

### Have You Taken Advantage of All Your New Interest Group Member Benefits?

You can read newsletters filled with hot topics, join online discussion boards, initiate idea exchanges, make valuable connections and much more — for every interest group. Have you selected your primary interest group yet? If not, go to the interest group area of the Society's Web site, [www.cpcusociety.org](http://www.cpcusociety.org), to indicate your primary area of interest. You can also identify your preference as to how you wish to receive an interest group's newsletter. Of course, as a paid CPCU Society member, you have electronic access to all interest group newsletters.

## Message from the Chair

by Nancy S. Cahill, CPCU, AU



**Nancy S. Cahill, CPCU, AU**, is manager-special projects, for Liberty Mutual Agency Markets Regional Companies Group in Keene, N.H., part of the Liberty Mutual Group. She also holds project manager oversight responsibilities for the Agency Compensation and Information Systems of Agency Markets. Her experience includes more than 30 years in personal and commercial lines underwriting, commercial lines product development, training and being an agent. Cahill received her bachelor's degree from Capella University and also holds a master's certificate in project management from The George Washington University. She is continuing her education and studying to attain Project Management Professional (PMP) certification.

### Professional Positions Available!

The Underwriting Interest Group is looking for talented, motivated and knowledgeable people to join the Underwriting Interest Group Committee. Yes, we are looking for you!

The purpose of the Underwriting Interest Group is to address Society members' specialized needs and interests in the underwriting area and promote discussion of improving the underwriting process via sound risk selection theory and practice.

The Underwriting Interest Group Committee is very active. We publish newsletters, maintain a Web site, develop Annual Meeting seminars and sponsor a Lunch & Learn. With your help, we could do even more! The adage "Many hands lighten the load" is very true with committee work.

Are you interested but concerned about the time commitment? An interest group committee term is for three years, with the expectation that members will attend two yearly planning meetings — one held on the Saturday during the Leadership Summit in the spring and the other on the Saturday during the Annual Meeting and Seminars in the fall. Beyond that, your time commitment depends on which activities you choose to participate in, e.g., writing a newsletter article, helping plan seminars, etc. In all likelihood, however, the time commitment will be relatively small.

A rewarding aspect of being a member of the committee is the personal benefit you will derive from working with a dynamic group of people who are passionate and committed about what they are doing. And, you will enjoy virtually unlimited networking opportunities.

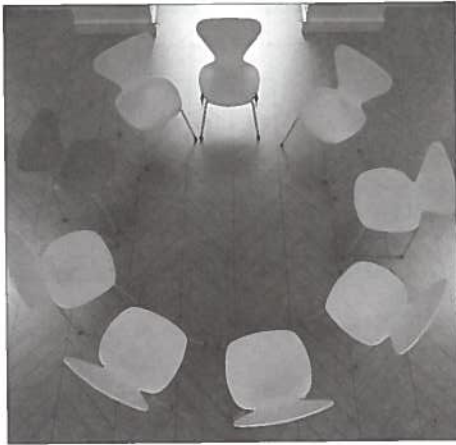
*Continued on page 2*

### What's in This Issue

Message from the Chair . . . . .	1
From the Co-Editor. . . . .	3
Quantifying the Value of Predictive Modeling . . . . .	4
The 'Auto' and 'Mobile Equipment' Changes in General Liability and Commercial Auto Policies . . . . .	7

## Message from the Chair

Continued from page 1

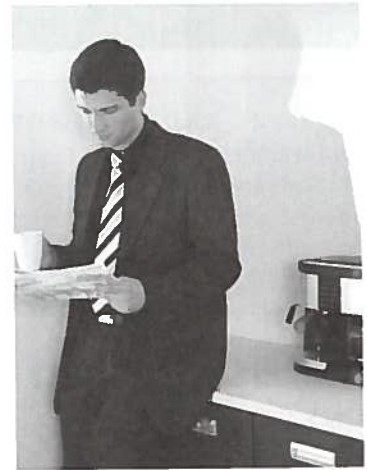


Have I piqued your interest? I hope so! Please go to the "Members" section of the CPCU Society's Web site, [www.cpcusociety.org](http://www.cpcusociety.org), download and complete an Application for CPCU Society Service and either mail, fax or e-mail it to Malvern.

If you have any questions about volunteering for service on the Underwriting Interest Group Committee, please contact me at [nancy.cahill@libertymutual.com](mailto:nancy.cahill@libertymutual.com) or (603) 358-4251. ■

## Get Exposed!

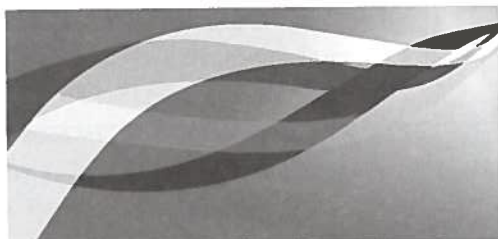
We're always looking for quality article content for the Underwriting Interest Group newsletter. If you, or someone you know, has knowledge in a given insurance area that could be shared with other insurance professionals, we're interested in talking with you. Don't worry about not being a journalism major; we have folks who will develop content for "publication-ready" status. Here are some benefits of being a contributing writer to the Underwriting Interest Group newsletter:



- Sharing knowledge with other insurance professionals.
- Gaining exposure as a thought leader or authority on a given subject.
- Expanding your networking base.
- Overall career development.

