An insured's property is insured for $10,000 in four companies, each company's policy is in the amount of $2,500. The insured had extended coverage endorsed on two of the four policies. A windstorm caused damages to the property to the extent of $1,000. Each company's liability will be computed using the same method as shown in the examples of pro rata liability.

Coverage of 2500 / Total insurance 10000 = 1/4 of $1000 or $250 each.

Since the endorsement adding extended coverages was attached to two policies, only those two companies are liable for their portion of the loss or two times $250 equals $500.

Appraisal - in the event the insurer and the insured cannot agree as to the actual cash value or the amount of loss each on the written demand of the other, shall select a competent and disinterested appraiser. The appraisers select a competent and disinterested umpire. The agreement of any two filed with the company determines the amount of the actual cash value and the amount of loss. The insured and insurer each pay the appraiser appointed by them and equally divide the payment to the umpire.

Company's Option - the insurer may take all or any part of the property at its agreed or appraised value; may repair, rebuild or replace the property destroyed or damaged with other of like kind and quality, if it gives notice to insured within 30 days after receipt of proof of loss.

Abandonment - the insured may not abandon damaged property to the insurer.

When Loss Payable - within 60 days after proof of loss is received by the insurer and an agreement to the value of the loss has been reached.

Suits or Action Against Company - provisions in a policy which state that no suit or action can be made against the insurer unless the insured has complied with all the requirements of the contract. Generally, it will make reference to some period of time before a suit maybe brought.

Subrogation - provisions which allow the insurer to require from the insured an assignment of all right of recovery against any third party for a loss which the insurer paid under its policy. If the insured had a loss caused by the negligence of a neighbor, the insurer, after it has paid the loss, may sue the negligent neighbor to recover the amount paid. The insurer is "subrogated" to stand in the place of the insured.

ENDORSEMENTS

Endorsements frequently attached to the standard fire policy are the extended coverage endorsement, the vandalism and malicious mischief endorsement, the fire department service clause, and the coinsurance clause. The first two increase the number of perils insured against. The third provides for payment by the insurer of a service fee to fire departments. The latter is a condition added that the insured must carry a certain amount of insurance.

The Extended Coverage endorsement is designed for use with the standard fire policy. It extends the perils under the policy to include insurance against loss by windstorm, hail, explosion, riot, riot attending a strike, civil commotion, aircraft, vehicles and smoke. It is important to remember that this endorsement does not increase the amount of insurance provided in the basic fire insurance policy. The policy and the extended coverage endorsement together constitute a single indivisible contract. If the extended coverage endorsement is attached to one policy it should be endorsed to all other fire policies on the same property. The extended coverage endorsement limits the liability of the company to that portion of the loss which the amount of insurance under the policy bears to the total amount of all fire insurance on the same property.

By attaching the vandalism and malicious mischief endorsement to a fire insurance policy to which is already attached an extended coverage endorsement, the scope of the extended coverage endorsement is broadened to include "willful and malicious damage to or destruction of the property insured", excluding glass and provided the building has not been vacant for a period of more than 30 days preceding the loss. The term vandalism and malicious mischief, as used in the endorsement, is restricted to and includes only, willful and malicious damage

to and destruction of the property described in the basic policy.

The fire department service clause is used on policies covering property outside fire protection to reimburse the insured for the cost of a fire department run. The coverage should be added to all policies on property in rural areas when a service charge would be made for fire department runs.

Coinsurance clause grants the insured a reduction in premiums for accepting a condition that the insured maintain the insurance at a specified percentage (usually 80%) of the actual value of the property covered. The insured becomes a co-insurer to a partial loss if he or she fails to maintain the insurance at the required level. The clause does not operate in event of a total loss. This provision provides that the insurer's liability for any loss is limited to the proportion of the loss that the amount of its policy bears to the amount obtained by applying the specified percentage in the coinsurance clause to the value of the property at the time of loss, not exceeding the face amount of its policy. If the insured fails to carry an amount of insurance equal to the specified percentage of the value of the property, the insured cannot recover the full loss.

The **formula** for coinsurance is
(A/B) * C = D.

"A" is the amount of insurance covering the property;

"B" is the amount of insurance there must be on the property to insure it up to the required percentage of value of the property (e.g., an 80% coinsurance clause would require the insured to have at least $16,000 insurance covering his $20,000 building.);

"C" is the amount of the loss;

"D" is the amount the insurance company will be required to pay.

Example: The operation of the 80% coinsurance clause.

Value of property is $20,000
Amt of insurance carried (A) $12,000
Amt insured should carry (B)$16,000
Amount of the loss (C)$ 5,000
Amt of co liability is - - (D) $ 3,750

12000(A)/16000(B)*$5,000(C)
= $3,750(D)

It should be noted in the application of the formula that the insurance company will pay the face amount of its policy whenever the amount of loss is equal to or exceeds the amount obtained by applying the specified percentage in the coinsurance clause to the value of the property at the time of loss.

Example: The operation of the 80% coinsurance clause, when the amount exceeds the amount of the specified percentage.

Value of property is $20,000
Amt of insurance carried (A) $12,000
Amt insured should carry (B) $16,000
Amount of loss is total (C) $20,000
Amount of co's liability (D) $12,000

12,000 (A) / 16000 (B) X $20,000 (C)
=$15000 (D)

In no case will the insurance company pay more than the face amount of the policy. Therefore, (D) $15,000 is reduced to the same amount as (A) $12,000.

The purpose of coinsurance is to require the insured to maintain adequate insurance, since the majority of fire losses are partial losses equaling only a small percentage of the value of the property involved. Because of this, many policyholders would carry a low percentage of insurance to value, thereby obtaining an unfair advantage in premium cost over other policyholders since premiums collected from all must be sufficient to pay the losses of all.

Another endorsement used with the standard fire policy is the pro rata distribution clause. The clause is not used as frequently as the others previously mentioned, but must be used when the insurance provides coverage at more than one location under a single policy.

Pro rata distribution clause - When the policy, under one amount of insurance, covers several buildings or the contents of several buildings, this clause operates to distribute the insurance over the buildings, or contents of each, in the proportion that the value of each bears to the whole value.

The **pro-rata distro formula** is **A /B * C = D.**

"A" is the value of the individual property.
"B" is the value of all property covered.
"C" is the total amount of insurance covering all property.
"D" is the maximum amount of insurance covering the individual property.

Example:

Value at Location 1 = $ 5,000
Value at Location 2 = $10,000
Value at Location 3 = $15,000

If the insured carries 50% insurance to value, he is 50% underinsured at each location that the policy covers. In this example the insured's total insurance carried is $15,000 on the three locations valued at $30,000.

AMOUNT OF INSURANCE AT LOCATION 1

(A) $5,000 (Value at Location 1) /
(B) $30,000 (Value at all locations) x
(C) $15,000 (Total insurance) =
(D) $2,500

AMOUNT OF INSURANCE AT LOCATION 2

(A) $10,000 (Value at Location 2) /
(B) $30,000 (Value at all locations) x
(C) $15,000 (Total insurance) =
(D) $5,000

AMOUNT OF INSURANCE AT LOCATION 3

(A) $15,000 {Value at Location 3) /
(B) $30,000 (Value at all locations) x
(C) $15,000 (Total insurance) =
(D) $7,500

RATES & PREMIUMS

Fire rates are generally established by the Insurance Services Office, an organization funded by the insurance companies for the compilation of statistics and gathering of information to establish rates. The methods of rating are based upon four elements: construction of the building, occupancy, protection (i.e., available water supply, response of fire departments, etc.,) and exposure (i.e., distances from other occupancies which may contribute to a more hazardous condition such as a dress shop next to a dynamite factory). Credits may be given for protective devises, maintenance, and superior construction. Charges are made for any substandard conditions

that may exist.

Dwelling rates are published in rate tables according to town classifications which are established with data on water supply, fire and police protection, geographic location, and pumping capacity of hydrants being among the factors considered.

Mercantile risks are class rated (similar to dwellings) if they are not excluded from such class rates by reason of occupancy (restaurant) or by size of area (over 5,000 square feet). Risks of over 5,000 square feet, or of certain occupancies (restaurants) are subject to specific rates as established by the Insurance Services Office. These rates are normally published for 80% coinsurance, but rate adjustments are available for higher or lower percentages.

Farm rates are published in separate schedules.

It should be noted that the Insurance Code provides rates are to be adequate, not unfairly discriminatory, and not excessive.

EARTHQUAKE INSURANCE

Legislation enacted January 1, 1985, and continuing today, prohibits any policy of residential property insurance from being issued or delivered or, with respect to policies in effect on January 1, 1985, initially renewed in this State by any insurer unless the named insured has been offered coverage for loss or damage caused by the peril of earthquake. That coverage may be provided in the policy of residential property insurance itself, either by specific policy provision or endorsement, or in a separate policy or certificate of insurance which specifically provides coverage for loss or damage caused by the peril of earthquake alone or in combination with other perils.

A policy of residential property insurance means a policy insuring individually owned residential structures of not more than four dwelling units, individually owned condominium units, or individually owned mobile homes, and their contents, located in this State and used exclusively for residential purposes or a tenant"s policy insuring personal contents of a residential unit located in this State.

The offer of coverage may be made prior to, concurrent with, or within 60 days following the issuance or renewal of a residential property insurance policy. The offer of earthquake coverage shall contain the following language in at least 10-point bold type face:

YOUR POLICY DOES NOT PROVIDE COVERAGE AGAINST THE PERIL OF EARTHQUAKE.

CALIFORNIA LAW REQUIRES THAT EARTHQUAKE COVERAGE BE OFFERED TO YOU AT YOUR OPTION.

WARNING: THESE COVERAGES MAY DIFFER SUBSTANTIALLY FROM AND PROVIDE LESS PROTECTION THAN THE COVERAGE PROVIDED BY YOUR HOMEOWNER'S INSURANCE POLICY. THERE ARE EXCLUSIONS AND LIMITATIONS SUCH AS OUTBUILDINGS, SWIMMING POOLS, MASONRY FENCES AND MASONRY CHIMNEYS. THIS DISCLOSURE FORM CONTAINS ONLY A GENERAL DESCRIPTION OF COVERAGES AND IS NOT PART OF YOUR EARTHQUAKE INSURANCE POLICY. ONLY THE SPECIFIC PROVISIONS OF YOUR POLICY WILL DETERMINE WHETHER A PARTICULAR LOSS IS COVERED AND, IF SO, THE AMOUNT PAYABLE.

THE COVERAGE SUBJECT TO POLICY PROVISIONS, MAY BE PURCHASED AT ADDITIONAL COST ON THE FOLLOWING TERMS.

(A) AMOUNT OF DWELLING COVERAGE
_____

(B) APPLICABLE DEDUCTIBLE _____

IF YOUR LOSS IS BELOW THIS AMOUNT, YOU MAY NOT RECEIVE ANY PAYMENT FROM YOUR COVERAGE. YOUR INSURANCE AGENT OR COMPANY WILL PROVIDE WRITTEN NOTICE AS TO HOW THE DEDUCTIBLE APPLIES TO THE MARKET VALUE OF YOUR COVERAGE, THE INSURED VALUE OF YOUR COVERAGE, OR THE REPLACEMENT VALUE OF YOUR COVERAGE.

© CONTENTS COVERAGE_____

IF YOUR LOSS DOES NOT EXCEED THE DEDUCTIBLE FOR THE DWELLING, YOU WILL NOT RECEIVE ANY PAYMENT FOR THIS COVERAGE. YOUR INSURANCE AGENT OR COMPANY WILL PROVIDE WRITTEN NOTICE AS TO HOW THE DEDUCTIBLE APPLIES TO THE AMOUNT YOU RECEIVE PURSUANT TO THIS COVERAGE.

(D) ADDITIONAL LIVING EXPENSES_____

(E) RATE OR PREMIUM OF _____ YOU MUST ASK THE COMPANY TO ADD EARTHQUAKE COVERAGE WITHIN 30 DAYS FROM THIS NOTICE OR IT SHALL BE CONCLUSIVELY PRESUMED THAT YOU HAVE NOT ACCEPTED THIS OFFER.

THIS COVERAGE SHALL BE EFFECTIVE ON THE DAY YOUR ACCEPTANCE OF THIS OFFER IS RECEIVED BY US.

If the insurer establishes proof of mailing or delivery of the required offer and the offer of earthquake coverage is not accepted by the named insured within 30 days from the date of mailing or delivery of the offer, there shall be a conclusive presumption that the named insured elected not to accept the coverage.

MULTIPLE PERIL UNDERWRITING

The fire and casualty-insurance industry has been rather rigidly divided, until recent years, by corporate restrictions and insurance regulatory laws into two main underwriting groups. The fire-marine group specialized in fire and allied lines, ocean marine and inland marine, automobile physical damage, and, in general, physical loss insurance. The casualty-surety group specialized in liability, worker"s compensation insurance, fidelity and surety bonds, and other casualty lines.

Changes in their underwriting powers by revision of the insurance laws of the states and of the articles of incorporation or corporate charters of the insurance carriers have brought a new era wherein fire insurance companies may write casualty insurance and casualty insurance companies may write fire insurance. Such practice is known as "multiple line underwriting." An admitted fire and casualty insurer in California, upon complying with applicable requirements of law, can now transact all classes of insurance except life, title, mortgage and mortgage guaranty.

Multiple line underwriting permits an insurer to offer package policies whereby many different perils are covered in one policy. Such "multiple peril" insurance makes it possible to broaden the protection given by a California standard form fire policy.

All fire policies on subject matters in California are required to be on a standard form. The law, however, provides that any policy which, in addition to providing coverage against the peril of fire, includes substantial coverage against other perils on an unspecified basis need not comply with the provisions of the standard form fire insurance policy. Such policy, however, must include provisions which are the substantial equivalent of the provisions of the standard form policy with regards to the peril of fire insurance.

DWELLING & CONTENTS

Three forms are used with the standard policy in insuring dwellings and contents: the Basic form, the Broad form, and the Special form. A fourth form is used when household contents only is the subject of insurance.

Coverage A

Basic Form:	Dwelling
Broad Form:	Dwelling

Special Form: Dwelling
Basic Contents: Not Available

Coverage B

Basic Form: Appurt Structure
Broad Form: Appurt Structure
Special Form: Appurt Structure
Basic Contents: Not Available

Coverage C

Basic Form: HH & Pers Property
Broad Form: HH & Pers Property
Special Form: HH & Pers Property
Basic Contents: HH & Pers Property

Coverage D

Basic Form: Rental Value
Broad Form: Rental Value
Special Form: Rental Value
Basic Contents: Not Available

Coverage E

Basic Form: By Endorsement
Broad Form: Add Living Expenses
Special Form: Add Living Expenses
Basic Contents: Not Available

The Basic, Broad and Special Forms are identical in their insuring agreements for Coverage A, B, C and D. These Coverages are divisible, it is permissible to insure the dwelling under Coverage A while not scheduling any amount for household and personal property under Coverage C. When household and personal property, but not the dwelling, is to be insured the Basic Contents form can be used, but if Broad form coverage is desired and the amount of insurance is $4,000 or more, the Broad form is used with a scheduled amount for Coverage C and none for Coverage A.

The Broad form and Special form provide the protection of Coverage E for additional living expenses. Under supplemental coverage 10% of the amount of insurance on the dwelling can be applied to rental value and additional living expense, collectively, but in this event no more than the total value insured on the declaration page will be paid in the event of a loss. This extension applies to all forms. However, this amount may be increased by endorsement and be paid in addition to the insured value of the dwelling. Additional living expense insurance may be added to the basic form by endorsement.

INSURING AGREEMENTS

There are five insuring agreements: Coverage A, dwelling; Coverage B, appurtenant structures; Coverage C, household and personal property; Coverage D, rental value; and Coverage E, additional living expense. As shown the Basic form does not include Coverage E and the Basic Contents form deals only with Coverage C.

Coverage A --applies to the dwelling described in the policy, any additions in contact with the dwelling, building equipment, fixtures and outdoor equipment when owned by the owner of the dwelling and not otherwise covered. Building equipment, fixtures and outdoor equipment must pertain to the service of the premises and be located on the premises.

Coverage B -- appurtenant structures are attached to the premises and passing in possession with it. This does not include any buildings in contact with the dwelling.

Coverage C --household and personal property usual or incidental to the occupancy of the premises as a dwelling, with specific exclusions of animals, birds or fish, aircraft, motor vehicles and boats.

Coverage D -- if scheduled, insures the fair rental value of the buildings insured, including parts of them, as

furnished and equipped by owner. The time element begins with loss to the building or to equipment on it or on the premises and runs for as long as would be required with the exercise of due diligence and dispatch to restore the property to a tenantable condition.

Coverage E -- additional living expenses, may be scheduled only under the Broad form or Special form. It applies to the necessary increase in living expenses incurred by the insured in order to continue as nearly as practicable the normal standard of living of the household following loss by a covered peril.

COVERED PERILS

Basic Form and Basic Contents Form

These forms cover the basic perils of fire and lightning, removal and inherent explosion. The insured has the option of including the perils of Extended Coverage and Vandalism and Malicious Mischief. Since these perils are in the printed form a premium charge on the Declaration page indicates when either or both of these additional coverages are included.

Broad Form and Special Form

The protection under the Broad form is an extended list of named perils, while the Special form provides protection on an all risks basis.

The Broad form named perils are the same as those in the Basic form with the Extended Coverage and Vandalism and Malicious Mischief. In addition these named perils are included in the Broad form:

Damage caused by burglars.
Glass breakage.
Falling objects.
Weight of ice, snow or sleet.
Collapse.
Sudden and accidental tearing asunder, cracking, burning or bulging of a steam or hot water heating system.
Freezing of plumbing, heating and cooling systems and domestic appliances.
Water escape.
Removal.
Sudden and accidental injury from artificially generated electrical appliances, devices, fixtures and wiring.

EXCLUSIONS

The exclusions that apply to all of the forms are:

War risk.
Nuclear exclusion.
Flood, sewer and drain back-up and subsurface water.
Coverages for loss brought about by the operation of building or zoning laws.
Earth movement.
Wear and tear, deterioration.

Other exclusions or conditions which may eliminate coverage are related to the specific perils named in the policy forms. We will not review those conditions under this section, but agents should become familiar with these exclusions and conditions in order to properly explain the coverages to their clients.

Example: Under the perils of smoke damage - accidental smoke damage from agricultural smudging and industrial operation is excluded.

ELIGIBILITY

Insurance using the dwelling forms may be applied to any dwelling, owner occupied or otherwise, whether finished or under construction. A dwelling is any structure used for that purpose so long as it contains not more than four apartments and houses not more than five roomers or boarders. Town houses or row houses are

eligible. Personal property of tenants in apartment structures, larger than four families, may be insured under the dwelling forms, but not the structure itself.

Trailer homes and mobile homes are eligible if they are used exclusively for dwelling purposes and are at a fixed location. Town houses, row houses, trailer homes and mobile homes, generally may not be written for a period exceeding one year and coverage is limited to the Basic Form.

INCIDENTAL OCCUPANCIES

The dwelling or owner may carry on incidental service or professional operation. Permissible incidental occupancies are small service operations such as a beauty parlor, shoe repair (handwork), dressmaker types. No more than two persons may be at work in the operation at one time. Private schools, studios and offices are also permitted and storage of merchandise is allowed if the value of the merchandise does not exceed $5,000. Merchandise and property pertaining to incidental occupancies must be separately scheduled, and the premium charged according to the class of business.

DEDUCTIBLES

These forms of dwelling and contents policies will generally be subject to $100 deductibles. It is permissible to reduce or eliminate the deductible for some perils by paying additional premiums.

HOMEOWNERS INSURANCE

A basic document is used as a standard skeleton policy for the homeowners policies. This skeleton is used with one of six standard forms that have identical coverages for Comprehensive Personal Liability (Section II), but are different in the Property coverages (Section I).

The skeleton homeowners policy consists of four pages. The first page contains the customary spaces for the insured"s name and mailing address, the location of the insured premises, a schedule of limits of liability and premium information, mortgage information and specific identification of other residence premises maintained by the insured or his spouse for Section II (Liability) coverage. This page will contain information about construction, occupancy and fire protection and spaces for stating whether or not the dwelling is seasonal, used to conduct a business, or has full time residence employees. Another space is provided for an indication of how Deductible provisions apply.

The remainder of the first page corresponds to the first page of the standard fire policy. The second page is identical with the second page of the standard fire policy. Most states follow the New York Standard Fire form provisions and contain 165 lines. However, the standard fire form provisions for California contain only 157 lines. The content of the New York form is contained in the California form. Space for attaching forms and endorsements is at the top of page three. The balance of pages three and four contain provisions and conditions that are common to all homeowners risks.

FORMS - PERILS INSURED AGAINST

HO 1. The Basic Form - insures the dwelling building, private structures and personal property against fire, lightning, removal, the perils of extended coverage, vandalism and malicious mischief, glass breakage and theft. Additional living expense coverage is included.

HO 2. The Broad Form - insures the dwelling building, private structures and personal property against the same perils named in the HO 1, except that there is broadened coverage for explosion, aircraft, vehicle, smoke, glass breakage and theft. Also, additional perils are included: falling objects; weight of ice, snow or sleet; collapse of all or part of a building; sudden and accidental tearing asunder, cracking, burning or bulging of a steam or hot water heating system or of a water heater; accidental discharge, leakage or overflow of water or steam from plumbing, heating or cooling systems or from domestic appliances; freezing of these systems or appliances; and sudden and accidental injury from electrical currents artificially generated.

HO 3. The Special Form - insures the dwelling building, appurtenant private structures, and additional living

expenses against all risks. The unscheduled personal property is covered for the named perils of the Broad form.

HO 4. The Contents Broad Form - insures the contents unscheduled personal property including limited Improvement and Betterment coverage against the named perils of the Broad form. Additional living expense is written on the same named perils basis.

HO 5. The Comprehensive Form - insures the dwelling building appurtenant private structures, personal property and additional living expenses against all risks. (In July 1982, Insurance Services Office introduced its new homeowner's plus policy in California. Coverage provided by HO-5 will be provided by adding to HO-3 an endorsement that provides the even broader coverage for home contents.)

HO 6. Condominium Unit - Owners Form - insures the unscheduled personal property against named perils of the Broad form. The policy is made suitable for the condominium unit-owner with optional coverages which may be added by endorsement.

The homeowners policy is intended to cover all the exposures common to owning a home, excluding those connected with the ownership and operations of an automobile. The policy has two main sections. Section I pertains to real and personal property. Section II pertains to personal liability and medical payments. The premiums for the policy are basically indivisible. Homeowner policies provide the following coverages.

Section I:

Coverage A. Dwelling Building (HO1, HO2, HO3 and HO5).
Coverage B. Private Structures = 10% of Coverage A (HO1, HO2, HO3 and HO5).
Coverage C.
(1) Personal Property = 50% of Coverage A (HO1, HO2, HO3 and HO5).
(2) Personal Property away from premises = 10% of Coverage C with a minimum of $1,000 (HO1, HO2, HO3, HO4 and HO6). This coverage is omitted in HO 5 since Coverage C is worldwide for that policy. (In July 1982 Insurance Services Office introduced homeowners plus policy . Coverage C limit for such property will be increased to 100% under the new forms.)

NOTE: HO 4 and HO 6 are contents policies.

Coverage D. Additional Living Expense = 10% of Coverage A in HO 1 and 20% in HO 2, HO 3, HO 4 and HO 5. HO 6 is 40% of Coverage C.

Section II:

Coverage E. Comprehensive Personal Liability. The minimum is $25,000 and may be increased in all policies. (In July 1982, Insurance Services Office introduced its new homeowner"s plus policy in California. Minimum limits for Coverage E will be $100,000.)

Coverage F. Medical Payments. The minimum is $500 per person and $25,000 per accident and may be increased in all policies. (In July 1982, Insurance Services Office"s new form increased the minimum limit for Coverage F to $1,000 per person with no aggregate limit.)

NOTE: Worker's Compensation coverage for private residence employees is also provided under all Homeowner's Policies issued in California.

INSURING AGREEMENTS

There are six insuring agreements:

Coverage A -- Dwelling . This policy covers the described dwelling building, including additions in contact with it, occupied principally as a private residence. This coverage also includes:

1) if the property of the Insured and when not otherwise covered, building equipment, fixtures and outdoor equipment all pertaining to the service of the premises and while located on it or temporarily elsewhere; and

2) materials and supplies located on the premises or adjacent to it, intended for use in construction, alteration or repair of such dwelling.

Coverage B -- Appurtenant Structures

This policy covers structures (other than the described dwelling building, including additions in contact with it) appertaining to the premises and located on it. This coverage also includes materials and supplies located on the premises or adjacent to it, intended for use in construction, alteration or repair of such structures.

This coverage excludes:

1) structures used in whole or in part for business purposes; or

2) structures rented or leased in whole or in part or held for such rental or lease (except Structures used exclusively for private garage purposes) to other than a tenant of the described dwelling.

Coverage C -- Unscheduled Personal Property

This policy covers unscheduled personal property usual or incidental to the occupancy of the premises as a dwelling and owned or used by an Insured, while on the described premises and, at the option of the Named Insured, owned by others while on the portion of the premises occupied exclusively by the Insured.

This coverage also includes such unscheduled personal property while elsewhere than on the described premises, anywhere in the world:

1) owned or used by an Insured, or
2) at the option of the Named Insured,
   (a) owned by a guest while in a residence occupied by an Insured; or
   (b) owned by a residence employee while actually engaged in the service of an Insured and while such property is in the physical custody of such residence employee or in a residence occupied by an Insured;
3) but the limit of this Company"s liability for the unscheduled personal property away from the premises shall be an additional amount of insurance equal to 10% of the amount specified for Coverage C, but in no event less than $1,000.

This coverage excludes:

1) animals, birds or fish;
2) motorized vehicles, except such vehicles pertaining to the service of the premises and not licensed for road use;
3) aircraft;
4) property of roomers and boarders not related to the Insured;
5) property carried or held as samples or for sale or for delivery after sale;
6) property rented or held for rental to others by the Insured, except property contained in that portion of the described premises customarily occupied exclusively by the Insured and occasionally rented to others or property of the Insured in that portion of the described dwelling occupied by roomers or boarders; business property while away from the described premises;
8) any device or instrument for the recording, reproduction or recording and reproduction of sound which may be operated by power from the electrical system of a motor vehicle, or any tape, wire, record disc or other medium for use with any such device or instrument while any of said property is in or upon a motor vehicle; or
9) property which is separately described and specifically insured in whole or in part by this or any other insurance.

Coverage D -- Additional Living Expense

If a property loss covered under this policy renders the premises untenantable, this policy covers the necessary increase in living expense incurred by the Named Insured to continue as nearly as practicable the normal standard of living of the Named Insured"s household for not exceeding the period of time required:

1) to repair or replace such damaged or destroyed property as soon as possible; or
2) for the Named Insured"s household to become settled in permanent quarters; whichever is less.

This coverage also includes:

1) the fair rental value of any portion of the described dwelling or appurtenant structures covered under this policy, as furnished or equipped by the Named Insured, which is rented or held for rental by the Named Insured. The fair rental value shall not include charges and expenses that do not continue during the period of untenantability. Coverage shall be limited to the period of time required to restore, as soon as possible, the rented portion to the same tenantable condition;

2) the period of time, not exceeding two weeks, while access to the premises is prohibited by order of civil authority, as a direct result of damage to neighboring premises by a- peril not otherwise excluded.

The periods described above shall not be limited by the expiration of this policy.

This coverage excludes expense due to cancellation of lease, or any written or oral agreement.

Coverage E -- Personal Liability

The Company agrees to pay on behalf of the Insured all sums which the Insured shall become legally obligated to pay as damages because of bodily injury or property damage, to which this insurance applies, caused by an occurrence. The Company shall have the right and duty, at its own expense, to defend any suit against the Insured seeking damages on account of such bodily injury or property damage, even if any of the allegations of the suit are groundless, false or fraudulent, but may make such investigation and settlement of any claim or suit as it deems expedient. The Company shall not be obligated to pay any claim or judgment or to defend any suit after the applicable limit of this Company’s liability has been exhausted by payment of judgments or settlements.

Coverage F -- Medical Payments to Others

This Company agrees to pay all reasonable medical expenses, incurred within one year from the date of the accident, to or for each person who sustains bodily injury to which this insurance applies caused by an accident, while such person is:

1) on an insured premises with the permission of any Insured, or
2) elsewhere, if such bodily injury
   (a) arises out of a condition in the insured premises or the ways immediately adjoining,
   (b) is caused by the activities of any insured, or by a residence employee in the course of his employment by any Insured,
   (c) is caused by an animal owned by or in the care of any Insured, or
   (d) is sustained by any residence employee and arises out of and in the course of his employment by any Insured.

GENERAL EXCLUSIONS

All Homeowners policies have certain exclusions in common. Two are located in the Homeowner"s policy jacket and are usual in all property insurance policies.

1) War risks - called government action in the Homeowners policies.
2) Nuclear exposures.

Other exclusions are contained in the form themselves; some of these clauses are:

1) Excluding loss occasioned directly or indirectly by enforcement of any law or ordinance regulating the construction or repairs of buildings or structures.
2) Earth movement - including earthquake, volcanic eruption, landslide, mud slide.
3) Flood, surface water, waves, tidal water or tidal waves, backing up of sewer or drains, water below the surface that flows, seeps or leaks through walls, floors or walks.
4) Losses by power, heating or cooling failure unless the failure originates on the premises from an insured

peril.

ELIGIBILITY

The homeowners package policies are designed for owner occupied dwellings, the exceptions being the HO4 designed for tenants and the HO6 designed for condominium unit owners. An eligible dwelling may contain no more than two families and not more than two roomers or boarders per family. In addition the homeowners' forms cannot be used for a dwelling located on a farm if the dwelling is within 200 feet of a farm building.

INCIDENTAL OCCUPANCY

Incidental office, professional, private school or studio occupancy is permitted if the fire rating organization permits incidental occupancy without additional changes under its rules; the premises are occupied principally as a dwelling; no other business is conducted on the premises.

DEDUCTIBLE CLAUSES

The most common deductible clause in use is the $250 deductible with "buy back privileges." Most insurers allow the insured to select larger deductibles with an appropriate premium reduction.

FARMOWNERS POLICIES

The Farmowners - Ranchowners policy is the basic policy to which are attached various forms that are available under the Farm owners - Ranch owners program. The first page of the jacket presents the policy declarations, the insuring agreement and limits of liability for both Property and Liability coverages for dwellings and personal property and farm buildings and scheduled or unscheduled farm personal property. The second page of the basic policy jacket contains the provisions of the standard fire policy, while the third, fourth and fifth pages contain general conditions of the insurance and definitions applicable to the forms to be attached.

FORMS - PERILS INSURED AGAINST

The program gives a choice from four forms providing mandatory Section I coverages and a choice from two forms providing mandatory Section II coverages. Three other forms provide optional coverages under Section I.

FROO-O1--Basic Form - Provides coverage against fire, the perils of Extended Coverage, vandalism, malicious mischief, and theft applicable to the farm dwelling (Coverage A), unscheduled personal property other than farm property (Coverage B), and the usual combined Additional Living Expenses - Rent Coverage (Coverage C).

FR00-02--Broad Form - The same coverages as FROO-O1 but on a broad named perils basis.

FR00-03--Special Form - Special Form - The same coverages as the FROO-O1 and FR00-02, but all risks coverage under Coverage A and C.

FR00-04--Farm Tenants Broad Form - Broad named perils coverage on unscheduled personal property other than farm property and Additional Living Expense.

The above-listed forms provide coverage on the residential property, i.e., dwelling and unscheduled personal property, not farm property. The coverage for the farm property is provided by adding the following forms.

FR00-06--Scheduled Farm Personal Property (Coverage D).

FR00-07-- Unscheduled Farm Personal Property

.

These forms are used to provide coverage on livestock; machinery, vehicles and equipment; grain and hay; farm

records (Coverage E).

FR00-08-- Barns-, Buildings, Structures and Additional Dwellings. The Farm owners - Ranch owners policy does not provide automatic coverage on other structures on the insured premises. This form allows coverage for farm barns and other buildings on the premises on a scheduled basis against fire, extended coverage perils, and vandalism and malicious mischief (Coverage F).

The combination of residential and business exposure require that the liability insurance be more complex than for a residential exposure. The two forms providing mandatory Section II coverages are:

FROO-O9-- Personal Liability Form - provides Personal Liability (Coverage G) and Medical Payments to Others (Coverage H) insurance with a modified Business Pursuits exclusion that does not apply to farming.

FROO-10-- is used to cover corporately owned farms or ranches and contains Comprehensive General Liability coverage rather than Personal Liability.

