RULE 613. OWNED SNOWMOBILE

A. Coverage Description

1. The policy may be endorsed to provide coverage when a snowmobile is used off of the insured location.
2. Rate each snowmobile owned by the named insured or any other insured separately. This charge is the minimum annual premium for each snowmobile for any period within a policy year.

B. Premium

Refer to state company rates.

C. Endorsement

Use Owned Snowmobile Endorsement **HO 24 64.**

RULE 614. FARMERS PERSONAL LIABILITY

A. Eligibility

1. The policy may be endorsed to provide coverage when the insured has a farm away from the residence premises and farming is not the insured's primary occupation.
2. This coverage may be extended to include employer's liability including medical payments, for farm employees of any insured.
3. The following may not be covered:
   - **a.** Farms where the principal purpose of the farm is:
     - **(1)** To supply commodities for manufacturing or processing by the insured for sale to others, such as creameries and dairies (but not dairy farms).
     - **(2)** To operate freezing or dehydrating plants, and poultry factories.

     The word "processing" does not apply to the slaughtering and dressing of livestock, or to such operations as bunching vegetables or crating berries.
   - **b.** Farms where the principal purpose of the farm is the raising and using of horses for racing purposes.
   - **c.** Incorporated farms.

B. Endorsement

Use Farmers Personal Liability Endorsement **HO 24 73.**

C. Premium And Rating Instructions

1. **Farms Owned By Insured And Operated By Insured Or Insured's Employees**

   Refer to the state company rates for rates for the following exposures:
   - **a.** Initial Farm Premises with or without buildings, including all additional farm acreage (with or without buildings).
   - **b.** For **each** additional farm premises with buildings, an additional rate applies.
2. **Farms Owned By Insured And Rented To Others**

   Refer to the state company rates for rates for the following exposures:
   - **a.** All Farm Premises **without** buildings.
   - **b.** **Each** farm premises **with** buildings.
3. **Farm Employees**

   Refer to the state company rates for rates for the following exposures:
   - **a.** Part time employees working 40 days or fewer per year. Total the number of days worked by all employees in this category and apply the rate to that total.
   - **b.** Part time employees working over 40 days but not more than 180 days per year.
   - **c.** Full time employees (over 180 days per year).

Farm employees employed in violation of law may be excluded subject to the rules and rates filed by or on behalf of the Company. Use Exclusion Of Farm Employees Illegally Employed Endorsement **HO 24 96.**

RULE 615. INCIDENTAL FARMING PERSONAL LIABILITY

A. On The Residence Premises

1. **Coverage Description**
   - **a.** The policy may be endorsed to provide coverage for the liability of the insured when farming is conducted on the residence premises and is incidental to the use of the premises as a dwelling, and the income derived from the farming operations is not the insured's primary source of income. However, coverage is not available if the location specified in the endorsement is used for racing purposes.

RULE 615.
INCIDENTAL FARMING PERSONAL LIABILITY (Cont'd)

b. The policy may also be endorsed to provide coverage when the residence premises is used for the sheltering and grazing of animals. However, coverage is not available if the residence premises is used for racing purposes.

2. Premium

Refer to state company rates.

B. Away From The Residence Premises

1. Coverage Description

The policy may be endorsed to provide coverage for the liability of the insured whose incidental farming activities are conducted at the locations specified in the endorsement which are away from the residence premises. Such incidental farming activities may include the boarding or grazing of the insured's animals, or use of the land as garden space if the income derived from such activities is not the insured's primary source of income. However, coverage is not available if the locations specified in the endorsement are used for racing purposes.

2. Premium

Refer to state company rates.

C. Endorsement

Use Incidental Farming Personal Liability Endorsement **HO 24 72.**

RULE 616.
OPTIONAL PROPERTY REMEDIATION FOR ESCAPED LIQUID FUEL AND LIMITED LEAD AND ESCAPED LIQUID FUEL LIABILITY COVERAGES

A. Coverage Outline

1. Basic Limits

When the optional Property Remediation For Escaped Liquid Fuel And Limited Lead And Escaped Liquid Fuel Liability Coverages endorsement is attached to the policy, limited amounts of insurance are automatically provided as follows:

a. Section I – Property Remediation For Escaped Liquid Fuel Coverage

$10,000 to pay for loss to covered real or personal property, owned by an insured, that is damaged by liquid fuel that escapes from a fuel system on the residence premises as defined in the coverage endorsements. Covered real property includes land, other than farm land, owned by an insured, on which a building or structure is located.

In addition to the primary residence identified in the policy Declarations, the defined term "residence premises" also includes other locations owned by an insured but only if such locations have a fuel system, is specifically insured under Section **II** of the policy and is declared on the schedule in the aforementioned coverage endorsements. Enter the address of such locations on these endorsements or the policy Declarations. The other locations may be owner-occupied or rented to others.

This Property Remediation Coverage applies only for the policy period in which the insured first discovers or first learns of the escaped fuel, even if the escape began before that policy period.

b. Section II – Limited Lead And Escaped Liquid Fuel Liability Coverages

$50,000 to pay for damages because of bodily injury or property damage involving fuel that escapes from a fuel system or involving the contamination or exposure of lead from any location insured under the policy.

2. Premium Credit

a. Refer to state company rates for the premium credit.

b. Subtract the premium credit from the total policy premium.

3. Fuel System

a. "Fuel System" is defined in the coverage endorsements. Briefly, it includes one or more fuel storage containers, tanks, or vessels with a total combined capacity of 100 or more U.S. gallons at any one location and any related equipment such as a furnace, a water heater, fittings and pipes connecting a furnace or water heater to the fuel storage tank, and filler pipes and flues connected to a fuel storage tank.

b. When the total combined storage capacity of liquid fuel at any insured location is less than 100 U.S. gallons, the:

(1) Property Remediation Coverage does not apply to that location; and

(2) Policy limits and provisions apply for Escaped Liquid Fuel Liability to that location.

RULE 616.
OPTIONAL PROPERTY REMEDIATION FOR ESCAPED LIQUID FUEL AND LIMITED LEAD AND ESCAPED LIQUID FUEL LIABILITY COVERAGES (Cont'd)

4. Endorsements

a. Use Property Remediation For Escaped Liquid Fuel And Limited Lead And Escaped Liquid Fuel Liability Coverages Endorsement:

(1) HO 05 80 – For all forms other than **HO 00 04** and **HO 00 06.**

(2) HO 05 81 – For Form **HO 00 04.**

(3) HO 05 82 – For Form **HO 00 06.**

b. These endorsements provide complete details on coverages, limitations, definitions and additional policy conditions applicable to this coverage. Enter the limits of liability that apply to the Property Remediation Coverage and the Limited Liability Coverage on the endorsement. Also enter, on this endorsement, the address of any other location, other than the primary residence, to be insured for Property Remediation Coverage.

c. Do not use these endorsements when Farmers Personal Liability Endorsement **HO 24 73** is part of the policy.

B. Higher Limits

1. Section I – Property Remediation Coverage

a. Limits may be increased to $25,000, $50,000 or $100,000. The limit selected is entered on the coverage endorsements or the policy Declarations.

b. Refer to Paragraph **D.** Rating Basis, for premium computation instructions.

2. Section II – Escaped Fuel And Lead Liability Coverage

a. Limits may be increased to $100,000 or $300,000. The limit selected is entered on the coverage endorsements or the policy Declarations.

b. Refer to Paragraph **D.** Rating Basis, for premium computation instructions.

C. Application Of Limits Of Liability

1. For Property Remediation Coverage, the limit selected is the most coverage that will be provided during the policy period regardless of the number of locations insured for Property Remediation Coverage, the number of escapes of liquid fuel from a fuel system an insured first discovers or learns of during the policy period, or the number of claims made.

2. For Limited Lead And Escaped Liquid Fuel Liability Coverage, the limit selected is an aggregate limit and is the most coverage that will be provided during the policy period regardless of the number of persons injured, the number of persons whose property is damaged, the number of insureds, the number of locations insured under this policy or the number of bodily injury or property damage claims made.

D. Rating Basis

1. Property Remediation For Escaped Liquid Fuel Coverage

a. From the Liquid Fuel Risk Selection Table located in Paragraph **4.,** select:

(1) The liquid fuel risk description that best describes each location, **with or without** a dwelling building, insured for Property Remediation Coverage; and

(2) The corresponding Risk Class Number for each description identified.

b. Use the lowest Risk Class Number selected for all such locations.

2. Limited Lead And Escaped Liquid Fuel Liability Coverages

a. Liquid Fuel Hazard

(1) From the Liquid Fuel Risk Selection Table located in Paragraph **4.,** select:

(a) The liquid fuel risk description that best describes each location, **with or without** a dwelling building, insured under Section **II** of the policy; and

(b) The corresponding Risk Class Number for each description identified.

(2) Use the lowest Risk Class Number selected for all such locations.

b. Lead Hazard

(1) From the Lead Risk Selection Table in Paragraph **5.,** select:

(a) The lead risk description that best describes each location **with a dwelling building,** insured under Section **II** of the policy; and

(b) The corresponding Risk Class Number for each description identified.

(2) Use the lowest Risk Class Number selected for all such locations.

RULE 616.
OPTIONAL PROPERTY REMEDIATION FOR ESCAPED LIQUID FUEL AND LIMITED LEAD AND ESCAPED LIQUID FUEL LIABILITY COVERAGES (Cont'd)

3. Premium Selection

From the state company rates, select the appropriate additional premium charges that correspond to the lowest Risk Class Numbers determined in Paragraphs **1.** and **2.**

4. Liquid Fuel Risk Selection Table

Description	Risk Class No.
(1) Liquid fuel storage containers, tanks, or vessels with a total combined storage capacity, at any one location, of 100 U.S. gallons or more are on covered real property, the location of the residence premises, or on any other insured location; and	
(a) **One** or **more** fuel storage containers, tanks, or vessels are partially or completely buried **below ground** (inside or outside of a building or structure);	100
(b) Are all completely **above ground** (inside or outside of a building or structure); or	200
(2) No single location insured under this policy has an escaped fuel hazard described in preceding Items **(1)(a)** or **(b).**	∗300
∗ This risk class number is only used when lead and escaped fuel liability increased limits is selected.	

Table 616.D.4. Liquid Fuel Risk Selection

5. Lead Risk Selection Table

Location Has A Dwelling Built	All Such Locations Are Certified Lead Safe+	Risk Class Number
Before 1980	No or Unknown	500
Before 1980	Yes	600
In 1980 or later	Not Applicable	700
+ See Paragraph **6.** for Lead Safe description.		

Table 616.D.5. Lead Risk Selection

6. Lead Safe

a. Description

For the purpose of using the Lead Risk Selection Table, a location certified lead safe means that an authorized person has conducted a risk assessment in all insured locations with dwellings to determine the amount of lead, if any, in paint, dust, bare soil and drinking water and has certified that such locations meet the criteria noted in Paragraph **b.** Standards, that follows. The insurer may require a copy of the inspection report including laboratory results.

b. Standards

(1) The lead content of exterior and interior paint or other surface coating applied to dwelling buildings, other structures and fixtures is less than:

(a) 1.0 milligram per square centimeter based on testing by XRF analysis; or

(b) .5% of lead by weight based on testing by atomic absorption lab analysis.

(2) The amount of lead in interior dust particles in the dwelling building is less than:

(a) 40 micrograms per square foot on floors;

(b) 250 micrograms per square foot on interior window sills; or

(c) 400 micrograms per square foot on window troughs (wells).

(3) The lead concentration in bare soil is less than 400 parts per million in any area expected to be used by children.

(4) The lead concentration in drinking water is less than 0.015 milligrams per liter.

c. Authorized Person

For the purposes of this rule, an authorized person means:

(1) A lead inspector, lead technician, lead risk assessor or another similarly titled person who is trained under an accredited training program and certified by an approving authority; or

(2) A person otherwise found acceptable to the insurer;

to perform lead risk assessments in residential buildings.

RULE 617.
CANINE LIABILITY EXCLUSION

A. Introduction

The policy may be endorsed, subject to written agreement between the named insured and the insurer, to exclude Coverage **E** (Personal Liability) and Coverage **F** (Medical Payments To Others) on a policy with respect to liability arising out of direct physical contact with a specifically described canine, that is owned by or in the care, custody or control of an insured.

B. Application Of Exclusion

1. The named insured must acknowledge, in writing, the Canine Liability Exclusion endorsement.

2. The Canine Liability Exclusion endorsement shall remain in effect:

- **a.** For the term of the policy; and
- **b.** For each renewal, reinstatement, substitute, modified, replacement or amended policy; until discontinued by the insurer.

C. Endorsement

Use Canine Liability Exclusion Endorsement **HO 24 77.**

RULES 618. – 700.
RESERVED FOR FUTURE USE

PART VII
SECTION II – LIABILITY – OTHER EXPOSURES INCREASED LIMITS

RULE 701.
OTHER EXPOSURES – PERSONAL LIABILITY INCREASED LIMITS

Apply the appropriate factor shown in the following table to the basic limits premium for each exposure.

Limit	Factor
$200,000	1.15
300,000	1.24
400,000	1.30
500,000	1.35

Table 701. Personal Liability Increased Limits

RULE 702.
OTHER EXPOSURES – MEDICAL PAYMENTS TO OTHERS INCREASED LIMITS

Refer to the state company rates for increased limit rates.

RATING EXAMPLES APPENDIX

IMPORTANT NOTE

The following are examples of a method to calculate premiums using the currect edition of the ISO multistate Homeowners Policy Program Manual General Rules. Any factors, loss costs, or rates contained in the examples are for illustrative purposes only.

In these examples when reference is made to applying the loss cost multiplier the resulting product is then rounded to the nearest whole dollar. This may be different from company-specific procedures.

A. Example #1 Tenant (HO 00 04)

1. Policywriting And Rating Information (Policy Inception Date Is January 1)

a. Term Of Policy

One Year

b. Address Where The Residence Premises Is Located

1234 Some Street, Anytown USA

Refer to the Territory Pages to determine the Territory Code for the location of the residence premises.

c. Policy Limits Of Insurance

Coverage **C** – $10,000

Coverage **E** – $100,000

Coverage **F** – $1,000

d. Protection – Construction Classification Information

The Protection Class for Anytown is 2.

Refer to the Protection Class listings in the Community Mitigation Classification (CMC) Manual to determine the protection class for the community where the residence premises is located.

e. Type Of Construction

The dwelling has exterior walls constructed of brick and floors and roof of combustible construction.

Refer to Rule **107.** to determine the type of construction.

f. Building Code Effectiveness Grade

The building was constructed in 2000. The Building Code Effectiveness Grade (BCEG) as determined in 1998 for this particular community is 8.

Refer to the CMC Manual to determine the building code effectiveness grade for the community where the residence premises is located.

Refer to Rule **410.** to determine the windstorm or hail rating factor for that Building Code Effectiveness Grade.

g. Section I – Deductible

$1,000 Theft and $250 All Other Perils

Refer to Rule **406.** to determine the applicable rating factor for the deductible amounts selected.

h. Optional Coverages Selected

(1) Special Personal Property Coverage

Refer to Rule **304.** to determine the rating factor for this coverage.

(2) Personal Property Replacement Cost Loss Settlement

Refer to Rule **403.** to determine the applicable rating factor for this option.

i. Protective Devices Discounts Applicable To The Policy

The dwelling has automatic sprinklers in all areas except attic, bathroom, closet and attached structure areas that are protected by a fire detector.

Refer to Rule **404.** to determine the applicable rating factor for this type of protective device.

j. Higher Limits Requested

(1) Building Additions And Alterations – Increased Limits

The policy automatically provides a limit of liability of $1,000. The insured has requested a total Building Additions and Alterations limit of $10,000.

Refer to Rule **502.** to determine the additional premium for this higher limit.

(2) Ordinance Or Law Increased Amount Of Coverage

The policy automatically provides up to 10% of the limit of liability that applies to Building Additions and Alterations to pay for the increased costs necessary to comply with the enforcement of an ordinance or law. The insured has requested that coverage be increased to 100% of the Building Additions and Alterations limit.

Refer to Rule **513.** to determine the additional premium for this higher limit.

(3) Personal Property

The policy automatically provides a special limit of liability for jewelry of $1,500. However, the insured has requested a total jewelry limit of $5,000.

Refer to Rule **515.** to determine the additional premium for this higher limit.

k. Policy Forms

- Homeowners 4 – Contents Broad Form
- Special Provisions Endorsement
- Premises Alarm Or Fire Protection System Endorsement
- Special Personal Property Coverage – Form **HO 00 04** Only Endorsement
- Personal Property Replacement Cost Loss Settlement Endorsement
- Ordinance Or Law Increased Amount Of Coverage Endorsement
- Building Additions And Alterations Increased Limits Form **HO 00 04** Endorsement
- Coverage **C** Special Limits of Liability Endorsement

2. Premium Determination For The Tenant (HO 00 04) Example

The steps here correspond to the Sample Calculation of Policy Premium chart that follows:

Step		Explanation
1.	Determine the Territory Base Class Loss Cost	Refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs by territory that have been adopted by the company to determine the loss cost for an **HO 00 04** policy.
2.	Determine the Company Loss Cost Multiplier	Refer to company to determine the appropriate loss cost multiplier.
3.	Determine the Company Base Class Premium	The Base Class Premium is determined by the product of Steps **1.** and **2.** It is then rounded to the nearest whole dollar. Company specific procedures with respect to rounding the Base Class Premium apply here.
4.	Determine the Protection-Construction Factor	Refer to Rule **301.B.1.** of the state classification pages to determine the rating factor based on the protection class and type of construction. For this example, the protection class is 2 and type of construction is masonry. The factor is .87.
5.	Determine the Key Premium	The Key Premium is determined by the product of Steps **3.** and **4.** Round to the nearest whole dollar.
6.	Determine the Key Factor	Refer to Rule **301.B.2.** of the state classification pages and select the Key Factor for the desired amount of insurance for Coverage **C.** For this example, the factor is .540.
7.	Determine the Base Premium	The Base Premium is determined by the product of Steps **5.** and **6.** Round to the nearest whole dollar.
8.	Determine the Base Premium including Special Personal Property Coverage	Refer to General Rule **304.** to determine the rating factor for special personal property coverage. For this example, the factor is 1.40. Multiply the Base Premium in Step **7.** by 1.40. Round to the nearest whole dollar. Endorsement **HO 05 24** must be attached to the policy.
9.	Determine the Adjusted Base Premium for the deductible amounts selected	Refer to General Rule **406.** to determine the rating factor for $1,000 Theft and $250 All Other Perils Deductible for Coverage **C** Limit up to $25,000 for a city territory. For this example, the factor is .84. Multiply the Base Premium in Step **8.** by .84. Round to the nearest whole dollar.
10.	Determine the Adjusted Base Premium including the Personal Property (Coverage **C**) Replacement Loss Settlement	Refer to General Rule **403.** to determine the rating factor for personal property replacement cost loss settlement. For this example, the factor is 1.35. Multiply the Adjusted Base Premium in Step **9.** by 1.35. Round to the nearest whole dollar. Endorsement **HO 04 90** must be attached to the policy.