To jump on this opportunity, please e-mail either **Stephen W. White, CPCU, AIS**, at [steve.white.bnbg@statefarm.com](mailto:steve.white.bnbg@statefarm.com) or **Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, CLCS**, at [greg.massey@zurichna.com](mailto:greg.massey@zurichna.com).

## The Underwriting Interest Group Presents ...



### CPCU: Your Bridge to the Future

CPCU Society Annual Meeting & Seminars  
Sept. 25-28, 2010 • Orlando, Fla.

#### Commercial Coverage Conundrums — An Interactive Case Study Approach

Tuesday, Sept. 28 • 9:45-11:45 a.m.

*(Co-developed by the Risk Management Interest Group)*

#### Lessons Learned from Recent Catastrophes — Have We Really Skinned the CAT?

Tuesday, Sept. 28 • 1:30-3:30 p.m.

*(Co-developed by the Claims and Loss Control Interest Groups)*

Be sure to invite your CPCU and non-CPCU colleagues and friends to attend these highly informative sessions with you!

# From the Co-Editor

by Stephen W. White, CPCU, AIS



**Stephen W. White, CPCU, AIS**, is an underwriting section manager of commercial insurance products in the state of California for State Farm. He has held many different positions in four State Farm operations centers over the past 33 years. White is a charter member and past president of the CPCU Society's California Golden Empire Chapter in Bakersfield, Calif. He has been an active member of the CPCU Society's Underwriting Interest Group for the past seven years and is co-editor of the group's newsletter. A golf advocate who also enjoys traveling, White is a graduate of the University of Alabama.

**A**s insurance companies are still welcoming in the new decade, many undoubtedly are researching ways to be even more successful than they've been during the past 10 years. With today's economy, the bottom line has become more prevalent than ever before — how to grow with profit. To be successful with profitable growth, underwriting topics being reviewed by various carriers most likely include proper risk selection, appropriate policy coverage and adequate pricing.

In this newsletter edition, we are lending our support to your success with articles focused on predictive modeling and proper auto coverage on mobile equipment. Whether you are in sales, underwriting or rating of business insurance, we hope you find this information informative and beneficial to the job you do every day.

- In their article "Quantifying the Value of Predictive Modeling," **Glenn Meyers, Ph.D., FCAS, MAAA**, and **David Cummings, CPCU, FCAS, MAAA**, of ISO Innovative Analytics, write: "Early adopters of predictive modeling, such as Progressive, gained dramatic competitive advantage in the automobile insurance market."
- In his article "The 'Auto' and 'Mobile Equipment' Changes in General Liability and Commercial Auto Policies," **Arthur L. Flitner, CPCU, ARM, AIC**, senior director of knowledge resources at the American Institute for CPCU and Insurance Institute of America, writes: "ISO made the intended shift of coverage from the CGL to commercial auto forms by modifying the policy definition of 'auto' (identical in CGL and auto forms) to include any land vehicle that is subject to a motor vehicle insurance law, even if the vehicle otherwise meets the policy definition of 'mobile equipment.'"

Please be sure to check out these timely articles on the pages that follow. In addition, we welcome any comments you may have about the articles or additional information you would like to share.

As mentioned in previous newsletters, if you have an article you would like to get published and share with others, please get in touch with one of the editors. We'll work with you in bringing the article to publish-ready status. The co-editors' contact information appears on the back page of this newsletter. ■

## The Underwriting Interest Group Committee

*We put the YOU in underwriting.*

*The importance of this slogan is that insurance is still a people and relationship business. People make the difference.*

*Make sure to put the YOU in the underwriting process.*



# Quantifying the Value of Predictive Modeling

by Glenn Meyers, Ph.D., FCAS, MAAA, and David Cummings, CPCU, FCAS, MAAA



**Glenn Meyers, Ph.D., FCAS, MAAA**, is vice president and chief actuary with ISO Innovative Analytics. He previously worked for CNA and the University of Iowa. He holds a doctorate in mathematics from SUNY-Albany.