The coverages provided by the Farmowners - Ranchowners policy are based on the Homeowners program and most coverages are parallel. The difference is that the Farm owners - Ranch owners policy may include coverage on the farm personal property and barns.

Section I:

Coverage A - Farm Dwelling
Coverage B - Unscheduled Personal Property (Household)
Coverage C - Additional Living Expense
Coverage D - Scheduled Farm Personal Property
Coverage E - Unscheduled Farm Personal Property
Coverage F - Farm Barns, Buildings and Structures

Section II:

Coverage G - Personal Liability
Coverage H - Medical Payments to Others

Other differences between a Farmowner - Ranchowner policy and the Homeowners program:

1) No automatic coverage for other other than the dwelling must be specifically scheduled and a separate premium listed.
2) The Homeowner"s Comprehensive form is not duplicated in the Farmowners - Ranchowners program.
3) Owner - occupancy is not required.
4) Coverage of unscheduled personal property must be omitted if the policy is written for owner-nonoccupant.
5) Additional Living expense limit is 10% of the farm dwelling, or 10% of the limit specified for unscheduled personal property under the Tenants form.
6) Trees, shrubs, plants and lawns are specifically excluded in the Farmowner - Ranchowner forms.

ELIGIBILITY

The Farm owners - Ranch owners policy is not restricted to owner occupied, but must be a one or two family dwelling used exclusively for residential purposes.

There may be up to two roomers or boarders per family. Incidental occupancies similar to those of the homeowners policy, is allowed.

EXCLUSION

The general exclusions contained in the forms are the customary exclusions of loss from zoning ordinances, earth movement, and water damage. Consequential loss due to power, heating or cooling failure brought on by damage to equipment away from the premises is also excluded. Additional exclusion of trailers, motorized campers, camper bodies and their equipment is contained in the forms.

DEDUCTIBLE

The deductible clause of each of the Farm owners - Ranch owners forms applies a $100 deductible to the amount of each loss to:

1) each building, including property within;
2) personal property in each building covered under the policy; and
3) personal property in the open.

The maximum is up to an aggregate limit per occurrence of $500.

MOBILEHOME POLICY

The Mobile home policy is a basic policy jacket to which is attached any one of the Mobile home Forms and any endorsements that are mandatory or optional. The first part of the Mobile home policy contains the Declarations section and a description of the insured mobile home. Other information about the risks appears on the Declaration Page that is useful for rating purposes. Pages 2, 3 and 4 of the Mobile home policy contain general conditions and special conditions applicable to either Section I or Section II of the Mobile home form. The Mobile home Policy is roughly the equivalent to the Homeowner"s Broad Form 2.

PERILS

The perils insured against under a mobile home policy are: fire and lightning; windstorm or hail; explosion; riot or civil commotion; aircraft; vehicles; smoke damage; vandalism or malicious mischief; glass breakage; theft; falling objects; weight of ice, snow or sleet; collapse; water escape; rupture of steam boilers, hot water heaters, etc; freezing of plumbing; and artificial electrical currents.

COVERAGES

There are mandatory coverages and minimum limits under the mobile home policy.

Coverage	Min Limit		
Coverage A - Mobile home	Actual cash value	Coverage B - Unscheduled Personal Property	$2,000
Coverage D - Additional Living Expense	$15/ day up to 45 days		
Coverage E - Personal Liability	$25,000 ea occurrence		
Coverage F-Med pmts to others	$500 each person	25,000 each accident	

Coverage C is completely optional for awnings, shelters, cabanas, porches, etc. The schedule for these additions appears on the Declaration Page and each item must be described, with limits and premiums listed.

INSURING AGREEMENT

The insuring agreements for each coverage are, in most respects, similar to those found in Homeowners forms. The major differences will appear under Coverage A where coverage is provided on parts or equipment and accessories originally built into the structure. Also furniture and appliances though not built-in, are covered with the mobilehome if they were furnished by the manufacturer or dealer at the time of purchase and described on the sales invoice.

Collision coverage is available, under Coverage A, to cover short periods while the mobilehome is being moved to a new location.

EXCLUSIONS

The mobilehome policy contains the basic property policy exclusions. Certain exceptions and exclusions pertaining to specific perils are contained within the agreements for these perils.

We will not review all these exclusions, but agents selling this type of contract should become familiar with all terms and conditions of the policy.

ELIGIBILITY

The mobile home must be a least 10 feet wide and 40 feet long, cost when new not less than $4,000, must be capable of being towed on its own chassis and designed for year round living. The home must be owner-occupied, but may be occupied by one additional family or up to two roomers or boarders. The home may not be subject to farm rules and rates.

DEDUCTIBLE

The deductible clause is for a flat $100 applied to each occurrence of a covered loss.

SPECIAL MULTI-PERIL POLICIES

The Multi-Peril policy is intended to cover all exposures common to ownership and operation of certain commercial risks, excluding automobile and surety coverages. Depending on the choice of the insured, coverages may be those of the general property form providing fire and extended coverage and may be supplemented with endorsements covering additional perils, or may be those of the special property form providing coverage on an "all risk" basis.

FORMS - PERILS INSURED AGAINST

MP General Building Form - a named peril form for buildings and structures, provides coverage for losses caused by fire; lightning; windstorm and hail; explosion; "sudden and accidental damage from smoke; vehicles or aircraft; riot, riot attending a strike or civil commotions; vandalism and malicious mischief. The insured may have the added protection of Optional Perils included by endorsement. This endorsement would extend the perils to include glass breakage; falling objects; weight of snow, ice or sleet; water damage; and collapse of the structure.

MP Special Building Form - insures against all risks of direct physical loss to buildings and structures to which it is made applicable subject to specific exclusion and limitations.

MP General Personal Property Form - is a named perils form providing coverage on personal property of the insured, with personal property of others as optional. The perils insured against are the same as those in the General Building Form.

MP Special Personal Property Form - insures against all risks of direct loss to personal property of the insured and, optionally, personal property of others in the care, custody or control of the insured.

The policies contain four sections. Section I provides property coverage for both real and personal property. Section II provides liability coverage for bodily injury and property damage, premises medical payments. Section III provides crime coverage. Section IV provides Boiler and Machinery coverage. Sections I and II are mandatory coverages, while Section III and IV are optional coverages.

The first page of the Special Multi-peril Policy is normally the Declaration page showing insured"s name and address, policy period, type of entity which is insured, location(s) of premise(s), limits of liability for each coverage applicable, identification of forms and endorsement attached to the policy, identification of any mortgagee, and premiums. The back side of the Declaration page may contain the Standard Fire Policy"s 157 numbered lines.

The SMP conditions and definitions of the basic property and liability insurance provisions are contained in a six page publication in booklet form. Page one contains the general conditions applicable to both Section I and

Section V of the policy. Pages two and three contain the conditions applicable to the Property insurance in Section I. Pages four and five contain the conditions pertaining to the Liability Insurance in Section II. Page six contains the definitions applicable to Section II Liability. In these pages are restatements of many of the general provisions of the Standard Fire Policy.

SPECIAL MULTI-PERIL POLICY CONDITIONS

General Conditions -ten clauses are the general conditions applicable to Section I and Section II coverages. The ten clauses relate to: premium; time of inception; cancellation; concealment or fraud; assignment; subrogation; inspection and audit; liberalization; insurance under more than one coverage, part or endorsement; and waiver or change of provisions.

Conditions Applicable to Section I - twenty-three clauses pertain to Section I coverages. These clauses are: policy period, territory; deductible; coinsurance; removal; debris removal; war risk and governmental action exclusion; nuclear clause and nuclear exclusion; other insurance; duties of the named insured after a loss; appraisal; company options; abandonment of property; payment of loss; privilege to adjust with owner; suits; permits and use; vacancy, unoccupancy and increase of hazards; protective safeguards; mortgage clause; recoveries; loss clause; no benefit to bailee; and no control.

Conditions Applicable to Section II - nine clauses
pertain to Section II coverage. These clauses are: supplementary payments; premium; Financial Responsibility Laws; insured"s duties in the event of occurrence, claim or suit; medical reports, proof and payment of claim; action against company; other insurance; annual aggregate; and nuclear exclusion.

Definitions Applicable to Section II - the last page of the booklet contains definitions for various words and terms used in liability insurance.

SPECIAL MULTI-PERIL BUILDING FORMS

As previously stated the General Building Form provides coverage against named perils and the Special Building Form provides coverage for all risks.

The Special Building Form has seven parts:

1) Property Covered
2) Property Not Covered.
3) Property Subject to Limitations.
4) Extensions of Coverage.
5) Perils Insured Against.
6) Exclusions.
7) Valuation.

The General Building Form has six parts:

1) Property Covered
2) Property Not Covered.
3) Extension of Coverage.
4) Perils Insured Against.
5) Exclusions.
6) Valuation.

Those parts titled Property Covered, Property Not Covered, Extension of Coverage, and Valuation are identical in both forms.

Property Covered - Building(s) or structure(s) including additions and extensions; fixtures, machinery and equipment constituting a permanent part of and pertaining to the service of the building(s); materials and supplies intended for use in construction, alteration or repair of the building(s) or structure(s); yard fixtures; personal property of the insured used for the maintenance or service of the building(s).

Property Not Covered - the building coverage does not apply to property in five specific categories:

1) Outdoor swimming pools, fences and detached retaining walls, waterfront property, paved surfaces.
2) The cost of earth moving, underground property and underwater property.
3) Outdoor signs.
4) Lawns, trees and plants.
5) Property which is more specifically insured (except for excess coverage).

Extensions of Coverage - it is possible for the insured to recover the full amount of the building coverage and recover the full limit stated under the extensions at the same time. The actual extensions are contained in four agreements: Newly Acquired Property; Off-Premises; Outdoor Trees, Shrubs and Plants; and Replacement Cost.

1) Newly Acquired Property - is new buildings or other structures being erected on the designated premises and newly acquired buildings at any other location within the territorial limits. The limit is 25% of the policy"s building limits, but not more than $100,000. The coverage is for 30 days from the date construction begins on the premises or from the date of acquisition of another building.
2) The Off-Premises extension is for building property which is temporarily removed from the premises for cleaning, repairing, construction or restoration. The limit is 2% of the building limits, but not more than $5,000.
3) Outdoor Trees, Shrubs and Plants are covered for as much as $250 on any one item or a maximum of $1000 in any one occurrence, including cost of debris removal.
4) Replacement Cost provides for the adjustment of "mall loss, less than $1000 without taking depreciation into account.

Valuation - establishes for valuation of property at actual cash value at the time of loss, but not exceeding the amount which it would cost to repair or replace the property with material of like kind and quality within a reasonable time after such loss, nor in any event for more than the interest of the named insured.

The Exclusion part of the General Form contains four exclusions, the Special Form contains the same exclusions that appear in the General Form, plus seven additional exclusions:

General Form Exclusions.

1) Statutes or ordinances affecting zoning or construction may require a particular building, once substantially damaged, to be torn down and reconstructed to meet new requirements. The cost of meeting new requirements are not covered.
2) No coverage for damage to electrical appliances, wiring, devices, fixtures caused by artificially generated electricity, except for ensuing fire damages.
3) No coverage for loss caused directly or indirectly by interruption of power or other utility service furnished to the premises if interruption takes place away from the designated premises.
4) No coverage for loss caused by earth movement, flood, tidal wave, sewer back-up, and underground seepage.

Other exclusions that appear in the Special Form are:

1) The usual clause in all risk property insurance that eliminates coverage for wear, tear and deterioration.
2) No coverage for loss caused by explosion of steam boilers, steam pipes, steam turbines or steam engines except for ensuing fire damage.
3) No coverage for vandalism, malicious mischief, theft or attempted theft, if building is vacant or unoccupied beyond 30 days.
4) No coverage for leakage or overflow from plumbing, heating, air conditioning or other equipment or appliances caused by freezing while the building is vacant or unoccupied, unless heat is maintained, or systems drained and shut off during such vacancy or unoccupancy.
5) No coverage for theft of any property not attached to the building.
6) No coverage for unexplained or mysterious disappearance of any property or shortage.
7) No coverage for continuous or repeated seepage or leakage of water or steam which occurs over a period of weeks, months or years.

In the Special Form is a part that does not appear in the General Form. It is Property Subject to Limitations.

These limitations and exceptions to the all risk coverage are similar to the exclusions already reviewed and will not be reviewed again for testing purposes, but you must become familiar with these limitations in order to properly explain the contract to your clients.

SPECIAL MULTI-PERIL PERSONAL PROPERTY FORMS

Like the Building Forms, the General Personal Property Form provides against named perils and the Special Personal Property Form provides coverage for all risks.

The Special Personal Property Form has seven parts:

1) Property Covered.
2) Property Not Covered.
3) Property Subject to Limitations.
4) Extensions of Coverage.
5) Perils Insured Against.
6) Exclusions.
7) Valuation.

The General Personal Property Form has six parts:

1) Property Covered.
2) Property Not Covered.
3) Extension of Coverage.
4) Perils Insured Against.
5) Exclusions.
6) Valuation.

Those parts titled Property Covered, Property Not Covered and Valuation are identical in both forms.

Property Covered: Business Personal Property owned by the insured and usual to the occupancy of the insured, including the insured"s interest in personal property owned by others to the extent of the value of labor, materials and charges furnished, performed or incurred by the insured, all while (1) in or on the building (s) or in the open (including within vehicles) on or within 100 feet of the designated premises. This insurance shall cover for the account of the owner (other than the named insured) personal property belonging to others in the care custody or control of the insured while in the building (s), or in the open (including within vehicles) on or within 100 fee of the designated premises.

Property Not Covered - the personal property coverage does not include:

1) Animals and pets; aircrafts; watercraft, including motors, equipment and accessories, except rowboats and canoes, while out of the water and on the designated premises; and automobiles, trailers, semi-trailers, or any self-propelled vehicles or machines, except such property not licensed for use on public thoroughfares and used principally on the premises of the insured.
2) Personal property while waterborne.
3) Outdoor trees, shrubs and plants, except when held for sale, or sold but not delivered.
4) Household and personal effects contained in living quarters occupied by the insured.
5) Accounts, bills, currency, deeds, evidences of debts, money and securities.
6) Outdoor signs whether or not attached to the building.
7) Growing crops and lawns.
8) Property which is more specifically insured (except for excess coverage).

Valuation - The following bases are established for valuation of property:

1) The value of: all stock actually sold but not delivered shall be the price at which it was sold, less all discounts and unincurred expenses.
2) Tenant"s Improvements and Betterment’s if repaired or replaced at the expense of the named insured within reasonable time after loss, the actual cash value of the damaged improvements and betterments. This provision gives a method of prorating the loss to the end of the lease or rental agreement if the damage is not

repaired or replaced.

3) Valuable Papers and Records - loss shall not exceed the cost of blank books, cards or other blank materials plus the cost of labor incurred for transcribing or copying such records.
4) All other property at actual cash value at the time of loss, but not exceeding the cost to repair or replace the property with like kind and quality, but in no event more than the interest of the named insured.

The other parts of both forms will not be reviewed at this time. Again, you are cautioned not to try and service your clients in the SMP program until you are familiar with all terms, conditions and provisions.

OTHER SPECIAL MULTI-PERIL COVERAGES

At this point the review has covered Section I, Division I, Coverage A and B. Division II of Section I, simply labeled Additional Coverages. This allows for the agent to endorse many other coverages to fulfill the needs of a particular risk. Some of these other coverages might be Business Interruption, Extra Expenses, Sprinkler Leakage, Earthquake Extension, Inland Marine Floaters.

Section II: Liability Coverage

The SMP Policy Liability Insurance Form has a single limit for all coverage agreements required for Premises and Operations, Product and Completed Operations, and Premises Medical Payments. This form is available to many classes of insureds. Most of these insureds must have their complete operation from the designated premises, since the insuring agreement specifically states coverage is for "business of the insured conducted at or from the insured premises." Other General Liability coverage which a company offers can be added to the SMP policy by endorsement, including the substitution of Comprehensive General Liability.

The SMP Liability form is similar to the Comprehensive General Liability Policy. The major distinction between the two is that the SMP form applies on]y to designated premises and necessary or incidental operations. The insured who anticipates branching out into other locations or taking on other unrelated operations should be best served by the Comprehensive General Liability form.

Section III: Crime Coverage

There are two forms that may be written with the SMP policies. One is the Comprehensive Crime form providing separate insuring agreements, each optional, with a limit of liability applicable to each separately. The other is a Blanket Crime form written to a single, uniform limit for all coverages.

The Comprehensive Crime form allows the insured to choose which coverages are needed for a particular operation. The form allows a choice of five coverages.

1) Employee Dishonesty - coverage applies to fraudulent or dishonest acts committed by employees.
2) Loss Inside the Premises - coverage against actual destruction, disappearance or wrongful abstraction of money and securities within the premises or from within banking premises or similar recognized places of safe deposit.
3) Loss Outside the Premises - covers money and securities against actual destruction, disappearance and wrongful abstraction while being conveyed by a messenger or an armored car company; or while in the living quarters of the home of a messenger, with no requirement that the money and securities be in the course of conveyance.
4) Money Orders and Counterfeit Paper Currency coverage is for loss due to acceptance in good faith of any money order if the instrument is issued or is purported to have been issued by a post office or express company.
5) Depositors Forgery - coverage applies to loss caused by forgery or alteration of a check, draft, promissory note or similar written promise.

The Crime coverage form has three general agreements and a number of exclusions, conditions and limitations. The first general agreement concerns consolidation, mergers or purchase of the assets of another concern and provides automatic protection for new employees taken on by these means, subject to a requirement of written notice within 30 days and pro rata additional premium. The second general agreement is a provision governing relationship between company and joint insureds. The third general agreement provides coverage for any loss

which is discovered during the life of the policy or within one year after, even if the loss occurred during the life of a prior bond or policy.

The SMP Crime coverage is identical with the coverage of the corresponding Blanket Fidelity bond, Commercial Blanket or Blanket Position and so are the pertinent conditions.

Section IV: Boiler and Machinery

To provide Boiler and Machinery insurance, two forms must be attached to the basic Special Multi-Peril contract: first, the SMP Boiler and Machinery coverage form; second, the Boiler and Machinery Declarations form. Additional endorsements may be attached to cover additional kinds of objects other than the pressure vessels and piping covered by the SMP Boiler and Machinery coverage form.

The SMP Boiler and Machinery provides Broad coverage against sudden and accidental breakdown, which includes not only explosion or rupture of the object but such accidents as bulging, burning or cracking. Insureds with pressure vessels that do not qualify for Broad coverage are generally not considered good risks for packaged Boiler and Machinery coverage.

There are four coverages in the Boiler and Machinery coverage form compared to five mandatory coverages of the standard Boiler and Machinery policy.

Coverage I Loss to property of insured.

Coverage II Expediting expenses.

Coverage III Liability for property of others.

Coverage Defense, settlement supplementary payments.

Bodily Injury Liability insurance is omitted from the SMP Boiler and Machinery form since liability is mandatory under Section II of the SMP policy.

ELIGIBILITY

Virtually any kind of commercial or institutional operation is eligible for the SMP program, except farms, granaries, businesses centering on motor vehicles, and boarding or rooming houses or one and two apartment dwellings.

CALIFORNIA FAIR PLAN

PURPOSE

The California FAIR Plan is designed to provide a means for the purchase of basic property insurance to those who are entitled to such insurance, but who cannot obtain it through ordinary channels. Basic property insurance means insurance against direct loss to real or tangible personal property from perils insured under the standard fire policy and extended coverage endorsement and vandalism and malicious mischief and other insurance coverages as may be added with respect to such property by the association, or the commissioner.

ORGANIZATION

The "Association", "industry placement facility", is a joint reinsurance association (California FAIR Plan Association), formed by insurers licensed to write basic property insurance within this state to assist persons in securing basic property insurance. The association formulates and administers a program for the equitable apportionment among any such insurers writing basic property insurance.

The association designates an organization, with the approval of the commissioner, to act as the "inspection bureau". The inspection bureau makes inspections to determine the condition of the properties for which basic

property insurance is sought and to perform duties authorized by the association.

ELIGIBILITY

Any person having an insurable interest in real or tangible personal property, at a fixed location in those geographic or urban areas designated by the commissioner, who, after diligent effort, has been unable to obtain basic property insurance through several companies, but does not include automobile or farm risks, may apply.

GEOGRAPHICAL AREAS

1) Those areas designated as Brush by Insurance Service Office.
2) Malibu between the designated Brush area and the Pacific Ocean, north to the Ventura County Line and south to the Los Angeles city limits.
3) Green Valley consisting of the area within a radius of two (2) miles from the intersection of Ensenada Road and Spunky Canyon Road.

ISSUANCE OF INSURANCE COVERAGE

When application is made the inspection bureau will inspect the property. The inspection bureau may advise the applicant of needed repairs or changes in occupancy. The inspection report is made to the company or companies designated by the Association. A copy is sent to the association and to the applicant on request. If the risk is accepted, the Association will issue and deliver to the applicant the policy or binder upon payment of the premiums.

In issuing the coverage responsibilities the Association has the following:

1) Determine and collect the premium charges.
2) Disburse return premiums, commissions and return commissions.
3) Direct and control investigation, adjustment, defense, and payment of losses and claims on policies issued pursuant to the plan.
4) Determine the rate of commissions paid the producer.

PARTICIPATION BY LICENSED INSURANCE AGENTS & BROKERS

Fire and Casualty agents and brokers can handle applications for insurance under the FAIR Plan and render all proper assistance to applicants for such insurance. Agents and Brokers must first make a bona fide effort to secure required insurance through ordinary channels before making application for coverage through the plan. In the application, the applicant certifies that he or she has tried, without success, to obtain insurance in the voluntary market.

The agent or broker designated by the applicant as the producer of record receives a commission for his/her services from the insurer issuing the policy through the plan. It is not an unlawful rebate if the agent receives commissions and is not an appointed agent for the insurer issuing the policy.

No insurance agent, broker or solicitor shall make any charge to the applicant, directly or indirectly, for furnishing any person necessary application forms, technical assistance and services necessary to perfect an application to the plan other than the commissions as paid by the insurer

OTHER PROVISIONS

The applicant or insurer has the right of appeal from any act or decision of the Association to the governing committee. A decision of the governing committee may be appealed to the commissioner within 30 days after the decision. All decisions of the commissioner shall be subject to judicial review.

OCEAN MARINE INSURANCE

Ocean marine insurance covers hazards involved in shipping and transportation on navigable waters. While there are no standard marine forms in California, the fact that marine insurance is written

worldwide has given rise to a basic ocean marine policy which is varied to meet particular needs. An ocean marine policy is normally an "agreed value" policy, meaning that the value of the ship or cargo is agreed upon prior to attachment of the risk. Losses are adjusted on the same basis. Another type of policy is the "Open" marine cargo policy issued by marine insurance companies to persons or firms regularly engaged in exporting, importing or shipping goods by water. It constitutes agreement by the insured to report to the insurance company all shipments made at his/her risk, and to pay premiums at agreed rates. The insurance company agrees to automatically insure all such shipments on agreed conditions from the moment they become risk to the insured.

There are three principal types of ocean marine insurance:

1) Hull insurance - which insures the ship owner against direct loss to the vessel, its machinery and equipment. It usually includes legal liabilities arising out of collision with another ship or vessel. Hull policies are usually written for a period of one year.

2) Cargo insurance - which covers the owners of merchandise in transit by water, including land transportation and dock storage incidental to the shipment. Cargo insurance is usually written on a voyage basis. Normally the policy covers when the goods leave the shipper"s warehouse and continues during the ordinary course of transit until delivered to the warehouse of the consignee. This would include land transportation and storage on docks or piers awaiting shipment or delivery (if in the course of transit). By employment of the Marine Extension clauses, the coverage is continued during delay or deviation provided any interruption in transit is beyond the control of the insured.

3) Protection and indemnity insurance - which covers liabilities of the ship owner arising out of operation of the vessel (insofar as it is not covered by the hull policy). These liabilities include:

   (A) Loss of life and personal injury of the crew and others.
   (B) Loss or damage to cargo.
   (C) Third party liabilities and property damage to docks, etc.

   Protection and indemnity insurance is generally written on an annual basis with specified limits of liability. On yachts and small crafts, this insurance is usually combined with hull insurance in a single policy.

PERILS CLAUSE

All policies on both hull and cargo include the basic "perils clause" which reads:

"Touching the adventures and perils which we, the said insurers, are contented to bear and take upon us, they are of the seas, fire, rovers, assailing thieves, jettisons, criminal barratry of the master and mariners and of all other like perils, losses and misfortunes that have or shall come to hurt, detriment or damage of the aforesaid subject matter of this insurance or any part thereof."

The term "perils of the seas" includes such losses as stranding, sinking, collision, heavy weather, striking submerged objects.

In cargo policies the "perils clause" is commonly modified by either of two restrictive clauses to eliminate minor claims.

1) One is the "free of particular average" clause (F.P.A.). This has the effect of excluding partial losses unless the vessel is involved in one of the major casualties of stranding, sinking, fire, or collision (English conditions) or unless the partial loss is caused by one of these major casualties (American conditions).

2) The other is the "with average" clause (W.A.). This clause is very similar in wording to the "F.P.A." clause except that instead of excluding all partial losses, except those caused by major casualties, it excludes only small claims amounting to less than a prescribed percentage (often 3 percent) of the insured value.

   For many commodities it is now common practice to broaden the "W.A." clause to include all claims caused by a "peril of the sea" irrespective of percentage. It is therefore a broader coverage than "F.P.A.".

The term "average" is synonymous with "loss" in marine insurance language. A "partial loss" to ship or cargo due

to damage caused accidentally is known as a "particular average" loss.

When a ship and its cargo are placed in imminent peril, as by fire or the stranding of the vessel, and if a part of the ship or her cargo is voluntarily sacrificed to save the remainder (such as the dumping overboard of part of the cargo or ship's fuel to lighten the vessel), or if extraordinary expense is incurred for the common benefit, as for salvage assistance, such voluntary losses and extraordinary expense are known as "general average" losses. By maritime law such losses must be made good by contributions from the owners of properties saved by these sacrifices or expenditures, the contributions being proportional to the values saved.

Liability for general average contributions is founded in maritime law, but marine insurance policies will indemnify the owners of the properties for their general average liabilities.

Another important feature of all marine policies, both hull and cargo, is the "sue and labor" clause providing additional benefits to the insured. The clause not only confirms the general insurance law requiring the insured to take all reasonable steps to avert or minimize a loss, but gives the insured the right to recover expenses resulting from such efforts, even when those efforts are unsuccessful. The insured could, under such circumstances, recover more than the face value of the policy.

EXCLUSIONS

Basic marine policies exclude loss or damage caused by hostilities or warlike operations (whether declared or not), and damages caused by strikes, riots, civil commotions or persons taking part in labor disturbances. These risks may be added to the policy by endorsement for an additional premium.

INLAND MARINE INSURANCE

Inland marine insurance is historically related to ocean marine insurance and usually applies to the insuring of property of a movable nature that is carried or transported. Certain types of fixed property, such as bridges, docks, piers, radio-towers; generally referred to as instrumentality's of communication and transportation--may also be insured. The term "Inland Marine" is therefore somewhat of a misnomer and is sometimes referred to as "all risks insurance," or "transportation insurance."

Such policies are written to insure against specified hazards which may include explosion, riot, earthquake, windstorm, flood, theft, etc., in addition to the usual perils of fire and transportation, or "all risks." Usually the property insured is covered wherever it may be.

As transportation is a basic characteristic of inland marine insurance, only certain property may be covered. To classify the risks eligible under this branch of insurance, a "nationwide definition and interpretation of the insuring powers of marine and transportation underwriters" was accepted by the National Association of Insurance Commissioners. This definition is somewhat general, but it does list classes that may be written as Marine, Inland Marine or Transportation. Classes are divided into six groups: (1) Imports (2) Exports (3) Domestic Shipments (4) Means of Communication (5) Personal Property Floaters Risk (6) Commercial Property Floaters Risk. For testing purposes we will review only some of the classes of Personal Property Floaters and Commercial Property Floaters.

California does not provide standard forms for inland marine policies, but most insurers in California issue forms having substantially the same or similar policy provisions.

PERSONAL LINES

Personal Articles Forms are attached to the "Inland Marine Floater Policy - Personal Lines" to form the policy to provide coverage for personal property. This combination is now the principal contract used to provide coverage on the classes of valuable personal possessions which are insured on a scheduled, all risk basis.

Types of Personal Articles by Classes

1) Cameras and Photographic equipment - equipment eligible for coverage includes cameras, projection machines, equipment used with these, portable sound and recording equipment and miscellaneous property such as films, and when used in conjunction with photographic equipment coverage also can apply to binoculars, telescopes, microscopes and other similar equipment.

   Each piece of equipment must be individually described and valued. It may be necessary to furnish evidence of the value of property to be insured. The description of the property includes make, model, serial number and date of purchase.

2) Fine Arts - paintings, etchings, pictures, tapestries, art glass-windows and other bona fide works of art such as valuable rugs, statuary, marbles, bronzes, antique furniture, rare books, antique silver, manuscripts, porcelains, and rare glass may be insured under the Personal Articles Form. These fine arts losses apply to private collections only. Private collections include property owned by a firm, corporation, association, public schools as well as property owned by an individual.

   There are important differences from other classes of property eligible for the Personal Articles form in the fine arts class. The differences relate to valuation, territorial scope and Pair and Set clause.

   Valuation - is on a valued basis, not on actual cash value basis as other forms of eligible property.

   Territorial Scope - is restricted to the continental United States, Hawaii and Canada. Coverage is not worldwide.

   Pair and Set Clause - for articles of fine art which are a part of a set, the company agrees to pay for the full value of the set but then takes possession of any remaining part or parts.

   Additionally, the Fine Arts form excludes coverage on fine arts for damages resulting from repairing, restoration or retouching.

3) Golfers Equipment - coverage to golf clubs, golf clothing and other golf equipment owned by an individual.

4) Personal Furs - personal furs, including imitation furs, garments trimmed with fur or consisting principally of fur, and fur rugs may be insured. Generally, a statement is required that shows when and where the insured furs were purchased and the price paid for them. Most companies will not permit furs to be covered for more than the original purchase price regardless of the garment or appraisal value. Depreciation is customarily applied to losses after the first year.

5) Personal Jewelry - is defined as articles of personal adornment composed in whole or in part of silver, gold, platinum or other precious metals or alloys. These articles may or may not contain pearls, jewels or precious or semi-precious stones.

   These policies may be written for persons who are not related only when they reside together and are co-owners of the property to be insured. However, a policy may be written on engagement rings, wedding rings and guard rings in the names of two interested individuals regardless of where they live. The insurance applies "as interest may appear."

   It is not possible to blanket items of jewelry, each article to be insured must be completely described and a specific amount of insurance shown for it. The companies require the original bills of sale or a complete signed appraisal from a reputable jeweler. The appraisal must show the physical condition of the property at the time of the appraisal.

   Because of the potential moral hazard involved insuring jewelry requires careful underwriting. Insurers may require the personal recommendation of the agent or broker who produces the business.

6) Musical Instruments - musical instruments, sheet music and equipment pertaining to musical instruments may be insured under the Personal Articles form. The policy may be written to cover individuals; orchestras, bands, chamber music ensembles and similar groups; and boards of education and municipalities. When the insured is an individual the contract excludes instruments played for pay, unless the appropriate professional rates are charged.

All insured instruments must be itemized with the amount of insurance shown for each.

NOTE: The same insurance may be provided under a Musical Instrument Floater - Broad Form written as a separate policy. Coverage is also available on a limited form "named perils" for orchestras and bands, and on a blanket basis for school boards or municipalities covering school owned instruments (See Inland Marine Floater Commercial)

7) Silverware - silverware, gold ware, pewter ware and plated ware may be covered as an insured class of property under the Personal Articles form. It is not always practical to schedule each item for this class, so it can be written on a blanket basis, if desired. Any newly acquired property in this class must be added to the policy for coverage to be effective.

8) Stamp and Coin Collections - individually owned stamp and coin collections may be insured under the Personal Articles form.

The stamp item insures all types of postage stamps including due, envelope, official, revenue, match and medicine stamps, cover, locals, reprints, essays, proofs and other types of philatelic property owned by or in the custody or control of the insured. Coverage on coins applies to rare and current coins, medals, paper money, bank notes, tokens of money and other numismatic property, including coin albums, containers, frames, card and display cabinets used in connection with such collections that are owned by or in the custody or control of the insured.

Blanket coverage is provided on both stamps and coins, but there is a limit of $250 to each stamp or coin. If the insured has items exceeding $250 it would be advisable to schedule those items. There is a 100% coinsurance clause applying to blanket coverage.

