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AUTOMOTIVE RISK MANAGEMENT & INSURANCE SERVICES, INC.
Complete Insurance and Risk Management Services for the New Car & Truck Dealer

ARM Producer Guidelines for Franchised Auto, Truck & RV Dealers

April 25, 2007

A. Submission Requirements:

Complete submissions for new **and** renewal business should be received in our office at least **30 days** in advance of the date you require the proposal. We can not promise to provide a quotation unless we receive the full submission at least 30 days in advance of the effective date. Submissions received 45 to 60 days in advance of the date are preferred.

Forward your submissions by email to apps@armonline.com, by Fax to 888-504-8062 or by mail to 1919 Grand Canal Blvd. Suite C-7, Stockton, CA 95207. Be sure to include your email address so we can advise you of receipt and the underwriter assigned by email within 48hrs of receipt in our office.

For those of you who are appointed with GMAC Risk Services and prefer a quote from them for the Dealers Open Lot Coverage, please forward you application directly to GMAC. If you coordinate this with ARM Underwriting, it will make the sales process more efficient and productive.

If time allows, we will try to quote accounts sent after the 30 day time line, but please do not call us to ask when it will be completed, use your email as this is much more efficient for our underwriting staff. If we determine we can't quote it because of time constraints or some characteristic of the risk we will email or fax you a declination as soon as this decision is reached.

We do not accept requests to change an underwriting decision by phone. Put it and the reasons and justifications for the request in writing and send it to us by email or fax. We will respond asap. If the answer is no, please understand that we already have decided we are prepared to lose the account before we send the "no" answer.

As you can see from the paragraphs above, email is our preferred communication venue. Please check your email for our requests and responses. Many time folks have wasted a long distance call when the answer was already setting in their email. If more than one person in your office is working on the account, be sure to coordinate with each other before emailing or calling ARM Underwriting.

We want your business and we thank you for your cooperation with these procedures.

A complete submission is defined as follows.

1. Completed and signed ARM FAD Dealer Application for the dealership or the dealership group. If you prefer you may submit an individual ARM FAD Application for each individual dealership in a group. We do not accept ACORD applications or other company applications, but we can use these to give you our preliminary judgment of our position on the account.
2. Loss Runs -Currently valued previous carrier hard copy loss runs for a minimum of the first six months of experience for the current year and the three prior years (ARM Underwriting may require five years on some accounts. Previous carrier policy numbers are necessary to allow for confirmation of this information. Experience rating is subject to verification of losses by the

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California Insurance License No. OB89379

former and/or current insurance carrier. Please provide details on all losses over \$10,000 in your producer narrative.

3. MVR's – Please provide current MVR's on Owners and Owners Family Members provided a demo or other dealership automobile. If the account is written, we will order MVR's on all employees and non-employees.
4. Employee List and Non-Employee Driver List (for each dealership in the group) - A list of all employees (including owners, and officers) and any non-employee (including any family member of an owner or officer) that are furnished with a dealership auto or anyone to be provided with Broad Form Drive Other Car Coverage. This list should include:
 - a. Full Name.
 - b. Demo Provided?
 - c. Date of Birth.
 - d. Job Position or relationship to the applicant if not an employee.
 - e. Drivers License Number.
 - f. State of issue.
 - g. Garage Location of Furnished auto if different from dealership.
5. Producer Narrative -covering the history and profile of the dealership and its principals, any changes in the operations during the past several years and any changes contemplated in the near future.

While we understand that the application contains the majority of the information necessary to quote and rate a standard risk, there is a great deal of information that cannot be adequately captured in the application. Often left out, but very necessary to our underwriting process are details on claims and losses \$10,000 or greater. This "uncaptured information" is the purpose of the producer narrative.

The producer narrative should contain the agent's observations and assessments in the following general areas. While we are listing a few questions in each category that may be used as a guide, each risk is unique and the narrative should be structured to give ARM's underwriters the clearest possible picture of the risk.

a. Management

How long has the insured been in business and what is his standing in the community?

Is the owner active in the daily operations and if so, to what extent? If not, who handles the day to day operations and what is their experience in the field?

What is the nature of the neighborhood where the dealership is located?

How long have you had a relationship with the dealership and what is the nature of the relationship?

b. Loss History/Risk Management

What is managements' attitude toward controlling losses? How does the insured handle losses and risk management? Is there a safety or risk management director? Is there a program in place for accident investigation and if so, provide a short description.