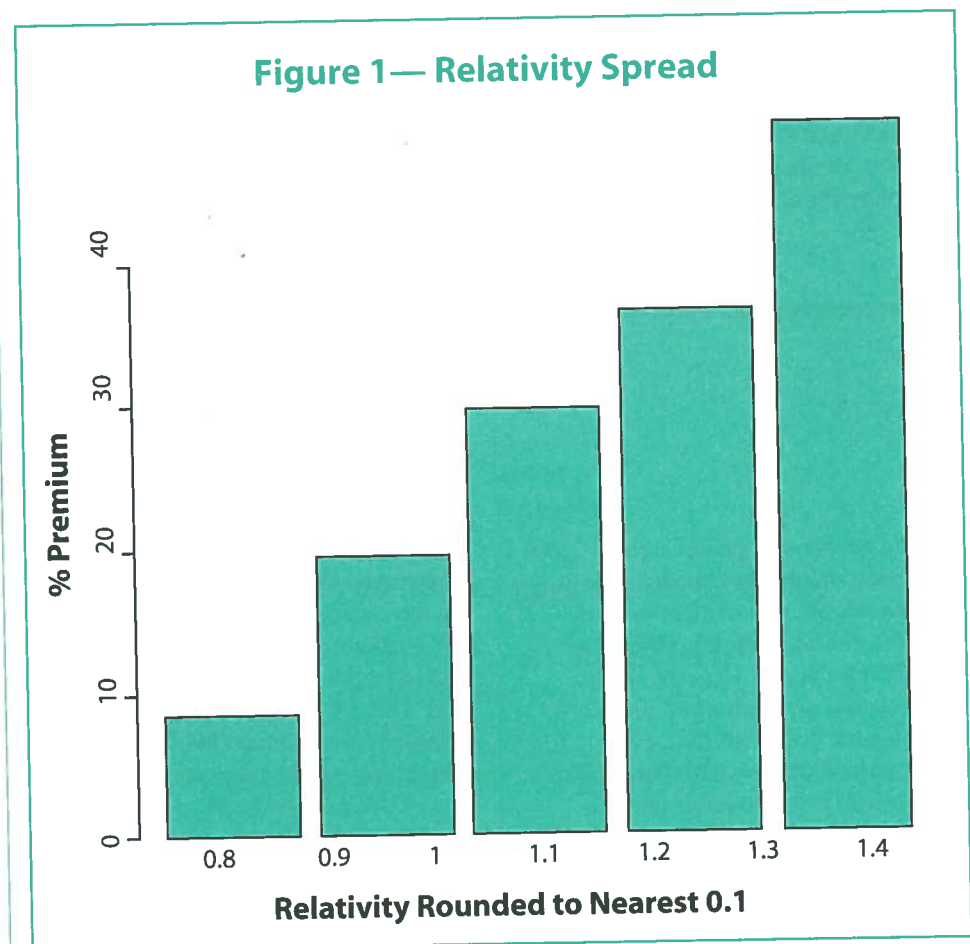
**David Cummings, CPCU, FCAS, MAAA**, is vice president of research with ISO Innovative Analytics. Prior to joining ISO, he served as director of enterprise risk management (ERM) with State Farm. Cummings is a frequent speaker at industry events.

Over the past decade, insurers have used predictive models to make substantial changes in automobile insurance pricing. Before these innovations, carriers used traditional variables — rating territory, age, gender and marital status — to rate auto insurance policies. Beginning in the mid-1990s, insurers introduced other variables, such as credit reports, into the rating process. Early adopters of predictive modeling, such as Progressive, gained dramatic competitive advantage in the automobile insurance market. In fact, the company rose from the 11th largest personal auto carrier to the third largest in only 10 years.

Developing a predictive model can be expensive and time-consuming, taking months — and sometimes years — to establish a working model from scratch. Gathering relevant data takes up the

lion's share of the time. The actual fitting of the model can proceed quickly if all the relevant data is in place. But the modeling process often uncovers problems with the data, which may take longer to address. Moving from model to product can also be lengthy, particularly if the model requires regulatory approval to serve as a basis to file rates.

Once a model is up and running, carriers need to consider maintenance costs, including the costs of obtaining and updating the underlying data, as well as the systems needed to maintain the model. Furthermore, when evaluating a predictive model, companies must take into account how the model may affect underwriting decisions. Some key questions to ask when evaluating a predictive model for insurance underwriting include:



- If the model is used to change prices, how much will prices change?
- If the model is used to select the most desirable risks, how much will the loss ratio decrease for those selected risks?
- If a competitor uses the model to identify and successfully compete for better risks, how much will the loss ratio increase on those below-average risks?

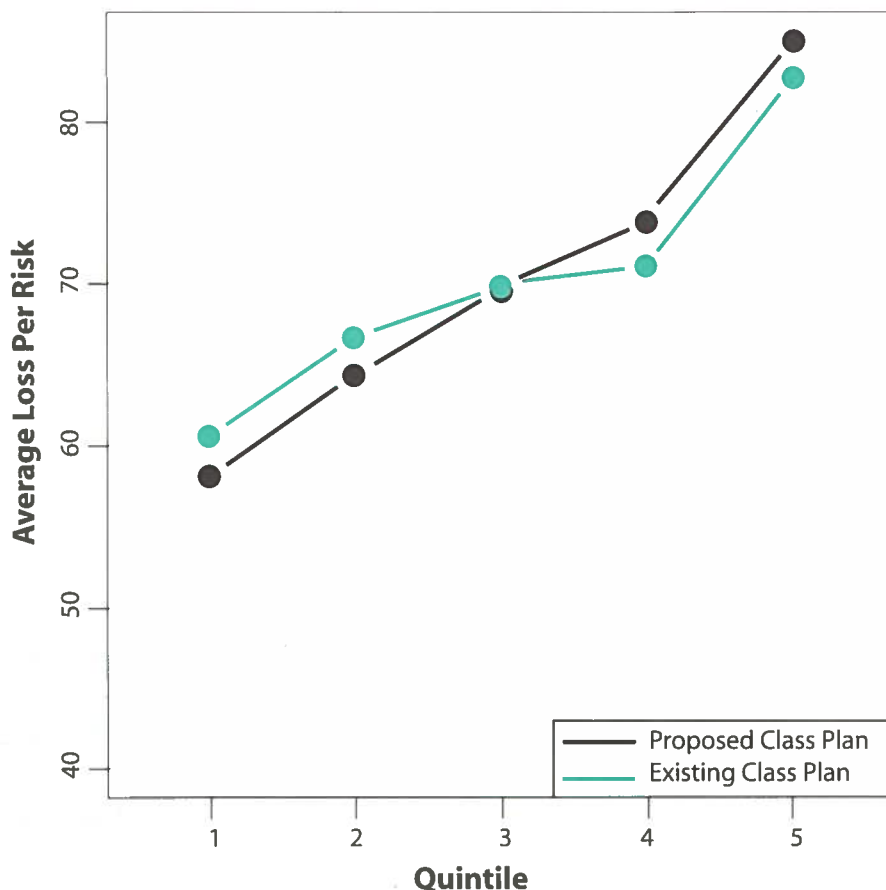
In illustrating model effectiveness, a hypothetical but realistic example is 500,000 risks that have an overall expected loss ratio of 70 percent. In this example, Insurer A's book of business has an existing class plan that already differentiates between good and bad risks. There is also a proposed class plan that refines the distinction between good and bad risks.