Step		Explanation
11.	Determine the Adjusted Base Premium including Protective Devices	Refer to General Rule **404.** (Table **404.A.**) to determine the rating factor for protective devices. For this example, the apartment has automatic sprinklers in all areas except attic, bathroom, closet and attached structure areas that are protected by a fire detector and the factor is .92. Multiply the Adjusted Base Premium in Step **10.** by .92. Round to the nearest whole dollar. Endorsement **HO 04 16** must be attached to the policy.
12.	Determine the Adjusted Base Premium to reflect the credit for Building Code Effectiveness.	Refer to Rule **410.E.1.c.** in the state exception pages to determine the rating factor for Windstorm Or Hail. For this example, the Windstorm or Hail Factor for Form **HO 00 04** with a Grade of 3 is. 03. To determine the Building Code Effectiveness Grade credit: **a.** Multiply the Base Class Premium from Step **3.** by the factor in Table **410.E.1.c.(1)(b).** **b.** Multiply the result from preceding Paragraph **a.** by the Key Factor for the desired amount of insurance for Coverage **C.** For this example, the factor is .540. Round to the nearest whole dollar. Subtract this credit from the Adjusted Base Premium developed in Step **11.**
13.	Determine the additional premium for increased limits of liability for Building Additions and Alterations	Refer to General Rule **502.** **a.** Determine the premium for each additional $1,000 of insurance by multiplying the **HO 00 04** Key Factor for "Each Add'l $1,000" found in Rule **301.B.2.** of the state classification pages by the **HO 00 04** Key Premium in Step **5.** **b.** Multiply the premium for each additional $1,000 of insurance determined in preceding Paragraph **a.** by the number of additional thousands for the increased limit of insurance. For this example, there is a $9,000 increase in the limit for Building Additions and Alterations. Round to the nearest whole dollar. Add this additional premium to the premium determined in Step **12.** Endorsement **HO 04 51** must be attached to the policy.
14.	Determine the additional premium including Ordinance Or Law Increased Amount of Coverage.	Refer to General Rule **513.** **a.** Determine the premium for each additional $1,000 of insurance by multiplying the **HO 00 04** Key Factor for "Each Add'l $1,000" found in Rule **301.B.2.** of the state classification pages by .30 and then multiply that amount by the **HO 00 04** Key Premium in Step **5.** **b.** Multiply the result from Paragraph **a.** by the number of additional thousands for the increased limit of insurance. For this example, there is a $9,000 increase in the limit for Ordinance Or Law. Round to the nearest whole dollar. Add this additional premium to the premium determined in Step **13.** Endorsement **HO 04 77** must be attached to the policy.
15.	Determine the additional premium for increased special limits of liability for Coverage **C** (Jewelry)∗	Refer to General Rule **515.D.** to determine the loss cost per $1,000 of increased special limits of liability. For this example, the loss cost per $1,000 of Coverage **C** – Jewelry is $10.35. **a.** Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate per $1,000. **b.** Multiply the rate for each additional $1,000 of insurance by the number of additional thousands for the increased limits of insurance. For this example, there is a $3,500 increase in the limit for Coverage **C.** Add this additional premium to the premium determined in Step **14.** Endorsement **HO 04 66** must be attached to the policy.

∗ For additional or reduced premium charges, refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs that have been adopted by the company to determine the loss cost. Refer to company to determine the appropriate loss cost multiplier. Then company specific procedures with respect to rounding apply. For this example, the product of this multiplication was rounded to the nearest whole dollar to determine the rate.

3. Sample Calculation Of Policy Premium

a. Basic Coverage

Steps	Description Of Calculation	Calculation
1.	Territory Base Class Loss Cost	$32.77
2.	Company Loss Cost Multiplier	1.00
3.	Base Class Premium	$33
4.	Protection-construction Factor	.87
5.	Key Premium	$29
6.	Key Factor	.540
7.	Base Premium	$16
8.	Special Personal Property Coverage Factor	1.40
	Base Premium including Special Personal Property Coverage	$22

b. Adjusted Base Premium

9.	Higher Theft Deductible Factor	.84
	Adjusted Base Premium for Higher Theft Deductible	$18
10.	Personal Property Replacement Cost Loss Settlement Factor	1.35
	Adjusted Base Premium including Personal Property (Coverage **C**) Replacement Cost Loss Settlement	$24
11.	Protective Devices Factor	.92
	Adjusted Base Premium including Protective Devices	$22
12.	Building Code Effectiveness Grade credit	$33 x .03 x .540 = $1
	Adjusted Base Premium including BCEG credit	$21

c. Additional Premium

13.	Additional premium for increased limits of liability for Building Additions and Alterations	$29 x .028 x 9 = $7
14.	Additional premium for increased limits of liability for Ordinance Or Law	(0.28 x .30 x $29) x 9 = $2
15.	Rate for each additional $1,000 for increased special limits of liability for Coverage **C** – Jewelry	$10.35 x 1.00 = $10
	Additional premium for increased special limits of liability for Coverage **C** – Jewelry	$10 x 3.5 = $35
	Whole Dollar Total Premium	**$65**

B. Example #2 Condominium Unit-owner (HO 00 06)

1. Policywriting And Rating Information (Policy Inception Date Is January 1)

a. Term Of Policy

One Year

b. Address Where The Residence Premises Is Located

1234 Some Street, Anytown, USA

Refer to the Territory Pages to determine the Territory Code for the location of the residence premises.

c. Policy Limits Of Insurance

Coverage **A** – $15,500

Coverage **C** – $50,000

Coverage **D** – $25,000

Coverage **E** – $200,000

Coverage **F** – $2,000

d. Protection – Construction Classification Information

The Protection Class for Anytown is 2.

Refer to the Protection Class listings in the Community Mitigation Classification (CMC) Manual to determine the protection class for the community where the residence premises is located.

e. Type Of Construction

The dwelling has exterior walls and floors and roof constructed of fire-resistive materials.

Refer to Rule **107.** to determine the type of construction.

Refer to Rule **401.** to determine the rating factor for superior construction.

f. Building Code Effectiveness Grade

The building was constructed in 2004. The Building Code Effectiveness Grade (BCEG) as determined in 2002 for this particular community is 8.

Refer to the CMC Manual to determine the building code effectiveness grade for the community where the residence premises is located.

Refer to Rule **410.** to determine the windstorm or hail rating factor for that Building Code Effectiveness Grade.

g. Section I – Deductible

$1,000 Theft and $500 All Other Perils

Refer to Rule **406.** to determine the applicable rating factor for the deductible amounts selected.

h. Optional Coverages Selected

(1) Special Personal Property Coverage

Refer to Rule **304.** to determine the rating factor for this coverage.

(2) Personal Property Replacement Cost Loss Settlement

Refer to Rule **403.** to determine the applicable rating factor for this option.

(3) Unit-owners Coverage A – Special Coverage

Refer to Rule **507.** to determine the additional premium for this option.

i. Protective Devices Discount Applicable To The Policy

The dwelling has a local fire alarm.

Refer to Rule **404.** to determine the applicable rating factor for this type of protective device.

j. Higher Limits Requested

(1) Coverage A – Increased Limit

The basic policy provides a limit of $5,000 for Coverage **A.** However, the insured has requested that his limits be increased by $10,500 to $15,500.

Refer to Rule **507.** to determine the additional premium for this higher limit.

(2) Personal Liability/Medical Payment Increased Limits

The basic policy provides a limit of $100,000 for Coverage **E** and $1,000 for Coverage **F.** However, the insured has requested that his limits be increased to $200,000 for Coverage **E** limit and $2,000 for Coverage **F.**

Refer to Rule **601.** to determine the additional premium for these higher limits.

k. Policy Forms

- Homeowners 6 – Unit-owners Form
- Special Provisions Endorsement
- Personal Property Replacement Cost Loss Settlement Endorsement
- Premises Alarm Or Fire Protection System Endorsement
- Unit Owners – Coverage **C** – Special Coverage Endorsement
- Unit Owners – Coverage **A** – Special Coverage Endorsement

2. Premium Determination For The Condominium Unit-owner (HO 00 06) Example

The steps here correspond to the Sample Calculation of Policy Premium chart that follows:

Step		Explanation
1.	Determine the Territory Base Class Loss Cost	Refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs by territory that have been adopted by the company to determine the loss cost for an **HO 00 06** policy.
2.	Determine the Company Loss Cost Multiplier	Refer to company to determine the appropriate loss cost multiplier.
3.	Determine the Company Base Class Premium	The Base Class Premium is determined by the product of Steps **1.** and **2.** It is then rounded to the nearest whole dollar. Company specific procedures with respect to rounding the Base Class Premium apply here.
4.	Determine the Protection-construction Factor	Refer to Rule **301.C.1.** in the state classification pages to determine the rating factor based on the protection class and type of construction. For this example, the protection class is 2 and type of construction is masonry. The factor is .87.
5.	Determine the Key Premium	The Key Premium is determined by the product of Steps **3.** and **4.** Round to the nearest whole dollar.
6.	Determine the Key Factor	Refer to Rule **301.C.2.** of the state classification pages and select the Key Factor for the desired amount of insurance for Coverage **C.** For this example, the factor is 2.020.
7.	Determine the Base Premium	The Base Premium is determined by the product of Steps **5.** and **6.** Round to the nearest whole dollar.
8.	Determine the Base Premium including Special Personal Property Coverage	Refer to General Rule **304.** to determine the rating factor for special personal property coverage. For this example, the factor is 1.40. Multiply the Base Premium in Step **7.** by 1.40. Round to the nearest whole dollar. Endorsement **HO 17 31** must be attached to the policy.
9.	Determine the Adjusted Base Premium for the deductible amounts selected	Refer to General Rule **406.** to determine the rating factor for $1,000 Theft and $500 All Other Perils Deductible for Coverage **C** Limit $40,001 and over. For this example, the factor is .90. Multiply the Base Premium in Step **8.** by .90. Round to the nearest whole dollar.
10.	Determine the Adjusted Base Premium for a condominium unit in a building of superior construction	Refer to General Rule **401.** to determine the rating factor for superior construction. For this example, the factor is .85. Multiply the Adjusted Base Premium in Step **9.** by .85. Round to the nearest whole dollar.
11.	Determine the Adjusted Base Premium including Personal Property (Coverage **C**) Replacement Cost Loss Settlement	Refer to General Rule **403.** to determine the rating factor for personal property replacement cost loss settlement. For this example, the factor is 1.35. Multiply the Adjusted Base Premium in Step **10.** by 1.35. Round to the nearest whole dollar. Endorsement **HO 04 90** must be attached to the policy.
12.	Determine the Adjusted Base Premium including Protective Devices	Refer to General Rule **404.** (Table **404.A.**) to determine the rating factor for protective devices. For this example, the unit has a local fire alarm and the factor is .98. Multiply the Adjusted Base Premium in Step **11.** by .98. Round to the nearest whole dollar. Endorsement **HO 04 16** must be attached to the policy.

Step		Explanation
13.	Determine the Adjusted Base Premium to reflect the credit for Building Code Effectiveness	Refer to Rule **410.E.1.c.** in the state exception pages to determine the rating factor for Windstorm Or Hail. For this example, the Windstorm Or Hail Factor for Form **HO 00 06** with a Building Code Effectiveness Grade of 8 is .01. To determine the Building Code Effectiveness Grade credit: **a.** Multiply the Base Class Premium from Step **3.** by the factor in Table **410.E.1.c.(1)(c).** **b.** Multiply the result from preceding Paragraph **a.** by the Key Factor for the desired amount of insurance for Coverage **C.** For this example, the factor is 2.020. Round to the nearest whole dollar. Subtract this credit from the Adjusted Base Premium developed in Step **12.**
14.	Determine the additional premium for increased limits of Coverage **A**	Refer to General Rule **507.B.** **a.** Determine the premium for each additional $1,000 of insurance by multiplying the **HO 00 06** Key Premium from Step **5.** by the **HO 00 06** Key Factor for "Each Add'l $1,000" found in Rule **301.C.2.** of the state classification pages. **b.** Multiply the premium for each additional $1,000 of insurance determined in preceding Paragraph **a.** by the number of additional thousands for the increased limit of insurance. For this example, there is a $10,500 increase in the limit for Coverage **A.** Multiply the premium determined in Paragraph **a.** by 10.5. Round to the nearest whole dollar. Add this additional premium to the premium determined in Step **13.**
15.	Determine the additional premium for extending special coverage to Coverage **A** (Dwelling)∗	Refer to General Rule **507.C.** **a.** The loss cost per policy for $5,000 of Coverage A in the basic form is $1.15. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. **b.** The loss cost for each additional $1,000 of Coverage **A** is $.58. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Multiply this rate for each additional $1,000 of Coverage **A** by the number of additional thousands for the increased limit of insurance. For this example, there is a $10,500 increase in the limit of Coverage **A.** Multiply the rate per $1,000 by 10.5. Add this to the amount determined in Paragraph **a.** for the total premium for this extended coverage. Round to the nearest whole dollar. Add this additional premium to the premium determined in Step **14.** Endorsement **HO 17 32** must be attached to the policy.
16.	Determine the additional premium Coverage **E** increased limit∗	Refer to General Rule **601.** to determine the loss cost for $200,000 of Coverage **E** – Liability. For this example, the loss cost is $1.48. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Add this additional premium to the premium determined in Step **15.**
17.	Determine the additional premium for Coverage **F** increased limit∗	Refer to General Rule **601.** to determine the loss cost for $2,000 of Coverage **F** – Medical Payments. For this example, the loss cost is $1.73. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Add this additional premium to the premium determined in Step **16.**
∗ For additional or reduced premium charges, refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs that have been adopted by the company to determine the loss cost. Refer to the company to determine the appropriate loss cost multiplier. Then company specific procedures with respect to rounding apply. For this example, the product of this multiplication was rounded to the nearest whole dollar to determine the rate.		

3. Sample Calculation Of Policy Premium

a. Basic Coverage

Steps	Description Of Calculation	Calculation
1.	Territory Base Class Loss Cost	$33.22
2.	Company Loss Cost Multiplier	1.00
3.	Base Class Premium	$33
4.	Protection-construction Factor	.87
5.	Key Premium	$29
6.	Key Factor	2.020
7.	Base Premium	$59
8.	Special Personal Property Coverage Factor	1.40
	Base Premium including Special Personal Property Coverage	$83

b. Adjusted Base Premium

9.	Theft Deductible Factor	.90
	Adjusted Base Premium for Deductible Option Selected	$75
10.	Superior Construction Factor	.85
	Adjusted Base Premium for Superior Construction	$64
11.	Personal Property (Coverage **C**) Replacement Cost Loss Settlement Factor	1.35
	Adjusted Base Premium including Personal Property (Coverage **C**) Replacement Cost Loss Settlement	$86
12.	Protective Device Factor	.98
	Adjusted Base Premium including Protective Device	$84
13.	Building Code Effectiveness Grade credit	$33 x .01 x 2.020 = $1
	Adjusted Base Premium including BCEG credit	$83

c. Additional Premiums

14.	Additional premium for increased limits of liability for Coverage **A** – Dwelling	$29 x .026 x 10.5 = $8
15.	Rate for $5,000 of Coverage **A** in the basic form	$1.15 x1.00 = $1
	Rate for each additional $1,000 of Coverage **A**	$.58 x 1.00 = $1
	Rate for additional Coverage **A** limit	$1 x 10.5 = $11
	Additional premium for special coverage of Coverage **A** – Dwelling	$1 + $11 = $12
16.	Additional premium for increased limits of liability for Coverage **E** – Personal Liability	$1.48 x 1.00 = $1
17.	Additional premium for increased limits of liability for Coverage **F** – Medical Payment To Others	1.73 x 1.00 = $2
	Whole Dollar Total Premium	**$106**

C. Example #3 Homeowners 2 – Broad Form (HO 00 02)

1. Policywriting And Rating Information (Policy Inception Date Is January 1)

a. Term Of Policy

One Year

b. Address Where The Residence Premises Is Located

1234 Some Street, Anytown, USA

Refer to the Territory Pages to determine the Territory Code for the location of the residence premises.

c. Policy Limits Of Insurance

Coverage **A** – $400,000

Coverage **B** – $20,000

Coverage **C** – $80,000

Coverage **D** – $120,000

Coverage **E** – $100,000

Coverage **F** – $1,000

d. Protection – Construction Classification Information

The Protection Class for Anytown is 5.

Refer to the Protection Class listings in the Community Mitigation Classification (CMC) Manual to determine the protection class for the community where the residence premises is located.

e. Type Of Construction

The dwelling has exterior walls made of stucco on wood.

Refer to Rule **107.** to determine the type of construction.

f. Four Family Dwelling

The residence is a four family dwelling.

Refer to Rule **301.** in the state classification pages to determine the rating factor for a four family dwelling.

g. Building Code Effectiveness Grade

The building was constructed in 1930. Therefore, there is no Building Code Effectiveness Grade for this building.

h. Section I – Deductible

$250 All Perils. This is the base deductible.

i. Optional Coverages Selected

(1) Functional Replacement Cost Loss Settlement

Refer to Rule **302.**

The standard replacement cost of this dwelling would be $550,000. The insured has requested loss settlement on a functional replacement cost basis. The replacement cost using functionally equivalent building material is $500,000. To receive full functional replacement costs coverage, the insured has insured the dwelling for 80% of the functional replacement cost which is $400,000.

(2) Personal Property Replacement Cost Loss Settlement

Refer to Rule **403.** to determine the applicable rating factor for this option.

j. Discounts Applicable To The Policy

(1) Protective Devices

The dwelling has a central station reporting burglar alarm.

Refer to Rule **404.** to determine the applicable rating factor for this type of protective device.

(2) Inflation Guard

The insured has requested annual 4% increases in the Section **I** limits.

Refer to Rule **405.** to determine the applicable rating factor for an annual increase of this amount.

(3) Actual Cash Value Loss Settlement Windstorm Or Hail Losses To Roof Surfacing

The insured has requested loss settlement on an actual cash value basis for the surface of his roof when damage is caused by the peril of Windstorm or Hail.

