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General Liability Exposure: What is it and why is it important?

In this edition of Tank Talk we answer the most frequent questions about General Liability Exposure and rating for Welding Supply & Industrial Gas Distributors. We hope that by the end of this article you will have a better understanding of the common exposures and how we rate them.

Does the insured have to complete the General Liability Supplemental Application?

The answer is always yes, and we have three very good reasons:

1. The Supplemental Application helps us get a picture of the insured's operations, including what type of gas they specialize in and if they are distributing products other than gas.
2. Because gases have a much higher margin than welding supplies, we also use the Supplemental Application as a financial guide.
3. The Supplemental Application helps us establish the rating base for the risk.



The sales are way off. Are you using the right rating base?

Yes, we just evaluate sales a little differently. Although some distributors may have some ancillary operations that we rate separately, we generally use this formula to evaluate sales:

Hargoods + Gallons + Mfg Sales (if any) = Total Exposure

First, we take the sales for welding supplies, cylinder rental, machine and equipment rental, and any requalification receipts and add them together under 12362-Hardware Store NOC.

Next, we use the Gas Distributors code (13411) to capture gallons of gas sold. We use gallons rather than the sales of industrial gases because, just like gasoline for your auto, gas prices can fluctuate but the number of gallons you buy remains relatively consistent. By using gallons, we don't penalize insureds for gas price fluctuations out of their control.

The only exception to this is the small minority of distributors who manufacture Acetylene Gas, which we rate as sales under code 53904.



How did you come up with the Gallons?

This is probably the most asked question we receive. On page 2 of the General Liability Supplemental Application, we ask the insured to record the sales and volumes of the gases they distribute. Don't worry, we convert volumes measured in cubic feet or pounds to gallons using industry standard conversions, by type of gas. We then total the number of gallons sold, giving us the rating base for gases sold and distributed.

What if the distributor doesn't keep volumes?

This is another reason why we ask for both gas sales and gas volumes. Generally, distributors should have an idea of the volume of gas they sell. In the rare case a distributor can't easily produce the volume of gas they sell, ISO has a formula to convert sales to gallons. However, converting sales to gallons is not as accurate as calculating volume sold, and we don't recommend using this method.

What about drop shipped gallons by the mfg?

There is still exposure for gallons shipped directly from the manufacturer. Depending on contractual relationships, the distributor and mfg would likely both be named in a suit and will need defense.

We hope this information answered some of your questions about General Liability Exposure and our Supplemental Application!

Still have questions? Need more help? Get in touch with us - our underwriters are happy to help.