Exclusions that apply to stamp and coin coverages:

1) Fading, creasing, denting, scratching, tearing, thinning, transfer of colors, wear, tear, inherent defects, dampness, extremes of temperature, insects, vermin, gradual depreciation and deterioration and damage sustained from handling or while being worked on and resulting from such work.
2) Theft from unattended automobiles unless the property is being shipped by registered mail (may be removed for an additional premium).
3) Mysterious disappearance of unscheduled items unless they are mounted in a volume and the page to which they are attached is also lost.
4) Stamps or coins in the custody of transportation companies.
5) Property which is not an actual part of a stamp or coin collection.

All of these classes may be covered individually or together under the Personal Articles form, depending upon the classes of property for which the insured needs coverage.

Personal Line Sections

Inland Marine Floater Policy (Personal Lines) will generally consist of nine sections, insuring agreement, perils insured against, exclusions, territorial limits, additionally acquired property, loss deductible clause, special conditions, additional exclusions and general conditions.

Insuring agreement - states that the company agrees to provide insurance to property owned by or in the custody or control of the insured for those classes of property listed with a specific premium charge in the schedule.

Perils Insured Against - the policy insures against all risks of loss or damage to the insured property except for exclusions provided in the policy.

Exclusions - the policy does not insure against:
loss or damage caused by wear and tear, gradual deterioration, insects, vermin, or inherent vice.
the usual war clauses in property insurance.
the usual nuclear energy clauses.

Territorial Limits - unless otherwise stated coverage is wherever the property is located (world wide).

Additionally Acquired Property - automatic coverage on newly acquired property, this extension applies only to jewelry, watches, furs, cameras and musical instruments. Protection is provided for 30 days for any classes on which insurance is already written.

Loss Deductible Clause - states the amount deducted from each loss for each class of property.

General Conditions - besides the usual conditions found in property insurance policies.

The Inland Marine Floater Personal Lines Policy has the additional conditions reviewed below.

Definition of Insured - the named insured or a member of the insured"s family living in the same household.

Valuation - (Loss Settlement Clause) - the limits of the insurer"s liability on covered property will be the lowest of these four amounts:

1) actual cash value;
2) repair cost within reasonable expectations;
3) the cost, within reasonable expectations, of replacing a lost article with one "substantially identical" to it; or
4) the amount of insurance specified in the policy.

This valuation clause is worded to make the Personal Article form an "open policy". The value of the property insured is not agreed upon but shall be determined at the time of loss or damage.

Pair, Set or Parts - in the event of loss or damage the insurer has two options.

1) Repair or replace the damaged article to restore the pair or set to its value before the loss; or
2) Pay the insured the difference between the actual cash value of the intact pair or set and the actual cash value of the articles remaining after the loss.

The special exclusion and special conditions have been included in the review of each class of personal property and will not be repeated.

The Inland Marine Floater - Personal Articles form may be written in conjunction with or as a supplement to a Homeowners policy. If this is done it is important to remember that the Personal Articles coverage remains a separate contract despite its appearance as an endorsement. The Homeowners policy applies to its coverage of unscheduled personal property, an exclusion of property which is separately described and specifically insured in whole or in part by any other insurance. This exclusion rules out any contribution by the Homeowners policy as to loss involving property which is scheduled in the floater. If the Personal Article schedule is written in amounts less than full value, the Homeowners coverage will not make up the difference.

Personal Property Floater - provides all risks coverage to insured"s unscheduled personal property on a blanket basis. Specific items may be taken out of blanket coverage and scheduled using the appropriate form. Jewelry and furs are generally removed from blanket coverage and listed on a Personal Articles form as scheduled items.

Personal Effects Floater - this protection is all risks and applies anywhere in the world except at home. Personal Effects Floater does not cover "unscheduled personal property", but only property of a type which is usually carried by a tourist or traveler.

COMMERCIAL LINES

Scheduled Property Floater - is the basic commercial inland marine form. The provisions of the Scheduled Property Floater are required to be incorporated into the following lines.

Commercial Camera Floater - equipment eligible for coverage includes cameras, projection machines, equipment used with these, portable sound, recording equipment and miscellaneous property such as films, binoculars, telescopes, microscopes and similar equipment used with cameras. This floater provides the same coverages as the Personal Articles Camera and Photographic equipment. The primary reason for the separation

is that this form is used for professional and not personal use.

Camera and Musical Instrument Dealers - provides all risks coverage on the insured"s stock in trade. This stock must be principally of cameras and accessories or musical instruments and accessories. Other stock that is incidental to the insured"s primary stock may be covered even if such incidental stock is not cameras or musical instruments. Examples: radio, recorder players.

Equipment Dealers Floater - provides all risk coverage to dealers in agricultural implements and contractors" equipment on personal property held for sale, display, demonstration, storage, service, or repairs.

Fine Arts Floater - provides all risk coverage to dealers in fine arts including paintings, etchings, pictures, tapestries, art glass windows, other bona fide works of art such as valuable rugs, statuary, marble bronzes, antique furniture, rare books, antique silver, manuscripts, porcelains, rare glass and bric-a-brac.

Furrier"s Block Floater - is an all risks form for the insured"s stock in the fur trade. Stock in the trade consisting principally of furs, fur garments, garments trimmed with furs and accessories pertaining to furs. There are six limits of liability in the Furrier"s Block Floater.

Limit A Property at the insured"s premises which must be designated in the form.

Limit B Property in transit, whether by contract, common carrier, or registered mail.

Limit C Property in custody of a merchant"s parcel delivery services.

Limit D Property at the premises of sales agents, dealers, processors and similar custodians.

Limit E Property of insured while in storage at premises not specified in Limit D which must be designated in the form.

Limit F Property located elsewhere and not otherwise included, but not excluded by this form.

Since the furrier block floater excludes customer"s garments, the furrier may protect the customer"s garments while in the furrier"s care, custody or control by obtaining or endorsing Furrier"s Customer coverage. This coverage provides all risks on customer"s garments up to a limit agreed on by the furrier and his customer as witnessed by the customer"s storage receipt. It is normally written under reporting forms.

Mobile Agricultural Equipment - provides all risks coverage of farm machinery and equipment which has come into the custody or control of parties who intend to use it for the purpose it was manufactured for. There are two forms that may be used for mobile agricultural equipment.

Form A is used to provide blanket coverage.

Form B is used for scheduled coverage with an optional feature to blanket unscheduled property for the lesser of S5, 000 or 10% of the total amount of scheduled coverage, but not exceeding $250 on any one item.

Livestock Floater - provides named perils coverage to insure cows, calves, bulls, heifers or steers kept for feeding, dairy breeding or show purposes; sheep, swine, horses and mules. There are two forms that may be used for livestock coverages.

Form A is blanket coverage, subject to a limit of liability on any one of each class insured. Classes may be described by age, type, use or some other means, but individual animals may not be scheduled.

Form B is used to provide scheduled protection on individual animals, but may also be written by type of animals.

Musical Instruments - coverage of musical instruments can be written on a Broad Form providing all risks coverage, or on a Limited Form providing named perils for orchestras and bands, and on a blanket basis for school boards or municipalities covering school owned instruments. The Broad Form excludes instruments played for remuneration unless professional rates are charged.

Neon Sign Floater - provides all risks coverage on neon, fluorescent, automatic or mechanical electric signs or lamps. Insured property must be scheduled, the schedule containing a description of each sign, the lettering on it, its location and the amount of insurance on each sign.

Physician's and Surgeon's Equipment Floater - provides all risks to physicians, surgeons and dentists for professional equipment and optionally may be extended to furniture, fixtures, improvements and betterments. Under a separate insuring agreement they may select a more limited coverage that applies only to portable equipment (that type of property usually carried by the insured).

GENERAL PROVISIONS

All general provisions discussed below apply to each line listed above, except where superseded in the individual forms. Each form listed above had special conditions and exclusions which will not be reviewed, but every licensee should become familiar with these provisions before attempting to sell these lines.

Misrepresentation and Fraud - the policy will be void if the insured has concealed or misrepresented any material fact or circumstance concerning the insurance subject. This relates to violations whether before or after any loss.

Notice of Loss - requires the insured to report any loss to the company or its agent as soon as practicable. Proof of Loss must be filed within 90 days from the date of loss. Failure to report or to file the necessary proof of loss within the prescribed time invalidates the claim.

Valuation - the company shall not be liable for more than the actual cash value of the property, with deduction for depreciation, at the time the loss or damage occurs. In any event it shall not be liable for more than it cost to repair or replace the same. Since the value is determined at the time of the loss this is an open policy not a valued policy unless the schedule states "insured and valued at".

Settlement of Loss - all adjusted claims shall be paid to the insured within 60 days after proof of loss. No loss shall be paid or made good if the insured has collected the same from others.

No Benefit to Bailee -the insurance will not in any way cover directly or indirectly the benefit of any carrier or other bailee.

Loss Clause - any loss shall not reduce the amount of coverage, except in the event of a total loss of an item specifically scheduled. If a claim is paid for total loss on one or more scheduled items, the unearned premium applicable to such items will be refunded or applied to premium due on items replacing those on which the claim was paid.

Pair, Set or Parts - in the event of loss or damage to:

1) any article or articles which are a part of a pair, or set, the measure of loss or damage shall be a reasonable and fair proportion of the total value of the pair or set, giving consideration to the importance of the loss article or articles, but in no event shall be construed to mean total loss of pair or set; or
2) any part of property covered consisting, when complete for use, of several parts, the company shall only be liable for the value of the part lost or damaged.

The Scheduled Property Floater has other conditions usual to most insurance contracts, Subrogation, Protection of Property, Suit, Appraisal, Cancellation, Changes and conformity to Statutes.

NOTE: You are again reminded that each line has conditions and exclusions that are special to that line of insurance and will not be reviewed for testing purposes. The licensee should become familiar with these special conditions and exclusions before trying to sell these contracts.

SURETY & FIDELITY BONDS

SURETY

A contract of suretyship is a written instrument involving three parties (in contrast to insurance

policies, which are two-party contracts). In suretyship one party binds himself/herself for the performance by another party of an obligation or undertaking. The parties in a contract of suretyship are the primary obligor or principal, the obligee and the surety.

The principal is the one whose obligation or undertaking is to be guaranteed.

The obligee is the one in whose favor the obligation or undertaking is made.

The surety is the one who guarantees that the obligation or undertaking will be performed.

The contract of suretyship must be in writing to be valid.

The need for suretyship arises when a right or privilege has been granted in consideration of an agreement to do something in the future. The surety provides a guarantee of performance. They may cover the whole range of human activities and the surety may guarantee the performance of any lawful obligation by a principal. The following are typical circumstances requiring suretyship:

1) A person appointed or elected to public office is required by law to provide a bond to guarantee faithful performance of duties in such office.

2) A person appointed to a position of trust, under the jurisdiction of a court (probate proceedings) is required by law to provide a bond to guarantee faithful performance of duties.

3) A person or firm against which a judgment has been rendered in a legal action that may be appealed to a higher court upon providing a bond to guarantee payment of the judgment if affirmed.

4) A person or firm awarded a construction contract may be required to provide a bond guaranteeing the performance of the obligations under the contract.

A surety bond is a joint obligation and may be enforced by suit against the principal and surety jointly or against the surety alone. This becomes particularly significant where default is due to insolvency of the principal.

The general rule is that the surety is obligated, upon default of the principal, to perform the contract, duty or obligation of the principal or to indemnify the obligee for the actual loss or damage which directly results from the default, not exceeding the amount for which the bond is written. When the surety must perform the undertaking, the surety is subrogated to the rights of the obligee against the principal, with every legal right to enforce such rights either in the name of the obligee or the surety itself. In other words, the defaulting principal becomes legally obligated to reimburse the surety for any loss paid.

The surety usually requires its principal to make application and to execute the indemnity agreement which is a part of or which may be appended to the application. Under the indemnity agreement the principal agrees to protect the surety from loss or expenses. In the absence of an executed indemnity agreement, the law implies such agreement and the courts enforce such implied agreement requiring the principal to reimburse the surety or hold it harmless from loss. The application also contains questions that bring out information which the surety requires for underwriting consideration of the risk.

If an applicant makes a material misrepresentation(s) to obtain an insurance policy, the insurer can usually deny liability in event of loss. Not so in surety. The rights of the obligee are not affected by any misrepresentations made by the principal to induce a surety to execute a bond, however material and even though fraudulent. Therefore, the surety may require a financial statement and will want to feel satisfied that the applicant has a good reputation and the ability to perform the terms of the contract.

The agreement of the applicant for a bond to pay the premium charged for the bond is not the consideration which makes the bond valid. The consideration is the grant by the obligee to the principal of the right or privilege for which the bond was given. When the bond is executed and delivered and the principal acquires the right or privilege of the bond, the bond is in force regardless of whether the premium has been paid. Once in force and valid, a bond may not be canceled by the surety unless the right to cancel is reserved by an express provision in the bond or exists as a legal right without such reservation. In some cases the law permits the surety to secure relief from future liability upon compliance with prescribed requirements or procedure, but in most cases the

surety bond may not be terminated until the underlying contract or obligation has been satisfactorily performed or discharged.

Some typical surety bonds that an agent or broker may encounter are as follows:

Fiduciary bonds - bonds given by a person entrusted with the care or custody of the property of another. The bond guarantees that the principal will faithfully perform duties and account for the property in accordance with the terms of the trust and of the law. The most common fiduciary bonds are given in probate proceedings by administrators, executors and guardians.

An administrator"s bond is given by a person appointed by the court to administer and settle the estate of a deceased person.

An executor"s bond is one required to be given by a person named in the will of a deceased person to settle the decedent"s estate.

A guardian"s bond is one given by a person appointed by the court to care for and manage the estate of a minor or incompetent person.

Judicial bonds - also called litigation bonds - are given in civil action. The most common of these judicial bonds are attachment bonds release of attachment bonds and appeal bonds.

Attachment bonds - in certain civil suits the plaintiff may secure a writ of attachment before judgment. By virtue of such writ the sheriff or other proper officer is empowered to seize and hold the property of the defendant in order to assure satisfaction of plaintiff"s claim. The bond is required and given to protect the defendant from loss arising from the attachment in event the defendant defeats the plaintiff"s claim and prevails in the suit. Though not limited to breach of contract, this type of bond is used principally in such cases.

Release of attachment bonds - if the plaintiff has attached property of the defendant, a release of attachment bond guarantees that if the property is returned to the defendant, any judgment awarded to the plaintiff will be paid.

Appeal bonds - if the judgment or order denies the plaintiff the remedy sought, the plaintiff must post an appeal bond to have a higher court hear the argument. The appeal bond guarantees that the plaintiff will pay court costs on appeal. When losing, and the defendant desires to appeal the case to a higher court, the appeal bond posted guarantees payment of the entire judgment plus interest and court costs should a higher court rule against the defendant.

License bonds - are given by parties who are licensed by a public body for their performance of all or a certain part of the functions and obligations of a profession, occupation or trade. Example: An insurance broker must have a $5,000 bond on file with the Department of Insurance as a condition for keeping the license in force.

Retail sales tax bond - a person conducting a business provides a retail sales tax bond to guarantee payment to the State of the amount of sales tax due on retail sales.

Freight charge bond - is given to a railroad or similar carrier by a regular shipper or receiver of freight and guarantees that if the carrier will waive the collection of freight charges at the time shipments are delivered, the principal will pay charges within the time limit set by the carrier.

Bid bond - also called proposal bond - guarantees execution and delivery of the contract and any required bonds upon award of the contract to the principal.

Contract bond - guarantees that the principal will perform all terms of the contract.

Public official bond - is given by a public official, to guarantee the faithful discharge of the duties of the office. Example: The Insurance Commissioner is required to file a $20,000 bond upon appointment.

FIDELITY

Fidelity bonds provide protection or indemnity to employers against loss caused by dishonest acts of their employees. If the employees were required, as a condition of employment, to give bond with surety, and if each employee that made application for bond, agreed to pay the premium and filed such bond with the employer, then the document would be a surety bond. This is rarely the case in actual practice. Instead, the employer takes the initiative and arranges for the writing of a bond (usually on a blanket basis) and agrees to pay the premium. The employees are not direct parties to the contract and often do not know the bond exists. Thus, fidelity bonds are logically thought of as "honesty insurance."

The surety may reserve, and sometimes exercises, the right to require applications and indemnity agreements from employees. Often the applications-are waived and the employees are covered automatically when the bond becomes effective and thereafter when a new person enters the employer"s service. The surety reserves the right to approve employees and may designate, by notice, particular individuals it will no longer cover under the bond. The surety may secure reimbursement from the employee whose dishonesty caused a loss. Employers may purchase either a name schedule bond, position schedule bond, blanket position bond or a commercial blanket bond.

Name schedule bond - covers only those employees listed by name in the schedule attached to the bond. The amount of coverage is the specific amount provided for the named individual.

Position schedule bond - covers any employee occupying a position named in the bond or in a schedule attached to the bond. The amount of coverage is the specific amount provided for each named position.

Blanket position bond - covers the employer against loss of money or other personal property due to the dishonesty of any employees. Neither the employees nor their positions are named in the bond. The surety"s liability is limited per employee to the stated amount of coverage on each employee, and in the aggregate, to the stated amount of coverage per employee multiplied by the number of such employees. Example: Employee X has a $10,000 blanket position bond. Three employees each steal $10,000, the employer would recover $30,000.

Commercial Blanket Bond - covers the employer against loss of money or other personal property due to the dishonesty of any employees. Neither the employees nor the positions are named in the bond. The surety"s liability is limited both per employee and to the stated amount of coverage. Example: Employer X has a $10,000 commercial blanket bond. Three employees each steal $10,000. The employer would recover only $10,000 the limit of the bond.

Fidelity bond coverage or employee dishonesty insurance is provided as an insuring agreement in the comprehensive Dishonesty, Disappearance and Destruction Policy, the Blanket Crime Policy and the Broad form Storekeepers Policy. The coverage also appears as an insuring clause in the forms designed to protect financial institutions, such as: Bankers Blanket Bond, Brokers Blanket Bond, Savings and Loan Blanket Bond, Insurance Companies Blanket Bond and the like.

In the development of the multi-peril or "package" approach to commercial risks, provision is usually made for including the coverage provided by a fidelity bond.

Surety and Fidelity bonds are written by corporations licensed and permitted to engage in this type of business when they have complied with special requirements, and obtained a certificate of authority to operate under the laws of this State. Its operation in this State is supervised by the Insurance Commissioner. A personal surety is an individual who may sign a bond or guaranty as an individual. The individual may pledge real estate or other property to secure the bond or guaranty. Any person may become or act as a surety without first being admitted or licensed as a surety. It is only when they engage in acting as a surety professionally or charge a premium for their bonds that they become subject to the Insurance Code.

The authority of an agent to act on behalf of a company on surety matters is usually delegated in writing with the extent of such authority clearly defined. Executing authority (permitting commitment of the company by signing a bond or undertaking) is usually extended by a power of attorney, and states a dollar limit on specified types of obligations. Separate and apart from this document the agent may receive verbal or written instructions, limitations and conditions to be followed. It is important that every agent holding such underwriting authority be

absolutely certain that all requirements have been met and that the obligation is within that authority before signing any instrument. All cases not clearly within an agent"s authority should be submitted to the company"s underwriters, with the bond being issued only after receiving the proper approval. Violations of authority are viewed with great alarm by surety underwriters. Frequency of violation will invariably result in cancellation of authority.

Undertaking of bail is one of the types of bonds executed by corporate sureties for the release of a person arrested for an alleged violation of the law. Bail bonds are issued and delivered by an individual.

A fire and casualty insurance agent who holds a power of attorney to execute bonds for his company cannot sign undertaking of bail, except when given on behalf of an insured under a policy of automobile liability insurance. If an agent desires to execute bail bonds a bail agent"s license must be secured.

GLASS INSURANCE

Glass insurance (also known as plate glass insurance) indemnifies the insured for damage to the glass, lettering and ornamentations on the glass described in the policy. The insurance company either repairs or replaces damaged property with other property of the nearest obtainable kind and quality or reimburses the insured. Generally the glass policy will have four parts, the declarations, insuring agreements, exclusions and conditions.

DECLARATIONS

Declarations appear on the front page of the contract and will contain three items.

Item #1 - Name and address of the insured.
Item #2 - Policy period.
Item #3 - Schedule with areas to indicate the premium, specific limits, number of plates and sizes of the plates, description of the glass, lettering and ornamentation, location in building and type of glass.

INSURING AGREEMENT

The Insuring Agreement insurer agrees to pay for damage during the policy period to glass described in the declarations and to the lettering and ornamentation’s separately described in the declarations, by breakage of the glass or by chemicals accidentally or maliciously applied. In addition to paying the actual expenses to replace the glass, lettering or ornamentations, the insurer agree. to paying up to $75 for each of the following:

(A) Repairing or replacing frames immediately encasing and contiguous to such glass when necessary because of damage.
(B) Installing temporary plates in or boarding up openings containing such glass when necessary because of unavoidable delay in repairing or replacing such damaged glass.
(C) Removing or replacing an obstruction, other than window displays, when necessary in replacing such damaged glass, lettering or ornamentations.

EXCLUSIONS

The policy does not apply to the following:

(a) Loss by fire.
(b) Loss due to war, whether or not declared, civil war, insurrection, rebellion or revolution, or any act or condition incident to any of the foregoing.
(c) Loss due to nuclear reaction, nuclear radiation, or radioactive contamination, or to any act or condition incident to any of the foregoing.

CONDITIONS

The glass policy includes the miscellaneous provisions under the conditions. There are nine conditions in the glass

policy.

l) Limit of liability and Settlement options - The insurer"s liability shall not be more than the actual cash value of the property at the time of loss, nor more than it would cost to repair or replace the damaged property with the nearest obtainable kind and quality. The limit of the insurer"s liability under each division (a) (b) or (c) of the insuring agreement is $75 for any one occurrence at any one location separately occupied. Any property paid for or replaced shall become the property of the insurer.

2) Insured"s duties when loss occurs - to give notice of loss as soon as practicable to the insurer, and upon the insurer"s request, file a proof of loss on forms provided by the insurer.

3) Other insurance - provides for pro rata liability with other insurance.

4) Action against insurer - no action shall be taken against the insurer unless conditions of the contract have been met, nor until 30 days after the required proof of loss has been filed with the insurer.

5) Subrogation - the usual subrogation clause.

6) Cancellation - The usual cancellation clause, except that ten days written notice must be given to the insured.

7) Assignment - the usual assignment clause.

8) Changes - all changes in the contract must be endorsed to the contract in writing.
9) Declaration the insured agrees all representations made to the insurer are truthful.

Glass insurance is of particular interest to small businesses. Larger businesses are generally self-insurers and will buy glass insurance when they are convinced that their average yearly loss will exceed the premium.

Most insurers issuing this type of coverage make risk selection based on occupancy, merchandise display and operating practices, physical condition of buildings, neighborhood type of setting, kind of glass, use of glass and the position in the building.
The glass policy may be endorsed to provide an "all risk" or "all loss" type of coverage on neon signs, stained glass set in leaded sections, half tone screens and lenses, and rotogravure screens.

Blanket coverage on fixed glass in a one, two, three or four family house or in an individual apartment of a residence apartment building may be written without listing or describing any piece of glass. Most insurers limit their liability to $50 for any one plate. Some insurers write this type of coverage with a limitation of liability on a per plate basis or an exclusion on certain types of expensive glass. Full insurance as to any glass may be provided by specifically describing it and paying an additional premium.

LIABILITY INSURANCE

Liability insurance protects against loss arising from a negligent or wrongful act of a person or those for whom that person is responsible or against liability assumed by contract. A liability policy is a third party contract requiring the insurer to pay on behalf of the insured any damages the insured may be legally obligated to pay to a third party who suffered bodily injury or property damage. The term "legally obligated to pay" is important in liability insurance. If a third party has suffered bodily injury or property damage arising out of the insured’s premises or operation it does not necessarily mean that the insured is legally obligated. Payment is made under the policy only if the insured is guilty of a legal wrong (in a liability contract other than workers’ compensation).

There are three classes of legal wrongs, crime, tort and breach of contract.

Crime is a public wrong, a violation of a duty owed to society for which society, as a whole, seeks punishment of the violator in a criminal action.

Tort is a civil wrong, other than a breach of contract, for which the law provides money damages as one possible remedy.

Breach of Contract is a violation of a duty, owed to a specific entity, which arises out of a contractual agreement voluntarily entered into between the party breaching the contract and the party to whom the cause of action is given

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A legal wrong is an unjustified invasion of a legal right for which there must be at least one legal remedy. At this point, we will only review the class of torts for which liability insurance most frequently provides protection.

Intentional Torts - a liability policy excludes the exposure for harm which an insured may intentionally inflict on others, but insurance is available for the vicarious liability of an insured for intentional torts of its employees or other agents. Vicarious liability is when one person is held responsible for the acts of others. Examples:

1) A parent's responsibility for a child.
2) An employer's responsibility for an employee's acts.
3) A vehicle owner's responsibility for a permissive user of the vehicle.

Strict Liability - in imposed on those activities that present an extreme likelihood of harm to others when mishaps occur, but have substantial benefits to society when performed without mishap. Examples:

1) Keeping of wild animals.
2) Dams.
3) Blasting operations.

Negligence - is the failure to do or not to do what a reasonably prudent person would do or not do under the circumstances. Negligence may involve acts committed or acts omitted.

California does not provide any standard forms for liability policies and has only a few required provisions. However, a basic liability coverage form, meeting the requirements of the State of California is published by the Insurance Services Office and is provided to the insurance companies writing liability coverages. The companies will follow the coverages as shown on this basic form or will expand the coverages to broader areas.

All liability insurance policies have the same purpose, to assume the insured"s liability for financial loss resulting from being found legally liable for an action or inaction. The different liability policies are designed to provide insurance against liability arising from different circumstances and conditions, all according to the hazards inherent in the operation or conduct of a specific business, profession, home or farm. All liability policies provide for two things:

1) To pay on behalf of the insured all sums for which he/she is legally liable; and
2) To defend the insured against any claims, both real and alleged.

GENERAL LIABILITY

Exposures for commercial risks can be classified as:

Premises - Operations - coverage is written on an Owners, Landlords and Tenants (OLT) form for Mercantile Risks (such as stores, apartments and offices) where the exposure to loss arises from the existence of, or operations conducted at, any designated premises. Manufacturer's and Contractor's (M&C) coverage is written on a Manufacturers and Contractors form which provides coverage for the operations of the manufacturer or contractor anywhere in a designated state (or states) and the premises exposure of the manufacturer or contractor is automatically included in the operations coverage.

Owners and Contractors Protective Liabilities - provides protection against loss resulting from acts of independent contractors, including sub-contractors and others performing work on the insured"s behalf, and for whose acts the insured may be held responsible.

Products or Completed Operations - provides coverage after the product has been sold and has left the custody and control of the insured, or a service has been finished and the insured has departed from the project. Exposure to loss does not cease with the sale of a product by a merchant or manufacturer or completion of a job by a contractor. This coverage is not a guarantee of the product, but protection against losses caused by the product or completed operation.

Contractual Liability - applies to liability assumed by the insured under a written agreement. For example, a manufacturer with a sidetrack on his premises may have signed an agreement with the railroad company assuming liability of the railroad for accidents occurring on the sidetrack.

Professional Liability - provides protections against liability arising from rendering of or failure to render professional services. This type of coverage is referred to as malpractice insurance needed by professionals such as lawyers, doctors, accountants, engineers, architects and insurance producers.

Whenever possible, all of the insured's liability exposures should be included in one policy since most exposures can be combined. Professional liability is generally written by insurers specializing in a professional field of malpractice and is generally not combined with the other exposures.

Types of General Liability Policies

First, the General (Schedule) Liability Policy is used to allow the insured to choose the various types of coverages and exposures the insured may wish to insure. Coverage forms that may be scheduled are premises and operations coverage, contractual liability, independent contractor's coverage, and products and completed operations coverage.

Second, the Comprehensive General Liability Policy which includes all of the coverages that can be scheduled in the General Liability Policy which will be reviewed briefly at the end of this section.

The General Liability Policy Jacket

A General Liability policy is made up of the policy jacket, the declaration page and one or more coverage forms. The policy jacket contains certain provisions, definitions, and conditions which apply to all general liability policies. The declaration page contains information usual to any insurance policy such as the insured"s name and address, inception and expiration dates. The limits of liability may be shown on the declaration page or the coverage form depending on the format used by the insurer. The individual coverage parts set forth provisions and agreements relating to the forms of liability insurance being issued (O L & T, M&C, Owner's and Contractor"s Protective Liability, Products or Completed Operations).

The policy jacket contains four sections.

Supplementary Payments - provides that the insurer will pay, in addition to the applicable limit of liability:

1) All expenses in defending a suit arising from a covered event, whether claim is false or fraudulent.
2) Pay premiums on appeal bonds, premium on bonds to release attachment, cost of bail bond for accident or traffic law violation arising out of the use of any automobile to which the policy applies.
3) Expenses incurred for first aid to others at the time of accident for bodily injury.
4) Reasonable expenses incurred at the insurance company"s request, not to exceed $25 per day.

Definitions - some of the definitions found in the policy jacket are:

1) Bodily Injury - bodily injury, sickness or disease sustained by any person which occurs during the policy period, including death at any time resulting from that injury, sickness or disease.
2) Property Damage - physical injury to or destruction of tangible property which occurs during the policy period, including loss of use.
3) Named Insured - the person or organization named in the declarations of the policy.
4) Occurrence - an accident, including continuous or repeated exposure to conditions, which results in bodily injury or property damages neither expected nor intended from the standpoint of the insured.

NOTE: The term "exposure to conditions" does not require that the injury or damage results from a sudden event.

Conditions - the conditions found in the policy jacket are:

1) Premiums - states that premiums are computed in accordance with company"s rules and rating plans. The deposit premium is an "advance premium" credited to the earned premium "final premium"

determined by audit at the end of the policy period.

2) Inspection and Audit - gives the company permission to inspect the insured's property and operations at any time. The company does not assume responsibility for inspections or failure to inspect. Additionally, it gives permission to the insurer to audit and examine the insured"s books and records at any time during the policy period and within three years after the termination of coverage.
3) Financial Responsibility Laws - states that if the policy is subject to Motor Vehicle Financial Responsibility Law, the policy limits are extended to comply with the law.
4) Insured's Duties in Event of Occurrence. Claim or Suit - requires insured to give notice as soon as practicable of any occurrence which might be the basis for a claim and to assist and co-operate with the insurer.
5) Action Against the Company - states the insured may not sue or take legal action unless there shall have been full compliance with all the terms of the policy, nor until the amount of the insured"s obligation to pay shall have been finally determined either by judgment against the insured after actual trial or by written settlement between insured, claimant and the company.
6) Other Insurance - coverage of this policy is primary, unless stated otherwise. States the methods for determining the insurer"s proportion of the loss when other insurance also applies.
7) Subrogation - the usual subrogation clause.
8) Changes - the usual change clause.
9) Assignments - the usual assignment clause.
10) Three Year Policies - if the policy is issued for a period of three years the limit of the company"s liability stated in the "aggregate" shall apply separately to each consecutive annual period.
11) Cancellation - insured may cancel anytime at short rate table, insurer may cancel by giving 10 days written notice at pro rata percentage factor.
12) Declarations - insured agrees all statements made are the truth.

Nuclear Energy Liability Exclusions - this exclusion contains a number of definitions of the terms applying to it. It excludes coverage for bodily injury or property damage with respect to which an insured under the policy is also an insured under a nuclear energy liability policy.

Owner's Landlord's and Tenant's Liability Insurance (OLT) This coverage form is used in a General Liability policy. It is used on risks where the exposure to loss is the existence of operations conducted at designated premises rather than risks of a nature where the exposure to loss is away from the premises. Eligible risks are stores, churches, schools, apartments, dwellings, hotels and motels, and others where the exposure arises out of the public entering upon the premises.

On the front page of the O L & T coverage there is a space for policy number, additional declarations stating location of insured premises and interest of named insured in the premises and a schedule for listing advance premiums, limits of liability, premises-operations, escalators and structural alterations.

The second page contains five sections.

1) Insuring Agreement - the company will pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages because of bodily injury or property damage to which the insurance applies, caused by occurrence and arising out of the ownership, maintenance or use of the insured premises and all operations necessary or incidental. The company shall have the right and duty to defend any suit against the insured seeking damages on account of such bodily injury or property damage, even if suits are groundless, false or fraudulent. The company may make such investigation and settlement of any claim or suit it deems expedient, but shall not be obligated to pay any claim or judgment or to defend any suit after the applicable limit of the company"s liability has been exhausted by payment of judgments or settlements.