To address the first question, the relativity is defined as the ratio of the premium proposed by the refined class plan to the premium indicated by the existing class plan. Figure 1 on page 4 shows that there are significant differences in the premiums indicated by the two competing class plans.

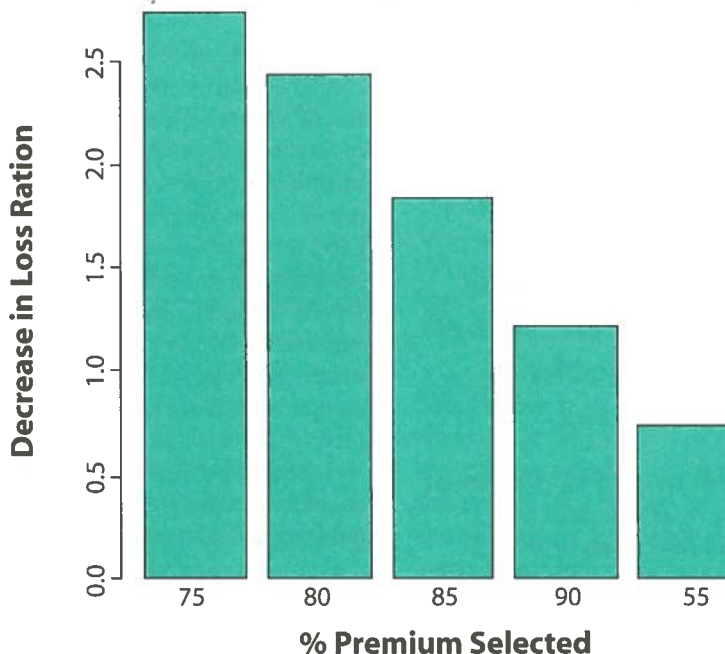
The presence of different premiums by itself does not necessarily validate the model, and Insurer A should check to see if the proposed class plan leads to a superior refinement of losses. Figure 2 compares the two class plans over suitably large groups of risk ranked in order of their predicted loss per unit of exposure. As seen in the figure, the proposed class plan identifies more higher-cost policies and lower-cost policies than the current class plan does. This demonstrates that the proposed class plan has the desirable property of a greater spread of loss cost than the current class plan.

Now suppose Insurer A does not change the premium to reflect the loss cost in the refined class plan. In this case, it could identify those risks for which the loss ratio is below average in anticipation of improved profitability. Figure 3 shows the

**Figure 2— Loss Cost by Exposure Quintile**



**Figure 3— Selective Underwriting**



Continued on page 6

# Quantifying the Value of Predictive Modeling

Continued from page 5

decrease in loss ratio that results when Insurer A selectively underwrites for the best “x” percent of risks as identified by the relativity predicted by the model. Here “x” percent varies from 75 percent to 95 percent. For the lower values of “x” percent, more of the higher-cost risks are rejected by Insurer A, which results in greater improvements in the loss ratio.

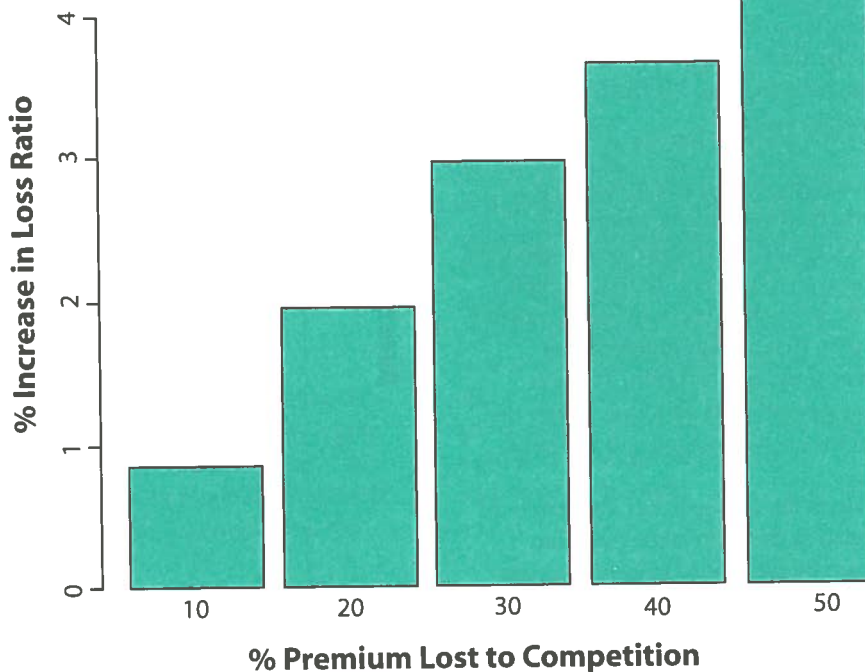
Now imagine that Insurer A decides against undertaking the predictive modeling project, but its competitor, Insurer B, does. In this case, Insurer B gradually takes the business that its models identify as being better than average for the premium Insurer A charges. Figure 4 shows the increase in the loss ratio that results when various percentages of Insurer A’s (unidentified) best business is attracted by Insurer B. As more of Insurer A’s lower-cost policies are attracted by the lower rates of Insurer B, Insurer A’s loss ratio continues to increase.