Refer to Rule **408.** to determine the rating factor for this option.

(4) Assisted Living Care

The insured's mother lives in an assisted living care facility and has requested a Coverage **C** limit of $15,000. This is a $5,000 increase over the basic limit of $10,000 provided.

Refer to Rule **523.** to determine the additional premium for this option.

k. Lower Personal Property Limits Requested

The policy automatically provides a Coverage **C** limit of $100,000 (25% of the Coverage **A** limit). The insured has requested that this amount be lowered to $80,000.

Refer to Rule **515.** to determine the decreased premium for this lower limit.

l. Policy Forms

- Homeowners 2 – Broad Form
- Special Provisions Endorsement
- Functional Replacement Cost Loss Settlement Endorsement
- Premises Alarm or Fire Protection System Endorsement
- Personal Property Replacement Cost Loss Settlement Endorsement
- Inflation Guard Endorsement
- Actual Cash Value Loss Settlement Windstorm or Hail Losses to Roof Surfacing Endorsement
- Assisted Living Care Coverage Endorsement

2. Premium Determination For The Homeowners 2 – Broad Form (HO 00 02) Example

The steps here correspond to the Sample Calculation of Policy Premium chart that follows:

Step		Explanation
1.	Determine the Territory Base Class Loss Cost	Refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs by territory that have been adopted by the company to determine the loss cost for an **HO 00 03** policy.
2.	Determine the Company Loss Cost Multiplier	Refer to company to determine the appropriate loss cost multiplier.
3.	Determine the Company Base Class Premium	The Base Class Premium is determined by the product of Steps **1.** and **2.** It is then rounded to the nearest whole dollar. Company specific procedures with respect to rounding the Base Class Premium apply here.
4.	Determine the Form Factor	Refer to Rule **301.A.1.** of the state classification pages to determine the form factor. Multiply the Company Base Class Premium in Step **3.** by the form factor. For this example, the form factor is .95. Round to the nearest whole dollar.
5.	Determine the Protection-construction Factor	Refer to Rule **301.A.1.** of the state classification pages to determine the rating factor based on the protection class and type of construction. For this example, the protection class is 5 and type of construction is frame. For this example, the factor is 1.00.
6.	Determine the Key Premium	The Key Premium is determined by the product of Steps **4.** and **5.** Round to the nearest whole dollar.
7.	Determine the Key Factor for Functional Replacement Cost Loss Settlement	Refer to Rule **301.A.2.** of the state classification pages and select the Key Factor for the desired amount of insurance for Coverage **A.** In accordance with General Rule **302.A.,** the insured has requested a Coverage **A** limit that is 80% of the functional replacement cost of the building. For this example, the factor is 2.576. Endorsement **HO 05 30** must be attached to the policy.
8.	Determine the Base Premium	The Base Premium is determined by the product of Steps **6.** and **7.** Round to the nearest whole dollar.
9.	Determine the Base Premium for a Four Family Dwelling	Refer to Rule **301.A.1.b.** in the state classification pages to determine the rating factor for a Three or Four Family Dwelling. For this example, the factor is 1.30. Multiply the Base Premium in Step **8.** by 1.30. Round to the nearest whole dollar.

Step		Explanation
10.	Determine the Base Premium for the lower amounts of insurance for Coverage **C**∗	Refer to General Rule **515.** to determine the loss cost for lower limits of liability for Coverage **C.** For this example, the loss cost per $1,000 of Coverage **C** is $.58. To determine the credit: **a.** Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. **b.** Multiply this rate for each fewer $1,000 of insurance by the number of fewer thousands for the lower limits of insurance. For this example, there is a $20,000 decrease in the limit for Coverage **C.** Subtract this premium from the premium determined in Step **9.**
11.	Determine the Adjusted Base Premium including the Personal Property (Coverage **C**) Replacement Cost Loss Settlement	Refer to General Rule **403.** to determine the rating factor for personal property replacement cost loss settlement. For this example, the factor is 1.15. Multiply the Adjusted Base Premium in Step **10.** by 1.15. Round to the nearest whole dollar. Endorsement **HO 04 90** must be attached to the policy.
12.	Determine the Adjusted Base Premium including Protective Devices	Refer to General Rule **404.** (Table **404.A.**) to determine the rating factor for protective devices. For this example, the dwelling has a central station reporting burglar alarm and the factor is .95. Multiply the Base Premium in Step **11.** by .95. Round to the nearest whole dollar. Endorsement **HO 04 16** must be attached to the policy.
13.	Determine the Adjusted Base Premium including Inflation Guard	Refer to General Rule **405.** (Table **405.B.1.**) to determine the rating factor for inflation guard. For this example, there is an annual 4% increase in Section I limits and the factor is 1.02. Multiply the Adjusted Base Premium in Step **12.** by 1.02. Round to the nearest whole dollar. Endorsement **HO 04 46** must be attached to the policy.
14.	Determine the Adjusted Base Premium including Actual Cash Value Loss Settlement Windstorm or Hail Losses to Roof Surfacing	Refer to General Rule **408.** to determine the rating factor for loss settlement on an actual cash value basis for losses to the roof surface when damage is caused by the peril of windstorm or hail. For this example, the factor is .99. Multiply the Adjusted Base Premium in Step **13.** by the factor of .99. Round to the nearest whole dollar. Endorsement **HO 04 93** must be attached to the policy.
15.	Determine the additional premium for Assisted Living Care Coverage∗	Refer to General Rule **523.** to determine the loss cost per unit and the loss cost per $1,000 of increased limits of liability. For this example, the loss cost per unit is $45.00 and the loss cost for $1,000 of Coverage **C** is $4.03. **a.** Apply the appropriate loss cost multiplier(s) to the loss costs to determine the company's rates. **b.** Multiply the rate per unit by the number of units. For this example, there is one unit. **c.** Multiply the rate for each additional $1,000 of insurance by the number of additional thousands for the increased limits of insurance. For this example, there is a $5,000 increase in the basic limit for Coverage **C.** Add the rates determined in Paragraphs **b.** and **c.** to determine the additional premium for this coverage. Add this additional premium to the premium determined in Step **14.**
∗ For additional or reduced premium charges, refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs that have been adopted by the company to determine the loss cost. Refer to the company to determine the appropriate loss cost multiplier. Then company specific procedures with respect to rounding apply. For this example, the product of this multiplication was rounded to the nearest whole dollar to determine the rate.		

3. Sample Calculation Of Policy Premium

a. Basic Coverage

Steps	Description Of Calculation	Calculation
1.	Territory Base Class Loss Cost	$283.64
2.	Company Loss Cost Multiplier	1.00
3.	Base Class Premium	$284
4.	Form Factor for **HO 00 02**	.95
	Base Class Premium for Form **HO 00 02**	$270
5.	Protection-construction Factor	1.00
6.	Key Premium	$270
7.	Key Factor	2.576
8.	Base Premium	$696
9.	Four Family Dwelling Factor	1.30
	Base Premium for a Four Family Dwelling	$905

b. Adjusted Base Premium

10.	Rate per $1,000 of insurance for lower limits of Coverage **C**	$.58 x 1.00 = $1
	Credit for lower limits of Coverage **C**	$1 x 20 = $20
	Adjusted Base Premium including lower limits of Coverage **C**	$885
11.	Personal Property Replacement Loss Cost Settlement Factor	1.15
	Adjusted Base Premium including Personal Property Replacement Cost Loss Settlement	$1,018
12.	Protective Devices Factor	.95
	Adjusted Base Premium including Protective Devices	$967
13.	Inflation Guard Factor	1.02
	Adjusted Base Premium including Inflation Guard	$986
14.	ACV Loss Settlement Windstorm or Hail Losses to Roof Surfacing Factor	.99
	Adjusted Base Premium including ACV Loss Settlement Windstorm or Hail Losses to Roof	$976

c. Additional Premium

15.	Rate per unit for Assisted Living Care	$45 x 1.00 = $45
	Rate for each additional $1,000 of Coverage **C**	$4.03 x 1.00 = $4
	Rate for additional Coverage **C** limit	$4 x 5 = $20
	Additional Premium for Assisted Living Care	$45 + $20 = $65
	Whole Dollar Total Premium	**$1,041**

. **D. Example #4 Homeowners 3 – Special Form (HO 00 03)**

1. Policywriting And Rating Information (Policy Inception Date Is January 1)

a. Term Of Policy

One Year

b. Address Where The Residence Premises Is Located

2345 Some Street, Anytown, USA

Refer to the Territory Pages to determine the Territory Code for the location of the residence premises.

c. Policy Limits Of Insurance

Coverage **A** – $290,000

Coverage **B** – $29,000

Coverage **C** – $145,000

Coverage **D** – $100,000

Coverage **E** – $200,000

Coverage **F** – $2,000

d. Protection – Construction Classification Information

The Protection Class for Anytown is 1.

Refer to the Protection Class listings in the Community Mitigation Classification (CMC) Manual to determine the protection class for the community where the residence premises is located.

e. Type Of Construction

The dwelling has exterior walls constructed of brick and stone and the floors and roof consist of combustible construction.

Refer to Rule **107.** to determine the type of construction.

f. Building Code Effectiveness Grade

The building was constructed in 1940. Therefore, there is no Building Code Effectiveness Grade for this building.

g. Section I – Deductible

Windstorm or Hail 5% of the Coverage **A** limit and $250 All Other Perils

Refer to Rule **406.** to determine the applicable rating factor for the deductible amounts selected.

Anytown is located in a coastal area which is eligible for coverage by a wind pool.

h. Optional Coverage Selected

(1) Permitted Incidental Occupancies Residence Premises

The insured operates a permitted business from a separate building on his residence premises and has requested $40,000 of coverage for the building.

Refer to Rules **510.** and **608.** to determine the additional premium for this option.

(1) Other Structure Rented To Others

The insured also owns another similar building structure that he rents out and wants to specifically insure for $40,000.

Refer to Rules **514.** and **605.** to determine the additional premium for this option.

i. Higher Limits Requested

(1) Ordinance Or Law – Increased Amount Of Coverage

The policy automatically provides up to 10% of the Coverage **A** limit of liability to pay for the increased costs necessary to comply with the enforcement of an ordinance or law. However, the insured has requested that the limit be increased to 25% of the Coverage **A** limit.

Refer to Rule **303.** to determine the applicable rating factor for this higher limit.

(2) Loss Of Use – Increased Limit

The policy provides a Coverage **D** limit of $87,000. However, the insured has requested a $13,000 increase to this limit for a total Coverage **D** limit of $100,000.

Refer to Rule **512.** to determine the additional premium for this higher limit.

(3) Section II – Increased Limits

The basic policy provides a limit of $100,000 for Coverage **E** and $1,000 for Coverage **F.** However, the insured has requested that his limits be increased to $200,000 for Coverage **E** and $2,000 for Coverage **F.**

Refer to Rules **601., 701.** and **702.** to determine the additional premium for these higher limits.

j. Policy Forms

- Homeowners 3 – Special Form
- Special Provisions Endorsement
- Ordinance Or Law – Increased Amount Of Coverage Endorsement
- Windstorm Or Hail Percentage Deductible Endorsement
- Permitted Incidental Occupancies – Residence Premises Endorsement
- Structures Rented To Others – Residence Premises Endorsement

2. Premium Determination For The Homeowners 3 – Special Form (HO 00 03) Example

The steps here correspond to the Sample Caculation of Policy Premium chart that follows:

Step		Explanation
1.	Determine the Territory Base Class Loss Cost	Refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs by territory that have been adopted by the company to determine the loss cost for an **HO 00 03** policy.
2.	Determine the Company Loss Cost Multiplier	Refer to company to determine the appropriate loss cost multiplier.
3.	Determine the Company Base Class Premium	The Base Class Premium is determined by the product of Steps **1.** and **2.** It is then rounded to the nearest whole dollar. Company specific procedures with respect to rounding the Base Class Premium apply here.
4.	Determine the Form Factor	Refer to Rule **301.A.1.** of the state classification pages to determine the form factor. Multiply the Company Base Class Premium from Step **3.** by the form factor. For this example, the form factor is 1.00. Round to the nearest whole dollar.
5.	Determine the Protection-construction Factor	Refer to Rule **301.A.1.** of the state classification pages to determine the rating factor based on the protection class and type of construction. For this example, the protection class is 1 and type of construction is masonry. For this example, the factor is .86.
6.	Determine the Key Premium	The Key Premium is determined by the product of Steps **4.** and **5.** Round to the nearest whole dollar.
7.	Determine the Key Factor	Refer to **301.A.2.** of the state classification pages and select the Key Factor for the desired amount of insurance for Coverage **A.** For this example, the factor is 1.807.
8.	Determine the Base Premium	The Base Premium is determined by the product of Steps **6.** and **7.** Round to the nearest whole dollar.
9.	Determine the Base Premium including Ordinance or Law – Increased Amount of Coverage	Refer to General Rule **303.** to determine the rating factor for increased amount of ordinance or law coverage. For this example, the factor is 1.03. Multiply the Base Premium in Step **8.** by 1.03. Round to the nearest whole dollar. Endorsement **HO 04 77** must be attached to the policy.
10.	Determine the Adjusted Base Premium for the deductible option selected	Refer to General Rule **406.** to determine the rating factor for a 5% Windstorm or Hail and $250 All Other Perils Deductible for a Coverage **A** Limit of 200,001 & Over. For this example, the factor is .92. Since the property insured in this example is located in an area serviced by a wind pool, additional calculations must be performed to ensure that the premium credit applied for the deductible is not greater than the premium credit that would be applied if the peril of Windstorm or Hail were excluded from the policy. That is, the credit amount for the deductible must be compared to 90% of the total wind exclusion credit. For this example, the deductible credit amount is $67. The total wind exclusion credit is calculated by first taking the wind exclusion loss cost of $392 found in Rule **A2.** multiplied by the loss cost multiplier and rounding to whole dollars to determine the company wind exclusion rate. The company wind exclusion rate is then multiplied by the key factor of 1.807 (which was determined in Step **7.**) and rounded to whole dollars to arrive at the total wind exclusion credit. Since the deductible credit amount is less than 90% of the total wind exclusion credit, multiply the Base Premium in Step **9.** by .92. Round to the nearest whole dollar. Note: If the credit amount for the deductible was greater than 90% of the total wind exclusion credit, then 90% of the total wind exclusion credit would have been subtracted from the Base Premium in Step **9.** Endorsement **HO 03 12** must be attached to the policy.

Step		Explanation
11.	Determine the additional premium including the Coverage **D** increased limit ∗	Refer to General Rule **512.** to determine the loss cost for the Coverage **D** increased limit of liability. For this example, the loss cost per $1,000 is $2.30. **a.** Apply the appropriate loss cost multiplier to the loss cost to determine the company's rates. **b.** Multiply the rate for each additional $1,000 of insurance by the number of additional thousands for the increased limit of insurance. For this example, there is a $13,000 increase in the limit of Coverage **D.** Add this additional premium to the premium determined in Step **10.**
12.	Determine the additional premium for the Coverage E increased limit for the base policy∗	Refer to General Rule **601.** to determine the loss cost for the Coverage **E** increased limit of liability. For this example, the loss cost for $200,000 of Coverage **E** – Liability is $1.90. Apply the appropriate loss cost multiplier to this loss cost to determine the company's rate. Add this additional premium to the premium determined in Step **11.**
13.	Determine the additional medical payments premium for the base policy	Refer to General Rule **601.** to determine the loss cost to increase the Coverage **F** – Medical Payments limit to $2,000. For this example the loss cost is $1.73. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Add this additional premium to the premium determined in Step **12.**
14.	Determine the additional property premium for the Permitted Incidental Occupancies on the Residence Premises∗	Refer to General Rule **510.** to determine the loss cost for a permitted incidental occupancy on the residence premises. For this example, the Section **I** loss cost per $1,000 for business in an other structure is $3.45. **a.** Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. **b.** Multiply the rate for each additional $1,000 of insurance by the requested amount of insurance on the structure. For this example, the insured requested $40,000 of coverage for the other structure. Add this additional premium to the premium determined in Step **13.** Endorsement **HO 04 42** must be attached to the policy.
15.	Determine the additional liability premium for the Permitted Incidental Occupancy on the Residence Premises∗	Refer to General Rule **608.** to determine the loss cost for a permitted incidental occupancy on the residence premises. For this example, the loss cost per residence is $9.82. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Refer to General Rule **701.** to determine the increased limit factor to increase the Coverage **E** – Liability limit to $200,000. For this example, the increased limit factor is 1.15. Multiply the company rate determined above by 1.15 to determine the additional premium for the permitted incidental occupancy on the residence premises. Add this additional premium to the premium determined in Step **14.**
16.	Determine the additional medical payments premium for the Permitted Incidental Occupancy on the Residence Premises∗	Refer to General Rule **702.** to determine the loss cost to increase the Coverage **F** – Medical Payments limit to $2,000. For this example the loss cost is $2.88. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Add this additional premium to the premium determined in Step **15.**
17.	Determine the additional property premium for the Structure Rented to Others on the Residence Premises∗	Refer to General Rule **514.** to determine the loss cost for other structures rented to others. For this example, the loss cost per $1,000 for a structure on the residence premises rented to others is $3.45. **a.** Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. **b.** Multiply the rate for each additional $1,000 of insurance by the requested amount of insurance on the structure. For this example, the insured requested $40,000 of coverage for the other structure. Add the additional premium to the premium determined in Step **16.** Endorsement **HO 04 40** must be attached to the policy.
∗ For additional or reduced premium charges, refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs that have been adopted by the company to determine the loss cost. Refer to company to determine the appropriate loss cost multiplier. Then company specific procedures with respect to rounding apply. For this example, the product of this multiplication was rounded to the nearest whole dollar to determine the rate.		

Step		Explanation
18.	Determine the additional premium for the Structure Rented to Others on the Residence Premises∗	**a.** Refer to General Rule **605.** to determine the loss cost for other structures rented to others on the residences premises. For this example, the loss cost per structure is $10.75. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. **b.** Refer to General Rule **701.** to determine the increased limit factor to increase the Coverage **E** – Liability limit to $200,000. For this example the increased limit factor is 1.15. Multiply the company rate determined in Paragraph **a.** by 1.15 to determine the additional liability premium. **c.** Refer to General Rule **702.** to determine the loss cost to increase Coverage **F** – Medical Payments limit to $2,000. For this example the loss cost is $.58. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Add this company rate to the rate determined in Paragraph **b.** to determine the additional premium for the structure rented to others on the residence premises. Add this additional premium to the premium determined in Step **17.**
∗ For additional or reduced premium charges, refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs that have been adopted by the company to determine the loss cost. Refer to company to determine the appropriate loss cost multiplier. Then company specific procedures with respect to rounding apply. For this example, the product of this multiplication was rounded to the nearest whole dollar to determine the rate.		