   Within this section is a list of eighteen exclusions. This number of exclusions might give the appearance of making the contract very restricted. This is not the case, since most exclusions deal with exposures that would be insured under other contracts.
2) Persons Insured - this section gives a lengthy definition of who is and who is not an insured.
3) Limits of Liability - states that the limits of liability shown for Coverage A - Bodily Injury and Coverage B - Property Damage shall be the maximum amount for each occurrence.

   NOTE: When more than one occurrence happens, within a policy period, the limits apply to each occurrence.

4) Additional Definition - gives the definition of insured premises.
5) Policy Territory - the United States of America, its territories or possessions, or Canada.

Premiums for O L & T are usually determined by the area of the premises insured, and rate classification of the risk (store, apartment, motel, etc.) applied to each 100 square feet of area. Premiums for some classes are based on frontage, receipts, admissions, teams or units.

Manufacturer's and Contractor's Liability Insurance (M&C). This coverage form is used in a General Liability policy for risks of a nature where the exposure is from operations on and away from the insured's premises, rather than from the existence of the premises.

The M&C coverage form is similar to the O L & T form, the insuring agreement is briefer and simply refers to "bodily injury or property damage caused by an occurrence". The exclusions, persons insured, limits of liability, policy period and territory are essentially the same.

Premiums for M&C are usually based on the amount of payroll for various work classifications. Experience ratings (claims) normally are taken into account in determining the premium on large risks.

Completed Operations and Products Liability. The Completed Operations coverage is for liability arising out of defects in work completed by or for the insured.

The Products Liability coverage is for liability arising out of defects in products manufactured, sold, handled or distributed by an insured.

> Insuring Agreement - the company will pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages because of Bodily Injury or Property Damage to which this insurance applies, caused by an occurrence, if the bodily injury or property damage is included within the completed operations hazard or the products hazard.
>
> *NOTE: Insurance is effective during the policy period. It does not matter when the operations were completed or when the product was manufactured or sold, or who was the insurer at that time. The insurer at the time of injury is liable even though it might be a different insurer and several years after the product was manufactured or sold or after operations were completed.*

The exclusions, under the Completed Operations and Products Liability coverage form, are similar to those found in other liability forms. The general provisions, insuring agreement and exclusions all combine to make certain that the insured operations must be completed, or in products liability the injury or damage must occur away from the premises of the insured and physical possession of the products must have been relinquished to others.

Contractual Liability . Contractual liability assumes liability under a written contract or agreement. Contractual liability does not include warranties for fitness or quality of products, or that work performed shall be done in a workman-like manner. Example: A contractor is to construct a building and the owner includes in the construction contract an agreement that the contractor will hold the owner harmless for all liability in connection with the construction. The contractor assumes the liability of the owner.

> Insuring Agreement - states that the company will pay on behalf of the insured all sums which the insured, by reason of contractual liability assumed under a contract designated in the schedule for the insurance, shall become legally obligated to pay as damages because of bodily injury or property damage to which the insurance applies, caused by an occurrence.

All the coverages forms reviewed to this point require that the coverages be scheduled on the General Liability Policy. The second type of General Liability Policy is the Comprehensive General Liability Policy which allows a combination of all of the various forms of liability insurance such as Owners, Landlords and Tenants, Manufacturers and Contractors, Owners and Contractors Protective, Products, and Contractual. The Comprehensive General Liability coverage part is used with the basic policy jacket and combines the various forms of liability insurance except contractual for which a separate coverage part is still needed.

The Comprehensive General Liability form gives automatic coverage for extensions of the insured's operations, such as new buildings, whether at premises already designated or at other locations, and additional operations

begun after the inception date of the policy. Exposures which are not known to exist at the inception of the policy are covered. The usual exclusions that apply to liability policies are contained in the Comprehensive General Liability form.

WORKERS' COMPENSATION INSURANCE

Workers' compensation insurance provide protection to the employer against the liability imposed by law to pay benefits (known as "compensation") to any worker injured in the course of, and arising out of employment, without regard to fault or negligence on the employer's part or that of any other person. The code provides that virtually all employers of one or more employees (as defined in the Labor Code, Sections 3350 to 3366) shall secure their liability for workers' compensation.

The workers' compensation law guarantees the employee (1) medical, surgical and hospital treatment, (2) weekly benefits for disability and (3) burial and death benefits. In the event of a dispute between the employee and either the employer or the insurer, as the case may be, original jurisdiction for the settlement of that dispute is given to the Workers' Compensation Appeals Board which is part of the Division of Industrial Accidents. The board also has authority in proper cases to approve compromises and releases, and has jurisdiction over the establishment of lump sum payments in lieu of weekly disability benefits.

Workers' compensation policies also provide employers' liability insurance for the protection of the employer against claims for damages brought by the employees, injured in the course of their employment in the event an accident occurs which is not covered under the compensation law. Such coverage rarely applies in California since most employees are covered by the workers' compensation law and its benefits are the exclusive remedy of such employees.

The Division of Industrial Accidents is a division of the Department of Industrial Relations, established in accordance with Division 1, Chapter 5 of the Labor Code. It is under the control of the Administrative-Director except as to those duties, powers, jurisdiction, responsibilities and purposes vested in the Workers' Compensation Appeals Board. Its chief functions are:

1) To secure the recovery of workers" compensation by the employee;
2) To enforce against the employer or the insurer claims for compensation imposed by the Labor Code;
3) To foster, review and approve the carrying out of voluntary rehabilitation plans for the rehabilitations of injured employees;
4) To determine questions compensation payments; as to the distribution of
5) To determine questions of dependency;
6) To make such other orders and determinations and do all other things necessary and convenient to the exercise of the powers and jurisdiction conferred upon it by the Labor Code.

The Workers' Compensation Appeals Board consists of seven members appointed by the Governor with the advice and consent of the Senate. It is a part of the Division of Industrial Accidents and in general it exercises the judicial powers of the Division of Industrial Accidents.

The Workers' Compensation Insurance Rating Bureau is an association of workers' compensation insurers and is licensed under the Insurance Code, to perform the functions of a rating bureau with respect to workers' compensation insurance and employer"s liability insurance. Its chief functions are:

1) To collect and tabulate information and statistics, and on the basis of such information and statistics to make classifications of risks and minimum adequate premium rates to be submitted to the Insurance Commissioner for issuance or approval;
2) To formulate rules and regulations in connection with the issued or approved rates, and the administration of classification and rating systems, and to present these to the Insurance Commissioner for approval;
3) To develop equitable rating plans and systems so that each employer will receive the benefit of any accident prevention efforts, and to present such rating plans and systems to the Insurance Commissioner for issuance or approval;

4) To inspect employers' operations for classification and rating purposes;
5) To review workers" compensation insurance policies and endorsements providing insurance under the laws of this state to determine compliance with the California Workers' Compensation Insurance Manual and other applicable regulations of the Insurance Commissioner governing the underwriting of workers" compensation insurance.

The manual is a compilation of rules, classifications and basic rates for workers' compensation insurance approved and issued by the Insurance Commissioner.

The minimum premium rates for workers' compensation insurance are approved by the Insurance Commissioner, and no carrier may charge the published minimum rates. Dividends, however, may be carrier, provided it has sufficient surplus from workers" compensation business to support the dividend payment. When soliciting workers' compensation risks, no promise of a dividend may be made to the prospect.

California law does not prescribe any standard workers" compensation policy form. However, no form can be used unless approved by the Insurance Commissioner. Most carriers in California use substantially the same basic form, varying it where necessary by the addition of appropriate endorsements.

There are three ways in which an employer may secure the payment of compensation. He or she may either become a self-insurer by securing from the Director of Industrial Relations a certificate of consent to self-insure, or insure in a private carrier (stock, mutual or reciprocal), or in the State Compensation Insurance Fund. Under a workers' compensation policy the insurer agrees to provide the protection outlined in the Labor Code, and by issuance of the policy assumes the employer's liability for workers' compensation.

SELF-INSURERS

If an employer wishes to become a self-insurer he/she must apply to the Director of Industrial Relations for a certificate of consent to self-insure. At the time application is made the employer must furnish proof of the ability to pay any compensation that may become due the employees, and deposit securities or a bond in the minimum amount of $200,000 or 125 percent of the private self-insurer's liability for the payment of compensation, whichever is greater.

The Director of Industrial Relations may revoke a certificate of consent to self-insure at any time for good cause after a hearing. Good cause includes, among other things, the impairment of the solvency of an employer, the inability of the employer to fulfill obligations, or the practice by an employer or agent in charge of the administration of obligations of any of the following:

1) Habitually and as a matter of practice and custom inducing claimants for compensation to accept less than the compensation due or making it necessary for them to resort to proceedings against the employer to secure the compensation due;

2) Discharging compensation obligations in a dishonest manner;

3) Discharging compensation obligations in such a manner as to cause injury to the public.

SELF-INSURERS' SECURITY FUND

Legislation effective June 27, 1984, established the "Self-Insurers' Security Fund" as a Nonprofit Mutual Benefit Corporation, with each private self-insured employer required to participate as a member in the fund as a condition of maintaining its certificate of consent to self-insure.

INSURE WITH A PRIVATE CARRIER

If the employer wants to secure the payment of compensation from a private admitted insurer he/she must make application to that insurer the same as in any other contract of insurance. The information generally required by the insurer in an application for workers' compensation is: exact name of the insured, type of organization (individual, partnership, corporation or association), mailing address and location of principal operations, policy period, description of operations, payroll estimate by manual classifications, and a statement of previous loss experience and the name of previous insurer.

Generally the workers' compensation contract will have four parts, the declarations, insuring agreements, exclusions and conditions.

DECLARATIONS

These appear on the front page of the contract and will normally contain five items.

Item 1 -Name and address of the insured; whether insured is an individual, partnership, corporation or association; location of all usual workplaces.

Item 2 - Policy period.

Item 3 - Identifies the state laws to which the policy must conform for Coverage A.

Item 4 - Premium basis, rates and classification of operations, deposit premium and minimum premium.

Item 5 - Limits of liability for Employer"s Liability.

INSURING AGREEMENTS

Agreements contain four sections:

Section I - Coverages:

Coverage A -- The insurer agrees to assume liability imposed upon the insured by the workers' compensation laws.

Coverage B -- The insurer agrees to provide coverage for those amounts which the employer is found legally obligated to pay because of bodily injury, sickness or disease not otherwise paid under workers" compensation.

Section II The insurer agrees to pay in addition to the amounts payable under Coverage A or the applicable limit of liability under Coverage B, the cost of defense, premiums or bonds to release attachments and appeal bonds, reimburse the insured for reasonable expenses incurred at the insurer"s request.

Section III is primarily definitions: Workers' Compensation Law is the law of any state designated in Item #3 of the declarations and includes any occupational disease law of that state.

State means any State or Territory of the United States and the District of Columbia. (The policy uses the term "State" laws; there is no automatic coverage for employees who are subject to Federal compensation law such as the United States Longshoremen's and Harbor Workers' Compensation Act.)

NOTE: The following definitions may not appear in all workers' compensation policies. but the Labor Code defines the terms and all policies would take their meaning in California.

Injury - signifies an injury or disease sustained, arising out of and in the course of employment, including injury to artificial members and medical braces of all types. In California, "injury" is not limited to accidental injury, but is broad enough to include any disease or functional disturbance caused by employment.

Occupational disease - one which is produced by hazards peculiar to the occupation carried on by the employee. Occupational disease is compensable if it can be shown to be caused or aggravated by employment.

Section IV -- Application of Policy - states that the policy applies only to injury caused or aggravated by exposure during employment and during the policy period.

EXCLUSIONS

The first two exclusions apply to both Coverage A and B, and the last four exclusions apply to Coverage B only.

1) Concerns other insurance and is aimed at avoiding overlapping coverage.
2) Excludes domestic and farm or agricultural employment. NOTE: California law does require coverage of these classes in most cases, therefore this exclusion will not always apply.
3) Coverage B does not apply to any liability under any workers' compensation law, unemployment compensation or similar laws.
4) Coverage B excludes damages to any employees employed in violation of law.
5) Coverage B will not apply, to any claims made after thirty-six months, after the end of the policy period.
6) Coverage B excludes liability assumed by the insured under any contract or agreement.

CONDITIONS

Conditions can be placed into two groups. The first group would be all those conditions usually found in contracts of insurance, such as other insurance, subrogation, action against the company, assignments, and cancellations. The second group would be those conditions that set out the mechanics of the policy, and generally set out the duties of the insured and set limits of liability for the contract.

1) Premiums - this condition sets the basis for the premiums and the rating classification for developing the premium charged.

2) Long Term Policy - allows the policy to be written for a longer period than one year, but allows for any rating changes in subsequent years.

3) Inspection and Audit - allows the insurer to inspect the workplaces and audit the payroll records and any other records necessary to determine the premium due.

4) Notice of Injury - insured shall notify the company as soon as practicable of any injury that occurs. States what information is necessary in the report.

5) Notice of Claim or Suit - if a claim or suit is filed, the insured shall immediately forward to the company- every demand, notice, summons or other process received.

6) Assistance and Cooperation of the Insured - the insured must cooperate with the insurer in any hearing or trials and shall not voluntarily assume any obligation, except for immediate medical attention.

7) Statutory Provisions - Coverage A - make the company directly and primarily liable in place of the insured to any person entitled to benefits of workers' compensation laws.

8) Limits of Liability - Coverage B - the limit of liability is as stated in Item #5 of the declaration.

9) Terms of Policy Conformed to Statute - Coverage A - terms of the policy which are in conflict with the provisions of the workers' compensation laws are amended to conform to such laws.

STATE COMPENSATION INSURANCE FUND

In the section of this manual titled, "Insurers", legal form of organization included only "private enterprises". There is a legal form of organization termed as "public". The term "public" would be an insurer that has governmental sponsorship and control.

In California, there is such a public insurer that competes with private insurers in the class of workers' compensation insurance: It is the State Compensation Insurance Fund and is commonly called the State Fund.

If an employer wishes to secure payment of compensation from the State Fund, an application would be made similar to making an application with a private insurer. The State Fund issues a contract similar to those used by private insurers and it must conform to the Workers' Compensation laws the same as a private insurer"s contract.

The following definitions taken from the California Labor Code apply to all Workers' Compensation coverages.

Weekly Benefits: - An employee will receive 66 2/3 percent of his/her average weekly earnings. In computing the average earnings for temporary disability and permanent total disability, the average weekly earnings shall not be less than $73.50 nor more than $262.50. In computing the average earnings for permanent partial disability, the average weekly earnings shall not be less than $45.00 nor more than $105.00.

There are other methods used for those persons working other than a normal 40 hour week with regularly scheduled pay scales, such as piecework, commission basis, and part-time employees that are employed less than 30 hours a week. (This is mentioned so that you are aware that the methods shown in the above paragraph are not always the case. For examination purposes, you need only study the above method.)

Death Benefits: - In case of two or more total dependents $75,000, and any partial dependents receive no benefits.

In the case of one total dependent and one or more partial dependents, the one totally dependent will receive $50,000, and partial dependents shall receive $25,000 divided among them in proportion to the extent of dependency.

In cases of no total dependents and one or more partial dependents, four times the amount annually denoted to the support of the partial dependent, but in no case more than $50,000.

Types of injuries conclusively considered to be total and permanent:

1) Loss of both eyes or the sight thereof;
2) Loss of both hands or the use thereof;
3) Practically total paralysis;
4) Incurable imbecility or insanity resulting from brain damage.

Limits of Medical Expenses - The law provides that the injured employee shall be furnished all medical, hospital and surgical treatment required to cure and relieve the effects of the-injury, therefore there is no limitation placed on medical treatments.

Employee - An employee is any person in the service of an employer under any appointment, or contract of hire or apprenticeship, expressed or implied, oral or written, whether lawfully or unlawfully employed.

BOILER & MACHINERY INSURANCE

Boiler and machinery insurance provides coverage for losses caused by accidental occurrences to various types of pressure vessels and machinery used for power, heating, processing, refrigerating and air conditioning. The term "Object" is used to identify each piece of insured apparatus and the term "Accident" to describe the type of occurrence to the object that is covered. The policy contains four sections and the insurance shall apply only to a loss from an accident to an object in the section or sections designated and described as the declaration schedule.

Section A - Boilers, Fired Vessels and Electric Steam Generators.

Section B - Unfired Vessels - this section would provide coverage to various types of moving machinery, such as turbines, wheels and shafting, and various kinds of electrical equipment.

Section C - Systems of Refrigerating and Air Conditioning Vessels and Piping.

Section D - Auxiliary Piping.

Boiler and Machinery insurance may be written two ways

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1) Scheduled basis - each object must be specifically itemized and described in the appropriate schedule. Newly installed objects or objects at new locations are not covered automatically but must be added by endorsement in order for coverage to apply.

2) Blanket group plan - the coverage applies at all described locations to all objects in use or connected ready for use of the types shown in the schedules as subject to blanket coverage. In using the blanket group plan, care must be taken to be sure that the object classes are properly described so as to include all objects on which coverage is desired and omitting those objects which are not covered.

There is no statutory form for boiler and machinery insurance in California. The forms used by most insurers are similar. The basic policy is used for all coverages and contains the insuring agreement, exclusions, conditions, declarations and the endorsement containing definitions and special provisions.

THE INSURING AGREEMENT

The insuring agreement is simple and comprehensive, it covers the insured against loss from an "accident" during the policy period to an "object". There are six coverages provided by the basic boiler and machinery policy.

Coverage A- Loss on Property of Insured - covers the insured object and all other property damaged in an insured accident.

Coverage B - Expediting Expenses - covers reasonable cost of temporary repair and expediting permanent repair.

Coverage C - Property Damage Liability - covers liability for property of others directly damaged by an insured accident.

Coverage D - Bodily Injury - liability protection for bodily injury arising out of an accident.

Coverage E - Defense, Settlement, Supplementary Payment -provides legal defense, interest on judgments rendered and premiums for Appeal or Release of Attachment bonds.

Coverage F - Automatic Coverage - (blanket group plan only) covers any object similar to those described in the policy, which the insured may install at any location described in the schedule.
Also, covers any object existing in newly acquired property.

NOTE: All coverages are mandatory except Coverage D.

EXCLUSIONS

The exclusions in the boiler and machinery policy are in four parts. The first two parts apply to the entire policy and consist of the War Damage Clause and the Nuclear Damage Clause, since these exclusions have been reviewed in other policies the wording will not be repeated.

The third part is exclusions that apply to Coverage A and B. The last part applies to Coverage D when the coverage is included.

The exclusions that apply to Coverages A and B are as follows:

(1) from fire accompanying or following an accident or from the use of water or other means to extinguish fire,
(2) from an accident caused directly or indirectly by fire or from the use of water or other means to extinguish fire,
(3) from a combustion explosion outside the object accompanying or following an accident,
(4) from an accident caused directly or indirectly by a combustion explosion outside the object,
(5) from flood unless an accident ensues and the company shall then be liable only for loss from such ensuing accident,
(6) from delay or interruption of business or manufacturing or process,
(7) from lack of power, light, heat, steam or refrigeration, and
(8) from any other indirect result of an accident.

The exclusion that applies to Coverage D, when that coverage is included in the policy, is liability under any worker"s compensation, unemployment compensation, or disability benefits, and for injury to employees arising out of and in the course of their employment by the insured.

CONDITIONS

The conditions contained in the boiler and machinery policy can be placed into two groups. The first group would be all those conditions usually found in property insurance, such as notice of accident, other insurance, subrogation, action against company, assignments and cancellation. The second group would be those conditions unique to boiler and machinery insurance and are as follows:

Inspection and Suspension - provides that the insured shall permit the insurer to make inspections at reasonable times during the policy period. If the insurer finds a dangerous condition affecting the insured object the insurer can suspend the coverage by giving written notice to the insured. The insurance may be reinstated by endorsement after the condition is corrected. The insured is entitled to a pro rata return of premium for that period of time the policy was suspended.

Limits of Liability - the boiler and machinery policy has a group of conditions dealing with the settlement of a loss. Basically these conditions state that the loss shall not exceed the actual cash value of the damaged property. Also, losses under a boiler and machinery policy are paid on a priority basis, in a definite order or sequence of payments. A loss under Coverage A, Loss to Property of Insured, is paid first. If the payment under Coverage A has not exhausted the policy limits, the remaining amount is applied next to Coverage B, Expediting Expenses. It should be noted that Coverage B is limited to $1,000. Loss under Coverage C is paid next after loss under Coverage A and B has been deducted from the limit per accident; the balance is then applied to eligible claims for property damage liability under Coverage C. The final apportionment of the limit per accident would be applied to Coverage D, any portion of the policy remaining after losses for Coverage A, B and C have been satisfied will be available to pay bodily injury liability claims. It should be noted that Coverage D is not mandatory and must have been included in the coverages for any loss to be paid.

Premium Gradation - if the premium for the policy was determined by applying a discount any additional or return premiums shall be subject to the same discount.

Malicious Mischief - subject to the provision of the War Damage exclusion, any accident arising out of strike, riot, civil commotion or acts of sabotage, vandalism or malicious mischief is considered "accidental".

Blanket Group Plan - allows for the adjustment of premiums for any object added or withdrawn from use during the policy year.

DECLARATIONS

The declarations in the boiler and machinery policy contain the usual information identifying the insurer, the insured"s name and address, premiums and space for identifying the forms attached to the policy. The schedule for listing the objects may also appear on the declaration page. The schedules used in boiler and machinery insurance perform the same functions as most insurance schedules, identifying the location and types of property to be insured. The schedule in a boiler and machinery policy will also define the coverage by indicating whether the policy is on a blanket group plan or a scheduled basis. The schedule will include a column to list whether or not the coverage is "broad" or "limited". Limited coverage has a less liberal definition of accident. The limited form covers strictly against the peril of "explosion". Broad form provides for explosion, accidental bulging, burning or cracking.

DEFINITIONS

The Definitions and Special Provision Endorsement - defines the objects and accidents for each type of vessel under Section A, B, C and D. In addition to the definitions there are exclusions and special provisions for each of these four sections.

BURGLARY INSURANCE

General usage of the term "burglary insurance" refers to that type of coverage providing indemnity for loss of property due to burglary, robbery or theft. The

general term, however, also refers to certain "all risk" policies which include indemnity for loss due to other perils in addition to burglary, robbery and theft.

The meanings of the terms burglary, robbery and theft as used in this type of insurance differ in some respects from their legal and common meanings. A knowledge and understanding of the following broad definitions is therefore essential.

1) Burglary--Felonious abstraction of insured property from within the premises by a person making felonious entry or felonious exit by actual force and violence as evidenced by visible marks made by tools, explosives, electricity or chemicals upon, or physical damage to the exterior or interior of the premises at the place of entry or exit.

2) Robbery--Taking of property from a messenger or custodian: (1) by violence; (2) by putting him or her in fear of violence; (3) by any overt felonious act committed in his or her presence and of which he or she was actually cognizant; (4) who has been killed or rendered unconscious.

3) Theft--Technically a term that is broad enough to include any act of stealing or taking of another's property. This term would include: (1) burglary (2) robbery (3) larceny.

The various policies also cover damage (except by fire) to the premises and contents if caused by the insured peril or attempt there at.

A review of the Mercantile open stock burglary policy will be made to allow the applicant to become familiar with the terms and conditions of a burglary policy. This will be followed by a listing of other common forms of burglary policies giving their purpose and coverages.

MERCANTILE OPEN STOCK INSURANCE

Mercantile Open Stock Burglary insurance is available for store and warehouse owners and manufacturers. It insures against loss by burglary of merchandise, furniture, fixtures and equipment. It pays for damage caused by burglary to such property and to the premises if the insured is the owner or is liable for such damages.

INSURING AGREEMENT

The Insuring Agreement states that the insurer will pay for loss by burglary or robbery of a watchman, while the premises are not open for business, of merchandise, furniture, fixtures and equipment within the premises or within a showcase or show window used by the insured and located outside the premises but inside the building line of the building containing the premises.

DECLARATIONS

The declarations contain the statements of the insured which form the basis for the issuance of the policy. In addition to the usual information about the insured, the insured's business, address, and exact location and description of the premises are most important. It is also important that all types of businesses engaged in by the insured be stated. The declaration contains space for indicating the various protective devices which the insured maintains, including private watchmen who are on duty while the premises are closed. The insured must declare whether he/she suffered any losses, received any indemnity for a burglary, robbery or theft loss in the past five years and whether any such insurance has been canceled by any company. The statements contained in the declaration must continue to be true during the entire policy period.

EXCLUSIONS

The mercantile open stock burglary policy contains the following exclusions:

1) To loss due to any fraudulent, dishonest or criminal act by any insured, partner, officer, employee, director, trustee or authorized representative of the insured, while working or otherwise and whether acting alone or in collusion with others.
2) To loss of manuscripts, books of accounts or records.
3) To loss of furs or articles containing fur which represents their principal value, by removal of such property

from within a showcase or show window by a person who has broken the glass from outside the premises or by an accomplice of such person.

4) To loss occurring while there is any change in the condition of the risk or during a fire in the premises.
5) To damage by vandalism or malicious mischief.
6) To loss, other than safe or vault, by fire whether or not such fire is caused by, contributed to or arises out of occurrence of a hazard insured against.

Also included in the exclusions are the usual war clause and nuclear exclusion clauses.

CONDITIONS

The mercantile open stock burglary policy contains a number of conditions not similar to other contracts of insurance. A review of these conditions will be made and a list of those conditions not reviewed will be given at the end of the section.

TERRITORY

This policy applies to loss which occurs in any of the States of the United States, the District of Columbia, Virgin Islands, Puerto Rico, Canal Zone and Canada.

DEFINITIONS

Definitions of Premises, Burglary, Robbery of a watchman, loss and jewelry are given in one condition.

OWNERSHIP OF PROPERTY

Provides that insured property need not be the property of the insured. Coverage includes articles held by the insured in any capacity and the insured legal liability for property of others.

JOINT INSURED

If more than one insured, knowledge possessed or discovered by any insured shall constitute knowledge possessed or discovered by every insured.

BOOKS & RECORDS

Books and Records shall be kept of all insured property in a manner that insurer can accurately determine the amount of loss.

COINSURANCE

Every mercantile open stock burglary policy contains a coinsurance clause, similar to the fire insurance coinsurance clause, except it contains a limit beyond which it does not apply. The amount of insurance is compared with amount required by the coinsurance percentage and coinsurance limit stated in the policy. If the amount of insurance is equal to the product of the coinsurance percentage and the value of the loss or the coinsurance limit, whichever is less, the coinsurance clause does not apply.

Example:

Required coinsurance percentage is	60%
Cash value of stock at the time of loss	$12,000
Amount of insurance at time of loss	$ 7,000
Coinsurance limit .....……..….....	$ 6 ,000
60% of cash value at times of .loss …….....	$ 7,200
Cash value of goods stolen.....…….....	$ 4,000

The amount of insurance ($7,000) exceeds the coinsurance limits ($6,000), the amount of insurance ($7,000), is actually less than 60% of the cash-value of the stock ($7,200) but will not reduce the amount paid to less than

$4,000 because the amount of insurance exceeds the coinsurance limit.

The clause applies only to merchandise and not to furniture, fixtures or equipment, jewelry, or pledged goods.

LIMITS OF LIABILITY / SETTLEMENT OPTIONS

Limits of Liability / Settlement Options payment is based on the actual cash value of the property at the time of loss. The insurer may elect to replace or repair the property rather than make a money payment.

1) loss of the contents of any showcase or show window is limited to $100.
2) loss of jewelry is limited to $50 per article.
3) coverage on articles held by the insured as a pledge, or as collateral for an advance or loan is limited to the value shown by the insured"s record when the transaction was arranged. In absence of such record a loss is limited to the unpaid portion of the advance or loan, plus occurred legal interest.

Those conditions not reviewed, but which are similar to those provisions found in most property policies, are insured"s duties when loss occurs, other insurance, appraisal, action against company, subrogation, change, cancellations and assignments.

OTHER BURGLARY POLICIES

Other common types of burglary policies being used in California.

Mercantile Safe Burglary insurance provides coverage for loss by safe burglary of money, securities and other valuables. This insurance may be written under a separate policy or included in other forms of comprehensive crime policies. It may also be included in the Special Multi-Peril policy. Mercantile Safe Burglary insurance pays for:

1) Loss of money, securities and other property from a described vault or safe by safe burglary or attempted safe burglary.
2) Damage to property, other than money and securities, by safe burglary or attempted safe burglary.
3) Damage to the premises if the insured is the owner or is liable for such damage.

Mercantile Robbery insurance provides coverage to insured business for loss by robbery of money, securities and other property at the business premises and also outside the premises when in the custody of an authorized employee. Coverage may be written on a schedule basis or blanket basis, coverage may also be included in the Special Multi-Perils policies. Mercantile Robbery insurance pays for:

1) Robbery inside the premises - loss of money, securities and other property by robbery or attempted robbery within the premises. Also pays for damages to the premises caused by robbery or attempted robbery if the insured is owner or is liable for such damage.
2) Robbery outside the premises - loss of money, securities and other property by robbery or attempted robbery outside the premises while being conveyed by an authorized employee.

Storekeepers Burglary and Robbery provides coverage to insured store owner for losses due to burglary or robbery under seven insuring agreements. Premiums are charged for a limit of insurance of $250 for each of the insuring agreements. The limit may be increased in multiples of S250 up to a maximum limit of $1,000 per insuring agreement. This coverage can be written in a separate policy, or included in the Special Multi- Perils policy. A Storekeepers Burglary and Robbery policy is a package policy providing a fixed amount of insurance under each of the following insuring agreements:

1) Robbery inside the premises pays for loss of money, securities, merchandise, furniture, equipment by robbery within the premises.
2) Robbery outside the premises pays for loss of money, securities and merchandise, including the wallet or bag containing the property, by robbery while being conveyed by a messenger outside the premises.
3) Kidnaping pays for loss of money, securities, merchandise, furniture, fixtures and equipment within the premises by kidnaping.
4) Safe burglary, premises burglary pays for loss of money, securities and merchandise by safe burglary within the premises and for loss, not exceeding $50 , of money and securities by burglary within the

premises.

5) Theft, night depository or residence pays for loss of money and securities by theft within any night depository in a bank or within the house or apartment occupied as a residence by a custodian or messenger.
6) Burglary, robbery of watchman pays for loss of merchandise, - furniture, fixtures and equipment by burglary or by robbery of a watchman within the premises, while the premises are not open for business.
7) Damage to the premises and to money, securities, merchandise, furniture, fixtures and equipment within the premises, by such robbery, kidnaping, burglary, safe burglary, robbery of a watchman, or attempt at any of these, provided the insured is the owner or is liable for such damage.

Broad Form Storekeepers insurance provides comprehensive crime coverage for a storekeeper under nine insuring agreements. The policy is similar in style to the storekeeper burglary and robbery policy, and provides coverage in a basic amount of $250 per insuring agreement. The limit may be increased in multiples of $250 up to a maximum limit of $1000 per insuring agreements. It is designed to give small businesses a low cost broad form "package" policy. Most insurers limit its use to businesses occupying a single location and employing not more than four employees. The nine insuring agreements provide coverages for:

1) Employees dishonesty;
2) Loss inside premises;
3) Loss outside premises;
4) Burglary of merchandise, furniture or fixtures, and robbery of a watchman;
5) Acceptance in good faith of counterfeit money or money orders;
6) Theft of money or securities from residence of a messenger;
7) Depositor"s forgery;
8) Damage by vandalism or malicious mischief to interior of premises or insured property therein following burglaries entry;
9) Damage to premises or insured property by burglary, robbery or safe burglary.

SPRINKLER LEAKAGE INSURANCE

Sprinkler leakage insurance provides coverage for loss of or damage to the insured building or personal property, caused by water released through breakage or leakage of an automatic sprinkler system. The use of the separate policy has been largely discontinued, but may still be written by some companies. Generally, the insurance is written by endorsement to a Fire policy or under the special multi-peril policies.

When sprinkler leakage insurance is written on the building, all additions, extensions attached to it and all permanent fixtures, machinery and equipment which form a part of the building are covered. The cost of repairs and replacement to the sprinkler system is covered if caused directly by either breakage or freezing.

Various types of coverage of personal property are available:

1) Contents - covers all contents in the building, additions or extensions except those items excluded in the standard fire policy -- accounts, bills, currency, deeds, evidences of debt, money, notes or securities and unless specifically insured, bullion and manuscripts.

2) Stock only - covers merchandise, material and supplies usual and incidental to the occupancy of the insured while in the building.