While this example illustrates ways to measure how a predictive model can improve a carrier’s underwriting results, it is often desirable to calculate a statistic that summarizes the effectiveness of the model. One such statistic, called the Value of Lift or VoL, compares the effectiveness of a model with the cost of the activities needed to produce the refined class plan.

***Once a model is up and running, carriers need to consider maintenance costs, including the costs of obtaining and updating the underlying data, as well as the systems needed to maintain the model.***

The VoL equals the amount of potential lost profit due to adverse selection spread over all risks being written. In the aforementioned example, the VoL is equal to \$3.43 per \$100 of premium. If the (amortized) cost of producing the

**Figure 4— Effect of Adverse Selection**



model is small compared with the VoL, one can conclude that the modeling exercise is cost-effective.

Although the development of a model can be a lengthy and costly process in the short term, the long-term benefits of implementing advanced predictive modeling tools to streamline products, prices and services can prove worthwhile, particularly in today’s demanding and interdependent economic environment. By understanding the value of rate segmentation, carriers of all sizes can better approximate losses in a highly competitive market, more accurately identify potential revenue shortfalls, and create new market opportunities in an effort to stay on the cutting edge of marketplace dynamics. ■

# The 'Auto' and 'Mobile Equipment' Changes in General Liability and Commercial Auto Policies

by Arthur L. Flitner, CPCU, ARM, AIC



**Arthur L. Flitner, CPCU, ARM, AIC**, is a senior director of knowledge resources at the American Institute for CPCU and Insurance Institute of America (the Institutes) in Malvern, Pa., where he participates in the Institutes' product design and development process. Flitner is the author of numerous textbooks, writes articles for insurance trade publications and gives presentations at industry meetings, workshops and webinars. His main area of expertise is commercial insurance policies.

**Editor's note:** This article is reprinted with the permission of *The Standard*, Volume 265, Number 7, Sept. 18, 2009. © 2009 Standard Publishing Corp., Boston, Mass. All rights reserved.

Recent changes in standard commercial insurance forms have left insurance and risk management professionals wondering whether some vehicles are covered under the commercial general liability (CGL) policy or the commercial auto policy — or not covered at all. The purpose of the changes was to eliminate coverage under the CGL for land vehicles that are subject to a motor vehicle insurance law and to allow such vehicles to be insured under commercial auto forms, enabling insurers to provide all the auto coverages that may be required by motor vehicle insurance laws, such as auto liability, uninsured and underinsured motorists, and no-fault.<sup>1</sup>

Insurance Services Office Inc. (ISO) filed the changes to its CGL and miscellaneous general liability (GL) coverage forms in 2004 and made corresponding changes to its commercial auto forms by an amendatory endorsement until the commercial auto coverage forms were revised in 2006. The 2007 edition of ISO's CGL form contains the same changes.

Although insurance regulators in most states approved the revised GL forms in 2004 and the revised auto forms in 2006, some insurers have not adopted the changes yet, and many insurance and risk professionals are still unfamiliar with the changes. And some of those who are familiar with the changes are not sure how to deal with them. This article clarifies the changes and offers guidance on how insurance and risk professionals can deal with potential problems resulting from the revised forms.

## Analysis of the Changes

ISO made the intended shift of coverage from the CGL to commercial auto forms by modifying the policy definition of "auto" (identical in CGL and auto forms) to include any land vehicle that is subject to a motor vehicle insurance law, even

if the vehicle otherwise meets the policy definition of "mobile equipment." CGL coverage for such vehicles — because they are now "autos" — is eliminated by the exclusion of auto liability in the CGL. In a commercial auto policy, such vehicles — again, because they are now "autos" — can be designated as covered autos for whatever coverages a motor vehicle insurance law may require.

## New Definition of 'Auto'

The modification of the auto definition in both the CGL and commercial auto forms is accomplished by part 2 of the new definition, which reads:

"Auto" means:

1. A land motor vehicle, "trailer" or semitrailer designed for travel on public roads; or
2. Any other land vehicle that is subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged.

However, "auto" does not include "mobile equipment".<sup>2</sup>

The effect of part 2 of the new definition is that a land vehicle subject to a motor vehicle insurance law is defined as an auto even though it would otherwise meet the definition of mobile equipment. Consequently, liability arising out of the ownership, maintenance or use of such a vehicle (because it meets the definition of "auto") is excluded by the CGL policy's Aircraft, Auto and Watercraft exclusion.

## METINA

For the sake of conciseness, this article uses the acronym METINA (Mobile Equipment That Is Now an Auto) to denote a land vehicle that meets the policy definition of auto only because it is subject to a motor vehicle insurance law.

*Continued on page 8*

# The 'Auto' and 'Mobile Equipment' Changes in General Liability and Commercial Auto Policies

Continued from page 7



An example of a METINA is a front-end loader with rubber tires, which is subject to the financial responsibility law in the state in which it is registered because its owner sometimes drives it over public roads to get to job sites. If not for the fact that this vehicle is subject to a motor vehicle insurance law (and therefore an "auto"), it would in all other ways meet the definition of mobile equipment. In other words, a METINA is a land vehicle that "looks like" mobile equipment but is actually an auto for insurance purposes because it is subject to a motor vehicle insurance law.