3. Sample Calculation Of Policy Premium

a. Basic Coverage

Steps	Description Of Calculation	Calculation
1.	Territory Base Class Loss Cost	$524.01
2.	Company Loss Cost Multiplier	1.00
3.	Base Class Premium	$524
4.	Form Factor	1.00
	Base Class Premium for Form **HO 00 03**	$524
5.	Protection-construction Factor	.86
6.	Key Premium	$451
7.	Key Factor	1.807
8.	Base Premium	$815
9.	Ordinance or Law – Increased Coverage Factor	1.03
	Base Premium including Ordinance Or Law – Increased Amount of Coverage	$839

b. Adjusted Premium

10.	Deductible Factor	.92
	Adjusted Base Premium for Deductible Option Selected	$772

c. Additional Premium

11.	Rate for each additional $1,000 of insurance for the Increased Limit of Coverage **D** – Loss of Use	$2.30 x 1.00 = $2
	Additional premium for increased limit of Coverage **D** – Loss of Use	$2 x 13 = $26
12.	Additional premium for increased limit for Coverage **E** – Liability	$1.90 x 1.00 = $2
13.	Additional premium including increased limit for Coverage **F** – Medical Payments To Others	$1.73 x 1.00 = $2
14.	Rate per $1,000 for a permitted incidental occupancy on the residence premises	$3.45 x 1.00 = $3
	Additional premium for a permitted incidental occupancy on the residence premises	$3 x 40 = $120
15.	Basic rate for a permitted incidental occupancy on the residence premises including liability limit	$9.82 x 1.00 = $10
	Coverage **E** Increased Limits factor	1.15
	Additional premium for a permitted incidental occupancy on the residence premises including liability limit	$10 x 1.15 = $12
16.	Additional medical payments premium for a permitted incidental occupancy on the residence premises	$2.88 x 1.00 = $3
17.	Property rate per $1,000 for an other structure rented to others on the residence premises	$3.45 x 1.00 = $3
	Additional property premium for an other structure rented to others on the residence premises	$3 x 40 = $120
18.	Liability basic rate for an other structure rented to others on the residence premises	$10.75 x 1.00 = $11
	Coverage **E** Increased Limits factor	1.15
	Additional liability premium for an other structure rented to others on the residence premises	$11 x 1.15 = $13
	Additional medical payments premium for an other structure rented to others on the residence premises	$.58 x 1.00 = $1
	Additional premium for an other structure rented to others on the residence premises	$13 + $1 = $14
	Whole Dollar Total Premium	**$1,071**

E. Example #5 Homeowners 5 – Comprehensive Form (HO 00 05)

1. Policywriting And Rating Information (Policy Inception Date Is January 1)

a. Term Of Policy

One Year

b. Address Where The Residence Premises Is Located

2345 Some Street, Anytown, USA

Refer to the Territory Pages to determine the Territory Code for the location of the residence premises.

c. Policy Limits Of Insurance

Coverage **A** – $500,000

Coverage **B** – $50,000

Coverage **C** – $300,000

Coverage **D** – $150,000

Coverage **E** – $500,000

Coverage **F** – $5,000

d. Protection – Construction Classification Information

The Protection Class for Anytown is 1.

Refer to the Protection Class listings in the Community Mitigation Classification (CMC) Manual to determine the protection class for the community where the residence premises is located.

e. Type Of Construction

The dwelling has exterior walls constructed of brick and floors and roof of combustible construction.

Refer to Rule **107.** to determine the type of construction.

f. Building Code Effectiveness Grade

The building was constructed in 1950. Therefore there is no Building Code Effectiveness Grade for this building.

g. Section I – Deductible

$2,500 All Perils

Refer to Rule **406.** to determine the applicable rating factor for the deductible amounts selected.

h. Loss History

The insured had a prior loss six months ago.

Refer to the Loss History rule to determine the applicable rating factor for one prior loss.

i. Optional Coverage(s) Selected

(1) Windstorm Or Hail Exclusion

The insured lives in an area serviced by a Wind Pool and coverage for the windstorm or hail peril is excluded.

Refer to the Windstorm Or Hail Exclusion rule to determine the credit for excluding this peril.

(2) Personal Property Replacement Cost Loss Settlement

Refer to Rule **403.** to determine the applicable rating factor for this option.

(3) Protective Devices

The dwelling has a central station reporting burglar alarm.

Refer to Rule **404.** to determine the applicable rating factor for this type of protective device.

(4) Additional Limits Of Liability For Coverages A, B, C And D

Refer to Rule **407.** to determine the rating factor for this option.

(5) Replacement Cost Loss Settlement For Certain Non-building Structures

The insured has requested loss settlement on a replacement cost basis for his fence, patio, walkways and driveways.

Refer to Rule **409.** to determine the rating factor for this option.

(6) Student Away From Residence Premises

The insured's daughter is a part time student living away at school so he has requested that she be listed on the policy as an additional insured.

Refer to Rule **527.** to determine the additional premium for this option.

(7) Section II Coverage At Other Location Occupied By Insured

The insured has requested that (premises) liability coverage also be extended to his one family vacation property in another state.

Refer to Rule **602.** to determine the additional premium for this option.

(8) Watercraft Liability Coverage

The insured requested that his liability coverage also be extended to his boat which is 26 feet long and has a 200 horsepower inboard-outdrive motor. However, he only uses the boat for four months during the year.

Refer to Rule **612.** to determine the additional premium for this option.

j. Higher Limits Requested

(1) Ordinance Or Law Increased Amount Of Coverage

The policy automatically provides up to 10% of the Coverage **A** limit of liability to pay for the increased costs necessary to comply with the enforcement of an ordinance or law. However, the insured has requested the limit be increased to 50% of the Coverage **A** limit.

Refer to Rule **303.** to determine the applicable rating factor for this option.

(2) Section I – Coverage C – Increased Limits

The basic policy provides a limit of $250,000 for Coverage **C.** However, the insured has requested a $50,000 increase to this limit for a total Coverage **C** limit of $300,000.

Refer to Rule **515.** to determine the additional premium for this higher limit.

(3) Section II – Increased Limits

The basic policy provides a limit of $100,000 for Coverage **E** and $1,000 for Coverage **F.** However, the insured has requested that his limits be increased to $500,000 for Coverage **E** and $5,000 for Coverage **F.**

Refer to Rules **601., 701.** and **702.** to determine the additional premium for these higher limits.

k. Policy Forms

- Homeowners 5 – Comprehensive Form
- Special Provisions Endorsement
- Windstorm Or Hail Exclusion Endorsement
- Ordinance or Law – Increased Amount Of Coverage Endorsement
- Personal Property Replacement Cost Loss Settlement Endorsement
- Premises Alarm Or Fire Protection System Endorsement
- Additional Limits of Liability For Coverages **A, B, C** and **D** Endorsement
- Replacement Cost Loss Settlement For Certain Non-building Structures On the Residence Premises Endorsement
- Additional Insured – Student Away From Residence Premises Endorsement
- Watercraft Endorsement

2. Premium Determination For The Homeowners 5 – Comprehensive Form (HO 00 05 Example

The steps here correspond to the Sample Calculation of Policy Premium chart that follows:

Step		Explanation
1.	Determine the Territory Base Class Loss Cost	Refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs by territory that have been adopted by the company to determine the loss costs for an **HO 00 03** policy.
2.	Determine the Company Loss Cost Multiplier	Refer to company to determine the appropriate loss cost multiplier.
3.	Determine the Company Base Class Premium	The Base Class Premium is determined by the product of Steps **1.** and **2.** It is then rounded to the nearest whole dollar. Company specific procedures with respect to rounding the Base Class Premium apply here.
4.	Determine the Form Factor	Refer to Rule **301.A.1.** of the state classification pages to determine the form factor that applies. Multiply the Company Base Class Premium from Step **3.** by the form factor. For this example, the form factor is 1.15. Round to the nearest whole dollar.
5.	Determine the Protection-construction Factor	Refer to Rule **301.A.1.** of the state classification pages to determine the rating factor based on the protection class and type of construction. For this example, the protection class is 1 and type of construction is masonry. The factor is .86.
6.	Determine the Key Premium	The Key Premium is determined by the product of Steps **4.** and **5.** Round to the nearest whole dollar.
7.	Determine the Key Premium reflecting the credit for the Windstorm or Hail Exclusion*	Refer to the Windstorm or Hail Exclusion rule to determine the loss cost for the Windstorm or Hail Exclusion credit. For this example, the loss cost is $392. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Subtract this credit from the Key Premium determined in Step **6.** Endorsement **HO 04 94** must be attached to the policy.
8.	Determine the Key Factor	Refer to Rule **301.A.2.** of the state classification pages and select the Key Factor for the desired amount of insurance for Coverage **A.** For this example, the factor is 3.276.
9.	Determine the Base Premium	The Base Premium is determined by the product of Steps **7.** and **8.** Round to the nearest whole dollar.
10.	Determine the Base Premium including Ordinance or Law – Increased Amount of Coverage	Refer to General Rule **303.** to determine the rating factor for the increased amount of ordinance or law coverage. For this example, the factor is 1.07. Multiply the Base Premium in Step **9.** by 1.07. Round to the nearest whole dollar. Endorsement **HO 04 77** must be attached to the policy.
11.	Determine the Base Premium including Loss History	Refer to the Loss History rule to determine the rating factor based on the insured's loss history. For this example, the insured had one prior loss and the factor is 1.20. Multiply the Base Premium in Step **10.** by 1.20. Round to the nearest whole dollar.
12.	Determine the Adjusted Base Premium for the Deductible Option Selected	Refer to General Rule **406.** to determine the rating factor for a $2,500 All Perils Deductible for Coverage **A** Limit of $200,000 and over. For this example, the factor is .73. Multiply the Base Premium in Step **11.** by .73. Round to the nearest whole dollar.
13.	Determine the additional premium for the Coverage **C** increased limit*	Refer to General Rule **515.** to determine the loss cost for a Coverage **C** increased limit of liability. For this example, the loss cost per $1,000 is $1.73. To determine the additional premium: **a.** Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. **b.** Multiply the premium for each additional $1,000 of insurance by the number of additional thousands for the increased limits of insurance. For this example, there is a $50,000 increase in the limit for Coverage **C.** Add this additional premium to the premium determined in Step **12.**

* For additional or reduced premium charges, refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs that have been adopted by the company to determine the loss cost. Refer to the company to determine the appropriate loss cost multiplier. Then company specific procedures with respect to rounding apply. For this example, the product of this multiplication was rounded to the nearest whole dollar to determine the rate.

Step		Explanation
14.	Determine the Adjusted Base Premium including Personal Property Replacement Cost Loss Settlement	Refer to General Rule **403.** to determine the rating factor for personal property replacement cost loss settlement. For this example, the factor is 1.15. Multiply the Adjusted Base Premium in Step **13.** by 1.15. Round to the nearest whole dollar. Endorsement **HO 04 90** must be attached to the policy.
15.	Determine the Adjusted Base Premium including Protective Devices	Refer to General Rule **404.** (Table **404.A.**) to determine the rating factor for protective devices. For this example, the dwelling has a central station reporting burglar alarm and the factor is .95. Multiply the Adjusted Base Premium in Step **14.** by .95. Round to the nearest whole dollar. Endorsement **HO 04 16** must be attached to the policy.
16.	Determine the Adjusted Base Premium including Additional Limits for Coverages **A, B, C** and **D**	Refer to General Rule **407.C.2.** to determine the rating factor for this option. For this example, the factor is 1.15. Multiply the Adjusted Base Premium in Step **15.** by 1.15. Round to the nearest whole dollar. Endorsement **HO 04 11** must be attached to the policy.
17.	Determine the Adjusted Base Premium including Replacement Cost Loss Settlement For Certain Non-building Structures	Refer to General Rule **409.** to determine the rating factor for replacement cost loss settlement for certain non-building structures. For this example, the factor is 1.02. Multiply the Adjusted Base Premium in Step **16.** by 1.02. Round to the nearest whole dollar. Endorsement **HO 04 43** must be attached to the policy.
18.	Determine the additional premium for Student Away From Residence Premises∗	To determine the additional premium: **a.** Refer to General Rule **527.** to determine the loss costs for student away from residence premises coverages. **(1)** For this example, the Section **I** and **II** basic limits loss cost per location is $40.00. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. **(2)** For this example, the Section **II** loss cost for the $500,000 Coverage **E** increased limit of liability is $10.50. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. **b.** Refer to General Rule **702.** to determine the loss cost to increase the Coverage **F** – Medical Payments limit to $5,000. For this example, the loss cost is $2.30. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Add the rates determined in Paragraphs **a.(1), a.(2)** and **b.** to determine the additional premium for this coverage. Endorsement **HO 05 27** must be attached to the policy. Add this additional premium to the premium determined in Step **17.**
19.	Determine the additional premium for Coverage **E** increased limit∗	Refer to General Rule **601.** to determine the loss cost for Coverage **E** – Liability increased limit of liability. For this example, the loss cost for $500,000 of Coverage **E** is $4.43. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Add this additional premium to the premium determined in Step **18.**
20.	Determine the additional premium for Coverage **F** increased limit∗	Refer to General Rule **601.** to determine the loss cost for Coverage **F** – Medical Payments increased limit of liability. For this example, the loss cost for $5,000 of Coverage **F** is $6.33. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Add this additional premium to the premium determined in Step **19.**

∗ For additional or reduced premium charges, refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs that have been adopted by the company to determine the loss cost. Refer to the company to determine the appropriate loss cost multiplier. Then company specific procedures with respect to rounding apply. For this example, the product of this multiplication was rounded to the nearest whole dollar to determine the rate.

Step		Explanation
21.	Determine the additional premium for Coverage At An Other Location Occupied by the Insured∗	To determine the additional premium: **a.** Refer to General Rule **602.** to determine the loss cost for coverage at an other location occupied by insured. For this example, the loss cost is $3.93. This loss cost is for the state where the other location is located. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. **b.** Refer to General Rule **701.** to determine the increased limit factor to increase the Coverage **E** – Liability limit to $500,000. For this example the increased limits factor is 1.35. Multiply the company rate determined in Paragraph **a.** by 1.35 to determine the premium including the additional liability. **c.** Refer to General Rule **702.** to determine the loss cost to increase the Coverage **F** – Medical Payments limit to $5,000. For this example, the loss cost is $2.30. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Add the rates determined in Paragraphs **b.** and **c.** to determine the additional premium for this coverage. Add this additional premium to the premium determined in Step **20.**
22.	Determine the additional premium for Watercraft Liability∗	To determine the additional premium: **a.** Refer to General Rule **612.** to determine the loss cost for watercraft liability. For this example, the boat is 26 ft. long and has a 200 horsepower inboard-outdrive motor so the loss cost is $12.90. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. **b.** Refer to General Rule **701.** to determine the increased limit factor to increase the Coverage **E** – Liability limit to $500,000. For this example, the increased limits factor is 1.35. Multiply the company rate determined in Paragraph **a.** by 1.35 to determine the premium including the additional liability. **c.** Refer to General Rule **702.** to determine the loss cost to increase the Coverage **F** – Medical Payments limit to $5,000. For this example, the loss cost is $24.15. Apply the appropriate loss cost multiplier to the loss cost to determine the company's rate. Add the rates determined in Paragraphs **b.** and **c.** to determine the additional premium on an annual basis. Since the insured requested coverage for only part of the year, the additional premium for watercraft liability is prorated by dividing the number of months requested by twelve months. For this example, the insured requested coverage for four months. Multiply this result by the additional premium on an annual basis to determine the prorated additional premium. Endorsement **HO 24 75** must be attached to the policy. Add this prorated additional premium to the premium determined in Step **21.**

∗ For additional or reduced premium charges, refer to the most recently implemented ISO Homeowners Advisory Prospective Loss Costs that have been adopted by the company to determine the loss cost. Refer to the company to determine the appropriate loss cost multiplier. Then company specific procedures with respect to rounding apply. For this example, the product of this multiplication was rounded to the nearest whole dollar to determine the rate.

3. Sample Calculation Of Policy Premium

a. Basic Coverage

Steps	Description Of Calculation	Calculation
1.	Territory Base Class Loss Cost	$524.01
2.	Company Loss Cost Multiplier	1.00
3.	Base Class Premium	$524
4.	Form Factor	1.15
	Base Class Premium for Form **HO 00 03**	$603
5.	Protection-construction Factor	.86
6.	Key Premium	$519
7.	Rate for Windstorm or Hail Exclusion credit	$392 x 1.00 = $392
	Key Premium reflecting the Windstorm or Hail Exclusion credit	$127
8.	Key Factor	3.276
9.	Base Premium	$416
10.	Ordinance Or Law – Increased Coverage Factor	1.07
	Base Premium including Ordinance Or Law – Increased Amount of Coverage	$445
11.	Loss History Factor	1.200
	Base Premium including Loss History	$534

b. Adjusted Premium

12.	Deductible Factor	.73
	Adjusted Base Premium for Deductible Option Selected	$390
13.	Rate for increased limits of liability for Coverage **C**	$1.73 x 1.00 = $2
	Additional premium for increased limit of Coverage **C**	$2x 50 = $100
	Adjusted Base Premium including increased limits of liability for Section **I** – Coverage **C**	$490
14.	Personal Property Replacement Cost Loss Settlement Factor	1.15
	Adjusted Premium including Personal Property Replacement Cost Loss Settlement	$564
15.	Protective Device Factor	.95
	Adjusted Base Premium including Protective Device	$536
16.	Additional Limits for Coverage **A, B, C, D** Factor	1.15
	Adjusted Base Premium including Additional Limits for Coverage **A, B, C, D**	$616
17.	Replacement Cost Loss Settlement for Certain Non-building Structures Factor	1.02
	Adjusted Base Premium including Replacement Cost Loss Settlement for Certain Non-building Structures	$628

c. Additional Premium

18.	**a.** Rate per location for Student Away From Premises	$40 x 1.00 = $40
	Rate for increased limits of liability for Coverage **E** of Student Away From Premises	$10.50 x 1.00 = $11
	b. Additional medical payments premium for Student Away From Premises	$2.30 x 1.00 = $2
	Additional premiums for Student Away From Premises	$40 + $11 + $2 = $53
19.	Additional premium for increased limits of liability for Coverage **E** – Liability	$4.43 x 1.00 = $4
20.	Additional premium for increased limits of liability for Coverage **F** – Medical Payments	$6.33 x 1.00 = $6
21.	**a.** Rate for Coverage At An Other Location Occupied by the Insured	$3.93 x 1.00 = $4
	b. Coverage **E** Increased Limits factor	1.35
	Rate for Coverage **E** At an Other Location Occupied by the Insured including increased liability limit	$4 x 1.35 = $5
	c. Additional medical payments premium for Coverage **F** At An Other Location Occupied by the Insured	$2.30 x 1.00 = $2
	Additional premiums for Coverage At An Other Location Occupied by the Insured	$5 + $2 = $7
22.	**a.** Rate for Watercraft Liability	$12.90 x 1.00 = $13
	b. Coverage **E** Increased Limits factor	1.35
	Premium for Watercraft Liability including liability limit	$13 x 1.35 = $18
	c. Additional medical payments premium for Watercraft Liability	$24.15 x 1.00 = $24
	Annual additional premiums for Watercraft Liability	$18 + $24 = $42
	Prorated additional premium for Watercraft Liability	$42 x 4/12 = $14
	Whole Dollar Total Premium	**$712**

Notice to Manualholders

PERSONAL LINES
HOMEOWNERS POLICY PROGRAM MANUAL – NORTH CAROLINA RULES
NOTICE HO-NC-2018-RU-002

CAUTION

Manualholders should determine from company instructions whether a company has adopted this revision.