Has there been a frequency or severity problem on the account? Has the insured implemented any new procedures or protective devices that should, or have, improved the nature of the risk.

c. Employees

Are there any employees/non-employees under age 20 who are provided a demo? Clearly indicate who is provided a car and under what conditions.

Does the insured have a large turnover? Is there a reason for the turnover.

How does the insured control the driving exposure of his employees? Are employees required to take driver's education on a periodic basis?

Are there safety meetings and if so what is the frequency. Who conducts the meetings and what topics do they generally cover in the meetings?

d. Premises Conditions/Housekeeping

What is the general condition of the premises? Are signs clearly posted to restrict public access to the shop areas? Are NO Smoking rules in place and enforced? Are the premises clean and orderly with no unusual trip and fall hazards? Are parking lot surfaces smooth and well maintained?

e. Recommendation

Please provide a statement of your personal recommendation.

6. Insured's Financial Statement – May be required before quoting depending on the Underwriter's judgment. If you have please go ahead and submit. We prefer the operating statements provided the factories. If there is a privacy issue the Dealer may fax or mail the statements to Marvin E. McDougal, President of ARM at (888) 504-8062.
7. Copy of Demo Agreement -Note: operations providing demos to staff members that do not have a written agreement for such provision are ineligible for coverage in the FAD Program.
8. Copy of Customer Rental Agreement (*Not regular Daily Rental*).
9. Copy of Long Term Lease and Rental Agreement if Contingent Coverage is requested. Please provide a schedule of current leases and rentals.
10. Supplemental Applications: In addition to the Franchised Dealer Application, supplemental Applications and information are required in the following situations:
 - a. ARM Supplemental Umbrella Application (Coverage is written separate from Package).
 - b. ARM Supplemental EPLI Application (Coverage is written separate from Package).
 - c. ARM Supplemental Pollution Application (Coverage is written separate from Package).
 - d. Supplemental Daily Rental Liability Coverage Application-required, along with copy of the Daily Rental Agreement in use by the dealership if the dealership operation requires coverage for Daily Rental Operations(rental to customers who do not have a car in service at the dealership). Note: This line is not written in the program but is placed separately.

- e. Supplemental Insurance Agents E&O Application-required if operations require coverage for anything other than Credit Life and Auto Physical Damage Coverage. Note: This line is not written in the P&C Package. It is placed separately.
 - f. ACORD Applications-required for any non dealership operation to be considered for coverage. The total of such operations may not be greater than 25% of the applicants operations to be covered under the FADP. In most situations such operations are placed outside the Franchised Dealer Program.
11. Renewals: You will receive renewal information instructions from ARM. The information must be completed and returned to our office at least 45 days prior to the effective date. If there have been no significant changes in dealership operations over the past year, please provide an updated employee list, currently valued loss runs from prior years not covered by our policy and any changes that need to be made. If there have been significant changes, a new application may need to be completed and additional information may be required.
12. Submissions From Consultants: If you are quoting a dealership that uses a consulting firm, you must submit the information required in Part A. Don't just send us the Consultants specs. ARM can not accept as a substitute the consulting firm's specifications.

B. Insurance Quotes and Binders

ARM will provide you with a detailed Insurance Quote on each acceptable risk. This must be signed and returned in the event you wish to bind coverage. Any changes to the Quote must be approved by the Underwriter prior to binding. In the event we are not in a position to quote, we will inform you in writing.

Since quotes are handled on a first-come basis, it is advisable that you send your complete submission at least 60 days prior to the effective date. On renewals, we will protect your business provided we have completed Renewal Instructions 45 days prior to renewal.

All quotes are subject to the following conditions:

- a. An independent loss control survey will be completed. Compliance with loss control recommendations generated by the survey will be required. The applicant must agree to participate in ARM's loss prevention program for which there may be a fee based on the size of the operation and the specific requirements of the risk.
- b. Unacceptable drivers (per the guidelines included with the proposal) will be restricted or excluded. Notification to follow upon receipt of the **MVR's**.
- c. ARM's authorized representative has authority to bind coverage as set forth in this proposal up to the valid date stated on the proposal.
- d. If coverage is bound, ARM's representative must notify ARM's underwriting manager within 24 hours of the issuance of the binder. The initial payment stated in the Proposal, including any required security deposit, must be received by ARM within 10 days of the effective date of the binder. Other conditions may apply, please refer to quote for premium payment plans.
- e. The original, signed applications must be received within 10 days of binding. If not received within 10 days of binding, a notice of cancellation will be issued.