## New Definition of 'Mobile Equipment'

The definitions of auto and mobile equipment in ISO's CGL and commercial auto forms have long been mutually exclusive. If a vehicle is mobile equipment, it is not an auto, and vice versa. Consequently, along with modifying the definition of auto, ISO modified the definition of mobile equipment to exclude METINAs by adding the following paragraph:

However, "mobile equipment" does not include any land vehicles that are subject to a compulsory or financial responsibility law or other motor vehicle insurance law in the state where it is licensed or principally

garaged. Land vehicles subject to a compulsory or financial responsibility law or other motor vehicle insurance law are considered 'autos'.<sup>3</sup>

This paragraph removes METINAs from the definition of mobile equipment in order to reinforce ISO's intent that such vehicles be considered autos.

## New Exception to Auto Exclusion in CGL

Because ISO believed that liability for the operation of the equipment attached to a METINA was still appropriately covered under the CGL, ISO retained that aspect of coverage in the CGL by adding a new exception to the CGL's Aircraft, Auto and Watercraft exclusion. This exception to the exclusion reads as follows:

This exclusion does not apply to:

- (5) "Bodily injury" or "property damage" arising out of:
- (a) The operation of machinery or equipment that is attached to, or part of, a land vehicle that would qualify under the definition of "mobile equipment" if it were not subject to a compulsory or financial responsibility law or other motor vehicle insurance law in the state where it is licensed or principally garaged;<sup>4</sup>

For example, assume that the named insured owns a mobile crane (a crane capable of propelling itself on a roadway) that is subject to a motor vehicle insurance law in the state where it is registered and is, therefore, an auto as defined in the new CGL and commercial auto forms. If the named insured's CGL policy is the 2004 or 2007 edition, it will not cover liability arising out of driving the vehicle between job sites because of the new definition of auto and the Aircraft, Auto and Watercraft exclusion. However, because of the new exception to that exclusion, the CGL policy will cover liability arising out of the operation of the attached crane at a job site. A pre-2004 edition of the CGL policy would cover both exposures — either driving between job sites or operating the attached crane at a job site — because the mobile unit would, under the pre-2004 CGL, be mobile equipment, not an auto.

## Modification of Operations Exclusion in Auto Forms

Because a METINA meets the definition of auto, it may qualify as a covered auto under the owner's or user's commercial auto policy. To avoid duplication under the auto policy of the coverage that the CGL provides for the operation of equipment attached to METINAs, ISO modified the Operations exclusion in its commercial auto forms to exclude exactly the same exposure that is covered by the new exception to the CGL's Aircraft, Auto and Watercraft exclusion.<sup>5</sup>

## New Covered Auto Symbols

In its 2006 revision of commercial auto forms, ISO introduced three new covered auto symbols for use in designating METINAs as covered autos. These are symbol 19 in the Business Auto Coverage Form, symbol 59 in the Truckers Coverage Form and symbol 79 in the Motor Carrier Coverage Form. ISO did not develop a similar symbol for the Garage Coverage Form because that form,



which combines GL and auto liability coverage, defines auto as “a land motor vehicle, ‘trailer’ or semitrailer,” and that definition includes both autos and mobile equipment as defined in the other forms. The description of symbols 19, 59 and 79 is as follows:

**Mobile Equipment Subject To Compulsory Or Financial Responsibility Or Other Motor Vehicle Insurance Law Only**

Only those “autos” that are land vehicles and that would qualify under the definition of “mobile equipment” under this policy if they were not subject to a compulsory or financial responsibility law or other motor vehicle insurance law where they are licensed or principally garaged.<sup>6</sup>

Symbols 19, 59 and 79 are not the only symbols that can be used to cover METINAs. In the Business Auto Coverage Form, for example, each of the following symbols includes METINAs (because METINAs meet the definition of auto):

- Symbol 1 — Any “Auto.”
- Symbol 2 — Owned “Autos” Only.
- Symbol 4 — Owned “Autos” Other Than Private Passenger “Autos” Only.
- Symbol 5 — Owned “Autos” Subject to No-Fault.

- Symbol 6 — Owned “Autos” Subject to a Compulsory Uninsured Motorists Law.
- Symbol 7 — Specifically Described “Autos.”<sup>7</sup>

Symbol 8 (Hired “Autos” Only) and symbol 9 (Nonowned “Autos” Only) also include METINAs that the insured does not own. The only Business Auto symbol that does not include METINAs under any circumstances is symbol 3 (Owned Private Passenger “Autos” Only), because METINAs are not *private passenger* autos. Thus, the insured has almost the full range of symbols for arranging coverage on METINAs, which might make some wonder why symbol 19 is needed. Actually, symbol 19 (as well as 59 and 79) has an important purpose, which is addressed later in this article.

### When Is a Vehicle ‘Subject to’ a Motor Vehicle Insurance Law?

A vehicle that otherwise meets the definition of mobile equipment is an auto if the vehicle is “subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged.” Thus, it is important to know what types of laws, in addition to “compulsory or financial

responsibility laws,” qualify as “motor vehicle insurance laws,” and also, to know when a vehicle is “subject to” one of these laws.