INSTRUCTIONS TO MANUALHOLDERS

If your company has adopted this revision, you should update your manual accordingly.

EFFECTIVE DATE

The revision is subject to the following rule of application:

These changes are applicable to all new and renewal policies becoming effective on or after October 1, 2018.

CHANGE(S)

- Base Class Premiums for Forms **HO 00 03, HO 00 04** and **HO 00 06** are revised.
- For Rule **301.** Base Premium Computation, the rating factors in the Key Factor Table for the Owners Forms have been revised to reflect the new base Coverage **A** amount of $200,000.
- For Rule **406.** Deductibles, the rating factors and rule text have been revised to reflect the new base deductibles of $1,000 for the Owners Forms and $500 for Forms **HO 00 04** and **HO 00 06.** The minimum and maximum additional premium charges for optional lower deductibles have also been removed.
- Windstorm Or Hail Exclusion Credits for Rule **A3.** and Windstorm Loss Mitigation Credits for Rule **A9.** have been revised.

REVISED PAGE(S)

HO-B-1

HO-C-2

HO-E-14 thru HO-E-20

HO-R-1 thru HO-R-3

PAGE CHECKLIST

Included with this Notice is a page checklist displaying the latest page numbers and edition dates.

REFERENCE INFORMATION (FOR COMPANY USE ONLY)

Circular Reference(s):

- P-18-3 (04/18/2018) Homeowners Revised Rules and Rates Effective October 1, 2018

Filing Reference(s):

- NCRI-131271722

CONTACT INFORMATION

If you have any questions, please contact:

Customer Support

Verisk Analytics

545 Washington Boulevard

Jersey City, NJ 07310-1686

800-888-4476

info@verisk.com

THIS MANUAL PAGE CHECKLIST DISPLAYS THE LATEST STATE PAGE INFORMATION AS OF **10-18.**

PLEASE REFER TO THE PAGE CHECKLIST IN MULTISTATE NOTICE TO MANUALHOLDERS **HO-MU-2011-RU-001** FOR THE MULTISTATE PAGES IN EFFECT FOR YOUR JURISDICTION.

NOTE: ALWAYS USE THE EDITION NUMBER TO DETERMINE THE LATEST PAGE.

PAGE NUMBER	EDITION NUMBER	EDITION DATE	PAGE NUMBER	EDITION NUMBER	EDITION DATE
HO-NC-2018-RU-002	–	10-18	HO-E-16	9th	10-18
			HO-E-17	7th	10-18
HO-B-1	8th	10-18	HO-E-18, HO-E-19	10th	10-18
			HO-E-20	9th	10-18
HO-C-1	2nd	4-18	HO-E-21	6th	8-13
HO-C-2	4th	10-18	HO-E-22	7th	10-14
HO-C-3, HO-C-4	1st	4-18	HO-E-23, HO-E-24	5th	8-13
			HO-E-25, HO-E-26	1st	8-13
HO-E-1, HO-E-2	8th	6-15			
HO-E-3	7th	10-14	HO-R-1	11th	10-18
HO-E-4	6th	8-13	HO-R-2	6th	10-18
HO-E-5	7th	8-13	HO-R-3	7th	10-18
HO-E-6	8th	6-15	HO-R-4	7th	4-18
HO-E-7	7th	8-13	HO-R-5 thru HO-R-8	4th	4-18
HO-E-8	5th	8-13	HO-R-9	3rd	4-18
HO-E-9	7th	6-15	HO-R-10	4th	4-18
HO-E-10	9th	6-15	HO-R-11	2nd	4-18
HO-E-11	7th	10-14	HO-R-12	1st	4-18
HO-E-12	6th	10-14			
HO-E-13	4th	8-13	HO-T-1	3rd	6-15
HO-E-14	5th	10-18	HO-T-2	1st	6-15
HO-E-15	8th	10-18			

RULE 301.
BASE PREMIUM COMPUTATION

Base Class Premium Table

TERRITORY	HO 00 03	HO 00 04	HO 00 06
110	2,383	118	97
120	2,794	134	119
130	1,516	75	75
140	1,947	91	82
150	1,278	57	56
160	1,375	72	61
170	791	55	51
180	899	57	52
190	1,062	60	55
200	1,218	64	61
210	831	57	50
220	978	88	51
230	1,097	58	54
240	808	60	48
250	924	55	47
260	612	63	49
270	684	48	54
280	607	43	39
290	753	50	48
300	815	55	47
310	615	51	41
320	700	49	42
330	585	51	47
340	600	55	45
350	650	54	44
360	563	37	41
370	612	47	48
380	568	46	45
390	589	46	45

Table 301. Base Class Premium

RULE 301.
BASE PREMIUM COMPUTATION

A. All Forms Except HO 00 04 And HO 00 06

1. Classification Tables

a. One And Two Family

Form Factors	
Form	**Factors**
HO 00 02	.95
HO 00 03	1.00
HO 00 05	1.30
HO 00 08	1.25

Table 301.A.1.a.#1 Form Factors

	Territory Group 1		Territory Group 2		Territory Group 3		Territory Group 4	
Protection	**Frame**	**Masonry**	**Frame**	**Masonry**	**Frame**	**Masonry**	**Frame**	**Masonry**
1	.99	.89	.97	.87	.97	.87	.97	.87
2	.99	.89	.98	.88	.98	.88	.98	.88
3	.99	.89	.98	.88	.98	.88	.98	.88
4	1.00	.90	.99	.89	.99	.89	.99	.89
5	1.00	.90	1.00	.90	1.00	.90	1.00	.90
6	1.01	.91	1.00	.90	1.00	.90	1.00	.90
7	1.10	1.00	1.10	1.00	1.10	1.00	1.10	1.00
8	1.25	1.10	1.25	1.10	1.25	1.10	1.25	1.10
9E	1.35	1.20	1.40	1.25	1.40	1.25	1.40	1.25
9S	1.35	1.20	1.40	1.25	1.40	1.25	1.40	1.25
9	1.35	1.20	1.40	1.25	1.40	1.25	1.40	1.25
10	1.70	1.50	1.75	1.55	1.75	1.55	1.75	1.55
Masonry Veneer is rated as Masonry. Aluminum or Plastic Siding over Frame is rated as Frame.								
Territory Group 1: 110, 120, 140 Territory Group 2: 130, 150, 160, 180, 270, 330, 340 Territory Group 3: 170, 190, 200, 210, 220, 240, 250, 260, 280, 290, 310, 320, 350, 360, 370, 380, 390 Territory Group 4: 230, 300								

Table 301.A.1.a.#2 Protection Construction Factors

b. Three And Four Family Factor 1.04

RULE 301.
BASE PREMIUM COMPUTATION (Cont'd)

2. Key Factor Table

Cov. A Amt. (In 000)	Factor	
**$ 10	.258	
50	.453	
75	.556	
100	.644	
150	.822	
200	1.000	
300	1.339	
500	1.972	
750	2.764	
1,000	3.556	
1,500	5.111	
2,000	6.667	
3,000	9.778	
4,000	12.889	
5,000	16.000	
Each Add'l $1,000	.003	
Minimum Limits Of Liability		
****Section I – Property**	**HO 00 02, 03 & 05**	**HO 00 08**
Primary Location	$ 25,000	$ 15,000
Secondary Location	15,000	10,000
Section II – Liability	**All Forms**	
Personal Liability	$ 25,000	
Medical Payments to Others	1,000	

Table 301.A.2. Key Factors

RULE 301.
BASE PREMIUM COMPUTATION (Cont'd)

B. Form HO 00 04 And HO 00 06

1. Classification Tables

	Territory Group 1		Territory Group 2		Territory Group 3		Territory Group 4	
Protection	Frame	Masonry	Frame	Masonry	Frame	Masonry	Frame	Masonry
1	1.00	.90	1.00	.90	1.00	.90	1.00	.90
2	1.00	.90	1.00	.90	1.00	.90	1.00	.90
3	1.00	.90	1.00	.90	1.00	.90	1.00	.90
4	1.00	.90	1.00	.90	1.00	.90	1.00	.90
5	1.00	.90	1.00	.90	1.00	.90	1.00	.90
6	1.00	.90	1.00	.90	1.00	.90	1.00	.90
7	1.00	.90	1.00	.90	1.00	.90	1.00	.90
8	1.10	.90	1.10	.90	1.10	.90	1.10	.90
9E	1.30	1.10	1.30	1.10	1.30	1.10	1.30	1.10
9S	1.30	1.10	1.30	1.10	1.30	1.10	1.30	1.10
9	1.30	1.10	1.30	1.10	1.30	1.10	1.30	1.10
10	1.50	1.20	1.50	1.20	1.50	1.20	1.50	1.20
Masonry Veneer is rated as Masonry. Aluminum or Plastic Siding over Frame is rated as Frame.								
Territory Group 1: 110, 120, 140 Territory Group 2: 130, 150, 160, 180, 270, 330, 340 Territory Group 3: 170, 190, 200, 210, 220, 240, 250, 260, 280, 290, 310, 320, 350, 360, 370, 380, 390 Territory Group 4: 230, 300								

Table 301.B.1.#1 Protection Construction Factors – Form HO 00 04

	Territory Group 1		Territory Group 2		Territory Group 3		Territory Group 4	
Protection	Frame	Masonry	Frame	Masonry	Frame	Masonry	Frame	Masonry
1	1.00	.90	1.00	.90	1.00	.90	1.00	.90
2	1.00	.90	1.00	.90	1.00	.90	1.00	.90
3	1.00	.90	1.00	.90	1.00	.90	1.00	.90
4	1.00	.90	1.00	.90	1.00	.90	1.00	.90
5	1.00	.90	1.00	.90	1.00	.90	1.00	.90
6	1.00	.90	1.00	.90	1.00	.90	1.00	.90
7	1.00	.90	1.00	.90	1.00	.90	1.00	.90
8	1.10	.90	1.10	.90	1.10	.90	1.10	.90
9E	1.30	1.10	1.30	1.10	1.30	1.10	1.30	1.10
9S	1.30	1.10	1.30	1.10	1.30	1.10	1.30	1.10
9	1.30	1.10	1.30	1.10	1.30	1.10	1.30	1.10
10	1.50	1.20	1.50	1.20	1.50	1.20	1.50	1.20
Masonry Veneer is rated as Masonry. Aluminum or Plastic Siding over Frame is rated as Frame.								
Territory Group 1: 110, 120, 140 Territory Group 2: 130, 150, 160, 180, 270, 330, 340 Territory Group 3: 170, 190, 200, 210, 220, 240, 250, 260, 280, 290, 310, 320, 350, 360, 370, 380, 390 Territory Group 4: 230, 300								

Table 301.B.1.#2 Protection Construction Factors – Form HO 00 06

RULE 301.
BASE PREMIUM COMPUTATION (Cont'd)

2. Key Factor Table

Cov. C Amt. (In 000)	Factor	Cov. C Amt. (In 000)	Factor
**$ 1	.37	$ 21	1.98
** 2	.44	22	2.06
** 3	.51	23	2.14
** 4	.58	24	2.22
** 5	.65	25	2.30
** 6	.72	26	2.38
** 7	.79	27	2.46
** 8	.86	28	2.54
** 9	.93	29	2.62
** 10	1.00	30	2.70
11	1.10	31	2.78
12	1.20	32	2.86
13	1.30	33	2.94
14	1.40	34	3.02
15	1.50	35	3.10
16	1.58	36	3.18
17	1.66	37	3.26
18	1.74	38	3.34
19	1.82	39	3.42
20	1.90	40	3.50
Each Add'l $1,000			.08
Minimum Limits Of Liability			
****Section I – Property**			
HO 00 04 – $ 6,000 **HO 00 06** – $ 10,000 **HO 00 06** – $ 5,000 or less available only for Units Regularly Rented To Others			
Section II – Liability		**All Forms**	
Personal Liability		$ 25,000	
Medical Payments to Others		1,000	

Table 301.B.2. Key Factors

ADDITIONAL RULE(S)

RULE A1. SPECIAL STATE REQUIREMENTS

A. Special Provisions Endorsement HO 32 32

Use this endorsement with all Homeowners policies.

B. Windstorm Exterior Paint And Waterproofing Exclusion Endorsement HO 32 86

Use this endorsement with all Homeowners policies in Territories 110 and 120.

C. Flood, Earthquake, Mudslide, Mudflow, Landslide Or Windstorm Or Hail Insurance Notice

North Carolina law provides that an insurer selling property insurance that does not provide coverage for the perils of flood, earthquake, mudslide, mudflow, landslide, or windstorm or hail shall provide a specific notice (a "warning" set forth in the related statute) to the policyholder as to which of the listed perils are not covered under the policy.

The required notice must be:

1. Provided upon issuance and renewal of each policy;
2. In Times New Roman 16-point font or another equivalent font; and
3. Included in the policy on a separate page immediately before the Declarations page.

The following warning, citing which peril is not covered, must be furnished with each new policy and upon each renewal:

"WARNING: THIS PROPERTY INSURANCE POLICY DOES NOT PROTECT YOU AGAINST LOSSES FROM [FLOODS], [EARTHQUAKES], [MUDSLIDES], [MUDFLOWS], [LANDSLIDES], [WINDSTORM OR HAIL]. YOU SHOULD CONTACT YOUR INSURANCE COMPANY OR AGENT TO DISCUSS YOUR OPTIONS FOR OBTAINING COVERAGE FOR THESE LOSSES. THIS IS NOT A COMPLETE LISTING OF ALL OF THE CAUSES OF LOSSES NOT COVERED UNDER YOUR POLICY. YOU SHOULD READ YOUR ENTIRE POLICY TO UNDERSTAND WHAT IS COVERED AND WHAT IS NOT COVERED."

D. North Carolina Joint Underwriting Association

Section XVI of the Plan of Operation of the Joint Underwriting Association (Fair Plan) sets forth the following as to "Responsibility with Respect to Cancellation or Nonrenewals":

As respects risks eligible under the Plan of Operation, each participating Insurer agrees that with respect to cancellation or nonrenewals initiated by it, it will give to policyholders, except in cases of nonpayment of premium, material misrepresentation, or evidence of incendiarism, 30 days to avail themselves of the Plan of Operation and the Insurer shall, in writing, explain to the policyholder the procedures for making application under the Plan of Operation.

E. Company Rates/State Rate Pages

References in the manual to "state company rates" means "state rate pages" in North Carolina.

F. Insert – North Carolina Endorsement HO 32 46

Use this endorsement with all Homeowners policies.

RULE A2. INSTALLMENT PAYMENT PLAN

Annual Policy

When a policy is issued on an installment basis, the following rules apply:

A. The first installment shall be due on the effective date of the policy and the due date of the last installment shall be no later than one month prior to the policy anniversary date.

B. The premium calculated for the first installment payment, exclusive of installment charges, shall not be less than the pro rata charge for the period from the inception date of the policy to the due date of the next installment.

C. Refer to the state rate pages for the additional charge that shall be made for each installment.

RULE A3. WINDSTORM OR HAIL EXCLUSION – TERRITORIES 110, 120, 130, 140, 150 AND 160 ONLY

A. The peril of Windstorm or Hail may be excluded if:

1. The property is located in an area eligible for such coverage from the North Carolina Underwriting Association; and
2. A Windstorm or Hail Rejection Form is secured and maintained by the company.

Use Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94.**

B. To compute the Base Premium:

1. Determine the appropriate Key Premium as described in Rule **301.**
2. Subtract the Windstorm or Hail Exclusion credit shown on the state rate pages from the Key Premium.
3. Multiply the Key Premium excluding Windstorm or Hail Coverage developed in Step **2.** by the Key Factor for the desired limit of liability.

RULE A3.
WINDSTORM OR HAIL EXCLUSION – TERRITORIES 110, 120, 130, 140, 150 AND 160 ONLY (Cont'd)

4. For example:

Form **HO 00 02** Key Premium = $1,310

Windstorm or Hail Exclusion Credit = $1,131

Key Factor for $100,000 = 1.109

Step **1.** Determine the Key Premium
Key Premium = $1,310

Step **2.** Subtract Windstorm or Hail Exclusion Credit from Key Premium
$1,310– $1,131 = $179

Step **3.** Multiply Key Factor for desired limit by amount in Step **2.** $179 x 1.109 = $198.51, round to $199 = Base Premium

C. When Endorsement **HO 32 94** is attached to the policy, enter the following on the Declarations page:

"This policy does not provide coverage for the peril of Windstorm or Hail".

D. When coverage for other specific structures or other structures rented to others is requested, refer to Rules **514.A.1.a.** and **514.A.2.a.(1)** in the state rate pages for the rates excluding windstorm or hail coverage.

RULE A4.
WATERBED LIABILITY – FORMS HO 00 04 AND HO 00 06

A. Coverage Description

The policy may be endorsed to provide coverage for property damage caused by waterbeds to non-owned property on the residence premises.

B. Premium

Charge the rate shown on the state rate pages.