3) Furniture and fixtures; machinery; property of employees or members -- all may be insured separately, but only while in the building.

INSURING AGREEMENT

The insuring agreement states simply that coverage is to provide for direct loss by sprinkler leakage. The policy or endorsement contains definitions for the following:

1) Sprinkler leakage - is leakage or discharge of water or other substance from within any automatic sprinkler or direct loss caused by collapse or fall of a tank if a part of such system.
2) Automatic sprinkler system - means any automatic fire protective system including sprinklers, discharge nozzles and ducts, pipes, valves, fittings, tanks (including component parts and supports), pumps and private fire protection mains, all connected with and constituting a part of an automatic fire protective system; and non-automatic fire protective systems, hydrants, standpipes or hose outlets supplied from an automatic fire protective system.

EXCLUSIONS

The sprinkler leakage policy or endorsement does not cover loss by sprinkler leakage or fall of tanks caused by:

1) Water from any source but from within an automatic sprinkler system.
2) Fire, lightning, windstorm, earthquake, blasting, explosion, rupture of steam boilers or fly wheels, riot or civil commotion.
3) Order of civil authority.

There is the standard war and nuclear exclusion clause.

CONDITIONS

The sprinkler leakage endorsement or policy has basically the same conditions found in the fire policy except that the coinsurance clause may require from 10% to 100%. The discount on the rates for sprinkler leakage runs on a scale of 60% reduction for the 10% coinsurance through 91% reduction for the 100% coinsurance. The minimum coinsurance is 10%.

CALIFORNIA FINANCIAL RESPONSIBILITY LAW

The purpose of the Compulsory Financial Responsibility Law (Sections 16000-16075 of the Vehicle Code) is to ensure that drivers and owners of vehicles using the streets and highways shall be financially responsible for any damage or injury caused by automobile collision, regardless of fault, and to remove financially irresponsible drivers from the highways.

The provisions of the Compulsory Financial Responsibility Law apply to you if: You were the driver or owner of a motor vehicle involved in an accident on a street or highway which resulted in property damage in excess of $500, bodily injury or death.

Even if you are not at fault, you must report the accident to the Department of Motor Vehicles and establish financial responsibility. The report must be filed on DMV form SR-1. This is in addition to any other report made to the police, highway patrol, or insurance company. To meet the financial responsibility requirements, your automobile liability insurance must provide at least the minimum coverage: $15,000 for a single injury or death; $30,000 for injury to, or death of, more than one person; $5,000 for property damage caused by one accident.

If you do not report the accident to the department or establish financial responsibility (liability insurance) as required by this law, your driving privilege will be suspended.

An admitted insurer in California may not issue an automobile liability policy for less than the amount required for an individual to demonstrate the ability to respond under the Financial Responsibility Law.

In accordance with the law, one must provide proof of financial responsibility after you are cited by a peace officer for a traffic violation. The Financial Responsibility Act requires that you provide the officer with the name of your insurer and the policy identification number. Your insurer will provide written evidence of this number. The back of your vehicle registration form contains a space for writing this information. Failure to prove your financial responsibility can result in fines of up to $250 and loss of your driver license. Falsification of proof can result in fines of up to $500 and/or 30 days in jail.

Under current law your driving privilege will be suspended if you are involved in an accident that results in damages over $500 or any injury or fatality and you do not have financial responsibility.

CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN

PURPOSE

The California Automobile Assigned Risk Plan is designed to provide a reasonable plan for the equitable apportionment among liability insurers, of those applicants for automobile liability and property damage insurance who are unable to procure such insurance through ordinary methods.

ORGANIZATION

All admitted liability insurers are required by law to subscribe to and participate in the Assigned Risk Plan. However, only those insurers transacting automobile liability and property damage insurance must accept assignments of risk under the Assigned Risk Plan. The subscribing insurers administer and operate the Assigned Risk Plan through a manager and staff and governing committee. This administration is subject to review by the Insurance Commissioner.

Applications for assignment under the Assigned Risk Plan are filed with the manager on a form prescribed by the governing committee. Risks are assigned in such a sequence that each insurer receives a number of assignments that develop the same percentage of premiums in the Assigned Risk Plan as its percentage of the total automobile liability premiums written in California.

The Assigned Risk Plan shall be available to all residents of California and to nonresidents with respect to automobiles registered in California, except nonresidents who are members of the U. S. military forces stationed in this State with automobiles registered in other States and are otherwise eligible for insurance under the Assigned Risk Plan.

ELIGIBILITY

The Assigned Risk Plan must contain standards for developing eligibility of the applicant for insurance. In establishing these standards, the following may be taken into consideration in respect to the applicant or any other person who may reasonably be expected to operate the applicant's automobile with the applicant's permission.

1) Criminal conviction records;
2) Record of suspension or revocation of a license to operate an automobile;
3) Automobile accident records;
4) Age and mental, physical and moral characteristics which pertain to the ability to safely and lawfully operate an automobile;
5) The condition or use of the automobile.

Presently the only grounds for ineligibility for assignment are:

1) If any person who usually drives the motor vehicle does not hold or is not eligible to obtain an operator's license, except if such person's driving privilege can be restored upon the filing of proof of financial responsibility; or
2) If the applicant or anyone who usually drives the motor vehicle fails to meet all obligations to pay to any insurer any automobile insurance premiums due during the immediately preceding 12 months.

CLASSIFICATION OF RISKS

The Assigned Risk Plan divides its rating plans into these classifications:

1) "Private passenger automobile risk" and "risks to whom named non-owner policies" are issued to cover the operations of a private passenger automobile (other than fleets and public automobiles).

2) "Public automobile risk" refers to motor vehicles used in carrying passengers for hire or compensation providing the seating capacity does not exceed 16 persons including the driver.
3) "Long haul truck risks" refers to insurance covering trucks or truckers operating beyond a radius of 50 miles from the city or location of their principal garaging and subject to Federal or State regulations pertaining to trucks or truckers.
4) "All other risks" including fleets and risks to whom named non-owned policies are issued to cover operations of commercial automobiles (commercial risks) are subject to the rules, rates, minimum premiums, rating plans and classifications which the insurer receiving the assignment normally applies in California, to its voluntary business, but are subject to a surcharge.

AMOUNTS OF COVERAGE

The coverage provided must meet the minimum amounts necessary to provide exemption under the California Financial Responsibility Law. Presently, the plan requires issuance of a policy affording coverage of $15,000 for bodily injury or death of each person as a result of any one accident, $30,000 for bodily injury or death of all persons as a result of any one accident, and $5,000 for damage to property of others as a result of any one accident. The plan cannot require issuance of a policy in excess of these amounts of coverage, except for truckers subject to PUC or ICC regulations.

PARTICIPATION BY INSURANCE AGENTS

Any fire and casualty agent or broker can handle applications for insurance and render assistance to the applicants for insurance under the Assigned Risk Plan. The application for assignment must be signed in every case by the applicant. Agents and brokers must first make a bona fide effort to secure insurance through ordinary channels before making application for coverage through the Assigned Risk Plan. In the application, the producer certifies that he/she has read the plan provisions and has explained them to the applicant. The applicant certifies that he/she has tried without success to obtain automobile liability insurance in the voluntary market within the preceding 60 days.

The agent or broker receives a commission for services from the designated insurer issuing a policy through the Assigned Risk Plan. The rate of commission is fixed by regulations and is a percentage of the premium. It is not an unlawful rebate if the agent who receives the commission is not an appointed agent for the insurer. The agent may also receive commissions on any automobile or liability coverage written by the same insurer for the same insured in addition to the assigned risk policy.

No agent, broker or solicitor shall make any charge to the applicant, directly or indirectly, for furnishing any person any necessary application forms, technical assistance and services necessary to securing insurance under the Assigned Risk Plan. The only compensation allowable is the commission paid by the insurer issuing the policy.

OTHER PROVISIONS

The Assigned Risk Plan regulations set out the mechanics for making application, apportionment and appeal procedures by persons who believe themselves aggrieved by the Assigned Risk Plan. The Assigned Risk Plan also contains numerous rules and regulations governing its administration and operations. These rules and regulations can be found in the California Insurance Code, Sections 11620 to 11627 and Sections 2400 through 2498.5. of Title 10 of the California Code of Regulations and should be consulted for more specific information.

AUTOMOBILE INSURANCE

The Insurance Code of California does not prescribe any particular policy form for writing automobile insurance, but it does require that every such policy must contain two specified conditions:

1) Bankruptcy or insolvency of the insured shall not relieve the insurer of any of its obligations, and

2) Whenever judgment is secured against the insured or the executor or administrator of a deceased insured in an action based upon bodily injury, death, or property damage, the person who has secured the judgment is entitled to bring an action against the insurer to recover on the judgment, subject to the terms and limitations of the policy.

Most policies issued by insurers allow the insured to choose from several types of coverages.

BODILY INJURY LIABILITY COVERAGE

Bodily injury liability coverage is an agreement by the insurer to pay on behalf of the insured, up to the limits in the policy, all sums for which the insured becomes legally liable because of bodily injury, sickness or disease, including death at any time resulting from such injury, sustained by any person, arising out of the ownership, maintenance or use of the automobile.

PROPERTY DAMAGE LIABILITY COVERAGE

Property damage liability coverage is an agreement by the insurer to pay on behalf of the insured all sums, up to the limits in the policy, for which the insured becomes legally liable because of damage to property of others, including the loss of use, arising out of the ownership maintenance or use of the automobile.

MEDICAL PAYMENTS COVERAGE

Medical payments coverage is an agreement by the insurer to pay, up to the medical payment limit in the policy, all reasonable expenses incurred (within a specified time) from the date of accident, for necessary medical, surgical, and dental services, including prosthetic devices, and necessary ambulance, hospital, professional nursing and funeral services to and for each person who sustains bodily injury, sickness or disease, caused by accident while in or upon, entering or alighting from the automobile if the automobile is being used by the named insured or with his/her permission. It is not necessary to prove that the insured was legally liable for payment under this coverage. Coverage also applies to the named insured and each relative who resides within his/her household, if struck as a pedestrian by an automobile or injured while riding as a fare paying passenger in autos used as public transportation.

UNINSURED MOTORIST COVERAGE

Uninsured motorist coverage is an agreement by the insurer to provide benefits on account of bodily injury or death caused by accident and arising out of the ownership, maintenance or use of uninsured automobiles, including hit-and-run automobiles, to the named insured, and while residents of the same household, to the spouse of the named insured and relative of either. This coverage also applies to any other person while occupying an automobile insured under the policy. Legislation effective January 1, 1984 to January 1, 1989, requires uninsured motorist property damage coverage to be offered as part of motor vehicle liability policies which do not contain collision coverage, on policies issued or renewed on or after July 1, 1984. Minimum limits of liability for bodily injury is that amount required under the financial responsibility laws in California. California law requires an agent to offer high limits for uninsured motorist (up to $30,000/$60,000) when higher limits apply to Bodily Injury and Property Damage coverages.

By law, protection against uninsured motorists must be included in all automobile liability policies issued. The law provides, however, that the insurer and the insured may by supplemental agreement waive application of the provision covering damage caused by an uninsured motor vehicle.

AUTOMOBILE DEATH & DISABILITY

Automobile death and specific disability benefits this coverage is normally added by endorsement and contains three insuring agreements.

Coverage A
Death Benefit

Coverage B
1) Dismemberment and Loss of Sight Benefit
2) Fractures and Dislocation Benefits

Coverage C
3) Total Disability Benefits

This coverage may be written with all automobile liability policies which include Bodily Injury liability, but it applies only to named persons for automobiles classified as private passenger automobiles.

PHYSICAL DAMAGE COVERAGE

Physical damage coverage is where the company agrees to pay the insured for direct loss of or damage to the automobile(s) described in the policy. The coverages available are comprehensive, collision, named perils or combined additional coverage. It is important to remember that Physical Damage deals with the damage to the insured"s automobile(s).

AUTOMOBILE LIABILITY COVERAGE

Automobile liability coverage is designed to protect the insured against financial loss if a claim is made against him/her by a third party because of bodily injuries, death, or damage to property arising out of the ownership, maintenance, or use of an insured automobile. If the insured is liable, the insurer will pay damages on his/her behalf up to limits in the policy. If suit is brought the insurer will defend him/her in court and pay certain expenses on his/her behalf. In transacting automobile liability insurance, it is important to bear in mind that this is a liability policy and is not a compensation policy. Merely because the insured injures someone or damages someone’s property, it does not necessarily follow that he/she is liable. The insurer is required to pay only if the insured is legally liable for injuries or damage. The term "legally liable” refers to any legally enforceable obligation for which a person may be held financially responsible. In short, the policy is written to protect the insured, not the third party claimant.

As is true with all insurance, the licensee should be thoroughly familiar with the policy forms issued by the insurer(s) with which he/she places insurance.

BASIC AUTOMOBILE POLICY

The Basic Automobile policy becomes the Combination Automobile policy when both Liability and Physical Damage coverages are written under one policy. The Combination Automobile policy will be reviewed, but the licensee should be aware that Liability and Physical Damage may be written under separate policies. The provisions remain the same regardless of how it is written.

The Combination Automobile policy is used to insure commercial automobiles regardless of ownership, and non-commercial automobiles owned by other than individuals (partnerships, corporations, associations).

Coverages Provided:

1) Bodily Injury Liability
2) Property Damage Liability
3) Medical Payments
4) Comprehensive
5) Collision
6) Fire, Lightning and Transportation
7) Theft
8) Windstorm, Hail, Earthquake or Explosion
9) Combined Additional Coverage
10) Towing and Labor costs (not available in California in this policy)
11) Uninsured Motorist

Bodily Injury Coverage

Insuring Agreement to pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages because of bodily injury, sickness or disease, including death at any time resulting therefrom, sustained by any person caused by accident and arising out of the ownership, maintenance or use of the automobile.

Property Damage

Insuring Agreement - to pay on behalf of the insured all sums which the insured "hall become legally obligated to pay as damages because of injury to or the destruction of property, including the loss of use, caused by accident arising out of the ownership, maintenance or use of the automobile.

Supplementary Benefits - Bodily Injury and Property Damage In addition to the insurance for bodily injury and property damage, the insurer shall:

1) Defend any suit which alleges injury or damage even if the suit is groundless, false or fraudulent.

2) Pay premiums for bonds to release the insured"s property which may have been attached, costs of appeal bonds, and cost of bail bond in the event the insured is arrested for an accident or traffic violation. The premium for bail bond shall not exceed $100 and the insurer does not have to furnish a bail bond.

3) Pay all expenses of defense including any interest and court costs.

4) Reimburse the insured for immediate and necessary medical expense paid for anyone injured in the accident.

5) Reimburse the insured for expenses incurred at the insurer"s request, except loss of earnings.

Persons Insured - Bodily Inquiry and Property Damage Liability

1) The named insured in the declarations.
2) If the named insured is an individual, the insured"s spouse if a resident of the same household.
3) Any person using the car with the permission of the named insured or spouse.
4) Any person or organization legally responsible for the use of the automobile, provided permission is given by insured or spouse.

Automobile Medical Payments

Insuring Agreement - to pay all reasonable expenses incurred within one year from the date of the accident for necessary medical, surgical, and dental services, including prosthetic devices, and necessary ambulance, hospital, professional nursing and funeral services.

Division I - applies to any injured person, including the insured, who meets the following:

1) The injury must be sustained by accident.
2) The accident must have occurred while the person was in or on or was entering or leaving an insured automobile.
3) The car must have been in use by the named insured or spouse or with the permission of either.

Division II - applies only to an insured, and covers while the insured is in or on or entering or leaving or through being struck by an automobile. Insured means the named insured, if an individual, or spouse and the relatives of either if all are residents of the same household.

Definitions

Automobile - All coverages except Division II of Medical Payments.

1) The motor vehicle or trailer listed in declarations.
2) Any trailer not listed, if designed for use with a private passenger automobile, unless it is being used for

business purposes with some other type of automobile.

3) A temporary substitute automobile while used as a substitute for the automobile listed when withdrawn from normal use because of breakdown, repair, servicing, loss or destruction.
4) A newly acquired automobile, if the insurer insures all automobiles owned by the insured and spouse on the date of its delivery. A newly acquired automobile means an additional automobile if the insurer is notified within 30 days of the delivery date.

NOTE: Under Division II of Coverage C, the word "automobile" means a land motor vehicle or land trailer not operated on rails or crawler-treads.

Private passenger automobile means:

A private passenger automobile.

1. A station wagon.
2. A jeep-type automobile.

Any automobile whose use is pleasure and business.

Semi-trailer - the word trailer includes semi-trailers.

For the purpose of bodily injury and property damage motor vehicles with a trailer or trailers attached are considered as one automobile.

Comprehensive

Insuring Agreement pays for direct and accidental loss of or damage to the automobile except loss caused by collision of the automobile with another object, or by upset of the automobile, or by collision of the automobile with a vehicle to which it is attached.

When comprehensive is carried, certain types of losses are specified a" coming under comprehensive coverage, no matter how caused. Breakage of glass, and loss caused by missiles, falling objects, fire, theft, explosion, earthquake, windstorm, hail, water, flood, malicious mischief or vandalism, riot and civil commotion will not be considered collision or upset.

Collision or Upset

Insuring Agreement - to pay for direct and accidental loss of or damage to the automobile caused by collision with another object, or by upset of the automobile. Collision is almost always written with a deductible and the insurer is responsible only for the amount in excess of the deductible stated in the declarations.

Other Physical Damage Coverages - an alternative to having comprehensive coverage is selecting from four named perils coverages.

1) Fire, lightning and transportation.
2) Theft.
3) Windstorm, hail, earthquake or explosion.
4) Combined Additional Coverage, which covers loss due to windstorm, hail, earthquake, explosion, riot or civil commotion, aircraft, flood or rising waters, malicious mischief or vandalism, external discharge or leakage of water except rain, snow or sleet.

Commercial vehicles are often insured under one or more of these miscellaneous named perils. Private passenger automobiles are normally insured under comprehensive coverage.

Uninsured Motorist - this coverage must be added by endorsement to the Basic or Combination Policy, but its provisions are substantially the same as those described in the Personal Automobile Policy.

Exclusions

This policy does not apply:

1) Under all coverages: While the automobile is used as a public or livery conveyance, unless such use is declared in the policy.
2) Under Bodily Injury and Property Damage: To liability assumed by the insured under any contract or agreement.
3) Under Bodily Injury and Property Damage: While the automobile is used for towing any trailer owned or hired by the insured and not covered by like insurance in the same company.
4) Under Bodily Injury and Medical Payments: To any obligation for which the insured may be liable under any Workers" Compensation or similar laws.
5) Under Property Damage: To property owned or controlled by the insured.
6) Under Medical Payments: To any employee of an auto sales agency, repair shop, service station, storage garage or public parking place if injury arises out of such businesses.
7) Under Medical Payments and Physical Damage: To loss resulting from war, civil war or insurrection.
8) Under Physical Damage: To any damage due to wear and tear, freezing, and mechanical or electrical breakdown or failure.
9) Under Physical Damage: To robes, wearing apparel or personal effects.
10) Under Physical Damage: To tires, unless loss was caused by fire, theft or collision damage.
11) Under Physical Damage: To loss due to confiscation by duly constituted government or civil authority.
12) Under Physical Damage: To loss due to radioactive contamination.

COMPREHENSIVE AUTO LIABILITY

The Comprehensive Auto Liability Policy is used for insuring the automobile exposure of a commercial business where a number of units are to be covered and there are frequent additions and substitutions during the policy term. Coverage includes non-owned and hired autos and for Employer"s Non-ownership Liability as well as owned autos. Coverage is automatic for newly acquired autos during the policy period. The premium payable at the time the policy period begins is based on autos known and declared at that time. After the expiration of the policy an audit is made of all exposures which existed during the policy term and the premium is adjusted. When physical damage is included, a vehicle which replaces another vehicle is insured for the same coverage which was provided on the auto being replaced. In case of additional autos, coverage is automatic for 30 days. Coverage can be fully automatic by attaching the Fleet Automatic Endorsement. The policy audit will pick up the charge for additional vehicles at the end of the policy term.

The Comprehensive Auto Liability Policy may be combined with a Comprehensive General Liability Policy to cover all liabilities exposure of an insured in one contract. This combined policy is a Comprehensive General Automobile Liability Policy.

FAMILY AUTOMOBILE POLICY

This broad coverage policy is available for automobiles owned by an individual, or by a husband and wife resident in the same household The automobile must have four wheels and be a private passenger, station wagon or jeep type, or a utility or farm automobile.

Coverage under this policy is provided by five parts.

Part I Liability
Part II Expenses for Medical Services
Part III Physical Damage
Part IV Protection Against Uninsured Motorist
Part V Policy Conditions

Declaration - This page shows the policy number, name and address of the insured, policy period, occupation of named insured, coverages, limits of liability, premiums, description of owned automobiles and trailers, where vehicles are garaged, loss payee (if any), and auto insurance history (if any).

Part I - Liability

Insuring Agreement - Coverage A Bodily Injury; Coverage B Property Damage - To pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages because of:

Coverage A - bodily injury, sickness or disease, including death resulting therefrom, hereinafter called "bodily injury" sustained by any person;

Coverage B - injury to or destruction of property, including loss of use thereof, hereinafter called "property damage";

arising out of the ownership, maintenance or use of the owned automobile or any non-owned automobile, and the company shall defend any suit alleging such bodily injury or property damage and seeking damages which are payable under the terms of this policy, even if any of the allegations of the suits are groundless, false or fraudulent, but the company may make such investigation and settlement of any claim or suit as it deems expedient.

Supplementary Payments Under Part I - these supplementary payment provisions are basically the same as in the Basic or Combination policy, and, with the exception of defense of suits, are included in the insuring agreement in this contract.

Persons Insured Under Part I

For owned automobiles:

1) The named insured and any resident of the same household.
2) Any other person using such automobile with the permission of the named insured, but within the scope of such permission.
3) Any other person or organization, but only with respect to liability because of acts of omission of any insured defined in (1) or (2) above.

For non-owned automobiles:

1) The named insured.
2) Any relative, but only with respect to a private passenger automobile or trailer, provided the actual operation, or, if the user is not operating, the actual use is with the permission, or reasonably believed to be with the permission, of the owner and is within the scope of such permission.
3) Any other person or organization not owning or hiring the automobile, but only with respect to liability because of acts or omissions of an insured defined in 1l) or (2) above.

Definition

Part I - Liability

Owned Automobile

1) A private passenger, farm or utility automobile described in the policy for which a premium is charged.
2) A trailer owned by the named insured.
3) A private passenger, farm or utility automobile which has been acquired by the named insured during the policy period, provided it replaces an owned automobile or the insurer insures all such automobiles owned by the named insured on the date of acquisition, and the named insured notifies the insurer during the policy period or within 30 days after the date of acquisition of his or her election to make this policy apply to such automobile.

Temporary Substitute Automobile - any automobile or trailer not owned by the named insured, while temporarily used with the permission of the owner as a substitute for the owned automobile or trailer when not in normal use because of its breakdown, repair, servicing, loss or destruction.

Non-Owned Automobile - an automobile or trailer not owned by or furnished for the regular use of either the named insured or any relative, other than a temporary substitute automobile.

Private Passenger Automobile - means a four wheel private passenger, station wagon or jeep type automobile.

Farm Automobile - means an automobile of the truck type with a load capacity of 1500 lbs or less not used for business or commercial purposes other than farming.

Utility Automobile - means an automobile, other than a farm automobile, with a load capacity of 1500 lbs or less of the pick-up body, sedan delivery, or panel truck type, not used for business or commercial purposes.

Trailer - means a trailer designed for use with a private passenger automobile, if not being used for business or commercial purposes with other than a private passenger, farm or utility automobile, or a farm wagon or farm implement while used with a farm automobile.

Automobile Business - the business or occupation of selling, repairing, servicing, storing or parking automobiles.

Use - includes the loading and unloading of the automobile.

Exclusions under Part I - the Family Auto policy does not apply:

1) To any automobile while used as a public or livery conveyance.
2) To bodily injury or property damage caused intentionally by or at the direction of the insured.
3) To losses insured under a nuclear energy liability policy.
4) To bodily injury or property damage arising out of the operation of farm machinery.
5) To bodily injury to any employee of the insured arising out of and in the course of employment by the insured.
6) To bodily injury to any fellow employee of the insured in the course of his or her employment if injury arises out of the use of an automobile in the business of the employer.
7) To an owned automobile while used by any person employed or engaged in the automobile business.
8) To a non-owned automobile while maintained or used by any person employed or engaged in the automobile business, or any other business or occupation of the insured.
9) To injury to or destruction of property owned or transported by the insured, or to property rented to or in charge of the insured.
10) To automobiles acquired by the named insured during the policy or any substitute automobile, if the named insured has purchased other automobile liability insurance applicable to such automobile.

Part II - Expenses For Med Services - Coverage C

Insuring Agreement - pays all reasonable expense incurred within one year from the date of accident for necessary medical, surgical, X-rays and dental service, including prosthetic devices, and necessary ambulance, hospital, professional nursing and funeral services.

Division I - To or for the named insured and each relative who sustains bodily injury, sickness or disease, including death resulting therefrom, hereinafter called "bodily injury" caused by accident:

1) While occupying the owned automobile.
2) While occupying a non-owned automobile, but only if such person has, or reasonably believes they have permission of the owner to use the automobile and the use is within the scope of such permission, or through being struck by an automobile or by a trailer of any type.

Division II - To or for any other person who sustains bodily injury, caused by accident while occupying the owned automobile, while being used by the named insured, by any resident of the same household or by any other person with permission of the named insured; or

1) A non-owned automobile, if the bodily injury results from its operation or occupancy by the named insured or its operation on the insured"s behalf by his/her private chauffeur or domestic servant.

2) A non-owned automobile, if the bodily injury results from its operation or occupancy by a relative, provided it is a private passenger automobile or trailer, but only if such operator or occupant has, or

reasonably believes he/she has, the permission of the owner to use the automobile and the use is within the scope of such permission.

Exclusions under Part II - Expenses For Medical Service" - Coverage does not apply to Bodily Injury:

1) Sustained while occupying an owned automobile while used as a public livery conveyance, or any vehicle while located for use as a residence or premises.
2) Sustained by the named insured or relative while occupying or through being struck by a farm type tractor or other equipment designed for use principally off public roads while not upon public roads, or a vehicle operated on rails or crawler treads.
3) Sustained by any person other than the named insured or a relative while occupying a non-owned automobile used as a public or livery conveyance.
4) Sustained by any person other than the named insured or a relative resulting from the maintenance or use of a non-owned automobile by a person other than the named insured or a relative while employed or otherwise engaged in the automobile business, or in any other business or occupation.
5) Sustained by any person covered by Workers" Compensation Law or similar laws.
6) Due to war.

Part III - Physical Damage - Coverage D

The Family Auto policy provides the same physical damage coverage as the Combination Auto Policy. The most often requested coverages are comprehensive, collision and towing and labor costs (towing and labor are available in California in this contract). The Family Auto Comprehensive coverage is broader in the following:

1) Coverage is provided up to $100 for loss caused by fire and lightning to robes, wearing apparel or other personal effects which are the property of a named insured or relative while such effects are in or upon the owned automobile.
2) Comprehensive coverage is extended to non-owned automobiles being used by the named insured and relatives with the permission of the owner of the car. This applies as excess insurance if the owner carries comprehensive coverage.
3) Colliding with a bird or animal shall be considered as covered under comprehensive, instead of collision.

   Collision is broader under the Family policy, collision coverage applies to non-owned automobiles under the same condition as (2) above.

Exclusion under Part III - Physical Damage - The Family Auto policy does not apply:

1) To any automobile while used as a public livery conveyance.
2) To loss due to war.
3) To loss to a non-owned automobile arising out of its use by the insured while he is employed or engaged in the automobile business.
4) To losses to any vehicles not described in the policy or any temporary substitute if the insured has other collectible insurance for the loss.
5) To damage caused by wear and tear, freezing, mechanical or electrical breakdown or failure, unless damage is caused from a covered theft.
6) To tires, unless damaged by fire, malicious mischief or vandalism or stolen, or unless the loss is from the same cause as others covered by this policy.
7) To loss due to radioactive contamination.
8) Under collision coverage, to breakage of glass if insurance is otherwise offered under this policy.

Part IV - Protection Against Uninsured Motorists.

This coverage provides for payment under this policy of sums which an insured would be legally entitled to recover as bodily injury damages from another, following an accident with an uninsured automobile. These provisions are basically the same as those that appear in the Personal Auto Policy.

Part V - Policy Conditions - these are the same conditions found in most insurance contracts. Of which the major conditions are:

1) Notice of Loss.

2) Two or more Automobiles.
3) Assistance and Cooperation of the Insured.
4) Action Against the Company.
5) Insured"s Duties in Event of Loss.
6) Proof of Claims.
7) Payment of Loss.
8) Subrogation.
9) No Benefit to Bailee.

SPECIAL AUTOMOBILE POLICY

The Liability coverages are written as a package with the following coverages:

Liability - is on a single limit basis with a single limit applying to bodily injury and property damage. The minimum single limit is equal to the amount required by the Financial Responsibility Law. In California that amount is equal to $35,000.
Medical Expense - ranging from $1000 to $5000.

Accidental Death Benefits - of $1000 paid to beneficiaries of the named insured or spouse, in the event of death resulting from an automobile accident.

Uninsured Motorist - coverage is written on a single limit basis.

Physical Damage - is optional and may be collision and comprehensive, or comprehensive alone. When comprehensive coverage is included the policy provides for towing and labor, and personal effects up to $200.

While there are some differences between the provisions of the Family Policy and the Special Policy, we will not review the Special Policy for testing purposes anymore than that which is presented here.

PERSONAL AUTO POLICY

The personal auto policy is a simplified auto policy form. This policy was designed to replace the family automobile and the special package auto policies. This change made the auto policy simpler and easier to read for the insurance buying public. The personal auto policy has six parts, to which the insurers add their own jacket and declarations page.

Part A - Liability
Part B - Medical Payments
Part C - Uninsured Motorists
Part D - Damage to Your Auto
Part E - Duties After an Accident or Loss
Part F - General Provisions

Endorsement forms can be used to cover tapes and recording equipment, customizing eauipment and other situations, including towing and labor costs.

Declarations - as with most policies this page shows the policy number, names and addresses of persons identified as the named insured, identification of the vehicles insured, area of normal use, policy period, deductibles, coverages and limits, and premium charges for each coverage. The declaration page may be part of the jacket and somewhere in the jacket appears a general insuring agreement, followed by a series of definitions. While each coverage part has its own insuring agreement, the general insuring agreement has two important functions: (1) it identifies the premium as the consideration given by the insured; and (2) it incorporates, by specific reference, all subsequent terms of the policy.

Definitions contained in the jacket are:

You and Yours - refers to named insured and the spouse if a resident of the same household.

We, Us and Ours - refers to the company providing the insurance.

Family Member - means a person related to you by blood, marriage, or adoption who is a resident of your household. This includes a ward or foster child.

Occupying - means in, upon, getting in, on, out or off.

Trailer - means a vehicle designed to be pulled by a private passenger auto, pickup, panel truck or van. It also means a farm wagon or farm implement while towed by a vehicle included in this definition.

Private Passenger Type Auto - normally must be a four wheel vehicle which is not a truck, (except a pickup, panel, or van) which is owned or leased (leasing period must be at least six months) by an individual or a husband and wife and which is not rented to others, and not used in public or private livery.

Your Covered Auto - means any vehicle shown in the declarations. Any private passenger auto, pickup, panel truck, or van not used in any business or occupation other than farming or ranching on the date you become the owner. Any trailer you own. Any auto or trailer you do not own while used as a temporary substitute for any other vehicle described in this definition which is out of normal use because of its breakdown, repair, servicing, loss or destruction.

Additional vehicles or trailers will be covered on the date you become the owner if you acquired the vehicle during the policy period; and ask us to insure it within 30 days after you become the owner. If the vehicle you acquire replaces one shown in the Declarations, it will have the same coverage as the vehicle it replaced. You must ask us to insure a replacement vehicle within 30 days only if you wish to add or continue coverage for damage to your auto. If the vehicle you acquire is in addition to any shown in the Declarations, it will have the broadest coverage we now provide for any vehicle shown in the Declarations.

Part A - Liability Coverage:

Insuring Agreement - We will pay damages for bodily injury or property damage for which any covered person becomes legally responsible because of an auto accident. We will settle or defend, as we consider appropriate, any claim or suit asking for these damages. In addition to our limit of liability, we will pay all defense costs we incur. Our duty to settle or defend ends when our limit of liability for this coverage has been exhausted. t limits of liability is shown as a single limit for both bodily injury and property damage.)