As soon as confirmation of acceptance and a check has been received, ARM will provide an Insurance Binder for confirmation to the Insured. Any discrepancies noted on the binder should be communicated to ARM immediately.

C. Billings and Reporting

One twelfth (1/12) of the estimated annual package premium is payable at the time of binding and should be collected by you unless otherwise indicated on the proposal. This premium (designated the first month's premium) is fully earned. A monthly report of values will be issued for the second month and each successive month of the policy period. Each month the insured will be required to complete the pertinent information relative to inventory levels, contents levels and employee counts. Using the rates and fixed premiums provided, they will calculate the premium payable for that month and return the report along with a check made payable to Automotive Risk Management and Insurance Services, P. O. Box 45993, San Francisco, CA 94145-5993.

A 1/12 deposit is also payable at the time of binding and should be collected by you unless otherwise indicated on the proposal. This premium is refundable to the dealer if he chooses not to renew. If the account renews, the deposit will be modified to reflect renewal adjustments.

To allow for consistent monthly reporting, the expiration date will be adjusted to the first day of the next following month if the normal expiration would occur after the first day of the month. Reported premiums for periods of less than one month will be adjusted on a pro-rated basis.

Monthly reports are issued and mailed from our office on the 25th of each month. Reports are due on the 10th of each month based on the values effective the last day of the preceding month. Reports are delinquent on the 15th of each month and cancellations will be issued on the 20th of each month effective on the 1st of the following month.

In the event of a change affecting the rates and/or fixed premiums, the monthly report for future months will be adjusted to reflect the change. The months for which the premium has already been paid will be adjusted by the issuance of a credit or debit.

Umbrella Liability Policies, Pollution Policies and other policies not included in the FAD Package may be annual bill. ARM Accounting can place on a premium finance agreement if desired and this information will be provided with the ARM Proposal.

D. Loss Reporting

Claims and losses must be reported immediately to ARM. The toll-free number for reporting claims is 1-888-433-1921 The toll-free fax number to report claims is 1-888-573-9501. Also, some of the "non-package" policies may contain policy specific reporting requirements, if so, follow these as well as reporting the claim to ARM.

Once a claim has been received, you will be given a claim or reference number. Using the claim number will help expedite the handling of the rest of the claim. Please include the claim number with all future correspondence.

In order to process claims quickly and for the least cost, it is extremely important that all claims be reported immediately. Failure to report a claim as soon as is practicable can increase costs and in some instances can jeopardize possible coverage. While it is important to gather as much information as possible, report the claim immediately and provide the information that is available. Follow-up will be done as necessary.

Do not advise the insured not to report an incident because you believe it to be below the deductible or not covered.

Important: If a lawsuit is served to the insured, this must also be reported immediately.

E. General Package Underwriting Rules

1. Eligibility – all risks falling outside minimum criteria are subject to approval.
 - a. Minimum package premium is \$2,500.
 - b. Franchised new car, truck, heavy truck, truck trailer and RV dealers only.
 - c. Owners must be active in the daily operations of the business.
 - d. Management Experience: Minimum of three years.
 - e. Ratio of furnished autos to number of employees: 20% or less.
 - f. Hiring Practices: Pre-hire MVR's and reference checks. Minimum driving age preferred is 21.
 - g. Family Members: None under age 21. Non-employees: None under age 21.
 - h. Salespersons should accompany the prospective customer, and a copy of the customers driver's license should be retained at the dealership while the test drive is in progress. Specified test drive routes are recommended.
 - i. Keys must be stored in a locked facility at all times. Keys must never be kept in the vehicles. Keys may be secured in lock boxes during the day, but the lock boxes must be removed at night.

Luxury vehicle lines should have an Electronic key tracking system (such as the CD2000) if theft coverage is to be provided.

Keyboards should be kept in an area that is not accessible to the general public. Salesmen should be allowed to take only one (1) key at a time and substitute a marker for the key showing the salesman's name or number.

Keyboards should be secured inside the building at night, either in the safe or in an area protected by a central alarm system

- j. Vehicle lots must be well lighted and protected. Vehicles stored on unprotected lots may not be eligible for theft and vandalism coverage.

Lots must be fully protected as follows and all driveways, entrances and exits must be blocked by gates or metal posts with chains or wire ropes. These must be able to be locked by a padlock and be locked during all non-business hours.

- k. Demo Agreement: Written with \$1000 or greater employee deductible.