C. Endorsement

Use Waterbed Liability Endorsement **HO 32 40.**

RULE A5.
YEAR OF CONSTRUCTION – NEWLY CONSTRUCTED DWELLINGS – ALL FORMS EXCEPT HO 00 04 AND HO 00 06

A. A Dwelling is eligible for a discount depending on the calendar year that the dwelling was completed and first occupied. If the year first occupied is different than the year completed, the later year would apply.

B. To compute the premium for this provision, multiply the Base Premium by the appropriate credit factor selected from the following table:

Age Of Dwelling (In Years)	Credit
up to 1	.82
1 up to 2	.85
2 up to 3	.88
3 up to 4	.91
4 up to 5	.94
5 up to 6	.97
6 and over	No Credit Applies
Note: A dwelling under construction shall be considered to be completed and occupied during the current calendar year.	

Table A5.B. Age Of Dwelling Credits

C. To develop a premium for this option, multiply the Base Premium by the appropriate credit factor.

RULE A6.
OPTIONAL INFLATION GUARD ENDORSEMENTS

Subject to the provisions noted in Paragraphs **B.** and **C.,** the inflation guard endorsements referenced in this rule may be used instead of the endorsement noted in General Rule **405.**

A. Eligible Forms

The limits of liability for the following forms and coverages may be adjusted, automatically, to respond to inflation as recognized by the indexes named in Paragraph **B.:**

1. Forms **HO 00 02, HO 00 03** and **HO 00 05 –** Coverages **A, B, C** and **D;** and

2. Forms **HO 00 04** and **HO 00 06 –** Coverages **C** and **D.**

These limits will be adjusted at the same rate as the change in the Index shown on the Declarations, billing notice or named on the form.

RULE A6.
OPTIONAL INFLATION GUARD ENDORSEMENTS
(Cont'd)

B. Approved Inflation Cost Indexes

The following Indexes have been approved by the Department of Insurance and may be used with the Inflation Guard Endorsements listed in Paragraph **C.**

A Company that elects to use one of these indexes must use it exclusively and notify the Rate Bureau of its election.

1. Marshall and Swift Boeckh Residential Cost Index published by the American Appraisal Company, Inc.

2. Composite Construction Cost Index published by the U.S. Department of Commerce.

3. Consumer Price Index published by the U.S. Department of Labor.

4. Marshall and Swift Boeckh Construction Cost Index published by Marshall and Swift Boeckh.

5. RSMeans CostWorks Valuator published by RSMeans.

6. Xactware Inflation Index published by Xactware Solutions, Inc.

C. Endorsements

A Company that elects to use one or both of the following endorsements must use it exclusively and notify the Rate Bureau of its election.

1. Inflation Guard Endorsement HO 32 18

Use this endorsement with Forms **HO 00 02, HO 00 03** and **HO 00 05.**

2. Inflation Guard Endorsement HO 32 19

Use this endorsement with Forms **HO 00 04** and **HO 00 06.**

D. Premium

There is **no** additional charge for these optional endorsements.

RULE A7.
OPTIONAL RATING CHARACTERISTICS

Companies may use the following optional rating characteristics or any combination of such optional rating characteristics and Bureau filed characteristics to determine rates, as long as applicable legal requirements are satisfied. The resulting premium shall not exceed the premium that would have been determined using the rates, rating plans, classifications, schedules, rules and standards promulgated by the Bureau, except as provided by statute. The rating factor for any combination of the following optional risk characteristics cannot exceed 1.00, unless the resulting premium does not exceed the Bureau premium.

A. Policy characteristics not otherwise recognized in this manual. Examples include: account or multi-policy credit; tiers; continuity of coverage; coverages purchased; intra-agency transfers; payment history; payment options; prior insurance; and new and renewal status.

B. Policyholder/Insured personal characteristics not otherwise recognized in this manual. Examples include: Smoker/non-smoker status; credit information; loss history; loss prevention training/education; age; work status; marital status; number of years owned; household composition; and good student/education.

C. Dwelling characteristics not otherwise recognized in this manual. Examples include: Gated community; retirement community; limited access community; revitalized/renovated home; security, safety or loss deterrent systems or devices; age of home; and construction type and quality.

D. Affinity group or other group not otherwise recognized in this manual.

E. Any other rating characteristics or combination of characteristics if filed by a company and approved by the Commissioner.

RULE A8.
PRIMARY INSURANCE COVERAGE

A. Endorsement HO 32 02 – HO 00 02 And HO 00 03

Use the Primary Insurance Endorsement, specified above, only with a North Carolina Insurance Underwriting Association (NCIUA) policy.

This endorsement replaces the Other Insurance Condition in the policy form and makes the NCIUA policy primary insurance for the insured property. When a Primary Insurance Endorsement is not attached to the policy, the Other Insurance Condition in the policy form is unchanged.

B. Rating

1. Primary Insurance

a. For **HO 00 02** or **HO 00 03** when the Coverage Limit of Liability is less than 100% of actual cash value or replacement value, divide the selected limit by the ACV or replacement value, whichever applies. The result is the "Percent of Total Value".

b. Go to the First Loss Table below provided and select the factor in Column **2** that corresponds to the "Percent of Total Value" computed in Paragraph **a.**

c. Multiply the total value of the dwelling or personal property (actual or replacement) by the factor selected in Paragraph **b.**

d. Use the resulting product as the limit for computing the premium.

RULE A8.
PRIMARY INSURANCE COVERAGE (Cont'd)

2. **Coverage A Example**

   Replacement Value of Dwelling: $5,000,000

   Primary Policy – Coverage **A** Limit: $1,000,000

   a. Divide Coverage **A** Limit by Replacement Value limit ($1,000,000/$5,000,000 = 20% or 20.00 Percent of Total Value).

   b. Find Factor that corresponds to Percent of Total Value.

   c. Multiply Replacement Value by Factor from Column **2** ($5,000,000) (65.5) = $3,275,000.

   d. Use resulting product to compute Coverage **A** premium (Rate the policy as if $3,275,000 is the Coverage **A** limit to be insured).

Note: This procedure is used to determine the appropriate exposure basis for primary insurance. It does not increase the amount of coverage available.

RULE A8.
PRIMARY INSURANCE COVERAGE (Cont'd)

FIRST LOSS TABLE

(Used When Primary Coverage Provided)

% Of Total Value	Factor	% Of Total Value	Factor	% Of Total Value	Factor
1.00	22.4	10.00	54.0	56.00	84.1
1.10	22.9	11.00	55.1	57.00	84.4
1.20	23.5	12.00	56.3	58.00	84.6
1.30	24.1	13.00	57.4	59.00	84.8
1.40	24.7	14.00	58.6	60.00	85.0
1.50	25.2	15.00	59.7	61.00	85.3
1.60	25.8	16.00	60.9	62.00	85.5
1.70	26.4	17.00	62.0	63.00	85.7
1.80	27.0	18.00	63.2	64.00	86.0
1.90	27.5	19.00	64.3	65.00	86.2
2.00	28.1	20.00	65.5	66.00	86.4
2.10	28.4	21.00	66.0	67.00	86.7
2.20	28.7	22.00	67.8	68.00	86.9
2.30	29.0	23.00	68.9	69.00	87.1
2.40	29.3	24.00	70.1	70.00	87.3
2.50	29.6	25.00	71.2	71.00	87.6
2.60	29.8	26.00	72.0	72.00	87.8
2.70	30.1	27.00	72.1	73.00	88.0
2.80	30.4	28.00	73.4	74.00	88.3
2.90	30.7	29.00	74.1	75.00	88.5
3.00	31.0	30.00	74.8	76.00	89.0
3.10	31.6	31.00	75.6	77.00	89.4
3.20	32.1	32.00	76.3	78.00	89.9
3.30	32.7	33.00	77.0	79.00	90.3
3.40	33.3	34.00	77.3	80.00	90.8
3.50	33.9	35.00	77.6	81.00	91.3
3.60	34.4	36.00	78.0	82.00	91.7
3.70	35.0	37.00	78.4	83.00	92.2
3.80	35.6	38.00	78.8	84.00	92.6
3.90	36.2	39.00	79.2	85.00	93.1
4.00	36.7	40.00	79.5	86.00	93.6
4.10	37.3	41.00	79.9	87.00	94.0
4.20	37.9	42.00	80.2	88.00	94.5
4.30	38.5	43.00	80.4	89.00	94.9
4.40	39.0	44.00	80.8	90.00	95.4
4.50	39.6	45.00	81.1	91.00	95.9
4.60	40.2	46.00	81.5	92.00	96.3
4.70	40.8	47.00	81.8	93.00	96.8
4.80	41.3	48.00	82.1	94.00	97.2
4.90	41.9	49.00	82.4	95.00	97.7
5.00	42.5	50.00	82.7	96.00	98.2
6.00	44.8	51.00	83.0	97.00	98.6
7.00	47.1	52.00	83.2	98.00	99.1
7.50	48.2	53.00	83.4	99.00	99.5
8.00	49.4	54.00	83.7	100.00	100.0
9.00	51.7	55.00	83.9		

RULE A9.
WINDSTORM MITIGATION PROGRAM – ALL FORMS EXCEPT HO 00 04 AND HO 00 06

A. Introduction

With respect to risks located in Territories 110, 120, 130, 140, 150 and 160, premium credits shall be made available for insureds who build, rebuild or retrofit certain residential dwellings, in accordance with specified standards, to better resist hurricanes and other catastrophic windstorm events.

B. Eligibility

1. A dwelling may be eligible for a premium credit if:
   - **a.** The dwelling has been designed and constructed in conformity with, and has been certified as meeting, the Hurricane, Tornado and Hail and High Wind requirements of the Hurricane Fortified for Safer Living® (Fortified) program promulgated by the Institute for Business and Home Safety® (IBHS);
   - **b.** The dwelling has been certified as meeting, either the Bronze, Silver or Gold hurricane mitigation measures in the Hurricane Fortified for Existing Homes® program promulgated by the IBHS;
   - **c.** The dwelling contains Opening Protection in accordance with the qualification requirements set forth in Paragraph **D.1.b.;** or
   - **d.** The dwelling contains a Total Hip Roof.
2. The provisions of this rule do not apply:
   - **a.** To condominiums or tenant policies.
   - **b.** If the policy excludes the peril of Windstorm or Hail.
   - **c.** To dwellings under construction.
   - **d.** To mobile homes.
3. To be eligible for a premium credit, mitigation features are not required for adjacent structures including, but not limited to, detached garages, storage sheds, barns, apartments, etc. located on the insured premises.

C. Proof Of Compliance

The named insured must submit proof that the windstorm loss mitigation features and/or construction techniques have been implemented for each of the following:

1. **IBHS Hurricane Fortified For Safer Living®**

   The named insured shall provide a copy of the proper designation certificate from the IBHS issued for the dwelling.

2. **IBHS Hurricane Fortified For Existing Homes®**

   The named insured shall provide a copy of the proper designation certificate from the IBHS issued for the dwelling. The credit will apply for five years from the date of designation. In order to continue receiving the mitigation credit after five years, the dwelling must be re-inspected and re-designated by the IBHS. If the IBHS designation expires, the applicable mitigation credit will expire upon renewal.

3. **Opening Protection**

   The existence of Opening Protection may be verified by proof of installation.

4. **Total Hip Roof**

   The existence of a hip roof may be verified through photographs of the roof.

D. Description Of Mitigation Credit Tables

With respect to dwellings to which this rule applies and subject to all other provisions of this Windstorm Mitigation Program, the following approved and properly maintained windstorm mitigation features shall be recognized for a premium credit:

1. **IBHS Hurricane Fortified Homes**
   - **a.** A home designated by the IBHS as Hurricane Fortified for Safer Living®.
   - **b.** A home designated by the IBHS as Hurricane Fortified for Existing Homes®, including:
     - **(1)** Hurricane Fortified for Existing Homes Bronze, Option 1
     - **(2)** Hurricane Fortified for Existing Homes Bronze, Option 2
     - **(3)** Hurricane Fortified for Existing Homes Silver, Option 1
     - **(4)** Hurricane Fortified for Existing Homes Silver, Option 2
     - **(5)** Hurricane Fortified for Existing Homes Gold, Option 1
     - **(6)** Hurricane Fortified for Existing Homes Gold, Option 2
2. **Opening Protection**
   - **a.** Building opening protective features must have been tested and/or certified as having met standards of the American Society for Testing and Materials ASTM E 1886 (standard test method) and ASTM E 1996 (standard specification). Such opening protective features shall be considered qualified.

RULE A9.
WINDSTORM MITIGATION PROGRAM – ALL FORMS EXCEPT HO 00 04 AND HO 00 06 (Cont'd)

b. Qualifying opening protection must be present at all exterior envelope openings (such as windows, garage doors, sliding doors, swinging doors, glass block, door sidelights, and skylights) on the dwelling structure. For the credit to apply, the following conditions must be met:

(1) In accordance with the qualification requirements set forth in Paragraph **D.1.b.(1):**

(a) All exterior building envelope openings with glazing (e.g., glass) shall have qualified impact-resistant and wind pressure-resistant opening protection;

(b) All exterior building envelope openings without glazing shall have qualified wind pressure-resistant opening protection; and

(c) All garage doors (with and without glazing) shall meet or exceed a qualified minimum pressure resistance.

(2) Opening protection must be installed by a qualified contractor, according to the manufacturer's specifications.

(3) Impact-resistant protective devices must not be made of wood structural panels, such as OSB or plywood, or be homemade.

3. Total Hip Roof

A Total Hip Roof is a roof that slopes in four directions such that the end formed by the intersection of slopes is a triangle.

E. Premium Determination

1. To compute the Base Premium:

a. Determine the appropriate Key Premium as described in Rule **301.**

b. Subtract the Windstorm Loss Mitigation credit shown on the state rate pages from the Key Premium.

c. Multiply the Key Premium excluding the Windstorm Loss Mitigation credit developed in Paragraph **1.b.** by the Key Factor for the desired limit of liability.

d. For Example:

Form **HO 00 03** Key Premium = $1379

Windstorm Loss Mitigation Credit = $78

Key Factor for $100,000 = 1.109

Step **1.** Determine the Key Premium
Step **2.** Key Premium = $1379
Subtract Windstorm Loss Mitigation Credit from Key Premium
$1379 – $78 = $1301
Step **3.** Multiply Key Factor for desired limit by amount in Step **2.**
$1301 x 1.109 = $1442.81, round to $1443 = Base Premium

2. Mitigation Feature credits cannot be combined, except for Total Hip Roof and Opening Protection.

3. If mitigation measures are installed midterm, premium adjustment is required on a pro rata basis.

PART I
COVERAGE AND DEFINITION TYPE RULES

RULE 101.
LIMITS OF LIABILITY AND COVERAGE RELATIONSHIPS

Paragraph **A.1.** is replaced by the following:

A. Limits

The limits of liability required under the Homeowners Policy are as follows:

1. Section I – Property Damage

Coverage A – Dwelling	
HO 00 02, HO 00 03, HO 00 05 or **HO 00 08**	Refer to Rule **301.** in the state classification pages.
HO 00 04 or **HO 00 06**	For **HO 00 06,** refer to Rule **507.A.**
Coverage B – Other Structures	
HO 00 02, HO 00 03, HO 00 05 or **HO 00 08**	10% of **A** (One- and two-family dwelling) 5% of **A** (Three- and four-family dwelling)
Coverage C – Personal Property	
HO 00 02, HO 00 03, HO 00 05 or **HO 00 08**	50% of **A** (One- and two-family dwelling) 30% of **A** (Three-family dwelling) 25% of **A** (Four-family dwelling)
HO 00 04 or **HO 00 06**	Refer to Rule **301.** in the state classification pages.
Coverage D – Loss Of Use	
HO 00 02, HO 00 03 or **HO 00 05**	20% of **A**
HO 00 04	20% of **C**
HO 00 06	40% of **C**
HO 00 08	10% of **A**

Table 101.A.1. Property Damage Limits

The following is added to Paragraph **E.:**

Actual Cash Value Loss Settlement Endorsement **HO 04 81** must be used with Form **HO 00 08.** It replaces the Repair Cost or Market Value Loss Settlement Provisions in Form **HO 00 08** with an Actual Cash Value Loss Settlement Condition.

The following is added to Rule **101.:**

F. All Forms

The limit of liability for Coverage **E** of Section **II** may be reduced to $50,000 or $25,000. Other limits below $100,000 are not permitted.

RULE 104.
ELIGIBILITY

Paragraph **G.** is replaced by the following:

G. Farm Property

1. A Homeowners Policy shall not be issued to cover any property to which farm forms or rates apply under the rules of the company. In no event shall a policy be issued to provide Section **I** property damage coverage to any property situated on premises used for farming purposes.
2. Optional Section **II** liability coverage is available for certain farm liability exposures as specified in Rule **615.**

PART II
SERVICING TYPE RULES

RULE 201.
POLICY PERIOD

Paragraph **D.** is replaced by the following:

D. Less than three years on a pro rata basis and may be extended for successive policy periods based upon the premiums, forms and endorsements then in effect for the company.

RULE 204.
MULTIPLE COMPANY INSURANCE

Paragraph **B.** is replaced by the following:

B. Endorsement

Use Multiple Company Insurance – North Carolina Endorsement **HO 32 78.**

RULE 209.
RESTRICTION OF INDIVIDUAL POLICIES

Rule **209.** is replaced by the following:

If a policy would not be issued because of unusual circumstances or exposures, the named insured may request a restriction of the policy provided no reduction in the premium is allowed. Such requests shall be referred to the company.

Use Restriction Of Individual Policies – North Carolina Endorsement **HO 32 29.**

RULE 210.
REFER TO COMPANY

Rule **210.** is replaced by the following:

Whenever a risk is rated on a refer-to-company basis, each company is responsible for complying with regulatory or statutory rate filing requirements.

PART III
BASE PREMIUM COMPUTATION RULES

RULE 302.
LOSS SETTLEMENT OPTIONS

Rule **302.** is replaced by the following:

A. Functional Replacement Cost Loss Settlement – HO 00 02, HO 00 03 And HO 00 05 Only

1. Introduction

The policy provides building loss settlement on a replacement cost basis if, at the time of loss, the amount of insurance on the damaged building represents at least 80% of the full replacement cost of the building immediately before the loss.

2. Coverage Description

The policy may be endorsed to provide building loss settlement exclusively on a functional replacement cost basis if, at the time of loss, the amount of insurance on the damaged building is 80% or more of the functional replacement cost of the building immediately before the loss. Functional Replacement Cost means the amount which it would cost to repair or replace the damaged building with less costly common construction materials and methods which are functionally equivalent to obsolete, antique or custom construction materials and methods.