Coverage for liability is for 1) the named insured, spouse, or any family member for the ownership, maintenance or use of any auto or trailer; 2) any person using the covered auto; 3) for the covered auto, any person or organization but only with respect to legal responsibility for acts or omissions of a person for whom coverage is afforded under this Part; and 4) for any auto or trailer, other than your covered auto, any person or organization but only with respect to legal responsibility for acts or omissions of you or any family member for whom coverage is afforded under this Part. This provision applies only if the person or organization does not own or hire the auto or trailer.

Supplementary Payments under Part A -these payments are in addition to policy limits (pare-phrased).

1) Up to $250 for cost of bail bonds required because of an accident, including related traffic law violations.
2) Premiums on appeal bonds and bonds to release attachments in any suit the insurer defends.
3) Interest accruing after a judgment is entered in any suit the insurer defends.
4) Up to $50 a day for loss of earnings, because of attendance at hearings or trials at insurers request.
5) Other reasonable expenses incurred at insurers request.

Exclusions under Part A

Insurer will not provide Liability Coverage for any person (pare-phrased):

1) Who intentionally causes bodily injury or property damage.

2) For damage to property owned or being transported by that person.
3) For damage to property rented to, used by, or in the care of that person.
4) For bodily injury to an employee of that person during the course of employment.
5) For that person"s liability arising out of the ownership or operation of a vehicle while being used to carry persons or property for a fee.
6) While employed or otherwise engaged in the business or occupation of selling, repairing, servicing, storing or parking vehicles designed for use mainly on public highways.
7) Maintaining or using any vehicle while that person is employed or otherwise engaged in any business or businesses or occupation not described in number 6 above (eliminates coverage for non-owned panel trucks, vans or pickups used for business).
8) Using a vehicle without a reasonable belief that the person is entitled to do so.
9) Eliminates liability coverage for any accident where an insured was or would have been covered by a nuclear energy liability policy.
10) Any motorized vehicle having less than four wheels.
11) Any vehicles the insured owns, but does not list on the policy.

Other Insurance under Part A - If there is other applicable liability insurance, insurers will pay only their share of the loss. Their share is the proportion that their limit of liability bears to the total of all applicable limits. However, any insurance the insurer provides for a vehicle you do not own shall be excess over any other collectible insurance (pare-phrase).

Part B - Medical Payments:

Insuring Agreement - We will pay reasonable expenses incurred for necessary medical and funeral services because of bodily injury caused by accident and sustained by a covered person. We will pay only those expenses incurred within 3 years from the date of the accident.

Covered person as used in this Part means: You or any family member while occupying or as a pedestrian when struck by a motor vehicle designed for use mainly on public roads or a trailer of any type, and any other person while occupying your covered auto.

Exclusions under Part B - Insurer will not provide Medical Payments for any person for bodily injury (pare-phrased):

1) Sustained while occupying any motorized vehicle having less than four wheels.
2) Sustained while occupying your covered auto when it is being used to carry persons or property for a fee. This exclusion does not apply to a share-the-expense car pool.
3) Sustained while occupying any vehicle located for use as a residence or premises.
4) If Workers" Compensation is required or available for the bodily injury.
5) Sustained while occupying or struck by any vehicle owned or furnished or available for your regular use, but not listed in the policy.
6) Sustained while occupying a vehicle without reasonable belief that the person is entitled to do so.
7) Sustained while occupying a vehicle when it is being used for business purposes. An exception provides coverage for a private passenger auto or a pickup, panel truck, or van so used. A private passenger auto may be "your covered auto" or a non-owned auto, but an eligible truck must be owned and it must be a "covered auto" under the named insured"s policy. A trailer, as defined in the policy is covered for business use if used with one of the vehicles described here.
8) Sustained involving nuclear radiation or radioactive substances, or losses related to war, insurrection or rebellion.

Other Insurance under Part B - reads basically the same as Part A, except one is liability and the other is medical payments.

Part C - Uninsured Motorist Coverage:

Insuring Agreement - We will pay damages which a covered person is legally entitled to recover from the owner or operator of an uninsured motor vehicle because of bodily injury:

1) Sustained by a covered person; and

2) Caused by an accident.

The owner's or operator's liability for these damages must arise out of the ownership, maintenance or use of the uninsured motor vehicle. Any judgment for damages arising out of a suit brought without our written consent is not binding on us.

Uninsured Motor Vehicle - means a land motor vehicle or trailer of any type:

1) To which no bodily injury liability bond or policy applies at the time of the accident.
2) To which a bodily injury liability bond or policy applies at the time of the accident. In this case its limits for bodily injury liability must be less than the minimum limit for bodily injury liability specified by the financial responsibility laws.
3) Which is a hit and run vehicle whose operator or owner cannot be identified and which hits you or any family member, a vehicle which you or any family member are occupying, or your covered auto.
4) To which a bodily injury liability bond or policy applies at the time of the accident but the bonding or insuring company denies coverage, or is or becomes insolvent.

Covered Persons - means you or any family member, any other person occupying your covered auto, or any person for damages that person is entitled to recover because of bodily injury to which this coverage applies sustained by a person in this definition.

Exclusions under Part C - We do not provide Uninsured Motorists coverage for bodily injury sustained by any person:

1) While occupying, or when struck by, any vehicle owned by you or any family member which is not insured for coverage under this policy. This includes a trailer of any type used with that vehicle.
2) If that person or the legal representative settles the bodily injury claim without our consent.
3) While occupying your covered auto when it is being used to carry persons or property for a fee. This exclusion does not apply to a share-the-expense car pool.
4) Using a vehicle without a reasonable belief that the person is entitled to do so.
5) This coverage shall not apply directly or indirectly to benefit any insurer or self-insurer under any of the following or similar laws:

   A) Workers" Compensation Law
   B) Disability Benefits Law

Part D - Coverage for Damage to Your Auto:

Insuring Agreement - We will pay for direct and accidental loss to your covered auto, including its equipment, minus any applicable deductible shown in the Declarations. However, we will pay for loss caused by collision only if the Declarations indicate that Collision Coverage is provided. "Collision" means the upset, or collision with another object, of your covered auto.

NOTE: This part of the policy provides Comprehensive insurance with or without Collision insurance on covered autos.

Supplementary Payment - In addition, we will pay up to $10 per day to a maximum of $300, for transportation expenses incurred by you. This applies only in the event of total theft of your covered auto.

Exclusions - We will not pay for:

1) Loss to your covered auto which occurs while it is used to carry persons or property for a fee. This exclusion does not apply to a share-the-expense car pool.
2) Damage due and confined to wear and tear, freezing, mechanical or electrical breakdown or failure, or road damage to tires. This exclusion does not apply if the damage results from the total theft of your covered auto.
3) Loss due to or as a consequence of radioactive contamination, discharge of any nuclear weapon (even if accidental), war (declared or undeclared), civil war, insurrection, or rebellion or revolution.
4) Loss to equipment designed for the reproduction of sound. This exclusion does not apply if the

equipment is permanently installed in your covered auto.
5) Loss to tapes, records or other devices for use with equipment designed for the reproduction of sound.
6) Loss to a camper body or trailer not shown in the Declarations.
7) Loss to any vehicle while used as a temporary substitute for a vehicle you own which is out of normal use.
8) Loss to TV antennas, awnings or cabanas, or equipment designed to create additional living facilities.
9) Loss to any citizen band radio, two-way mobile radio, telephone, or scanning monitor receiver and their accessories, unless permanently installed in the opening of the dash or console of the auto.
10) Loss to any custom furnishings or equipment in or upon any pickup, panel truck or van. Custom furnishings or equipment include, but are not limited to, special carpeting and insulation, furniture, bars or television receivers, facilities for cooking and sleeping, height extending roofs, or custom murals, paintings, or other decals or graphics.

Part E - Duties After an Accident or Loss:

We must be notified promptly of how, when and where the accident or loss happened. Notices should also include the names and address of any injured persons and of any witnesses. A person seeking coverage must:

1) Cooperate with us in the investigation, settlement or defense of any claim or suit.
2) Promptly send us copies of any notices or legal papers received in connection with the accident or loss.
3) Submit, as often as we reasonably require, to physical exams by physicians we "elect. We will pay for these exams.
4) Authorize us to obtain medical reports, and other pertinent records.
5) Submit a proof of loss when required by us.

Additional Duties for Uninsured Motorists Coverage. A person seeking Uninsured Motorist Coverage must also:

1) Promptly notify the police if a hit and run driver is involved.
2) Promptly send us copies of the legal papers if a suit I" brought.

Additional Duties for Coverage for Damage to Your Auto:

1) Take reasonable steps after loss to protect your covered auto and its equipment from further loss. We will pay reasonable expenses incurred to do this.
2) Promptly notify the police if your covered auto is stolen.
3) Permit us to inspect and appraise the damaged property before its repair or disposal.

Part F - General Provisions:

General provisions apply to all coverages of the policy and include:

1) Bankruptcy of a covered person.
2) Changes in the policy.
3) Legal Action against insurer.
4) Subrogation.
5) Policy period and territory.
6) Cancellation.
7) Policy transfer.
8) Other insurance.

BUSINESS AUTO POLICY

The Business Auto Policy is a readable policy that has simple language and avoids legalistic terms. The policy is used to cover commercial auto exposures. For some insurers this contract replaces the Basic, Combination and Comprehensive Auto policies. The Business Auto Policy consists of the declaration, printed provisions and the necessary endorsements needed to complete the proper coverage.

The declarations are contained in four pages listing seven items to identify the insured, state the policy period, and includes various schedules to identify auto classification, exposures covered and premiums for each

coverage.

Item 1 Identity of Named Insured.
States the named insured, address, form of business, name of business, policy number and policy period.

Item 2 Schedule of Coverages and Covered Autos.
Provides four columns, the first column lists the different coverages. The second column lists the covered autos by entry of one or more symbols from Item 3 which shows covered autos. The third column states the limits of liability and the last column shows premiums for each coverage chosen.

Item 3 Description of Covered Auto Designation Symbols.

This item gives a description of ten symbols used to identify the class of covered autos.

Symbol 1 Any Auto.

Symbol 2 Owned Autos Only - only those autos you own (and for liability coverage any trailer you do not own while attached to power units you own). This includes those autos you acquire ownership of after the policy begins.

Symbol 3 Owned Private Passenger Autos only - only the private passenger autos you own. This includes those private passenger autos you acquire ownership of after the policy begins.

Symbol 4 Owned Autos Other Than Private Passenger Autos Only - only those autos you own which are not of the private passenger type (and for liability coverage any trailer you do not own while attached to power units you own). This includes autos not of the private passenger types you acquire ownership of after the policy begins.

Symbol 5 Owned Autos Subject to No Fault - does not apply in California.

Symbol 6 Owned Autos Subject To A Compulsory Uninsured Motorist Law

Symbol 7 Specifically Described Autos - only those autos described in Item 4 for which a premium charge is shown (and for liability coverage any trailers you do not own while attached to any power unit described in Item 4).

Symbol 8 Hired Autos Only - only those autos you lease, hire, rent or borrow. This does not include any auto you lease, hire, rent or borrow from any of your employees or members of their household.

Symbol 9 Non-owned Autos Only - only those autos you do not own, lease, hire or borrow which are used in connection with your business. This includes autos owned by your employees or members of their households but only while used in your business or your personal affairs.

Symbol 10 Blank item to allow any description not listed above that the insured may need.

Item 5 Schedule of Hired or Borrowed Covered Auto Coverage and Premiums - has two sections, the first is for liability and the second for physical damage.

Item 6 Schedule For Non-Ownership Liability - Basically this identifies the number of employees that use their auto in the insured"s business and the premium for such coverage.

Item 7 Schedule For Gross Receipts or Mileage Basis For Liability Insurance on Public Auto or Leasing Firms

Policy Provisions

The printed policy provisions contains six parts.

Part 1 - Words and Phrases with Special Meaning
The following words and phrases have special meaning throughout this policy and appear in boldface type when used:

You" and "your" means the person or organization shown as the named insured.

"We", "us" and "our" means the company providing the insurance.

"Accident" includes continuous or repeated exposure to the same conditions resulting in bodily injury or property damage the insured neither expected nor intended.

"Auto" means a land motor vehicle, trailer or semitrailer designed for travel on public roads but does not include mobile equipment.

"Bodily injury" means bodily injury, sickness or disease including death resulting from any of these.

"Insured" means any person or organization qualifying as an insured in the WHO IS INSURED section of the applicable insurance. Except with respect to our limit of liability, the insurance afforded applies separately to each insured who is seeking coverage or against whom a claim is made or suit is brought.

"Loss" means direct and accidental damage or loss.

"Mobile equipment" means any of the following types of land vehicles:

1) Specialized equipment such as: Bulldozers; Power shovels; Rollers, Graders or Scrapers; Farm machinery; Cranes; Street Sweepers or other cleaners; Diggers; Forklifts; Pumps; Generators; Air Compressors; Drills; Other similar equipment.
2) Vehicles designed for use principally off public roads.
3) Vehicles maintained solely to provide mobility for such specialized equipment when permanently attached.
4) Vehicles not required to be licensed.
5) Autos maintained for use solely on your premises or that part of roads or other accesses that adjoin your premises.

Property damage" means damage to or loss of use of tangible property.

"Trailer" includes semi-trailer.

Part II - Which Autos are covered Autos

Item Two of the declarations shows the autos that are covered autos for each of your coverages. The numerical symbols explained in Item Three of the declarations describe which autos are covered autos. The symbols entered next to a coverage designate the only autos that are covered autos.

Owned Autos You Acquire After the Policy Begins.

1) If symbols "l", "2", "3", "4", "5" or "6" are entered next to a coverage in Item Two, then you already have coverage for autos of the type described until the policy ends.
2) But, if symbol "7" is entered next to a coverage in Item Two, an auto you acquire will be a covered auto for that coverage only if:

A) We already insure all autos that you own for that coverage or it replaces an auto you previously owned that had that coverage; and
B) You tell us within 30 days after you acquire it that you want us to insure it for that coverage.

Certain Trailers and Mobile Equipment

If the policy provides liability insurance, the following types of vehicles are covered autos for liability insurance:

1) Trailers with a load capacity of 2,000 pounds or less designed primarily for travel on public roads.
2) Mobile equipment while being carried or towed by a covered auto.

Part III - Where And When This Policy Covers

We cover accidents or losses-which occur during the policy period: In the United States of America, its territories or possessions, Puerto Rico or Canada.

Part IV - Liability Insurance

We will pay:

1) We will pay all sums the insured legally must pay as damages because of bodily injury or property damage to which this insurance applies, caused by an accident and resulting from the ownership, maintenance or use of a covered auto.
2) We have the right and duty to defend any suit asking for these damages. However, we have no duty to defend suits for bodily injury or property damage not covered by this policy. We may investigate and settle any claim or suit as we consider appropriate. Our payment of the Liability Insurance limit ends our duty to defend or settle.

We will also pay:

In addition to our limit of liability we will pay for the insured:

1) Up to $250 for cost of bail bonds (including bonds for related traffic law violations) required because of an accident we cover. We do not have to furnish these bonds.
2) Premiums on appeal bonds in any suit we defend.
3) Premiums on bonds to release attachments in a suit we defend but only for bonds up to our limit of liability.
4) All costs taxed to the insured in a suit we defend.
5) All interest accruing after the entry of the judgment in a suit we defend. Our duty to pay interest ends when we pay or tender our limit of liability.
6) Up to $50 a day for loss of earnings (but not other income) because of attendance at hearings or trials at our request.
7) Other reasonable expenses incurred at our request.

We will not cover -- Exclusions.

This insurance does not apply to:

1) Liability assumed under any contract or agreement.
2) Any obligation for which the insured or his or her insurer may be held liable under any workers' compensation or Disability benefits law or under any similar law.
3) Any obligation of the insured to indemnify another for damages resulting from bodily injury to the insured's employee.
4) Bodily injury to any fellow employee of the insured arising out of and in the course of his or her employment.
5) Bodily injury to any employee of the insured arising out of and in the course of his or her employment by the insured. However, this exclusion does not apply to bodily injury to domestic employees not entitled to workers' compensation benefits.
6) Property damage to property owned or transported by the insured or in the insured's care, custody or control.
7) Bodily injury or property damage resulting from the handling of property:

   Before it is moved from the place where it is accepted by the insured for movement into or onto the

covered auto, or after it is moved from the covered auto to the place where it is finally delivered by the insured.

8) Bodily injury or property damage resulting from the movement of property by a mechanical device (other than a hand truck) not attached to the covered auto.
9) Bodily injury or property damage caused by the dumping, discharge or escape of irritants, pollutants or contaminants. This exclusion does not apply if the discharge is sudden and accidental.

Who is insured.

1) You are an insured for any covered auto.
2) Anyone else is an insured while using with your permission a covered auto you own, hire or borrow except:
   a) The owner of a covered auto you hire or borrow from one of your employees or a member of his or her household.
   b) Someone using a covered auto while he or she is working in a business of selling, servicing, repairing or parking autos unless that business is yours.
   c) Anyone other than your employees, a lessee or borrower or any of their employees, while moving property to or from a covered auto.
3) Anyone liable for the conduct of an insured described above is an insured but only to the extent of that liability. However, the owner or anyone else from whom you hire or borrow a covered auto is an insured only if that auto is a trailer connected to a covered auto you own.

Part V - Physical Damage Insurance

1) We will pay for loss to a covered auto or its equipment under:

   A) Comprehensive Coverage. From any cause except the covered auto's collision with another object or its overturn.
   B) Specified Perils Coverage. Caused by
      1) Theft;
      2) Fire or explosion
      3) Windstorm, hail or earthquake;
      4) Flood;
      5) Mischief or vandalism;
      6) The sinking, burning, collision or derailment of any conveyance transporting the covered auto.
   C) Collision Coverage. Caused by the covered auto's collision with another object or its overturn.

2) Towing. We will pay up to $25 for towing and labor costs incurred each time a covered auto of the private passenger type is disabled. However, the labor must be performed at the place of disablement.

   We will also pay up to $10 per day to a maximum of S300 for transportation expense incurred by you because of the total theft of a covered auto of the private passenger type. We will pay only for those covered autos for which you carry either Comprehensive or Specified Perils Coverage. We will pay for transportation expenses incurred during the period beginning 48 hours after the theft and ending, regardless of the policy's expiration, when the covered auto is returned to use or we pay for its loss.

We will not cover - Exclusions.

This insurance does not apply to:

1) Wear and tear, freezing, mechanical or electrical breakdown unless caused by other loss covered by this policy.
2) Blowouts, punctures or other road damage to tires unless caused by other loss covered by this policy.
3) Loss caused by declared or undeclared war or insurrection or any of their consequences.
4) Loss caused by the explosion of a nuclear weapon or its consequences.
5) Loss caused by radioactive contamination.
6) Loss to tape decks or other sound reproducing equipment not permanently installed in a covered auto.
7) Loss to tapes, records or other sound reproducing devices designed for use with sound reproducing

equipment.

8) Loss to any sound receiving equipment designed for use as a citizens' band radio, two-way mobile radio or telephone or scanning monitor receiver, including its antennas and other accessories, unless permanently installed in the dash or console opening normally used by the auto manufacturer for the installation of a radio.

How we will pay for losses - The Most We will Pay.

1) At our option we may:
   a) Pay for, repair or replace damaged or stolen property; or
   b) Return the stolen property, at our expense. We will pay for any damage that results to the auto from the theft.

2) The most we will pay for loss is the smaller of the following amounts:
   a) The actual cash value of the damaged or stolen property at the time of loss.
   b) The cost of repairing or replacing the damaged or stolen property with other of like kind or quality.

3) For each covered auto, our obligation to pay for, repair, return or replace damaged or stolen property will be reduced by the applicable deductible shown in the declarations. Any Comprehensive Coverage deductible shown in the declarations does not apply to loss caused by fire or lightning.

   Glass Breakage. - Hitting A Bird Or Animal - Falling Objects Or Missiles.

   We will pay for glass breakage, loss caused by hitting a bird or animal or by falling objects or missiles under Comprehensive Coverage if you carry Comprehensive Coverage for the damaged covered auto. However, you have the option of having glass breakage caused by a covered auto's collision or overturn considered a loss under Collision Coverage.

Part VI - Conditions

The insurance provided by this policy is subject to those usual conditions found in insurance.

1) Your duties after accident or loss.
2) Other insurance (pro rata liability).
3) Our right to recover from others (subrogation).
4) Canceling this policy during the policy period.
5) Legal Action Against Us.
6) Inspection.
7) Changes.
8) Transfer of your interest in this policy.
9) No benefit to bailee - Physical damage only.
10) Bankruptcy.
11) Appraisal for Physical damage losses.
12) Two or more policies issued by us.

Auto Medical Payments

The Business Auto Policy provisions do not include those necessary for auto medical payments. Medical payments coverage is not generally used in commercial auto insurance, since most business exposures are covered by workers' compensation. When the exposure of nonemployee guest passengers exists, the need for auto medical payments should be covered by adding the endorsement to provide the coverage. The provisions of this endorsement are similar to those reviewed in the Personal Auto Policy, and will not be reviewed again.

Uninsured Motorist

The Business Auto Policy provisions do not include those necessary for uninsured motorists. Whenever these provisions are to be included, they must be endorsed into the contract. The provisions of this endorsement are similar to the uninsured motorist provisions of the Personal Auto Policy and will not be reviewed again.

TRADE PRACTICES

REPRESENTATIONS

A representation is a statement of past, present or future fact or a statement of opinion or belief to the best of one's knowledge. Factual statements must be absolutely true; others must be substantially true. A representation is a part of the inducement to enter into the contract and, if false in a material way, provides grounds for the injured party to void the contract.

A representation may be oral or written, and may be made at the time of, or before, issuance of the policy. A representation is false when the facts fail to correspond with its assertions or stipulations, and may be altered or withdrawn before the insurance is effected but not afterwards. If a representation is false on a material point, whether affirmative or promissory, the injured party is entitled to rescind the contract from the time representation becomes false. Materiality is determined not by the event, but by the probable and reasonable influence of the facts upon the party to whom the representation is made in forming his or her estimate of the disadvantages of the proposed contract.

In life and disability insurance, all answers in an application for life or disability insurance are, in the absence of fraud, deemed to be representations and not warranties. A representation based on the best knowledge and belief of the insured will not void a life or disability policy.

CONCEALMENT

Concealment is the neglect to communicate that which a party knows, and ought to communicate. Concealment, whether intentional or unintentional, entitles the injured party to rescind insurance. Each party to a contract of insurance shall communicate to the other, in good faith, all facts within his or her knowledge which are, or which he or she believes to be, material to the contract. Materiality is determined not by the event, but solely by the probable and reasonable influence of the facts upon the party to whom the communication is due, in forming his/her estimate of the disadvantages of the proposed contract.

Examples in life insurance

Insured's failure to disclose his/her medical history is a concealment of "material facts" and could void a life insurance contract.

Life insurance applicants' failure to disclose conditions of which they were unaware does not stop recovery under the policy.

Examples in fire and casualty

Application for a fire policy in the name of a nonexistent corporation, instead of correct corporate name was concealment and material misrepresentation, stopping recovery under a policy.

WARRANTY

A warranty is a statement of fact which must be literally true. Violation of a material warranty by one party to a contract entitles the other to rescind.

A warranty may be express or implied.

An express warranty is a statement in a policy of a matter relating to the person or thing insured, or to the risk, as a fact. Every express warranty made at or before the execution of a policy shall be contained in the policy, or in another instrument signed by the insured and referred to in the policy, as part of the policy.

Implied warranty is a representation, not in writing, that insurable conditions exist. Implied warranty is included in the policy even though not specifically stated.

MISREPRESENTATION OF POLICIES

An insurance licensee shall not use any oral or written misrepresentation of:

1) The terms of a policy issued by any insurer.
2) The benefits or privileges of a policy issued by any insurer.
3) The future dividends of a policy issued by any insurer.

Proof that an insurance licensee made false representation of one or more of these facts is a misrepresentation. These misrepresentations entitle the insured to void the contract.

Twisting is any misrepresentation that:

1) Induces or tends to induce a person either to take a policy or to refuse to accept a policy of one insurer and instead take out a policy with another insurer; or

2) Induces or tends to induce a policyholder to lapse, forfeit or surrender his or her insurance.

A licensee shall not make any representation or comparison of insurers or policies to an insured which is misleading, for the purpose of inducing or tending to induce him or her to lapse, forfeit, change or surrender his or her insurance, whether on a temporary or permanent plan. Misrepresentation can occur by acts or omission when comparing two policies.

A licensee that violates any provisions relating to concealment, misrepresenting, or twisting may have his or her license suspended or revoked for a period not exceeding three years. In addition, the licensee may be fined or imprisoned for a period not exceeding six months.

A person may not refuse to testify about misrepresentation or twisting on the constitutional grounds of self-incrimination. If that person is compelled to testify, that person may not be prosecuted for the acts that person was required to testify about, except for perjury.

UNFAIR PRACTICES

No person shall engage in this State in any trade practice which is defined as, or determined to be, an unfair method of competition, or deceptive act or practice in the business of insurance. The following acts or practices are defined as unfair or deceptive:

1) Misrepresenting the terms, benefits or advantages of a policy, the past or future dividends or share of surplus received under a policy. Misrepresenting the legal reserve system upon which a life insurer operates. Using a policy name or title which misrepresents the true nature of the policy. Making a misrepresentation to induce a policyholder to terminate his or her insurance.

2) Making misrepresentations about the business of insurance or the manner in which any person or company conducts his or her insurance business.

3) Engaging in any boycott, coercion or intimidation resulting in monopoly or unreasonable restraint in the business of insurance.

4) Misrepresenting the financial condition of an insurer.

5) Making misrepresentations with intent to deceive regulatory authorities about an insurer's financial condition.

6) Unfairly discriminating among people of like class in life or annuity insurance rates.

7) Advertising that insurers are members of the California Insurance Guarantee Association.

Should the Insurance Commissioner determine after notice and hearing that a person has engaged in any unfair or deceptive practices, the Commissioner may order that person to cease and desist from engaging in those acts or practices. If the Insurance Commissioner, after a hearing, determines that a person has violated a cease and desist order, the Commissioner may order the person to pay a fine for the first violation as follows:

1) $5,000.
2) In case of a willful violation, $55,000.

For any subsequent violation of a cease and desist order, the Insurance Commissioner may, after hearing suspend or revoke the license of that person for a period not exceeding one year.

DISCRIMINATORY PRACTICES

The Insurance Commissioner has adopted regulations dealing with discrimination in the availability of insurance based on sex, marital status or sexual orientation. A person engaged in the business of insurance in this State is prohibited from discriminating in the availability of insurance by:

1) Refusing to issue any contract of insurance or canceling or declining to renew a contract.
2) Restricting, modifying, excluding or reducing the amount of benefits payable, or any term, condition or type of coverage.

No insurer may discriminate, in the availability of all lines of insurance, based upon a person's sex, marital status or sexual orientation. Rate discrimination based on these factors is permissible.

No life, or life and disability insurer can discriminate, in availability of coverage or rates charged, based on a person's race, color, religion, national origin or ancestry. No insurance application or investigation report used to determine insurability shall carry any identification of these factors.

UNFAIR CLAIMS PRACTICES

The California Insurance Code lists the following as unfair claims practices:

1) Misrepresenting pertinent facts or policy provisions in settling claims;

2) Failing to promptly acknowledge, investigate, process or settle claims upon which liability is reasonably clear;

3) Failing to affirm to deny coverage of claims within a reasonable time after proof of loss requirements have been completed and submitted by the insured;

4) Compelling insureds to institute litigation to recover amounts due by offering substantially less than the amounts ultimately recovered;

5) Attempting to settle claims for amounts substantially less than would have been expected from advertising materials;

6) Attempting to settle claims on the basis of an application which was altered without notice to, or knowledge or consent of, the insured, his or her representative, agent or broker;

7) Failing, after payment of a claim, to inform insureds or beneficiaries, upon request by them, of the coverage under which payment has been made;

8) Compelling insureds to accept settlements less than the amount awarded in arbitration by making known to

them a practice of the insurer of appealing such awards;

9) Requiring multiple filings of proofs of loss which contain substantially the same information;

10) Delaying settlement of claims under one portion of a policy so as to influence settlements under other portions of the policy;

11) Failing to provide explanations of the basis for the denial of claims;

12) Advising claimants not to engage attorneys;

13) Misleading a claimant as to the applicable statute of limitations.

FRAUDULENT CLAIMS

It is a criminal act to make a false or fraudulent claim under an insurance policy or assist in the preparation or presentation of a false or fraudulent claim under a policy. Any licensed person guilty of such act may have his or her license suspended or revoked. Violators of this provision may be imprisoned in the state prison for two, three or four years or fined up to $10,000 or both.

ANTI-COERCION

It is unlawful for any person engaged in the business of financing the purchase of, or of lending money on the security of, real or personal property to require, as a condition precedent to such financing, that the borrower or purchaser place any insurance on such property through a particular insurance agent or broker. This shall not prevent a lender from exercising his or her right to furnish such insurance as is required by the contract if the borrower or purchaser shall have failed to furnish it within such reasonable time as may have been specified in the sale or loan contract. The fact that insurance by an acceptable insurer provides more coverage than required in the sale or loan agreement is not grounds for refusal to accept it, unless the additional coverage consists of automobile, life or disability insurance. The Savings and Loan Commissioner, the Superintendent of Banks and the Corporations Commissioner, in conjunction with the Insurance Commissioner, have issued regulations defining reasonable cause upon which a lender may refuse to accept insurance policies. These regulations are found in the California Code of Regulations, Title 10.

A borrower or purchaser is entitled to a free choice of insurance agent or broker at any time and he or she may revoke any designee of insurance agent or broker at any time irrespective of the provisions of any loan, purchase agreement or trust deed.

When the borrower or purchaser fails to deliver insurance or renewal of insurance required by the sale or loan contract at least 30 days prior to the expiration of a policy, the lender may furnish or renew such insurance and charge the account of the borrower or purchaser with the cost.

If an insurance policy procured by the borrower or purchaser is substituted less than 15 days prior to the expiration date of the one then in force, or subsequently, the lender may impose a maximum service charge of $5 for the substitution of insurance policies.

A lender is not prevented from recommending to a borrower or prospective borrower the placing of insurance with a specified insurer or through a specified insurance agent or broker. Such recommendation shall be in writing and must clearly show the name and mailing address of the recommended insurer, agent or broker.

The Insurance Commissioner may investigate any person, whether licensed or not, for the purpose of determining if there has been any violation of these provisions; however, if such investigation be upon a complaint, the complainant must be a party to the contract of sale, trust deed, or loan agreement and must make such complaint within three months of the execution of any modification.

The Insurance Commissioner may, after hearing, suspend or revoke any license held by any person who violates the above provisions.

FREE INSURANCE

No insurer shall participate in any plan to offer or effect any kind of kinds of insurance or annuities in this State as an inducement to buy or rent any property or service, without any charges to the insured for the insurance. No insurance licensee shall arrange for the sale of free insurance.

This shall not apply to insurance written in connection with:

1) Subscriptions to newspapers of general circulation.
2) Insurance issued to credit unions or members of credit unions in connection with the purchase of shares in that credit union.
3) Insurance offered as a guarantee of the performance of goods.
4) Insurance designed to protect the purchasers or users of goods.
5) Title insurance.
6) Life or disability insurance written in connection with an indebtedness, when the purpose of insurance is to pay the balance of the indebtedness in the event of the death or disability of the person insured.
7) Services provided to members of a motor club

DISCIPLINARY ACTION

Persons licensed by the Insurance Commissioner to transact insurance in this State must carefully obey all insurance laws, rules and regulations. Violation of these laws, rules and regulations could result in the revocation, suspension or restriction of licenses and, in some cases, criminal prosecution of the licensees in the courts.