2. Prohibited Activities

- a. Towing-for hire.
- b. Contract drivers except those used on a regular basis with an acceptable MVR in file.
- c. Hauling or storage of anhydrous ammonia and butane.
- d. Sponsorship of racing activities.
- e. Repossession of financed or leased vehicles.
- f. Tire recapping or retreading.
- g. Dismantling, salvage or junk operations.
- h. Van conversion operations or any operation that modifies the vehicle frame.
- i. Original vendors of "Gray Market" vehicles.
- j. Risks involving beach, barrier island or tier one coastal locations unless property coverage and Dealers Physical Damage Coverage is placed separately from the FAD Package.
- k. Any risk, which in the judgment of the underwriter, involves a combination of factors which in total make it an undesirable risk for the FAD Program.

3. Driver Evaluation

a. General Rules

- I. Minimum age for driver employees and non-employees is 18 years and the maximum age is 75.
- II. All drivers will be rated using the MVR guidelines listed below, Any driver found Unacceptable will be excluded from coverage.
- III. SR22 Filings are not available.
- IV. Parts Truck Drivers, lot attendants and porters should have a minimum of three years driving experience or have available a recent certificate of completion in a driver training program.

b. MVR Guidelines

Motor vehicle reports are required for all new driving employees by dealers at time of hire and are checked by Automotive Risk Management & Insurance Services on an annual basis. Automotive Risk Management & Insurance Services has developed the following criteria for reviewing motor vehicle reports. In those cases where the driver is found to be unacceptable, the management of the dealership will be requested to suspend all use of dealership motor vehicles by the insured and a signed agreement attesting to such suspension will be required.

The following are unacceptable:

- I. Drivers who do not have a valid driver's license.
- II. Drivers who have a suspended or revoked drivers license.
- III. Drivers who have been convicted for the following violations within the past three (3) years:
 - a. Driving under the influence of drugs or alcohol
 - b. Hit and run
 - c. Negligent homicide
 - d. Theft of a motor vehicle or related offense
 - e. Murder or assault with a motor vehicle
- IV. Drivers who have 3 or more moving violations within the past three (3) years.
- V. FAMILY MEMBERS PROVIDED DEMONSTRATORS FOR PERSONAL USE

All family members under the age of twenty (18) are excluded from coverage. Separate personal policies should be obtained.

All family members over the age of twenty (18), who are non-employees of the dealership, and who have UNACCEPTABLE driving records, as per ARM's MVR guidelines, are excluded from coverage. Separate personal policies should be obtained.

All family members over the age of twenty (18), who are employees of the dealership, and who have UNACCEPTABLE driving records, as per ARM's MVR guidelines, are excluded from coverage. If proof of a separate personal policy with sufficient limits, is provided to ARM, coverage under the auto dealer policy may be provided, and certain conditions may be required. ARM reserves the right to provide coverage.

VI. NON-EMPLOYEES PROVIDED DEMONSTRATORS FOR PERSONAL USE

All non-employees under the age of twenty (18) who are provided demonstrators are excluded from coverage. Separate personal policies should be obtained.

All non-employees over the age of twenty (18), who are provided demonstrators, and who have UNACCEPTABLE driving records, as per ARM's MVR guidelines, are excluded from coverage. Separate personal policies should be obtained.

4. Garage Liability Coverage

(NOTE: This coverage, as well as garagekeepers, property, inland marine, dealers physical damage and crime are provided by one of the Argonaut group of companies.

Maximum Limit: \$1,000,000 occurrence/(other than auto) \$3,000,000 aggregate
Standard Deductible: \$1000. Higher deductibles may be available.

5. Garagekeepers Coverage

Maximum Limit: \$1,000,000 per location.
Standard Deductible: \$1,000 per auto/\$10,000 per occurrence.

Repair Percentages: 75% labor / 75% parts If the dealership does not have a body shop, the labor repair percentage must be written at 100%.

6. Property Coverage

Includes:

Building Coverage

Personal Property (Contents) Coverage

Business Income Coverage (With or Without Extra Expense)

Loss of Rents

Ordinance or Law Coverages A, B and C. For Coverages B and C, limits must be provided on the Dealership Application.

Equipment Breakdown Coverage (formerly known as Boiler and Machinery Coverage)

Glass Coverage

Standard Deductible: \$1,000. Higher deductibles may be available.

Coverage may be written on a Basic Form, Broad Form or Special Form basis for buildings and contents contained in a building which is:

- a. Not over twenty-five (25) years old; or, if older, has been completely updated and renovated (roofing, wiring, heating & air conditioning) within the past twenty 20 years.
- b. Additionally: Special Form (without theft exclusion) on contents, including employee tools, requires a Central Station Burglar Alarm with motion detector or an on-premises security guard during all non-business hours. Coverage may be written Excluding Theft when theft is not desired or the above requirements are not met.