3. Premium Computation

Develop the Base Premium in accordance with Rule **301.** for the amount of insurance selected for this option. However, if Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94** is also made a part of the policy then develop the Base Premium in accordance with Additional Rule **A3.** Windstorm Or Hail Exclusion – Territories 110, 120, 130, 140, 150 And 160 Only.

4. Endorsement

Use Functional Replacement Cost Loss Settlement – North Carolina Endorsement **HO 32 50.**

B. Actual Cash Value Loss Settlement – HO 00 02, HO 00 03 And HO 00 05 Only

1. Introduction

The policy provides building loss settlement on a replacement cost basis if, at the time of loss, the amount of insurance on the damaged building represents at least 80% of the full replacement cost of the building immediately before the loss.

2. Coverage Description

The policy may be endorsed to provide building loss settlement exclusively on an actual cash value basis if, on the inception date of the policy, the Coverage **A** limit of liability selected by the insured is less than 80% of the full replacement cost of the dwelling.

3. Premium Computation

To develop the Base Premium for the Coverage **A** limit of liability shown in the policy declarations:

a. Multiply the Coverage **A** limit of liability by the appropriate factor from the following table and round to the nearest $1,000:

% Of Replacement Value	Factor
20%	4.00
30%	2.67
40%	2.00
50%	1.60
60%	1.33
70%	1.14

Table 302.B.3.a. Factors

b. Develop a Base Premium in accordance with Rule **301.** for the amount of insurance computed in Paragraph **B.3.a.**

c. Multiply the premium determined in Paragraph **B.3.b.** by the appropriate factor from the following table:

% Of Replacement Value	Factor
20%	.73
30%	.74
40%	.75
50%	.76
60%	.77
70%	.78
80%	.80

Table 302.B.3.c. Factors

d. If Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94** is also made a part of the policy then develop the Base Premium in accordance with Additional Rule **A3.** Windstorm Or Hail Exclusion – Territories 110, 120, 130, 140, 150 And 160 Only and multiply that Base Premium by the appropriate factor from Table **302.B.3.c.**

RULE 302.
LOSS SETTLEMENT OPTIONS (Cont'd)

4. **Endorsement**

Use Actual Cash Value Loss Settlement Endorsement **HO 04 81.**

C. **Special Loss Settlement – HO 00 02, HO 00 03 And HO 00 05 Only**

1. **Introduction**

The policy provides building loss settlement on a replacement cost basis if, at the time of loss, the amount of insurance on the damaged building represents at least 80% of the full replacement cost of the building immediately before the loss.

2. **Coverage Description**

This percentage amount may be modified to 50%, 60% or 70% of replacement value without affecting the loss settlement provisions. If this option is selected, the Coverage **A** limit of liability representing 50%, 60% or 70% of replacement value is to be shown in the policy declarations.

3. **Premium Computation**

To develop the Base Premium for the Coverage **A** limit of liability shown in the policy declarations:

a. Multiply the Coverage **A** limit of liability by the appropriate factor from the following table and round to the nearest $1,000:

% Of Replacement Value	Factor
50%	1.60
60%	1.33
70%	1.14

Table 302.C.3.a. Factors

b. Develop a Base Premium in accordance with Rule **301.** for the amount of insurance computed in preceding Paragraph **a.** However, if Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94** is also made a part of the policy then develop the Base Premium in accordance with Additional Rule **A3.** Windstorm Or Hail Exclusion – Territories 110, 120, 130, 140, 150 And 160 Only for the amount of insurance computed in Paragraph **a.**

c. Multiply the premium determined in preceding Paragraph **b.** by the appropriate factor from the following table:

% Of Replacement Value	Factor
50%	.96
60%	.97
70%	.98

Table 302.C.3.c. Factors

4. **Endorsement**

Use Special Loss Settlement – North Carolina Endorsement **HO 32 56.**

RULE 303.
ORDINANCE OR LAW COVERAGE – ALL FORMS EXCEPT HO 00 08

Paragraph **B.2.a.** is replaced by the following:

B. **Increased Amount Of Coverage**

2. **Premium Determination**

a. **Forms HO 00 02, HO 00 03 And HO 00 05**

To develop the Base Premium:

(i) If Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94** does not apply, multiply the premium computed in accordance with Rule **301.** by the appropriate factor selected from the following table:

Percentage Of Coverage A		Factors Coverage A Limit	
Increase In Amount	**Total Amount**	**$60,000 To $140,000**	**All Other**
15%	25%	1.13	1.05
40%	50%	1.35	1.14
65%	75%	1.51	1.20
90%	100%	1.67	1.27
For each add'l 25% increment, add		.16	.07

Table 303.B.2.a.(i) Factors

(ii) If Absolute Windstorm Or Hail Exclusion Endorsement **HO 32 94** applies, multiply the premium computed in accordance with Additional Rule **A3.** Windstorm Or Hail Exclusion – Territories 110, 120, 130, 140, 150 And 160 Only, by the appropriate factor selected from the following table:

Percentage Of Coverage A		Factors Coverage A Limit	
Increase In Amount	**Total Amount**	**$60,000 To $140,000**	**All Other**
15%	25%	1.13	1.05
40%	50%	1.35	1.14
65%	75%	1.51	1.20
90%	100%	1.67	1.27
For each add'l 25% increment, add		.16	.07

Table 303.B.2.a.(ii) Factors

RULE 304.
SPECIAL PERSONAL PROPERTY COVERAGE HO 00 04 AND HO 00 06

Paragraph **C.** is replaced by the following:

C. Endorsement

1. Use Special Personal Property Coverage Endorsement **HO 32 95** for use with Form **HO 00 04** only.
2. Use Unit-Owners Coverage **C** Special Coverage Endorsement **HO 32 35** for use with Form **HO 00 06** only.

RULE 305.
LOSS HISTORY RATING PLAN

Rule **305.** does not apply.

PART IV
ADJUSTED BASE PREMIUM COMPUTATION RULES

RULE 402.
TOWNHOUSE OR ROW HOUSE – ALL FORMS EXCEPT HO 00 04 AND HO 00 06

Rule **402.** is replaced by the following:

The premium for an eligible 1, 2, 3 or 4 family dwelling in a town or row house structure is computed by multiplying the Base Premium by the appropriate factor selected from the following table:

Townhouse And Row House Factors

Total No. Of Individual Family Units Within The Fire Division∗	Protection Class 1–8	Protection Class 9, 9S & Over
1 Or 2 Family Dwelling		
1 & 2	1.00	1.00
3 & 4	1.10	1.15
5 – 8	1.25	1.30
9 & Over	Refer to company	
3 Or 4 Family Dwelling		
5 – 8	1.15	1.20
9 & Over	Refer to company	

∗ An eligible two family owner-occupied dwelling attached to a one family dwelling but not separated by a fire wall would be considered 3 individual family units within a fire division. An eligible four family dwelling attached to a three family dwelling but not separated by a fire wall would be considered 7 individual family units within a fire division. Four 2 family dwellings not separated by a fire wall would be considered 8 individual family units.

Table 402. Townhouse And Row House Factors

RULE 403.
PERSONAL PROPERTY (COVERAGE C) REPLACEMENT COST LOSS SETTLEMENT

Rule **403.** is replaced by the following:

A. Introduction

The policy provides loss settlement on an Actual Cash Value basis for certain types of property.

B. Loss Settlement Option

The policy may be endorsed to provide loss settlement on a Replacement Cost basis for such property whether insured on a blanket or scheduled basis. If endorsed, the Coverage **C** limit must be at least:

1. 40% of Coverage **A** for all forms except **HO 00 04** and **HO 00 06.**
2. $12,000 (if policy limit is less than $12,000 for Forms **HO 00 04** or **HO 00 06**).

C. Endorsement

Use Personal Property Replacement Cost Endorsement **HO 04 90.**

D. Scheduled Personal Property

1. When the Scheduled Personal Property Endorsement **HO 04 61** is attached to a policy with Endorsement **HO 04 90,** the following property, if scheduled, will also be subject to repair or replacement cost loss settlement up to the scheduled limit of liability:
   a. Jewelry;
   b. Furs and garments trimmed with fur or consisting principally of fur;
   c. Cameras, projection machines, films and related articles of equipment;
   d. Musical equipment and related articles of equipment;
   e. Silverware, silver-plated ware, goldware, gold-plated ware and pewterware, but excluding pens, pencils, flasks, smoking implements or jewelry; and
   f. Golfer's equipment meaning golf clubs, golf clothing and golf equipment.
2. Since the loss settlement condition in Endorsement **HO 04 61** will pay the insured the least of the:
   a. Actual cash value of the property sustaining loss;
   b. The amount for which the property could be repaired or replaced; or
   c. The amount of insurance of the property sustaining loss;

   the limit of liability that applies to each scheduled item should be carefully evaluated to ensure that the limit selected by the insured represents the cost to replace the item if lost or damaged beyond repair.

RULE 403.
PERSONAL PROPERTY (COVERAGE C)
REPLACEMENT COST LOSS SETTLEMENT (Cont'd)

E. Scheduled Personal Property (With Agreed Value Loss Settlement)

When Scheduled Personal Property (With Agreed Value Loss Settlement) Endorsement **HO 04 60** is attached to a policy with Endorsement **HO 04 90,** the property subject to agreed value loss settlement will **not** be subject to repair or replacement cost loss settlement.

F. Premium Determination

Multiply the Base Premium including any premium adjustment for Coverage **C** limits by a factor of:

1. 1.05 for all forms except **HO 00 04** and **HO 00 06.**
2. 1.40 for Forms **HO 00 04** or **HO 00 06.**
3. The charge for Replacement Cost Coverage should be applied before the credit or charge for optional deductibles.
4. Refer to the state rate pages for the minimum additional premium, including the cost to increase the Coverage **C** limits.

RULE 404.
PROTECTIVE DEVICES

Rule **404.** is replaced by the following:

Approved and properly maintained installations of burglar alarms, fire alarms and automatic sprinklers in the dwelling are to be recognized for a reduced premium in accordance with the following:

A. Definitions

1. Central Station Systems

a. A Central Station Fire Alarm System is one in which the operations of circuits and devices are signaled automatically to, recorded in, maintained, and supervised from an approved central station having competent and experienced observers and operators who shall, upon receipt of a signal, take such action as shall be required.

b. A Central Station Burglar Alarm System is one in which the operations of electrical protection circuits and devices are signaled automatically to, recorded in, maintained, and supervised from a central station having trained operators and guards in attendance at all times. Guards are dispatched to make immediate investigation of unauthorized entry or opening of protected properties from which signals are received.

Combination Central Station and Local Systems beyond the range of central station service may be classified as Local Burglar Alarm Systems.

Central Stations are listed by name and location by Underwriters Laboratories, Inc. in both the UL Burglary Protection Equipment List and UL Fire Protection Equipment List.

2. Fire Or Police Station Connected Systems

a. Fire Station Connected (Remote Station) Fire Alarm Systems contemplate a system of electrically supervised circuits employing a direct circuit (not house telephone) connection between signaling devices at the protected premises and signal receiving equipment in a remote station, such as a municipal fire alarm headquarters, or fire station.

b. A Police Station Connected Burglar Alarm System is one in which a Local Alarm System is provided with supplementary transmitting equipment, so that when actuated, a signal is also annunciated at the constantly attended receiver at police headquarters.

3. Local Systems

a. Local Fire Alarm Systems contemplate supervised systems providing fire alarm signals within the protected premises. These systems are primarily for the protection of life by indicating the necessity of evacuation of the building and secondarily for the protection of property.

b. A Local Burglar Alarm System is one in which the protective circuits and devices are connected to an enclosed and tamper-protected loud sounding device attached to an outside wall of the building in which the property is situated. Disturbance of the protective devices or unauthorized entry through wired portions of the property automatically causes the sounding device to operate until it is stopped by key control in the possession of the owner or by exhaustion of the power supply or by a timing element set for a definite period of operation.

4. Automatic Sprinkler Systems

An Automatic Sprinkler System contemplates a system in which water is piped to devices called sprinkleheads, that melt with heat and release water to extinguish a fire.

B. Evaluation Of Alarm Systems

The following shall also be considered in evaluating alarm systems for qualification and premium credit:

1. All devices, combination of devices and equipment shall be approved by a recognized independent testing firm for the purposes for which they are intended.
2. All equipment shall be installed in a workmanlike manner by a qualified firm or person.

RULE 404.
PROTECTIVE DEVICES (Cont'd)

3. Detection devices shall be installed throughout all areas of the dwelling as follows:

a. For fire alarm systems:

(1) A smoke detector shall be located in the immediate vicinity of, but outside, the bedrooms; and

(2) Heat or smoke detectors shall be provided in all major areas of the house including living room, dining room, bedroom, kitchen, hallway, attics, furnace rooms, utility rooms, basements and attached garages.

(3) Heat detectors shall be installed within the strict limitation of their listed spacing (see Item **11.** of Table **404.C.**).

b. For burglar alarm systems:

(1) Completely protecting all accessible windows, doors, transoms, skylights, and other openings leading from the premises; or

(2) Protecting with contacts only, all movable accessible openings leading from the premises and providing one or more invisible rays or channels of radiation, with the minimum overall length of the rays or radiation equivalent to the longest dimensions of the area or areas to detect movement through the channel; or

(3) Protecting with contacts only, all doors leading from the premises and providing a system of invisible radiation to all sections of the enclosed area so as to detect fourstep movement.

c. For automatic sprinkler systems:

An approved and properly maintained automatic sprinkler system with sprinklers:

(1) In all areas including attics, bathrooms, closets and attached structures; or

(2) In all areas except attic, bathroom, closet and attached structure areas that are protected by a fire detector.

C. Premium Development

The premium for a risk having an approved protective device is developed by multiplying the Base Premium (including any premium adjustment to Coverage **C** limits) by the selected factor from the following table:

Protective Devices Factors

Protective Device	Factor∗
1. Central Station Reporting Burglar Alarm	.95
2. Central Station Reporting Fire Alarm	.95
3. Both **1.** and **2.**	.91
4. Fire Station Connected Fire Alarm	.97
5. Police Station Connected Fire Alarm	.97
6. Both **4.** and **5.**	.96
7. Local Fire Alarm System	.98
8. Local Burglar Alarm System	.98
9. Both **7.** and **8.**	.98
10. Automatic Smoke Detectors	.99
11. Automatic Sprinkler System	
a. In all areas including attic, bathroom, closet and attached structure	.87
b. In all areas except attic, bathroom, closet and attached structure areas that are protected by a fire detector	.93
∗ For Protection Classifications 1-9, 9S	
Note 1 Premium credit shall not be afforded on any additional or optional coverage, except Coverage **C** revised limits.	
Note 2 Refer to the state rate pages for the maximum credit allowed.	
Note 3 These credits do not apply to multi-family residential properties unless entire building meets the above requirements.	

Table 404.C. Protective Devices Factors

D. Endorsement

Use Premises Alarm Or Fire Protection System Endorsement **HO 04 16.**

RULE 406.
DEDUCTIBLES

Rule **406.** is replaced by the following:

All policies are subject to a deductible that applies to loss from all Section **I** Perils, except Earthquake. A separate deductible provision applies to Earthquake Coverage as described in Rule **505.**

A. Base Deductible

A Base Deductible of $1,000 applies to all forms except **HO 00 04** and **HO 00 06.**

A Base Deductible of $500 applies to forms **HO 00 04** and **HO 00 06.**

B. $100 All Perils Deductible Options

1. $100 All Perils Deductible

To compute the premium for this option, multiply the Base Premium by a factor of:

a. 1.39 for all forms except **HO 00 04** and **HO 00 06;** or

b. 1.21 for Form **HO 00 04;** or

c. 1.22 for Form **HO 00 06.**

2. $100 All Perils/250 Theft Deductible

This option applies to all forms except **HO 00 05, H0 00 04** with Special Personal Property Coverage – North Carolina Endorsement and **HO 00 06** with Unit-owners Coverage **C** Special Coverage – North Carolina Endorsement.

a. The $250 Theft Deductible applies to Coverage **C** – Personal Property and is available only when:

(1) A $100 deductible applies to All Other Perils; or

(2) A higher deductible applies to the peril of Windstorm or Hail and a $100 deductible applies to All Other Perils.

b. When the $100 deductible applies to All Other Perils, compute the premium by multiplying the Base Premium by the factor of:

(1) 1.38 for all forms except **HO 00 04** and **HO 00 06;** or

(2) 1.15 for Form **HO 00 04;** or

(3) 1.17 for Form **HO 00 06.**

c. When a higher Windstorm or Hail and $100 All Other Perils deductible applies, subtract a factor of .01 from the factors shown in Paragraph **C.3.a.(6)** or **C.3.b.(6)** for policies applicable to a higher Windstorm or Hail deductible.

C. Other Optional Deductibles

1. All Perils Deductibles

To compute the premium for this deductible type, multiply the Base Premium by the factor selected from the following table:

All Forms Except HO 00 04 And HO 00 06								
	Deductible Amounts							
Coverage A Limit	**$250**	**$500**	**$1,000**	**$1,500**	**$2,500**	**$5,000**	**$7,500**	**$10,000**
Up to $59,999	1.27	1.15	1.00	.92	.78	.72	N/A	N/A
$60,000 to 99,999	1.27	1.15	1.00	.92	.78	.72	N/A	N/A
100,000 to 200,000	1.27	1.16	1.00	.92	.78	.72	N/A	N/A
200,001 and Over	1.27	1.22	1.13	1.06	.95	.82	.76	.71
HO 00 04								
Coverage C Limit	**$250**	**$500**	**$1,000**	**$1,500**	**$2,500**			
Up to $25,000	1.10	1.00	.85	N/A	.65			
$25,001 and Over	1.10	1.02	.92	N/A	.75			
HO 00 06								
Coverage C Limit	**$250**	**$500**	**$1,000**	**$1,500**	**$2,500**			
Up to $40,000	1.11	1.00	.84	N/A	.62			
$40,001 and Over	1.11	1.02	.90	N/A	.70			

Table 406.C.1. All Perils Deductibles Factors

RULE 406.
DEDUCTIBLES (Cont'd)

2. Theft Deductible (Forms HO 00 04 And HO 00 06 Only)

a. Deductible Amounts

This option provides for higher Theft Deductible amounts of $1,000 and $2,500 to be used in conjunction with the deductible that applies to All Other Section **I** Perils.

b. Endorsement

An endorsement is not required.

c. Declarations Instructions

Separately enter, on the policy Declarations, the deductible amounts that apply to Theft and All Other Section **I** Perils.

d. Deductible Application

In the event of a theft loss to covered property, the dollar amount is deducted from the total of the loss for all coverages.

e. Use of Factors

The factors for Form **HO 00 04** and Form **HO 00 06** Theft Deductibles incorporate the factors for the All Perils Deductibles. Do not use the factors for the All Perils Deductibles when rating a policy with a higher Theft Deductible.

f. Deductible Factors

(1) Form HO 00 04

To compute the premium for the deductible amounts selected, multiply the Base Premium by the factor selected from the following table:

Theft Deductible Amount	All Other Perils Deductible Amount	Coverage C Limit: Up To $25,000	Coverage C Limit: $25,001 And over
$ 1,000	$ 100	1.02	1.04
	250	.97	1.01
	500	.92	.98
2,500	100	.91	.97
	250	.88	.93
	500	.82	.90
	1,000	.76	.85

Table 406.C.2.f.(1) Theft Deductible Factors

(2) Form HO 00 06

To compute the premium for the deductible amounts selected, multiply the Base Premium by the factor selected from the following table:

Theft Deductible Amount	All Other Perils Deductible Amount	Coverage C Limit: Up To $40,000	Coverage C Limit: $40,001 And over
$ 1,000	$ 100	1.12	1.11
	250	1.06	1.07
	500	.97	1.00
2,500	100	1.08	1.08
	250	1.01	1.02
	500	.92	.96
	1,000	.80	.86

Table 406.C.2.f.(2) Theft Deductible Factors

3. Windstorm Or Hail Deductibles (All Forms Except HO 00 04 And HO 00 06)

When the policy covers the peril of Windstorm or Hail, the following deductible options may be used in conjunction with the deductible applicable to All Other Section **I** Perils.

a. Percentage Deductibles

(1) Deductible Amounts

This option provides for higher Windstorm or Hail percentage deductibles of 1%, 2%, and 5% of the Coverage **A** limit of liability when the dollar amount of the percentage deductible selected exceeds the amount of the deductible applicable to All Other Section **I** Perils.