The Insurance Commissioner may suspend or revoke a license after a hearing on the grounds that:

1) The licensee is not qualified to perform the duties required of the licensee.
2) The holding of the license if against public interest.
3) The licensee is not actively and in good faith carrying on an insurance business with the general public.
4) The licensee does not have a good business reputation.
5) The licensee is lacking integrity.
6) The licensee was refused a professional, occupational or vocational license, or had such a license suspended or revoked by any licensing authority.
7) The licensee holds the license for the purpose of avoiding or preventing the operation or enforcement of the insurance laws of this State.
8) The licensee knowingly or willfully made a misstatement in the application to the Commissioner for a license, or in a document filed in support of the application, or has made a false statement in testimony given under oath before the Commissioner or any person acting in his stead.
9) The licensee engaged in a fraudulent practice or act or conducted any business in a dishonest manner.
10) The licensee has shown incompetency or untrustworthiness in the conduct of any business, or committed a wrongful act or practice in the course of any business which exposed the public to danger of loss.
11) The licensee knowingly misrepresented the terms or effect of an insurance policy or contract.
12) The licensee has failed to perform a duty expressly required by the Insurance Code, or has committed an act expressly forbidden by the Insurance Code.
13) The licensee has been convicted of:
    a) A felony;
    b) A misdemeanor denounced by the Insurance Code or other laws regulating insurance; or
    c) A public offense having as one of its necessary elements a fraudulent act or act of dishonesty in acceptance, custody or payment of money or property.
14) The licensee aided or abetted any person in an act or omission which would constitute grounds for suspension, revocation or refusal of a license to be issued to the person aided or abetted.

15) The licensee has permitted any person in his/her employ to violate any provision of this Insurance Code.
16) The licensee has violated any provision of law relating to conduct of business which could lawfully be done only under authority of a license.

The Insurance Commissioner may, with or without hearing, suspend, revoke, deny, or refuse to renew a license on grounds that:

1) A licensee committed a felony as shown by a final judgment of conviction.
2) A licensee committed a misdemeanor denounced by the Insurance Code or other laws regulating insurance as shown by a final judgment of conviction.
3) A licensee had a previous license suspended or revoked for cause within five years.
4) A licensee had an application denied for cause within five years.

The Insurance Commissioner may as a disciplinary measure for violation of the Insurance Code suspend, revoke or restrict a license.

REVOCATION/SUSPENSION OF LICENSE

If a license is revoked, the Insurance Commissioner may not, for the period of one year, issue a license to the licensee concerned.

Action may be taken against a license held by an organization based on the acts of a natural person named to transact under the organizational license, the Insurance Commissioner may revoke or suspend the license of the organization and all licenses and licensing rights of the natural person.

If a solicitor or other employee of a licensed insurance licensee violates insurance laws, the license of the employer may also be revoked or suspended if it is determined that the employer permitted the violation.

The Insurance Commissioner may offer a licensee found in violation of any insurance laws a choice of either a fine or a suspension or other penalty. The amount of the fine may not exceed:

1) $1,000 for a single offense, or
2) $5,000 for all counts in one proceeding, or
3) 30 percent of the gross premiums on insurance transacted by the licensee during the preceding calendar year.

If the licensee elects the fine and does not pay it within the time specified, his or her license may be revoked or suspended by the Insurance Commissioner.

As a disciplinary measure when a violation of the insurance laws would justify suspension, revocation or denial of license, the Insurance Commissioner may issue a restricted license. The term "restricted license" means a license which is restricted by reasonable conditions relating to its acquisition or the conduct of its holder, and which may be suspended or revoked without hearing or cause.

After any hearing involving the suspension, revocation or denial of a license, the Insurance Commissioner may order the licensee to prove his or her qualifications by taking and passing the qualifying examination for the license held. Failure of the examination by the licensee shall result in the termination of all licenses to which the examination applied.

IMPORTANT NOTE: A licensee may violate the insurance laws of California by any acts committed, or by acts omitted or failure to perform any duties required of the licensee.

INSURANCE COMPANIES

Insurers can be classified in many ways. For the purposes of preparing for the licensing examination, we have classified the insurers into four groups: domicile, admission status, legal form of organization, and by classes of insurance written.

DOMICILE

Insurers may be domestic, foreign, or alien.

A domestic insurer is organized under the laws of California, whether or not admitted to do business in California.

A foreign insurer is an insurer not organized under the laws of California, but in one of the other states within the United States, whether or not it is admitted to do business in California.

An alien insurer is an insurer organized under the laws of any jurisdiction other than a State of the United States, whether or not admitted to do business in California.

ADMISSION STATUS

An admitted insurer is one which has received a certificate of authority from the Insurance Commissioner permitting it to transact specified classes of insurance business in California. All other insurers are nonadmitted insurers and not entitled to transact insurance in California. An admitted insurer may be either a domestic, foreign or alien insurer.

LEGAL FORM OF ORGANIZATION

Insurers have two classes of organization. First, private enterprises that are corporations organized on a capital stock basis known as stock insurers. Second, those private enterprises organized as cooperative enterprises, including mutual insurers, reciprocal (interinsurance exchanges), fraternal benefit societies, and county mutual fire insurers.

Stock Insurer: is a corporation owned by individuals who contribute capital through the purchase of stock. The stockholders elect the board of directors who, in turn, appoint the executive officers. The gains or losses from the operation are shared with the stockholders through dividends declared by the board of directors and through the increases or declines in the market value of their shares of stock. Most stock insurers issue nonparticipating policies which do not entitle the insured to participate in the profits or earnings of the insurer. A few stock insurers are doing business on the "mix plan" where they issue both nonparticipating and participating policies.

Mutual Insurer: is a corporation owned by its policyholders. These policyholders elect the board of directors who, in turn, appoint the executive officers. The policyholders are entitled to share in any profits earned by the insurer. The earnings, if any, are returned to the policyholders in the form of a refund on their premiums, commonly called a "dividend". Those policies that entitle the insured to a dividend are called participating policies.

Reciprocal or Interinsurance Exchange: is an unincorporated association that enables individuals, and business firms, to insure one another. The policy-holders are both the insured and the insurer. Each policyholder agrees to insure all of the other policyholders in the association and, in turn, is insured by each of the other policyholders. These associations are managed by an attorney-in-fact, appointed by the policyholders and empowered on their behalf to bind them to one another.

Fraternal Benefit Societies: are authorized under special sections of the state insurance code to conduct the business of insurance providing benefits to members and their families in the event of accident, sickness or death. Fraternal societies usually are incorporated without capital stock. Membership is required in the society to purchase insurance from the society.

County Mutual Fire: Two hundred and fifty or more persons residing in one county of California may incorporate for the purposes of forming a mutual fire insurer. The policies issued, by a county mutual fire insurer, shall have a minimum amount of $1,500,000 aggregate coverage with a minimum premium of $15,000. Presently there are two county mutual fire insurers doing business in California.

CLASSES OF INSURANCE WRITTEN

An insurer may not transact any class of insurance
which is not authorized by its Articles of Incorporation or its charter, nor can an insurer transact any class of insurance in California without first being admitted. An insurer can become an admitted insurer by securing a Certificate of Authority from the Insurance Commissioner to transact a class or classes of insurance. Therefore, insurers can be classified according to the classes of insurance for which they are admitted in California.

Life Insurer - an insurer issuing policies in one or more of the classes of life, disability, liability, workers' compensation, common carrier liability, and no others. Few life insurers transact other than life or life and disability insurance.

Multi-Line Insurers - an insurer doing business
covering several insurance classes, such as fire, marine, and general casualty lines. This insurer cannot transact life, title, mortgage, or mortgage guaranty insurance.

Title Insurer - an insurer that is limited to transacting title insurance.

Mortgage Insurer - an insurer that is limited to
transacting mortgage insurance.

NOTE: While several mortgage insurers are admitted for this class of insurance, this class has not been written for many years.

Mortgage Guaranty Insurer - an insurer that is limited to transacting mortgage guaranty insurance.

MARKETING SYSTEMS USED BY INSURERS

In insurance, "marketing" is the method used by insurers to inform potential buyers about the various contracts that are available. Three types of marketing systems are used by insurers: (1) the independent agency system, (2) the exclusive agency system, (3) the direct mail system. Most admitted insurers in California are marketing their contracts under one of these three systems. The role of the broker in marketing will also be discussed at the end of this section.

1) The independent agent is a person who enters into agency agreements with more than one insurer. This agreement gives the agent ownership of the business written by the agent. This ownership allows the agent to place the insurance with any insurer he/she represents, he/she can transfer the insurance from one insurer to another if he/she or the insured becomes dissatisfied with an insurer. The agent is also able to transfer the insurance if the insurer is unhappy with the insured. The independent agent generally receives a higher rate of commission than the exclusive agent, but the agent must finance his/her own agency. The cost of office space, secretarial help to prepare contracts and send out renewal notices will be paid by the agent.

2) The exclusive agent is a person who enters an agency agreement to represent one insurer, or a group of insurers who have common ownership. This agreement generally prohibits the agent from representing any other insurer and gives ownership of the business to the insurer. If the agent should leave the insurer to work for another insurer, the book of business is kept by the insurer and given to another agent to service. The exclusive agent cannot give the insureds a choice among insurers. Technically, exclusive agents are not employees of the insurer, but independent contractors paid a commission for contracts written. The insurers provide services to their exclusive agents, such as providing office space, clerical support, preparing the contracts, sending out

renewal premium notices and handling most, if not all, claims.

NOTE: The Insurance Code makes not distinction between an independent agent and exclusive agent when a license is being issued to a person. The authority granted under the agents license is the same in either case, but the agency contact entered into by the agent with an insurer will determine whether the agent is independent or exclusive.

3) The direct mail systems does not depend on an agent. The insurers market their contracts from the home office. These insurers offer their contracts to the public through direct mail campaigns, newspaper and magazine advertising. The person who is interested in these contracts normally will write for information, which the insurer returns with an application to be filled out and returned. Presently, this system accounts for a very small percentage of insurance being written in California.

These three methods of marketing are used by the insurers and their authorized agents. One other method of marketing that should be mentioned is the broker. In California, the broker is the representative of the insured who, in effect, does the insured's insurance shopping. Brokers have no agency contracts with the insurers, but place business with those admitted insurers which will accept the offer by the broker. A person may be licensed as both an agent and broker. When a person is licensed as an insurance agent and broker, that person is required to act as an agent for those companies for which that person is appointed as an agent. He or she may act as a broker only with those insurers for which that person is not appointed as their agent.

POLICIES

INSURANCE CONTRACTS IN GENERAL

The definition of insurance as given in the California Insurance Code has not been substantially changed since 1972. The California Insurance Code defines insurance as "a contract whereby one undertakes to indemnify another against loss, damage, or liability arising from a contingent or unknown event." it is important that a licensee understand the meaning of this definition. In order to obtain a good understanding, it is necessary to be able to identify and know the meaning of following terms in this definition:

Contract: an agreement to do or not to do a certain thing that is enforceable by law.

Indemnify: to make payment in money or property, to compensate for a loss.

Contingent: the peril that might occur and cause damage or liability against a person.

Unknown event: Perils could include fire, windstorm, hail, explosion, flood, theft, riot, vandalism, negligence, failure to satisfy and obligation to another person.

"Insurance" generally may be defined as an agreement by which one person for a consideration promises to pay money or its equivalent, or to perform some act of value, to another on the destruction, death, loss, or injury of someone or something by specified perils.

Insurance policies are contracts, therefore they must meet the requirements of other legal contracts. The essential elements needed to make contracts enforceable are:

1) Capable parties - all persons are capable of contracting except minors, persons of unsound mind, and persons deprived of civil rights. The exception in making a contract of insurance is that a person under the age of 18 is competent to contract for life or disability insurance or an annuity contract on his/her own life for the benefit of himself/herself or members of his/her immediate family. A person under 16 years of age nearest birthday must have the written consent of parent or guardian to enter into an insurance contract (see examples under insurable interests).

2) Consent - must be given freely, mutually and communicated by each party to the other. Consent is given between two parties when a proposal or offer by one of the parties is made and the other party accepts.

3) Lawful subject - agreement shall not call for the violation of any laws. In insurance, lawful subject is any contingent or unknown event, whether past or future, which may cause damage to or create a liability against a person having an insurable interest. The California Insurance Code expressly prohibits insurance on a lottery or the outcome of a lottery, and policies executed by way of gaming or wagering.

4) Consideration - any benefit given to a party by the other party which was not lawfully due the party. In insurance, the consideration is the monies which are given as premiums.

While these elements are essential to contracts in general, there is one more requirement that is necessary to contracts of insurance. In insurance, the insured must have **an insurable interest** in the lawful subject of the contract.

The California Insurance Code defines insurable interest in property insurance as "every interest in property, or any relation thereto, or liability in respect thereof, of such a nature that a contemplated peril might directly damnify the insured." Lack of insurable interest causes the contract to be void. In fire and casualty insurance, the requirement of an insurable interest in property must exist when the insurance takes effect and when the loss occurs, but need not exist in the meantime. The measure of insurable interest in property is the extent to which the insured might suffer financial loss by damage to or loss of the property.

The California Insurance Code defines insurable interest in life and disability insurance as "every person has an insurable interest in the life and health of (1) himself/herself (2) any person on whom he/she depends wholly or in part for education or support (3) any legal obligation to him/her for the payment of money or respecting property or services of which death or illness might delay or prevent payment (4) any person upon whose life any estate or interest vested in him/her depends."

1) Himself/Herself - every person 18-years or older that is capable of entering into a contract may apply for insurance on his/her own life in any amount. The amount of life insurance in force on any one life is not limited by law, but is normally a negotiable term limited by underwriting requirements of a company. These requirements may vary from company to company, while one company's limit of insurance in force on any one life may be $100,000 another's limit might be unlimited.

When a person, 18-year or older, purchases a policy of life insurance on his/her own life, the law does not require that the beneficiary have an insurable interest.

A person under age 18 is competent to contract for life or disability insurance or an annuity contract on his/her own life for the benefit of himself/herself or the benefit of the father, mother, husband, wife, child, brother or sister.

A person under 16-years of age, nearest birthday, must have written consent of parent or guardian to enter into an insurance contract. If assessments are involved in the insurance of any minor, the liability for assessment must be assumed by the parent or guardian by a written agreement.

2) Any person on whom he/she depends wholly or in part for education or support. - A wife has an insurable interest in her husband. The husband has an insurable interest in his wife. The children have an insurable interest in their parents.

3) Any person under legal obligation to him/her for the payment of money or respecting property or services, of which death or illness might delay or prevent the performance - A creditor has an insurable interest in the life of a debtor. When a person owes money or property to another person, the person to whom the debt is owed has an insurable interest in the life of the person owing that debt to the extent of the amount owed.

APPLICATION

Except in a few specialized types of insurance, the selection of risks is based upon comprehensive applications signed by the insured in which he/she is required to answer searching questions from which the company determines insurability. In many cases, life insurance applications are supplemented with medical examinations. These are subject to being supplemented or checked by a report to the company by the soliciting agent and by the inspections made for the company by other than the agent.

No contract exists between an applicant for insurance and an insurance company until the application for insurance is accepted. An application for insurance is a proposal which does not become an enforceable contract until it is accepted by the insurer on the terms in which the proposal was made. If the insurer alters any terms of the proposal, then the applicant must accept the alterations before the contract is effective.

Company requirements for applications vary depending on the type of insurance and the authority given to the agent by the company. For some types of insurance, a written application may not be required. For these coverages, an applicant may request coverage orally and the agent may create an oral contract by immediately binding the requested coverages. When the agent has this authority, the agent should understand what makes an oral contract of insurance valid and enforceable. It is necessary that both the agent and the applicant agree to the company providing coverage, subject matter, risk, premium, duration of risk and amount of insurance. Specifying the company providing coverage at this time is important to an agent if he/she represents more than one company. Failure to do so can result in each company that the agent represents paying a pro rata share of a loss that might occur before a written binder or policy is issued, and possibly the agent may be held responsible for the loss. Whenever the parties enter into an oral contract before the policy has been issued, the policy should be backdated to the date of the oral contract. An agent should use extreme caution when using his/her authority to enter into an oral contract. The difficulty of providing the terms of an oral contract or its existence makes it advisable to confine contractual agreements to those that are written whenever possible.

Other types of insurance that are more complex require a written application, even though an agent may have issued a binder to provide temporary coverage. In these cases, the company wishes to know about particular details, which allows it to determine if the risk meets its underwriting standards. If the risk meets the underwriting standards, the company may issue the policy, or inform the agent to issue the policy depending upon the method used for issuing policies by that particular company. When the risk does not meet the underwriting standards, the company must cancel any temporary binder that was issued in the same manner it would cancel a policy that has been in force.

NOTE: When the agent prepares the application for the insured, the agent is doing so as the agent of the insurance company, and not the agent of the insured.

BINDERS (COVER NOTES)

Binders may be issued to bind insurance temporarily pending the issuance of the policy. Within 90 days after issue of a cover note, a policy shall be issued, including terms and premiums identical to those bound by the cover note. An insurer may extend a cover note beyond 90 days with the written approval of the commissioner for a period which, when added to the original 90-day period, will not extend coverage beyond 150 days. A risk must fall into one of the following categories to be eligible for extension without written approval from the commissioner.

1) The property insured is in five or more separate locations.

2) The premium is estimated to be:

   (A) $400 or more annually in the case of fire insurance.
   (B) $250 or more annually in the case of insurance other than fire.
   (C) The risk is one which requires an inspection and is located in excess of 100 miles from a city with a population of 100,000 or more.

Cover notes and all extensions must be in writing. The insurer must maintain a permanent record of the original covering note and all extensions. The cover note must contain the following:

1) Name of the insured,
2) The property or liability insured,
3) The amount of insurance,
4) The perils insured against,
5) The effective and termination dates,
6) The basis or rates upon which the premium is to be determined and paid,
7) If cover note is extended, the extension must identify the original note.

A policy must be issued covering the insured, after a risk has been bound by a cover note, with the same effective date which was provided in the cover note. When the policy is issued for a period of time that extends beyond the period of coverage in the cover note, the earned premium may be included in the premium charged under the policy. When the period of coverage provided by a cover note does not extend beyond that provided by the cover note, a policy shall be issued showing the time coverage was in force and premium charged for the insurance.

POLICIES IN GENERAL

In California, a policy is either open or valued. An "open policy" is one in which the value of the subject matter is not agreed upon, but is left to be determined in case of a loss. Under an open policy, the measure of indemnity is the expense to the insured of replacing the thing lost or injured in its condition at the time of its loss or injury. A "valued policy" is one which expressed, on its face, an agreement that the thing insured shall be valued at a specified sum. Whenever the insured desires to have a valuation named in a policy insuring any property, the insured may require such property to be examined by the insurer and the value shall be fixed at that time by insured and insurer. The cost of this examination shall be paid by the insured. A clause shall be inserted in such a valued policy, stating that the value of the insured's property has been fixed by such an examination. In those valued policies that do not make the stipulation "not exceeding the amount which it would cost to repair or replace the property with material of like kind and quality", the insurer shall pay losses as follows:

1) In case of a total loss, the amount stated in the policy.
2) In case of a partial loss, the full amount of the partial loss.

In various classes of insurance, different policies or contract provisions are used. However, a degree of uniformity exists in the basic provisions of the policies issued by a majority of insurers. There are certain provisions which are common to many lines. In general, these policies usually contain five parts known as "declarations", "insuring agreement", "exclusions", "conditions", and "miscellaneous provisions". Only the definition of these parts is given this portion; they will be reviewed in more detail in the portion of this manual dealing with the specific policies.

Declaration:- is a term applied to underwriting information identifying the insurer and insured, subject matter, premium or how the premium will be determined, policy limits, policy term, and a list of forms that make up the body of the contract. In some policies, the perils will be listed in the declaration, but in most policies, other than the standard fire policy, the perils are listed in the body of the contract. The declaration normally appears on the first page of the contract.

Insuring Agreement - states what it is the insurer agrees to cover under the terms of the contract. It will refer to the subject matter of the insurance. In the standard fire policy, the declaration and insuring agreement will appear together on the first page of the contract. In those policies that have more than one subject matter, such as homeowner policies, there will be an insuring agreement for each subject matter.

Exclusions - These provisions in a policy will fix the limits on the promises of coverage stated in the insuring agreements. These provisions serve one or more purposes, including elimination for coverage of (1) coverage

for losses caused by certain perils, (2) coverage provided by other insurance, (3) coverage of uninsurable losses. Basically, exclusions are those portions of the insurance contract which limit the scope of the coverage and/or list causes and conditions which are not covered.

Conditions - Those provisions in a policy which call for the insured to do something, or not to do something, either before or after a loss has occurred. The insurer's obligation to pay for losses or to provide services is based on the insured's obligation to perform certain duties, or prevent certain things from happening. One of the duties of the insured, before a loss, is to have been truthful in applying for the insurance coverage. Concealment or fraud by the insured will make the policy void. One of the duties of the insured, after a loss, is to protect the property from further loss. Failure to do so could relieve the insurer of the obligation to pay the claim.

Miscellaneous Provisions - Those provisions which, along with the declaration, insuring agreement, exclusions and conditions complete the insurance policy. These provisions help to establish working procedures for carrying out the terms of an insurance policy.

ENDORSEMENTS

An endorsement is an agreement not contained in the original policy. It may be written on or attached to the policy, thus becoming a part of the policy. Historically, when written on a separate piece of paper and physically attached to the policy, it was originally called a "rider" and, when written on the policy itself, it was originally called an "endorsement". These terms are now used interchangeably.

When a policy has conflicting provisions between a policy and endorsement (rider) the following will normally apply. A contract will be interpreted, if at all possible, so as to give effect to the intent of the parties who executed it. If the conflicting provisions can be reconciled, they will be so interpreted as to give effect to every part of the contract. If they cannot, the following rules, considering only typography, are a generally applied:

1. An endorsement (rider) added after the execution of the policy will prevail over the original policy terms whether they are printed or written.
2. The terms of a printed rider attached at the time the policy was issued will generally prevail over the printed part of the policy, but the assumption is not as strong as in (1) above.
3. A written part of the policy, having been especially chosen to express the agreement of the parties to the contract, will prevail over the more general printed portion or printed endorsement (rider).

THE BUSINESS OF INSURANCE

Although procedures and techniques change over time, the underlying goal of any insurance company is solvency and growth. Staying focused on this goal is often complicated by the ebb and flow of intense issues like premium rate wars, politically inspired regulatory compliance and even government mandates. Still, insurers must carry on with the ***business of insurance*** -- collecting premiums, paying claims and investing capital. Beyond pure financial planning, the business of insurance must contend with the ***nature of the business*** itself. Property-casualty insurance, for instance, is a highly cyclical business that does not necessarily coincide with the general economy. The reasons involve factors of competition, fluctuating investment performance, regulatory delays, rate restrictions and, of course, unexpected catastrophes courtesy of mother nature. Life insurance companies too, are experiencing wider swings in business than in years past due to pressures of competition (insurance and non-insurance based), investment troubles and regulatory restrictions. The most significant shift in the way insurers do business, however, involves regulatory and rating agency concentration on ***operational performance*** and reinsurance. In essence, how companies make money and how much money they owe is becoming more meaningful indicator of solvency over the singular magnitude of what they own.

HOW INSURANCE COMPANIES MAKE MONEY

Overview

When laymen think of an insurance company, it is easy to conjure a world of actuarial precision--the uncanny ability to project the future through sophisticated formulas and mathematical prophecy. Few purchasers of insurance, for instance, are knowledgeable on the subjects of mortality tables, experience ratings, the law of large numbers and probability analysis. Given the vast resources and long histories of insurance companies, it is no wonder the average insurance consumer believes that ALL insurers represent "mega-business" conglomerates with unlimited profit potential.

Students of how insurance company's make money, however, are more likely to see the industry from a much different perspective -- where uncertainty runs high and where profitability can be wiped out in a blink of an eye. They consider mortality to be an evolving concept and experience rating levels something to be shattered by new, more spectacular catastrophes that bend our imagination beyond all belief. For example, the increased mortality of the flu epidemic of 1918 caused insurance companies of that era to lose an equivalent of one year's annual profit and render some company's temporarily insolvent. One can only imagine how modern day diseases such as AID's will affect the "bottom line" as the fatalities compound and companies are required to take "all comers" regardless of pre-existing conditions. In another instance, property and casualty claims filed from Hurricane Andrew amounted to almost 20 times the annual premium collected by all insurers in the State of Florida *combined*. This is also equivalent to the amount of premium collected by all property/casualty insurers nationwide for one full year! Other examples include the Midwest Floods, the California earthquakes. Add to this the day to day struggle insurers confront concerning fraud, groundless lawsuits, growing compliance laws and the ups and downs of stock and bond portfolios and it is easy to see that the business of making money is a constant challenge for insurers large and small.

Basic Money Making

For all forms of insurance, the ***primary source of income*** is the still the premium. Since most accounting considers insurance contracts to be annual in nature, a company tracks its ***written premium*** (an annual figure) versus its ***earned premium*** (1/12th the total written premium if collected monthly, 1/2 if semi-annual, etc). Losses for insurance companies include ***incurred losses*** as well as loss adjustments and there are operating expenses (commissions, overhead, taxes, etc). What remains, if anything, is the ***underwriting gain***. Determining profit at any one point in time is difficult because each insurer has thousands of policies with varying maturities. So, companies use estimated "ratios" to measure ongoing performance. There are ***loss ratios*** -- the ratio of actual losses and loss adjustments compared to earned premiums--and there are ***expense ratios*** -- the ratio of expenses to written premium.

In addition to their "book of business", insurance companies make money from ***investment profits***. In the past, an acceptable investment strategy for insurance companies involved moderate mixing of well diversified risks like real estate and some higher risk bonds. Because premium income was predictable, longer maturity investments, with corresponding higher yields, were common in most portfolios. In recent years, however, the need to improve profitability caused insurers to seek the same high yields in shorter term or more liquid investments (junk bonds). Ultimately, these holdings became the subject of regulatory action and in some cases policyowner panic. Needless to say, insurers will have a tough time producing high investment yields in the years ahead.

Another consideration affecting profitability is competition. Sometimes, insurers sacrifice their own profits to build business. In the mid 1980's, for example, major price wars between insurers were launched in an attempt to build volume. At times, insurance was so cheap that premiums did not cover claim payments. But for years, such losses hardly mattered because the growing volume of premium dollars coming in to the company were plowed into investments that brought bigger dividends and interest payments. Also, the losses from operations turned out to be great tax shelters to offset high yielding investments. This is because insurers were able to take a percentage of their losses as a tax credit. Companies at the time were racking up millions in tax credits or

so-called "paper profits". In fact, a survey among insurance companies in 1984 found that about 40 percent of all property and casualty companies attributed 68 percent of their operating income to tax credits.

Measuring Profitability

It is apparent, that there are several source of income for insurance companies. And, insurer profitability can be measured through a variety of financial tests. A few used by A.M. Best are as follows:

CASUALTY COMPANIES

Combined Ratio After Policyholder Dividends : The sum of the loss ratio, expense ratio and dividend ratio. This ratio measure's a companies underwriting profitability. This ratio does not reflect investment income or income taxes. For companies underwriting predominantly property risks, the normal range for this test is from 95 to 105. For companies underwriting predominantly long-tailed liability risks, the normal range is from 100 to 110. A higher than 105 for property insurers and 110 for liability insurers is considered above the accepted norm for this test.

Loss Ratio : The ratio of incurred losses and loss adjustment expense to net premiums earned expressed as a percent.

Expenses Ratio : The ratio of underwriting expenses (including commissions) to net premiums written expressed as a percent

Operating Ratio (IRIS) : The combined ratio less the Net Investment Income Ratio. The Net Investment Income Ratio is the ratio of net investment income to net premiums earned, expressed as a percent. This ratio measures a company's operational profitability. The operating ratio does not reflect realized and unrealized capital gains or income taxes. The normal range for this test for all types of insurers is currently from 85 to 95. Above 95 is considered normal. This is also one of the IRIS tests (Insurance Regulatory Information System), developed by the National Association of Insurance Commissioners in 1974.

NOI to NPE Before Taxes : The percent of net operating income to net premiums earned before taxes. The normal range is from 3 percent to 6 percent. A ratio below 3 percent is considered poor profitability.

Yield on Invested Assets (IRIS) : Net investment income as a percent of cash and invested assets plus investment income minus borrowed money. This ratio does not reflect realized and unrealized gains or income taxes. The normal range for this test is 6 percent to 8 percent. A poor rating is under 6 percent. This is another IRIS test adopted by the National Association of Insurance Commissioners.

Change in PHS (IRIS) : The change in policyholders surplus from the prior year. Lower than 5 percent is considered poor. The normal rage is from 5 percent to 10 percent.

Return on PHS : The ratio of all operating income, after taxes and realized gains and unrealized investment gains, to the prior year policyholders surplus. Under 5 percent is considered unacceptable. Normal ranges run from 5 percent to 15 percent.

LIFE COMPANIES

Benefits Paid to NPW : This ratio takes total benefits paid as a percentage of net premiums written. A range of 45 percent to 70 percent is average.

Commissions & Expenses to NPW : Here, commissions and expenses are compared to net premiums written. The average is from 30 percent to 55 percent.

Net Operating Gain to Total Assets : This ratio is the net operating gain (after taxes) as a percentage of the prior year admitted assets. A range from 0.5 percent to 1.5 percent is normal.

Return on Equity : This is net operating gain (after taxes) as a percentage of prior year capital and surplus. Companies should average from 8 percent to 14 percent.

Net Operating Gain to Net Premiums Written : This test measures earnings (net operating gain after taxes) in relation to a company's current net premiums written. A range of from 3 percent to 7 percent is considered normal.

Change in Capital & Surplus : A change in capital and surplus is important to track from year to year. A change lower than 5 percent is below average. Most companies average 5 percent to 15 percent.

Property-Casualty Profits

In the early days, property-casualty companies wrote only ***property insurance***, beginning with marine type insurance and later expanding into fire insurance. Liability insurance was not written until the last half of the 1800's. Today, liability insurance constitutes an increasing proportion of the industry's premium. The shift from property to liability is significant because ***liability insurance*** requires higher loss and unearned premium reserves. More reserves, in turn, means more funds to invest and reserves are the industry's largest sources of investment capital. In taking this one step further, the profit and capital gains from investments is an important component of insurer profitability. Another major source of investment earnings comes from policyholder surplus. Surplus is the second largest source of investment capital. Surplus is also critical in determining an insurer's capacity to write insurance and collect premiums. Many states, for instance, require property-casualty carriers to have $1 of surplus for every $2 of net premium written. The National Association of Insurance Commissioners allows $3 premium for every $1 of surplus. It stands to reason then, that having a large surplus permits a higher volume of business to be written, which can mean more profits as well as greater potential earnings from investments.

Life Company Profits

Until the 1970's, low inflation and level interest rates helped to stabilize cycles in the life insurance industry. The primary product was whole life insurance. ***Premiums were predictable*** and, yielding a steady cash flow. Insurers needed only to invest to keep ahead of the relatively low 3 percent to 5 percent being paid credited to cash values. Higher interest rates, rampant inflation and a more competitive playing field changed all that. Beginning in the late 1970's, new insurance products had to be developed and insurance company managers had to find higher yielding investments. With money market accounts yielding more than 10 percent, it was easy to see why many policyowners "cashed-in" their policies to invest elsewhere. Deregulation in other financial areas, namely banking, caused serious problems for life companies since they could market variable interest accounts that automatically increased when t-bills or other indicators rose. The life industry did not acquire this privilege of "interest sensitive" accounts until 1980 when the National Association of Insurance Commissioners created the Model Standard Valuation and Nonforfeiture Law. This opened the door for universal-type policies which skyrocketed to popularity in the early to mid 1980's -- universal's share of total industry premium during this period went from a low 2 percent to almost 40 percent. Then came variable life, universal-variable life, single premium whole life, a resurgence in annuities and guaranteed investment contracts.
(GIC's).

All of these policy derivatives ***changed*** how life companies made money. For one thing, policyowners have become quite a bit more transient than when whole life was the dominant choice. If another, more competitive rate appears, they may surrender and move. So, company managers have lost the predictability of their premium income. Therefore, they are not able to commit to long term investments as they did in the past. In addition, they now assume greater interest rate risks. A swing in interest rates, for example, may require a life company to sell a portion of their bond portfolio at a bad time. In both instances, investment yields can be significantly lower.

WHAT INSURANCE COMPANIES OWN AND INVEST IN

Assets

A major restructuring of insurance companies during the late 1980's and early 1990's has put an entirely new face on insurer balance sheets. Equally significant is the trends sought by regulators and industry groups concerning how insurer assets are valued and the type and ratio of investments allowed. The story begins with assets. Insurers have ***admitted assets*** (investments, real estate owned and data processing equipment) and ***nonadmitted assets*** (unsecured loans, prepaid expenses, agent advances, furniture, supplies, office equipment, etc). A solvency analysis of a company would focus on admitted assets which are more easily converted to cash. Nonadmitted assets might take considerably longer to liquidate or they may be entirely unmarketable. An investment analysis would delve into the company's risk/return profile including the desired bond duration, the mix between stocks and bonds, the mix between taxable and tax-exempt bonds, international diversification and real estate (loans and real estate owned). The combination of solvency and investment analysis is the most difficult task now before asset/liability managers. In essence, they walk the fine line between satisfying regulatory requirements and meeting stockholder expectations.