All of the U.S. states and the District of Columbia have financial responsibility laws, which require motorists to provide proof of financial responsibility (usually in the form of liability insurance) after auto accidents or convictions for serious driving offenses. Most of the states also have compulsory auto insurance laws, which require all auto registrants within the state to carry auto liability insurance, regardless of whether they have had an accident or a conviction. Other types of motor vehicle insurance laws require motorists to purchase (or insurers to offer) uninsured motorists coverage, underinsured motorists coverage or auto no-fault (Personal Injury Protection) coverage.

Determining whether a vehicle is “subject to” one of these laws is usually not a problem when the vehicle is a “land motor vehicle, ‘trailer’ or semitrailer designed for travel on public roads” (as stated in part 1 of the auto definition), because such vehicles are usually already registered, and registered vehicles are normally subject to motor vehicle insurance laws.

However, for “any other land vehicle” (as stated in part 2 of the auto definition), the correct determination can be more difficult to make. The applicability of motor vehicle insurance laws can vary substantially among states and can vary even among the various motor vehicle insurance laws in a single state. Depending on the state, the type of vehicle, and whether the vehicle is sometimes operated on public roads, such vehicles may or may not be subject to a motor vehicle insurance law. In some cases, a vehicle that would normally be considered mobile equipment is subject to a motor vehicle law without the owner’s knowing it.

*Continued on page 10*



# The 'Auto' and 'Mobile Equipment' Changes in General Liability and Commercial Auto Policies

Continued from page 9

## When Is Symbol 19, 59 or 79 Actually Needed?

A land vehicle that met the old definition of mobile equipment was automatically covered under the pre-2004 CGL. The vehicle did not have to be scheduled in the policy or even reported to the insurer. Now, if the same vehicle is subject to a motor vehicle insurance law, the CGL excludes it, other than operation of its attached equipment. However, *the vehicle is not necessarily covered under the insured's commercial auto policy, as it was under the CGL.* To be covered under the Business Auto Coverage Form, the vehicle must not only be an auto, it must be a covered auto. As discussed earlier, symbols 1, 2, 4, 5, 6 and 7 can all be used to provide covered auto status to METINAs owned by the insured. This does not mean, however, that the new symbols 19, 59 and 79 are not needed in some situations. (For simplicity, we will refer only to symbol 19. The same information applies to symbols 59 and 79 as used in their respective policies.)

For example, assume that an insured contractor's Business Auto Coverage Form indicates symbol 7 for auto liability coverage. Assume also that early in the policy period, the insured acquired a mobile crane that the insured believed was mobile equipment and, therefore, thought was automatically covered under the insured's CGL policy. However, several months later, when this vehicle was involved in an accident while being driven over a public road to a work site, the claims adjuster determined that the vehicle was actually subject to the state's financial responsibility law and, therefore, an auto. Consequently, the insured's liability for the accident was excluded by the CGL policy. And, because this METINA was not described in the contractor's auto policy, it was not covered by symbol 7. Symbol 7 provides coverage for an auto the insured acquires after the inception of the policy period, subject to the following conditions:

- a. We already cover 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 cover it for that coverage.<sup>8</sup>

In the example being considered, the METINA was acquired during the policy period, but it was not reported to the insurer within 30 days. Therefore, the newly acquired auto provision does not apply, and the METINA is not covered by symbol 7.

*ISO made the intended shift of coverage from the CGL to commercial auto forms by modifying the policy definition of "auto" (identical in CGL and auto forms) to include any land vehicle that is subject to a motor vehicle insurance law, even if the vehicle otherwise meets the policy definition of "mobile equipment."*

If the contractor's policy had included symbol 19, the METINA would have been covered under the contractor's auto policy. Symbol 19 (like symbols 1 through 6) automatically covers, for the remainder of the policy period, autos that the insured acquires after the policy period begins. Knowledgeable insurance professionals are divided on the question of whether the vehicle would have to be listed in the policy for coverage to continue under symbol 19 (or under symbols 1 through 6) in the renewal policy. Therefore, to be safe, the vehicle should be reported to the insurer and listed in the renewal policy.

Even if an insured with a policy indicating symbol 7 does not have any METINAs

to insure, insureds may seek to have symbol 19 added to the policy for at least auto liability coverage. (Physical damage coverage on METINAs is often already provided by a contractors equipment floater.) Many insurers will add symbol 19 on an "if any" basis in return for a nominal premium. If the insured acquires a vehicle that is covered under symbol 19, it will be automatically covered and the insurer can charge the indicated premium for that vehicle from the date of acquisition once the insurer becomes aware of the acquisition. This underscores the need for insurers to check with insureds periodically to see if they have acquired any autos that are automatically covered under the policy. Because of the possibility that an insurer may interpret symbols 1 through 6 and 19 as not providing any coverage in a subsequent policy period unless the vehicle has been reported to the insurer, insureds with these symbols would also be prudent to report any newly acquired autos to their insurers before the end of the policy period in which they are acquired.

Symbol 19 may also be useful for insureds that do not own any autos. A common recommendation is that such insureds should carry hired and nonowned auto liability coverage. If the same insureds own or lease mobile equipment and might acquire more units of mobile equipment, an additional recommendation might be that they should have symbol 19 (on an "if any" basis) added to their auto policy along with symbol 8 (Hired "Autos" Only) and symbol 9 (Nonowned "Autos" Only). Symbol 19 will provide coverage if the insured acquires a METINA and incorrectly assumes that it is covered under the CGL policy.

