

**Exhibit 2-5**

Premium Base Definitions, Symbols, and Examples Used in the CLM Classification Table

Definitions	Symbols	CLM Classification Table Example
Area	a	Warehouses—private
Total cost	c	Contractors—subcontracted work
Admissions	m	Theaters
Total Operating Expenses	o	Governmental Subdivision—not state or federal
Payroll	p	Contractors
Gross sales	s	Contractors Equipment
See Classification Notes	t	Adult Day Care
Units	u	Apartment Buildings

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## ***Premises-Operations Underwriting Considerations***

CGL insurance provides coverage primarily for liability losses arising from premises, operations, products, and completed operations, although it also covers other exposures. Chapter 3 will discuss the underwriting considerations for products and completed operations. Many of the underwriting concerns for products and completed operations are the same as those for premises and operations.

The **premises exposure** exists when there is ownership or occupancy of a property (the premises). The standard of care imposed on an owner-occupant, a landlord, or a tenant is that the property be maintained as a reasonable and prudent person would maintain it. For example, a reasonable and prudent person would be expected to keep floors dry and free of objects that might cause injury to another person.

The **operations exposure** relates to activity in addition to the occupancy of property. All businesses have operations, but this exposure is generally associated with manufacturing, processing, or contracting. An example of the operations exposure is a contractor paving a road. Negligence during construction that causes injury or damage falls under the operations exposure.

The preceding discussion of the Classification Table and premium bases sets the stage for further evaluating a general liability applicant. After understanding the typical characteristics of a class and the adequacy of the class's pricing, underwriters can then evaluate the relative merits of a specific account. In doing so, an underwriter must consider two factors: the extent to which the business has an exposure to the public and the special exposures that the underwriter might not have contemplated in the account's classification and pricing.

### **Extent of Public Exposure**

Underlying an underwriter's evaluation of an account for general liability insurance is the extent of its liability exposure to the public. The public includes customers, representatives of suppliers, anyone else associated with the business, and the general public. Although all businesses have this liability exposure, the extent of the exposure can vary widely. Underwriters will want to know whether the exposure is common for the classification and how much variation in the exposure is likely.

In many cases, the hazards inherent in the insured's operations bear little or no relation to the extent to which the public is exposed to them. A very hazardous manufacturing operation may produce little exposure to bodily injury or property damage to the public. This is because businesses tend to site high-hazard operations in areas in which they will expose very few people and very little property to harm. Zoning laws almost always demand this protection. However, underwriters should not assume that zoning laws would ensure this protection. Even when a plant is well sited, the neighborhood surrounding it can change.

#### **Changing Community—Changing Exposure**

In 1928, Felix Grucci, Sr., built a factory for his New York Pyrotechnic Products Company in an isolated area of rural Bellport, New York. Zoning laws at that time limited the area around the site to industrial use. Over the years, however, suburban growth made the land around the plant attractive to developers. The town changed

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the zoning laws several times until the nearest homes were mere feet beyond Grucci's fence. This did not bother the homeowners until November 26, 1983, when an explosion at the plant damaged nearby homes. The blast caused heavy damage to several homes and caused millions of dollars in property damage to the company. The explosion raised such strong public concerns that New York Pyrotechnic did not rebuild on the same site.

The differences in exposure between two premises may be a result of location, type of business, time in business, or a combination of the three. For example, a store with a good reputation and steady business is more likely to attract customers than a new store or one that is on the decline. The increase in customer traffic increases the public exposure. Location may create a similar increase in traffic and thus increase the extent of public exposure. A downtown consumer electronics store selling TVs, VCRs, and stereo equipment may open a new branch in a suburban shopping mall. A mall usually has several large, well-known stores that attract traffic to the other small stores in the mall. People are in the mall to shop and are much more likely to enter the electronics store premises than pedestrians on city streets would be. In addition, because of differences in store hours and customers' shopping habits, malls are likely to have many customers at night or on weekends. Even if the total number of customers is average for the class, the mall electronics store will have a relatively high concentration of customers at certain hours. The fire exposure increases as well, because the setup of a mall and more customer traffic make it less likely that customers will be able to exit the premises safely in an emergency. In contrast, most weather-related exposures would decrease for a store located in a fully enclosed shopping mall, and mall maintenance services usually help to eliminate premises hazards such as icy walkways or sidewalks.

The presence of heavy traffic does not necessarily mean that a premises has excessive exposure. What may create an underwriting problem for an electronics store may not be a problem for a theater. The general liability rate for the store may be inadequate, while the rate for the theater may be sufficient because it anticipates a greater flow of pedestrian traffic.

The underwriter must also consider the legal status of persons likely to be on the premises. The insured's legal duty to these persons, as well as the standard of care expected, varies with their status. To ensure that the insured demonstrates behavior consistent with the standard of care required, the underwriter must compare the duties owed by the insured and an average risk in the same classification. If the duties are the same, there is usually no problem. If they vary,