Replacement Cost Coverage is only available if the building is not over twenty-five (25) years old or if the building is over twenty-five (25) but not over forty (40) years old and has been completely renovated and updated (roofing, wiring, heating & air conditioning) within the last fifteen (15) years.

When underwriting replacement cost coverage, it is imperative that the property is insured to replacement value. The following are acceptable methods of determining the replacement value:

- a. Professional Appraisal
- b. Marshall & Swift Cost Estimator
- c. Boeckh Building cost guides

Buildings with wood shake or wood shingle roofs are not eligible for property/fire coverage in the package but we may be able to place the coverage separately for you.

7. Crime Coverage

Standard Deductible: \$1000. Higher deductibles may be available.

Generally includes:

- Employee Dishonesty – Maximum limit \$100,000. Higher limits require Company approval and may be written on a separate policy.
- Depositors Forgery
- Theft, Disappearance & Destruction Loss Inside Loss Outside
- Money Order & Counterfeit Currency
- Computer Fraud

8. Inland Marine Coverage

Standard Deductible: \$1000 Note: Safe Class must be identified on the Dealer Application.

Generally Includes:

- Accounts Receivable
- EDP Software and Hardware
- Valuable Papers
- Employee Tools Coverage: In order to be eligible for Special Form Coverage (including Theft) the building must have a central alarm system, double cylinder dead bolts on all doors and all openings (windows, doors, skylights) wired for the Alarm. Coverage must include a maximum limit per employee.

Maximum limits per employee greater than \$25,000 require that the dealership maintain employee tool inventories.

- Signs

9. Physical Damage Coverage

Standard Deductibles: \$1000 per auto/ \$10,000 per occurrence, except in hail areas where the Wind and Hail deductibles will normally be greater..

10. Employment Practices Liability Coverage (Claims Made)

This coverage is generally provided by Beazley Insurance Company on a monthly pay form and with other A rated markets on risks that do not qualify for the Beazley program

Standard Limit: \$1,000,000
Standard Retention: \$5,000

Other limits and retentions available.

11. Pollution Coverage (Claims Made)

This coverage is generally provided by Zurich or AIG.

Maximum Limit: \$1,000,000 occurrence/\$1,000,000 aggregate
Minimum Deductible: \$2,500

12. Umbrella Coverage

ARM's umbrella is generally written with ACE USA, Interstate Indemnity or AIG.
Standard Limits: \$5,000,000 per occurrence/\$5,000,000 aggregate. Other limits available.

13. Optional Coverages

- a. Dealer Bonds
- b. Workers Compensation Coverage
- c. Watercraft Coverages
- d. Earthquake or DIC Coverage
- e. Kidnap and Ransom Coverages
- f. Life and Medical Insurance Coverage

F. Agency Appointments

Your agency must be appointed with ARM to access our dealer programs. If you do not have an appointment, please complete an Agency Profile or if you have a standard profile form for your firm, use it, and return it to our office with the required attachments (Copy of agency license, copy of declarations page for errors & omissions coverage, copy of surplus lines license if applicable, and copies of individual licenses for each agent) as soon as possible. You will be issued a Producer Agreement which outlines the relationship between you, the Producer, and ARM, the Program Administrator.

G. Broker Of Record Procedures

The following is ARM's policy on Broker of Record Letters for new applications, renewals and in force business.

1. To be acceptable, the Broker of Record Letter must be on the insured's letterhead or blank paper if the insured does not have letterhead, and include the complete name and address of the insured.

The Broker of Record Letter must be signed by the insured, by an active partner, or a corporate officer and indicate that the insured is using this agent as his exclusive agent or Broker of Record, and not just for the purpose of obtaining a quote.

2. Acceptance of the Broker of Record Letter for New, Renewal or In Force Business will be accepted from any Broker who has an approved Broker's Agreement with Automotive Risk Management & Insurance Services, Inc., providing the Broker of Record Letter is received in our office at least **30 days** in advance of the effective date. One Broker of Record Letter and one countermanding letter will be accepted - no exceptions.

****Note: We retain the right to reserve accounts in advance for agents that provide support for our programs and we reserve the right to refuse a broker of record letter. In the event we refuse to accept a BOR, we will contact the dealer directly to advise him of our decision.***