When hired and nonowned autos coverage is provided by endorsement to an ISO Businessowners Policy (BOP), adding symbol 19 is not possible. A firm insured under a BOP can buy a separate Business Auto Policy showing symbols 8, 9 and 19.

## Problems of Mixing Old and New Forms

Other potential problems can occur if a firm has CGL coverage under the new form and commercial auto coverage under the old form. For example, assume that Insurer A writes the insured's CGL policy using the 2004 or 2007 form and Insurer B writes the insured's commercial auto coverage with a Business Auto Coverage Form that uses the old definition of auto. If the insured becomes liable for any use of a METINA (other than operating the equipment attached to it), the Auto exclusion will eliminate CGL coverage, and the METINA, because it does not meet the old definition of auto in the Business Auto Coverage Form, will not qualify as a covered auto, even if the policy covers on a symbol 1 (Any "Auto") basis.

The easiest solution is probably to get the auto insurer to modify the definition of auto in its form so that it includes vehicles subject to a motor vehicle insurance law, because this will allow the auto insurer to charge an additional premium. ISO endorsement CA 00 51 12 04, Changes in Coverage Forms — Mobile Equipment Subject to Motor Vehicle Insurance Laws, contains the appropriate language for that purpose. Although ISO withdrew this endorsement when it introduced the 2006 commercial auto policy changes, the endorsement is still appropriate (if properly filed by the insurer using it) for modifying the pre-2006 auto forms to make them concurrent with the revised CGL forms.

## Conclusion

The recent "auto" and "mobile equipment" changes in CGL and commercial auto forms are a reasonable solution to the problem of providing auto coverages (liability, no-fault, and uninsured and underinsured motorists) on mobile equipment that is subject to a motor vehicle insurance law. However, for these changes to work, insurance and risk management professionals must

become familiar with the changes and know how to deal correctly with them. ■

## Endnotes

- (1) Insurance Services Office Inc., "2004 General Liability Multistate Forms Revision to be Submitted," ISO Circular LI-GL-2004-033 (Jan. 30, 2004): 30.
- (2) Section V — Definitions, 2. "Auto," CG 00 01 12 07 (©, ISO Properties Inc., 2006).
- (3) Section V — Definitions, 12. "Mobile equipment," CG 00 01 12 07 (© ISO Properties Inc., 2006).
- (4) Section I — Coverages, 2. Exclusions, g. Aircraft, Auto or Watercraft, CG 00 01 12 07 (©, ISO Properties Inc., 2006).
- (5) Section II — Liability Coverage, B. Exclusions, 9. Operations, CA 00 01 03 06 (©, ISO Properties Inc., 2005).
- (6) Section I — Covered Autos, A. Description of Covered Auto Designation Symbols, CA 00 01 03 06 (©, ISO Properties Inc., 2005).
- (7) *Ibid.*
- (8) Section I — Covered Autos, B. Owned Autos You Acquire After the Policy Begins, CA 00 01 03 06 (©, ISO Properties Inc., 2005).



# Underwriting Interest Group

Volume 22 • Number 1 • March 2010

*Underwriting Trends*

CPCU Society  
720 Providence Road  
Malvern, PA 19355  
www.cpcusociety.org

Address Service Requested



## Volunteer Leaders, Rising Stars to Gather in Phoenix

The CPCU Society's current and emerging leaders will focus on strategic issues affecting the Society and your chapter at the 2010 Leadership Summit. The conference will be held on April 29–May 1, 2010, at the Pointe Hilton Squaw Peak Resort in Phoenix, Ariz.

All volunteer leaders are urged to attend this distinguished gathering to chart the Society's future course and participate in a free-flowing exchange of ideas on vital topics.

The Summit will include:

- Board of Directors meeting.
- Committee, task force and interest group meetings.
- CPCU Society Center for Leadership courses. Open to all members.
- Chapter and interest group leader workshops.
- Leadership luncheons with special guest speakers.

Register today at  
[www.cpcusociety.org](http://www.cpcusociety.org).

The Underwriting Interest Group newsletter is published by the Underwriting Interest Group of the CPCU Society.

**Underwriting Interest Group**  
<http://underwriting.cpcusociety.org>

**Chair**

Nancy S. Cahill, CPCU, AU  
Liberty Mutual Agency Markets  
E-mail: [nancy.cahill@libertymutual.com](mailto:nancy.cahill@libertymutual.com)

**Co-Editor**

Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, CLCS  
Zurich North America  
E-mail: [greg.massey@zurichna.com](mailto:greg.massey@zurichna.com)

**Co-Editor**

Stephen W. White, CPCU, AIS  
State Farm  
E-mail: [steve.white.bnbg@statefarm.com](mailto:steve.white.bnbg@statefarm.com)

**CPCU Society**

720 Providence Road  
Malvern, PA 19355  
(800) 932-CPCU  
[www.cpcusociety.org](http://www.cpcusociety.org)

**Director of Program Content and Interest Groups**

John Kelly, CPCU

**Managing Editor**

Mary Friedberg

**Associate Editor**

Carole Roinestad

**Design/Production Manager**

Joan A. Satchell

Statements of fact and opinion are the responsibility of the authors alone and do not imply an opinion on the part of officers, individual members, or staff of the CPCU Society.

© 2010 CPCU Society

 Printed on Recycled Paper