The most common tests involving insurer ownership and liquidity include the following A.M. Best formulas and ratios:

Quick Liquidity : Quick assets (cash, short term investments, short term bonds, government bonds of five years or less, and 80 percent of common stocks) divided by net liabilities (total liabilities less conditional reserves plus real estate encumbrances less any negative liabilities) PLUS ceded reinsurance balances owed. This ratio measures the proportion of net liabilities covered be cash and investments which can be quickly converted to cash. A normal range for casualty companies is considered to be from 30 percent to 50 percent. Life companies operate at 75 percent to 90 percent levels.

Current Liquidity (IRIS) : Cash plus invested assets and encumbrances on other properties compared to net liabilities plus ceded reinsurance owed. This ratio measures the proportion of liabilities covered by cash and investments. A number less than 100 percent means that a company's solvency is dependent on the collectibility or premiums and sale of investments. A ratio lower than 120 percent is considered poor for property insurers. Liability companies, however, can operate at levels between 100 and 120 with normal results. Life companies test in the 95 percent to 110 percent range.

Operating Cash Flow : The ratio of funds generated from an insurer's operations, excluding dividends, capital injection, unrealized stock gains/losses and non-insurance gains/losses. This test would measure a company's ability to meet its obligations internally. Any negative balances would be considered poor.

Investments

As a general rule, ***insurance companies invest*** only after they have met their surplus and reserve requirements (discussed below). Investments outside reserve and surplus funds lean toward interest bearing or income producing investments that are non-speculative in nature. While most states do not specify where excess funds must be invested the undertone is conservative. The State of New York, for instance, provides a listing, they call Section 1405, of appropriate choices. They include: Government obligations issued by the United States, the District of Columbia, any territory of the United States; obligations and preferred shares of U.S. institutions (corporation, association, trust company, partnership, joint venture); obligations secured by liens on real property located within the United States; investments in real property located in the United States; and personal property located or used in the United States which is held directly or evidenced by partnership interest, stock, trust, etc.; common shares of United States institutions and certain Canadian and other foreign investments. New York also allows some leeway in this scenario, sometimes referred to as the ***basket provision*** whereby an insurance company may invest a certain percentage (no more than 3 percent of admitted assets) in investments that do not quite fit Section 1405 classification.

In addition to this, many states have special provisions relating to the amount of ***investment*** an insurer may make

in a subsidiary or other insurance company. New York Insurance Code 1701 directly prohibits a life insurance company from organizing or acquiring a bank, trust company, savings and loan, credit union, sales finance company or any other company engaged in the business of financing or accepting deposits that may be insurable by any federal or state insuring agency. Further, New York insurers may not invest in any subsidiary where its total aggregate investment would exceed 10 percent of admitted assets. Investments in other insurance companies or insurance subsidiaries are exempt from this limitation. Beyond this, some states restrict insurance company investment by the type of investment. Examples include preferred and common stock, where investments in a single company must not exceed 4 percent of admitted assets. And, not more than a total of 20 percent of all admitted assets can be invested in common stocks (New York).

Surplus

Before insurers can write business or make investments, they must meet minimum capital and surplus. Far and away, the most important measure of an insurer's capacity to function is surplus. ***Policyholders' surplus*** is the difference between an insurer's total admitted assets and liabilities -- i.e., net worth. It is also the principal measure of an insurer's financial cushion for policyholders when insurance company results turn sour. Increases in policyholder surplus reflect an insurer's ability to provide security. Each state is different as to the levels of surplus required. Surplus requirements also vary depending on the line or lines of business an insurer is authorized to write. Even once established, regulators strictly control the type of cash or cash equivalents that make up surplus. Typically, these investments are limited to investments in cash, U.S. Government securities, or securities (bonds) of the state in which the insurer is domiciled. In New York State, insurance companies must keep not less than 60 percent of the amount required as capital and surplus in cash or cash equivalents similar to those described above. Once capital and surplus requirements are met, an insurer is permitted to invest its funds in a broader range of securities and investment products. These options range from corporate bonds and preferred and common stocks to real estate and mortgage loans, as well as to the more speculative investments like junk bonds, financial futures and put and call options.

Overall, the trend in policyholders surplus is still increasing, but at a very slow pace. For example, the rise in surplus during the year 1992 was only 2.7%--about one-fifth the previous year. For the most part, this decline was due to unprecedented losses suffered by casualty companies (Hurricane Andrew, etc). So great were these catastrophes that in the same year, the industry suffered its first operating losses in over seven years. The fact that surplus increased is directly attributed to the actions that management has vigorously pursued during 1992 and 1993. To offset losses, insurers have sought capital contributions from their parent companies, sold real estate holdings and liquidated a large part of their bond portfolios, which prospered well in the late 1980's and early 1990's. The gains on these sales have, for now, "shored-up" company surplus. Of course, this is nothing new. Insurer's have often fallen back on their investments to recover from major underwriting losses. In past situations, however, inflation kept real estate prices and bond yields high. This time around, as the industry recovers from its losses, subsequent profits will be reinvested at lower rates. Further, it may take many years for the real estate market to recover before insurers will again consider it an option. So, there will be fewer investment gains in the years ahead to offset future surplus problems. In essence companies will have to contend with weakened balance sheets.

Reserves

Reserves come in several different flavors. Property and casualty companies maintain ***unearned premium reserves, loss reserves and voluntary reserves***. Life companies maintain ***policy reserves***. The basic premise of a reserve is to "stock-up" capital to cover anticipated losses. Property and casualty companies need unearned premium reserves to provide for the return of premium or pro-rata share thereof when a policyholder cancels. Reserving for unearned premiums is particularly hard on insurers because they are usually required to show the full amount of the liability and the amount allowed for expenses is usually spread over the term of the policy when, in fat, it is all paid within the first year. For these reasons, unearned premium reserves are generally an overstated. Loss reserves, on the other hand, are a little more practical in application. They cover claims that have been reported, both adjusted and unadjusted, and claims that have happened but not reported. The size of the loss reserve is relative to the type of coverage and experience. Some insurers, are even required to use projections and estimates to reflect the many contingencies that can affect loss reserves. Health

insurance companies, for example, estimate claims that might occur after the policy expires. Worker compensation insurers budget on-going litigation. And life insurers generally use discount factors to reflect the time value of money and changing mortality concerning policies of potentially long duration. Insurance companies are constantly modifying their loss reserves to meet minimum regulatory requirements yet not exceed IRS guidelines for maximum deductibility. A high level of reserves also depresses profit which highly concerns shareholders.

Policy reserves are used primarily by life insurers to insure that policy obligations will be available when they are due. ***Policy reserves are measured*** by calculating net premiums received over the life of the policy (total premiums received less expenses) and the assumed interest that will help build cash value to pay death benefits. Mortality rates and reserve requirements change over the space of time which permit these figures to be modified. Policy reserves are usually grouped by block of business. In other words, policies issued in the same year, with similar face amounts, interest assumptions, age and risk level of insured. Uniformity makes it easier to group and calculate policy reserves. Over the years, the size of the policy reserves builds until the mortality cost for the particular block of business is covered. Then, the holding of reserves decreases until reaching zero when final claims are paid.

Specific A.M. Best formulas to calculate surplus and reserves include the following:

CASUALTY COMPANIES

Non-Investment Grade Bonds to Policyholders' Surplus : This test is vastly more popular due to the junk bond rush of the late 1980's. This ratio measure's a company's exposure to non-investment grade bonds as percentage of policyholder's surplus. Typically, bonds rated less than BBB are consider non-investment grade. The normal range for companies is from 0 percent to 10 percent. Above 10 percent is considered risky.

Loss Reserves to Policyholder Surplus : This ratio measures the potential impact that deficiencies in loss reserves have against surplus. The higher the ratio, the more reserves should be scrutinized. Casualty companies typically score from 50 percent to 150 percent.

Development Reserves to Policyholder Surplus : This reflects the change in loss reserve, as a percentage of surplus, from one period to another. The normal range is from 0 percent to 25 percent.

Developed Reserves to Net Premiums Earned : This test measures whether or not a company's loss reserves are keeping pace with premium growth. For the industry as a whole, the ratio is rising.

LIFE COMPANIES

Non-Investment Grade Bonds to Capital Surplus For purposes of this test, Class three bonds are considered below investment grade. The usual range for this category is 20 percent to 70 percent.

Mortgages & Real Estate to Capital & Surplus : The usual range for this test is 150 percent to 350 percent.

Delinquent & Foreclosed Mortgages to Capital & Surplus : Delinquent mortgages are those over three months past due. Normal operating ranges for this test are between 5 percent and 35 percent.

Affiliated Investments To Capital & Surplus : A ratio higher than 35 percent is considered risky.

WHO INSURANCE COMPANIES OWE

If there is anything the industry can learn from recent insurer liquidations it is that financial statements can be misleading. As we have just discovered, a company's earnings and surplus can appear to look good even when insurance sales are poor. Capital contributions or the sale of investments can easily make the bottom line seem profitable. Now, another factor must be considered -- who insurer's owe -- ***leverage***. In the insurance industry, leverage is typically incurred through the process of reinsurance. Insurers often find it necessary or at least

advantageous to reinsure risks that they insure. For the most part, reinsurance remains as negotiated contracts between a reinsurer and the ceding company (original insurer). Reinsurance is important in that it contributes strength to an insurer by taking over part of its financial burden. This added strength, however, does not come without a price tag. The high cost of reinsurance and the safety and strength of the reinsurers themselves are now issues of concern to regulators and the industry.

Reinsurance plays a particularly vital role in the support of new companies and new policies. For new insurance companies, reinsurance is necessary to "selling" financial stability. After all, who wants to do business with a new company with no track record. Put a large established company guaranteeing the claims against the new company, however, and customers are more easily convinced. Leverage, or reinsurance, is also needed by many established companies who have had big spurts in business. A specific problem that all insurers have is the need to bolster their surplus during high volume periods. This is particularly troublesome during the first policy year. Accounting valuation of the policy and high costs to issue the policy (commissions, etc) in the first policy year post a loss and a reduction in company surplus. A strain on surplus can create problems with regulators and lenders, so insurers go to great lengths to "shore up" their surplus from first year losses. In some cases this is accomplished using additional capital contributions, but more often, the company will buy surplus relief reinsurance. This has the same affect to the balance sheet as adding capital and surplus is not reduced. In the process, however, a liability to the reinsurer is created. One test to determine if the amount of leverage is within accepted norms is as follows:

Ceded Reinsurance Leverage : This test measures a company's dependence on reinsurer stability. It is the ratio of reinsurance premiums ceded plus net reinsurance balances owed to policyholders surplus. The normal range for this test is from 0.5 to 1.3. Companies with higher ratios are considered to be too dependent on reinsurers.

REASONS WHY INSURANCE COMPANIES FAIL

Whenever a major financial institution is known to be underperforming or worse, "seized" by a regulator, there are accusations levelled about how and why this could happen. Investigations first seem to focus on "who" was at fault and the many sorted details on innocent customers who will be affected. Almost always, someone is next presenting a case on the "incompetence" of regulators, the greedy industry without compassion for its customers and some kind of comparison on how this same kind of problem happened somewhere else with devastating results. That is why, the current problems in the insurance industry are compared, ad nauseam, to recent calamities in the savings and loan industry. Some have gone so far as to label the insurance industry a savings and loan debacle waiting to happen. Regulators of both industries are being chastised for their lack of controls and need for faster response and early warning systems to alert the consumer.

Lack of Confidence

No one could say that these charges are entirely false. Every industry has its rogues and less than ethical players. What is often forgotten, however, is the fact that consumers create many of their own problems by choosing to ignore risks, even when they are told (or supposed to know) what could go wrong. It was fairly common knowledge, for example, that Executive Life was able to pay higher rates on annuities because they invested in higher risk investments. Basic economics tell us that the demand for a product or service is a "derived demand" -- derived, that is from the customers demand for those goods and services. Clients for Executive Life demanded higher rates. This does not excuse any alleged wrongdoing that may have been perpetrated by Executive Life, but policyholders who want higher than market returns should share in the risk of loss. Another interesting point about consumers is their sometimes unrealistic expectations. What consumers expect and anticipate may be the very thing that creates the problem. For example, when bond rating agencies dropped the portfolio ratio of Mutual Benefit Life, policyholders anticipated a faltering company. The eventual "run on the bank" actually created or accelerated the liquidation. Also, every casualty agent can attest to client demands for cheap coverage -- any coverage -- to meet some licensing or contract requirement. When something goes wrong and a non-admitted insurer is not capable of fulfilling its promises, one can only imagine how these clients will steam over the incompetence and lack of due care exercised by the agent.

Free Market Failures

Sometimes, the reason companies or insurers fail can only be explained as a consequence of free-market forces. They result in cases where large survives small, a new concept makes an old one unattractive, an unexpected event is just too large to recoup losses, lower prices prevail over benefits, higher interest rates win over lower rates or the economic climate is simply not conducive to making a profit. It is suggested that a combination of ALL these factors are responsible for reasons why some insurance companies fail in a free market.

Slim Profits

Declining profits are still another explanation for insurance failures. Premium wars and unusual natural disasters have whittled profits in property-casualty companies to levels lower than most other industries, while risk remains high. Life insurers have suffered from thinning margins of profits and greater exposure to interest rate cycles. In severe situations, either of these problems could cause a company to operate below accepted levels or force a conservatorship.

Management Mistakes

In 1990, the Government Accounting Office compared the failures in the insurance industry with 20 of the largest savings and loan institution failures. Of the eleven root causes identified for the failures, ten were the same for both the insurance companies and the thrift institutions. These included multiple regulators and infrequent examinations, rapid growth in risky business areas, poor underwriting, extensive underpricing, excessive reinsurance or loan participations, ***bad management***, and inadequate loss reserves. Only time will tell if there were, indeed, intentional or negligent abuses in the insurance industry similar to those found in the savings and loan shakeout. An ongoing investigation into insurance fraud is underway by the Justice Department and the Senate has held at least two different investigations of insurance fraud since 1990. Certainly, violations will be found, but it is not likely to be as widespread a problem as the savings and loan fiasco since insurance companies are, by design, better able to "pay" for their mistakes since they are financially diversified, more liquid and quite a bit larger (most insurance companies are national in scope). Critics will point out, however, that while these differences may be true, insurance companies DO NOT have any federal backing, such as Federal Deposit Insurance as a backup. This would suggest that a failure by an insurer could be a greater downside for policyholders -- especially if the state guaranty funds backing insurers failed to function as promised. A major discussion of state guaranty funds can be found in a later chapter.

The savings and loan debacle will probably outshine the "fallen angels" of the insurance industry for another reason -- people. Many prominent savings and loan executives took big falls in the thrift shakeout, including civil and criminal charges. The spotlight was intense and involved some of the nation's most prominent figures -- Charles Keating, Gerald Ford's son, etc. Similar actions are now being pursued against insurance executives without as much fanfare. As case in point is the suit by the State of New Jersey against former officers and directors of failed Mutual Benefit Life. Charges allege negligence by these individuals that permitted Mutual Benefit to pursue shaky real estate investments and leveraged buyouts. Some of the investments, as charged, involved conflicts of interest for top officers who purportedly profited from the deals. A list of the parties named is like a Who's Who in America, including a U.S. Senator, a top official of American Express, the owner of a pro football team and more. A similar drama is being played out in a suit filed by the State of California regarding Executive Life. This action (Garamendi v. Carr, etal) names Fred Carr, several corporate offices, former auditors Deloitte & Touche, ratings services A.M. Best Co., Moody's and Standard & Poors. The liquidator may also sue the insurer's managing general agents and reinsurers who were believed to have inside information on mismanagement within the company.

Junk Bond Investments

The search for higher yields seemed to dominate investment manager thinking in the 1980's. In part, it was driven by consumer demands for higher earnings. At one time, for example, single premium deferred annuities were yielding as much as 14 and 15 percent (tax deferred). Then came single premium life, structured settlement

annuities and guaranteed investment contracts (GIC's). Once a company offered high rates, others followed suit in an effort to remain competitive. In order to pay these higher rates, insurers needed to invest at higher rates. At about the same time, brokers like Drexel Burnham were heavily involved in funding major corporate takeovers and mergers. Insurance companies were the perfect entity to finance these transactions through the purchase of bonds. A single transaction, such as the 1986 Maxxom takeover of Pacific Lumber Company, could involve as much as $900 million. It wasn't until Michael Milken took a fall that bond issues such as these became a sore issue in the financial dealings of insurance companies. Companies with more than 20 percent invested "junk bonds" were under heavy criticism, by agents, regulators and consumers alike. Executive Life of New York and Executive Life of California were over 60 percent invested in junk issues. And, it took even longer for regulators to take action because for years, these bonds were held on the books at their purchase cost, not market value. So, insurer's financial statements still looked reasonable. In addition, regulators were not as harsh in classifying what is a "low grade" bond as were the rating services like Moody's and Standard and Poors.

In 1990, standards were laid down by the National Association of Insurance Commissioners ranking the quality of issues. A numeric ***classification*** is assigned to all ***bond holdings*** as follows: Class 1 (highest quality), Class 2 (high quality), Class 3 (medium quality), Class 4 (low quality), Class 5 (lower quality) and Class 6 (poor quality). Investment grade securities now may only qualify as Class 1 or Class 2 bonds. Classes 3 through 6 are categorized as non-investment grade or "junk" bonds. Obviously, companies that maintain a high concentration of non-investment grade bonds will be scrutinized more closely than in the past. Further, regulators and rating agencies alike are also giving attention to the types of investments made and the ability to "match" assets and liabilities (the concern is that where assets are not linked to liabilities, flucuations in interest rates can negatively impact cashflow and surplus. With these precautions in place and with promise of stepped-up regulatory monitoring, a decline in non-investment grade securities has occurred during the early 1990's. Much of this through a "controlled liquidation" to help shore up and clean up insurer balance sheets. Industrywide holdings in 1993 were estimated at only 3.8 percent of invested assets compared to 7.2 percent in 1990.

Real Estate Investment Losses

Without a doubt, another contributor in the insurance insolvency war is real estate. Specifically, nonperforming and underperforming commercial real estate. Most insurer's hold over 90 percent of their real estate mortgages in commercial properties. It is the nature of these loans, not delinquencies that has caused problems. Delinquent real estate loans reached a peak of only 7 percent of the industry's total 1993 loan portfolio -- mostly commercial projects that started unwinding around 1990. ***Problems with insurer real estate and loans took root*** in purchases and loaning in the "oil patch" areas (before the oil industry buckled under) and the building boom of the 1980's. During this latter, banks and thrifts maintained their role as construction lenders while insurers competed more heavily in the "mini-perm" market. ***Mini-perms*** are loans of from five to seven years designed to fill the gap between construction financing and long-term financing. As longer, permanent loans became harder to get in the 1980's so grew the mini-perm market. And, as luck would have it, many of these same loans are coming due in the early 1990 recession at the same time that the demand for commercial space is down and the ability to refinance or replace these maturing loans is practically nonexistent. Specifically, this is the reason why public rating services have downgraded so many life insurers with large mortgage loan portfolios. Concurrently, ***commercial property owners*** have encountered great ***difficulty*** in generating sufficient operating revenues, on the heels of major rental rate deals and other tenant concessions, to keep mortgage loans current. Thus, a rise in loan delinquencies has also occurred, again, mostly among office and commercial real estate.

To date, the ***effects of loan delinquencies*** on insurer balance sheets has been minimal since real estate owned and mortgages typically represents less than 3 percent of the industry's assets (about 19 percent for life companies). However, with the advent of new Risked Based Capital requirements, "***down rating***" by major services for insurers with large real estate portfolios and poor public perception about insurer real estate owned, the negative impact of delinquent real estate has intensified. The threat of "bad press" has prompted many insurers to "sell short" or ***restructure underperforming real estate and real estate loans*** -- sometimes prematurely -- to avoid rating writedowns. Further, a company with slightly higher than normal mortgage delinquencies or an above average volume of real estate loans could now be subject to regulatory control or corrective action under new National Organization of Insurance Commissioners guidelines. Under these standards, regulators could

force companies with a low ***risk capital base*** to raise capital and take other steps to avoid failures. In more severe cases, reserves for expected real estate losses could be mandated. Also, an insurer must calculate whether capital deficiencies under the NAIC rules, based on the mix of their real estate portfolios and real estate owned. When deficiencies are present, the insurer may be forced to consider changing its asset mix -- selling nonperforming real estate in exchange for bonds. As of 1993, nonperforming real estate mortgages has declined from a peak of about 8 percent in 1992 to just under 6 percent. However, this does NOT account for money raised through ***guaranteed investment contracts*** which are essentially mortgage backed bonds. A major inventory of these contracts will be maturing in the mid 1990's which will exert added pressure for performance. Reductions of nonperforming mortgages have also been attained by restructuring or refinancing troubled loans or providing new loans for new buyers on foreclosed real estate. With a stroke of the pen, these new loans or newly structured loans are no longer nonperforming. Yet, the real estate tied to these loans is the same. Further, insurance companies may own problem real estate through partnerships. Again, this nonperformance is not reflected in industrywide statistics. Another significant trend of the early 1990's is the ***"bulk-sale" of real estate owned***. An appetite for non-performing real estate developed as a result of the banking industry fallout. Agencies like the Resolution Trust Corporation found plenty of buyers for foreclosed real estate and underperforming mortgage loans. At a time when the Resolution Trust was running out of investor, insurance companies were in the mood or required to let go of some large, but less than spectacular real estate properties. Sales prices like $634 million (Travelers) and $1 billion (Prudential) have been commonplace. While some these properties were sold at somewhat competitive prices, the hardest financial pill to swallow was the time period between the default of payment and actual foreclosure. Liberal tort laws allowed owners lengthy bankruptcy protection which cost insurers dearly or forced them to restructure loans at the last minute. In many cases, insurers had to be involved and stand the cost for managing these properties until an agreement could be reached.

Not all of the "moves" to reduce nonperforming real estate have been accomplished voluntarily by insurers. Even before NAIC risked based capital ratios, insurers were feeling regulatory heat to restructure or move nonperforming loans off the books to avoid capital ***deficiencies or substantial write-downs under generally accepted accounting principles (GAAP)***. An insurer typically carries real estate assets at historical costs. Under GAAP guidelines, however, collateral received as a result of a foreclosure is returned to the insurer at its fair market value. Because commercial property values have declined so rapidly, fair market values on foreclosed properties could be substantially less than the historical value. This can result in substantial GAAP write-downs at foreclosure. Owning and managing foreclosed real estate can also drain an insurer resources. A decision must be made whether to continue holding the asset until the economy rebounds or risk further deterioration if the economy goes the other way. Holding on may also involve setting aside reserves under NAIC rules. Selling foreclosed real estate may also be difficult to accomplish in today's depressed market. With many other lenders and insurers selling nonperforming real estate, a deep discount may be required to unload a problem property. This can result in further write-downs from the value carried on the books. In either case, holding or selling depressed real estate, the process can adversely affect earnings, capital requirements, dividends and ratings. An option for an insurer may be to ***package multiple properties and mortgages as collateral for a new securities offering to raise new capital***. This will aid an insurers liquidity, but the original real estate asset or loan would remain on the books, perhaps at a deep discount. Again, the need for additional reserves exists and the condition still "muddies" the balance sheet. A more creative approach involves "spinning off" or selling problem real estate and loans to a new entity (created by the insurer). The new entity sells bonds or stock to the public to buy the problem assets. Since this is considered a sale, the asset gets off the books, the need for reserves can be eliminated and the insurer's balance sheet is cleaned up. This helps the company meet GAAP, statutory capital requirements and improves the "rating picture". In addition, the real estate assets are, in a manner of speaking, retained to take advantage of any real estate turnaround. As with any strategy, there are pitfalls to the "spin-off" including deep discounts, the cash drain to start a new entity and the possibility that the transfer may be a taxable event.

By all standards, the handling of problem real estate and mortgage loans is part of doing business in today's insurance world. Realistically, this has been the cycle of real estate and most investing for as many years as insurers have been around. One must wonder, however, if the popularity of "***real estate bashing***" has promoted a widescale purging of real estate assets beyond reason. Real estate has been a traditional sound and profitable investment for insurance companies since their inception. It has been the policy of insurance companies to invest in real estate for income and hold these assets to maturity. Therefore, the industry feels that only an assessment

of how these assets perform over time is important -- not a temporary drop in book value reflecting some current market condition. While this may be a sound investment practice it is unfortunate that regulatory measures and rating standards related to real estate are so closely influenced by public perception of the moment.

Fortunately, and, for the meantime, most mortgage loan delinquencies and problem real estate have settled with the large insurers. Analysts do not expect this to create an industry crisis similar to the savings and loan debacle. Moreover, most insurers have substantial cushions against real estate losses and/or have raised new capital offsets.

Regulatory Guidelines

The outcry to limit insurer's holding of junk bonds and real estate has forced many companies to restructure their portfolios by ***divesting these assets***. In the case of bonds, a very low interest rate cycle during the early 1990's greatly favored the sale of bonds, and, in fact, created large capital gains for many companies to offset losses elsewhere. In the case of real estate and commercial loans, divesture has NOT been as easy considering difficult market conditions. In response, the rating agencies and regulators are fast developing new criteria to assess the ***ratio of junk bonds or high risk issues*** and less favored assets like real estate, common stocks and real estate owned by the insurer. Examples include the WAR (Weighted Asset Risk) Formula developed by Townsend and Schupp, Risked Based Capital and Bond Classification developed by the National Association of Insurance Commissioners. The details of these programs are best left to later sections, but the importance of these tools is that each analyzes insurer assets by breaking down the various levels of risk they present. In essence, B rated bonds are assigned a higher risk than AAA bonds. Using historical simulations, formulas such as these may have raised "red flags" years before the downfall of companies like Executive Life, First Capital Life, Fidelity Bankers Life and Mutual Benefit Life.

UPDATE / PROPERTY & CASUALTY

california regulations

ab 702 / insurance advertising

Requires licensees to include their license numbers on business cards, premium quotes and print advertisements.

Ab 1650 / worker's comp

Establishes fraud and criminal prosecution charges for an employee who states he cannot perform work because of an injury from a previous employer yet he is found performing these tasks with a new employer.

Ab 1754 / fair plan

Rates for FAIR Plan policies shall not be excessive or discriminatory.

Ab 2086 / sb 1993 earthquake insurance

The California Earthquake Authority was created in 1996 to resolve the crisis in insurance availability . . . an out-cropping of $13 billion in damages from the Northridge earthquake. The CEA represxents a unique partnership between government and the private sector. The authority is administered by a five-person board comprised of elected officials or their designees. The funds available to pay claims come from premiums, insurance companies and reinsurance purchased by the CEA. No public money, including funds from the state's general fund are pledged to cover losses incureed by CEA policyholders.

Presently the CEA has acces to $7.4 billion to pay claims. Damages in excess of this amount will result in a pro-rata payment to policyholders, ie.e, they may not get the full amount of insurance they paid for. Howevere, resources for CEA are expected to grow over time to hopefully provide a sufficient "cushion" against any claim shortfall.

Facts About Earthquake Insurance and CEA Coverage

Insurers must still offer earthquake insurance but may elect to sell private coverage or CEA insurance. However, it is necessary to have homeowners insurance with a CEA participating company to purchase earthquake coverage through CEA, i.e., it can't be purchased alone.

Interim rates for CEA coverage average $3.29 per $1,000 coverage per year. By law, no more than 3 percent of all premiums dollars may be spent to administer CEA. Ten percent is commission paid to agents, 4 percent to insurance companies to process applications for CEA and the remianing 83 percent is retained to pay claims or purchase reinsurance. Residents in high risk areas will pay more. High risk areas have been delineated through a scientific survey measuring earthquake faults, soil conditions and other factors which divide the state into 19 separate rating territories.

The CEA policy deductible is 15 percent. Pools, spas, detached agarages, fences, patios and other outbuildings are not covered. Personal property is covered up to $5,000 and an allowanceof $1,500 is provided for emergency living expenses. If the CEA meets certain financial targets, coverage for additional living expenses increases to $2,500 in the second year and $3,000 in the third year.

The CEA policy for renters provides $5,000 in coverage for personal property and $1,500 for emergency housing expenses. Renter policies have a deductible of $750 and cost between $15 and $50 per year.

NOTE: The California Residential Earthquake Recovery Fund failed in California because it was not actuarily based and purchases were misled into thinking it was full coverage. Actually, it was designed to pay claims only up to the deductible from a private earthquake insurance policy ($15,000 maximum).

Ab 3137 / insurers

Provides a transfer of all distributable property from a liquidated insurer to the Department of Insurance. Proceeds

of selling this property is deposited in the Insurance Fund.

Ab 3232 / Earthquake insurance
Revises the amount of assessment of participating insurers in CEA.

Ab 3233 / license fees
Provides that a fee increase paid by insurance licensees may not exceed 10% without the prior approval of the Legislature.

Ab3313 / assigned risk
Modifies effective dates for certain assigned risk plans.

Sb 1906 / surplus lines
Requires nonadmitted insurers to submit a certified copy of examination reports to the Insurance Commissioner.

Proposition 213 / auto
Effective 11/96. Restricts the eligibility of certain California drivers to recover certain types of damages from insured drivers even if the insured driver is at fault. Uninsured motorists will no longer be elgibile to collect non-economic damages for their injuries.

proposition 103 / auto
Passed seven years ago requiring rates reflect the insured's driving record, miles driven and extent of driving experience.

New rules have been ordered to put into effect key provisions of Proposition 103, the insurance reform initiative approved by voters almost seven years ago. Proposition mandated that where a person lives shall not be the dominant standard upon which rates are based and that safe drivers should pay less and that those who drive more should pay more and that rates should reflect the insured's driving experience.

When calculating automobile rates insurance companies must now consider three mandatory factors: the insured's driving safety record, the number of miles driven annually and the extent of driving experience. Companies may also consider all or some of fifteen optional factors including the type of vehicle, use of vehicle (business, pleasure, farm, etc), the gender and marital status of the insured drivers, accident claims frequency and severity in the area where the vehicle is garaged.

Under the new regulations, the state will be divided into ten bands, into which census tracts or zip codes with similar claims experience will be grouped. Accident frequency and severity within the bands may be considered, but only after all other optional factors used by the insurer have been applied. This should have the effect of recognizing the different driving environments that exist in California, while de-emphasizing the importance of territory as a rating factor.

Fair claims settlement practices
New rules, effective 1/97, governing claim settlement practices for casualty, life, disabilty and health agents. Licensees must demonstrate compliance training.

STATE OF CALIFORNIA Dave Jones, *Insurance Commissioner*

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NOTICE

TO: **All Property and Casualty Broker-Agents, Personal Lines Broker-Agents, Limited Lines Automobile Insurance Agents and Other Interested Parties**

SUBJECT: **Automobile Insurance for License Holders Qualifying Under Assembly Bill 60 (Non-citizen Licensure)**

DATE: **February 12, 2015**

Background

Assembly Bill (AB) 60 (Chapter 524; Statutes of 2013) enacted California Vehicle Code Section 12801.9 which requires the California Department of Motor Vehicles (DMV) to issue driver's licenses to non-citizen license applicants who meet all qualifications for licensure and provide satisfactory proof of their identity and California residency.

Most drivers choose to purchase an automobile liability insurance policy as proof of financial responsibility when they register a vehicle with DMV.

Responsibility to Treat Assembly Bill 60 License Holders Fairly

As licensed insurance producers you were trained on the types of ethical responsibilities you owe to your companies, prospective customers, policyholders, regulators, other agents and to the public at large. Among these responsibilities is the expectation that you will place the customer's interest first; identify the customer's needs, recommend products and services that meet those needs; and provide exemplary service to your clients.

AB 60 driver's license holders may be less familiar with some insurance products so it is extremely critical that you uphold your ethical responsibilities when dealing with these prospective customers. Specifically, the department expects that you will treat these license holders fairly, placing their interests first and only recommending policies that are appropriate for their needs.

Report Suspected Incidents of Unlicensed Individuals Transacting Insurance

Report suspected incidents of unlicensed individuals transacting insurance to the department's Consumer Hotline at (800) 927-4357 or email at Contact Us

California's Low Cost Automobile Insurance Program

AB 60 driver's license holders are eligible to purchase liability insurance through California's low cost automobile insurance program if they meet the eligibility requirements. The law requires all producers to inform potential customers of this option to obtain automobile insurance at affordable rates to meet California's financial responsibility laws. To learn more about the program, visit the department's website at http://www.insurance.ca.gov/01-consumers/105-type/95-guides/01-auto/lca/index.cfm or www.mylowcostauto.com