RULE 406.
DEDUCTIBLES (Cont'd)

(2) Endorsement

Use Windstorm Or Hail Percentage Deductible Endorsement **HO 03 12.**

(3) Declarations Instructions

Enter, on the policy Declarations, the percentage amount that applies to Windstorm or Hail and the dollar amount that applies to All Other Section **I** Perils. For example:

(a) Deductible – Windstorm or Hail 1% of Coverage **A** limit and $250 for All Other Perils.

(b) Deductible – Windstorm or Hail 2% of Coverage **A** limit, $250 for Theft of Personal Property and $100 for All Other Perils.

(4) Deductible Application

In the event of a Windstorm or Hail loss to covered property, the dollar amount is deducted from the total of the loss for all coverages.

(5) Use Of Factors

The factors displayed in Paragraph **(6)** incorporate the factors for the All Perils Deductibles. Do not use the factors for the All Perils Deductibles when rating a policy with a higher Windstorm or Hail deductible.

(6) Deductible Factors

In Territories 110, 120, 130, 140, 150 and 160 only, when the property is located in an area serviced by the North Carolina Insurance Underwriting Association (NCIUA), additional calculations must be performed to ensure that the premium credit applied to the deductible is **not** greater than the premium credit that would be applied if the peril of Windstorm or Hail were excluded from the policy.

(a) Property Not Located In Area Serviced By NCIUA

To compute the premium for this provision, multiply the Base Premium by the factor selected from the following tables for the deductible amounts desired.

(b) Property Is Located In Area Serviced by NCIUA

To determine if an "adjusted deductible credit" or the calculated deductible credit applies, complete each of the following steps:

Step **1.** Multiply the Windstorm or Hail exclusion credit shown in the state rate pages, under Additional Rule – Windstorm Or Hail Exclusion – Territories 110, 120, 130, 140, 150 And 160 Only Base Credit, by the Key Factor for the same amount of insurance used to determine the Base Premium.

Step **2.** Multiply the result determined in Step **1.** by .9 to determine the "adjusted deductible credit".

Step **3.** Select the factor for the desired windstorm or hail deductible option from the following tables and subtract that factor from unity (1.00).

Step **4.** Multiply the factor determined in Step **3.** by the Base Premium. The result is the windstorm or hail deductible credit.

Step **5.** Compare the results in Steps **2.** and **4.** If the result in:

Step **2.** is **less** than the result in Step **4.,** to compute the premium, subtract the "adjusted deductible credit" from the Base Premium.

Step **2.** is **greater than or equal to** the result in Step **4.,** multiply the Base Premium by the factor for the desired windstorm or hail deductible option.

RULE 406.
DEDUCTIBLES (Cont'd)

1% Windstorm Or Hail Deductible				
All Other	Coverage A Limit (Expressed In $)			
Perils Ded. Amount	Up To 59,999	60,000 To 99,999	100,000 To 200,000	200,001 & Over
$ 100	1.33	1.32	1.32	1.32
250	1.22	1.22	1.22	1.22
500	1.13	1.13	1.13	1.18
1,000	–	–	.99	1.11
1,500	–	–	.92	1.06
2,500	–	–	–	.94
5,000	–	–	–	.80
7,500	–	–	–	.73
10,000	–	–	–	.68

Table 406.C.3.a.(6)(b)#1 1% Windstorm Or Hail Deductible

2% Windstorm Or Hail Deductible				
All Other	Coverage A Limit (Expressed In $)			
Perils Ded. Amount	Up To 59,999	60,000 To 99,999	100,000 To 200,000	200,001 & Over
$ 100	1.29	1.29	1.29	1.29
250	1.18	1.18	1.19	1.20
500	1.09	1.09	1.10	1.15
1,000	.96	.96	.96	1.08
1,500	–	.90	.90	1.01
2,500	–	–	.76	.91
5,000	–	–	–	.77
7,500	–	–	–	.71
10,000	–	–	–	.67

Table 406.C.3.a.(6)(b)#2 2% Windstorm Or Hail Deductible

5% Windstorm Or Hail Deductible				
All Other	Coverage A Limit (Expressed In $)			
Perils Ded. Amount	Up To 59,999	60,000 To 99,999	100,000 To 200,000	200,001 & Over
$ 100	1.23	1.23	1.25	1.27
250	1.13	1.13	1.15	1.18
500	1.04	1.04	1.06	1.13
1,000	.91	.91	.92	1.05
1,500	.85	.85	.86	.99
2,500	.75	.75	.75	.89
5,000	–	–	.70	.75
7,500	–	–	–	.70
10,000	–	–	–	.65

Table 406.C.3.a.(6)(b)#3 5% Windstorm Or Hail Deductible

b. Higher Fixed-dollar Deductibles

(1) Deductible Amounts

This option provides for higher Windstorm or Hail fixed-dollar deductible amounts of $1,000, $2,000 and $5,000 when the dollar amount of the higher fixed-dollar deductible selected exceeds the amount of the deductible applicable to All Other Section **I** Perils.

(2) Endorsement

An endorsement is not required.

(3) Declarations Instruction

Separately enter, on the policy Declarations, the deductible amounts that apply to Windstorm or Hail and All Other Section **I** Perils. For example: $1,000 for Windstorm or Hail and $250 for All Other Perils.

(4) Deductible Application

In the event of a Windstorm or Hail loss to covered property, the dollar amount is deducted from the total of the loss for all coverages.

(5) Use Of Factors

The factors displayed in Paragraph **(6)** incorporate the factors for the All Perils Deductibles. Do not use the factors for the All Perils Deductibles when rating a policy with a higher Windstorm or Hail deductible.

RULE 406.
DEDUCTIBLES (Cont'd)

(6) Deductible Factors

In Territories 110, 120, 130, 140, 150 and 160 only, when the property is located in an area serviced by the NCIUA, additional calculations must be performed to ensure that the premium credit applied to the deductible is **not** greater than the premium credit that would be applied if the peril of Windstorm or Hail were excluded from the policy.

(a) Property Not Located In Area Serviced By NCIUA

To compute the premium for this provision, multiply the Base Premium by the factor selected from the following tables for the deductible amounts desired.

(b) Property Is Located In Area Serviced By NCIUA

To determine if an "adjusted deductible credit" or the calculated deductible credit applies, complete each of the following steps:

Step **1.** Multiply the windstorm or hail exclusion credit shown in the state rate pages, under Additional Rule – Windstorm Or Hail Exclusion – Territories 110, 120, 130, 140, 150 And 160 Only Base Credit, by the Key Factor for the same amount of insurance used to determine the Base Premium.

Step **2.** Multiply the result determined in Step **1.** by .9 to determine the "adjusted deductible credit".

Step **3.** Select the factor for the desired windstorm or hail deductible option from the following tables and subtract that factor from unity (1.00).

Step **4.** Multiply the factor determined in Step **3.** by the Base Premium. The result is the windstorm or hail deductible credit.

Step **5.** Compare the results in Steps **2.** and **4.** If the result in:

Step **2.** is **less** than the result in Step **4.,** to compute the premium, subtract the "adjusted deductible credit" from the Base Premium.

Step **2.** is **greater than or equal to** the result in Step **4.,** multiply the Base Premium by the factor for the desired windstorm or hail deductible option.

$1,000 Windstorm Or Hail Deductible				
All Other	Coverage A Limit (Expressed In $)			
Perils Ded. Amount	Up To 59,999	60,000 To 99,999	100,000 To 200,000	200,001 & Over
$ 100	1.29	1.30	1.33	1.34
250	1.20	1.20	1.23	1.24
500	1.11	1.11	1.14	1.20

Table 406.C.3.b.(6)#1 $1,000 Windstorm Or Hail Deductible

$2,000 Windstorm Or Hail Deductible				
All Other	Coverage A Limit (Expressed In $)			
Perils Ded. Amount	Up To 59,999	60,000 To 99,999	100,000 To 200,000	200,001 & Over
$ 100	1.24	1.27	1.30	1.32
250	1.15	1.16	1.20	1.22
500	1.08	1.08	1.11	1.18
1,000	.95	.95	.97	1.11
1,500	.89	.89	.91	1.06

Table 406.C.3.b.(6)#2 $2,000 Windstorm Or Hail Deductible

$5,000 Windstorm Or Hail Deductible				
All Other	Coverage A Limit (Expressed In $)			
Perils Ded. Amount	Up To 59,999	60,000 To 99,999	100,000 To 200,000	200,001 & Over
$ 100	1.22	1.23	1.28	1.29
250	1.11	1.13	1.16	1.19
500	1.04	1.04	1.08	1.15
1,000	.91	.91	.95	1.09
1,500	.85	.85	.89	1.04
2,500	.73	.75	.76	.94

Table 406.C.3.b.(6)#3 $5,000 Windstorm Or Hail Deductible

RULE 406.
DEDUCTIBLES (Cont'd)

D. Named Storm Percentage Deductible – Territories 110, 120, 130, 140, 150 And 160 Only

1. Deductible Amounts

The Named Storm Percentage Deductible option is used in conjunction with a deductible applicable to All Other Section **I** Perils.

A percentage amount of 1%, 2% or 5% of the Coverage **A** or **C** limit of liability, whichever is greater, is available when the dollar amount of the percentage deductible selected exceeds the amount of the deductible applicable to All Other Section **I** Perils.

2. Endorsement

Use Named Storm Percentage Deductible – North Carolina Endorsement **HO 03 63.**

3. Schedule Instructions

Enter on the Endorsement **HO 03 63** or the policy Declarations the percentage amount that applies to Named Storm.

4. Loss By Windstorm That Is A Named Storm

In the event of Named Storm loss to covered property, the dollar amount is deducted from the total of the loss for all coverages.

5. Deductible Factors

The factors displayed below incorporate the factors for the All Perils Deductibles shown in Paragraph **C.1.** Do **not** use the factors for the All Perils Deductibles when rating a policy with a higher Named Storm deductible.

Additional calculations must be performed to ensure that the premium credit applied for the deductible is not greater than the premium credit that would be applied if the peril of Windstorm or Hail were excluded from the policy.

To determine if an "adjusted deductible credit" or the calculated deductible credit applies, complete each of the following steps:

Step **1.** Multiply the windstorm or hail exclusion credit shown in the state rate pages, under Additional Rule – Windstorm Or Hail Exclusion – Territories 110, 120, 130, 140, 150 And 160 Only Base Credit, by the Key Factor for the same amount of insurance used to determine the Base Premium.

Step **2.** Multiply the result determined in Step **1.** by .9 to determine the "adjusted deductible credit".

Step **3.** Select the factor for the desired named storm deductible option from the following table and subtract that factor from unity (1.00).

Step **4.** Multiply the factor determined in Step **3.** by the Base Premium. The result is the named storm deductible credit.

Step **5.** Compare the results in Steps **2.** and **4.** If the result in:

Step **2.** is **less** than the result in Step **4.,** to compute the premium, subtract the "adjusted deductible credit" from the Base Premium.

Step **2.** is **greater than or equal to** the result in Step **4.,** multiply the Base Premium by the factor for the desired named storm deductible option.

RULE 406.
DEDUCTIBLES (Cont'd)

Territories 110, 120, 130, 140, 150 And 160				
Named Storm Deductible Percentage	**All Other Perils Deductible Amount**	**HO 00 02, HO 00 03, HO 00 05 And HO 00 08**	**HO 00 04**	**HO 00 06**
1%	$ 100	1.34	–	–
	250	1.23	–	–
	500	1.19	1.01	1.01
	1,000	1.13	.91	.89
	1,500	1.08	–	–
	2,500	.95	.74	.69
	5,000	.81	–	–
	7,500	.75	–	–
	10,000	.70	–	–
2%	100	1.30	–	–
	250	1.22	–	–
	500	1.16	1.00	1.00
	1,000	1.09	.90	.88
	1,500	1.03	–	–
	2,500	.92	.73	.68
	5,000	.78	–	–
	7,500	.72	–	–
	10,000	.68	–	–
5%	100	1.28	–	–
	250	1.19	–	–
	500	1.14	.99	.99
	1,000	1.06	.89	.87
	1,500	1.00	–	–
	2,500	.90	.71	.67
	5,000	.76	–	–
	7,500	.71	–	–
	10,000	.66	–	–

Table 406.D.5. Named Storm Percentage Deductible

RULE 407.
ADDITIONAL AMOUNTS OF INSURANCE – FORMS HO 00 02, HO 00 03 AND HO 00 05

Paragraphs **C.1.b.** and **C.1.c.** are replaced by the following:

C. Options Available

1. Specified Additional Amount Of Insurance For Coverage A Only

b. The premium for this option is computed by multiplying the Base Premium by the appropriate factor selected from the following table:

Additional Amount Of Insurance Options	**Factor**
25%	1.02
50%	1.03

Table 407.C.1.b. Additional Amounts Of Insurance Factors

c. Use Specified Additional Amount Of Insurance For Coverage **A** Endorsement **HO 32 20.**

Paragraphs **C.2.b.** and **C.2.c.** are replaced by the following:

2. Additional Limits Of Liability For Coverages A, B, C, And D

b. The premium is computed by multiplying the Base Premium by a factor of 1.06.

c. Use Additional Limits Of Liability For Coverages **A, B, C** And **D** Endorsement **HO 32 11.**

RULE 408.
ACTUAL CASH VALUE LOSS SETTLEMENT WINDSTORM OR HAIL LOSSES TO ROOF SURFACING – ALL FORMS EXCEPT HO 00 04

Rule **408.** is replaced by the following:

A. Introduction

The policy provides settlement for building losses on a repair or replacement cost basis, subject to certain conditions.

B. Coverage Description

The policy may be endorsed to provide loss settlement exclusively on an Actual Cash Value basis for roof surfacing when damage is caused by the peril of Windstorm Or Hail.

C. Premium Determination

To develop a premium for this option, multiply the Base Premium by a factor of .99.

D. Endorsement

Use Actual Cash Value Loss Settlement Windstorm Or Hail Losses To Roof Surfacing (All Forms Except **HO 00 04**) Endorsement **HO 04 93.**

This endorsement does not apply to a policy in which the peril of Windstorm or Hail is excluded.

RULE 410.
BUILDING CODE EFFECTIVENESS GRADING

Rule **410.** does not apply.

PART V
SECTION I – PROPERTY – ADDITIONAL COVERAGES AND INCREASED LIMITS RULES

RULE 505.
EARTHQUAKE COVERAGE

Rule **505.** is replaced by the following:

A. Earthquake Coverage

The policy may be endorsed to provide coverage against a loss resulting from the peril of Earthquake. This peril shall apply to all Section **I** Coverages for the same limits provided in the policy. Use Earthquake Endorsement – North Carolina **HO 32 54.**

B. Deductible

The base deductible is 5% of the limit of liability for either Coverage **A** or **C,** whichever is greater and is subject to a $500 minimum. This deductible may be increased for a premium credit.

In the event of an Earthquake loss to covered property, the dollar amount is deducted from the total of the loss for Coverages **A, B** and **C.**

C. Loss Assessment Coverage

The policy may also be endorsed to cover loss assessment resulting from loss by this peril. The limit of liability shall be based on the insured's proportionate interest in the total value of all collectively owned buildings and structures of the corporation or association of property owners. Refer to company for rates.

Use Loss Assessment Coverage For Earthquake Endorsement – North Carolina **HO 32 38** for all forms.

D. Base Premium

Develop the base premium as follows:

1. From the state rate pages:

a. Determine if Rate Table A, B, and/or C applies.

b. Determine the Earthquake Zone.

c. Select the rate according to construction from the Rate Table; and

2. Multiply the rate determined above by the:

a. Coverage **A** limit for Forms **HO 00 02, HO 00 03** and **HO 00 05.**

b. Coverage **C** limit for Form **HO 00 04.**

c. Coverage **A** and **C** limits for Form **HO 00 06.**

d. Coverage **C** and **D** increased limits.

e. Ordinance or Law total amount of insurance (includes basic and, if applicable, increased amounts).

f. Other Building or Structure options (e.g. Other Structures – Structures Rented To Others Residence Premises Endorsement **HO 04 40,** Other Structures On The Residence Premises – Increased Limits Endorsement **HO 04 48** and Specific Structures Away From The Residence Premises Endorsement **HO 04 92;** Building Additions And Alterations – Other Residence Endorsement **HO 04 49** and Building Additions And Alterations **HO 04 51**).

E. Premium For Higher Deductibles

Multiply the base premium determined in Paragraph **D.** by the appropriate factor from the following table:

Deductible Percentage	Factor	
	Frame & Superior	Masonry
10%	.89	.95
15%	.78	.89
20%	.67	.84
25%	.56	.79

Table 505.E. Premium For Higher Deductibles

RULE 507.
FORM HO 00 06 COVERAGE A DWELLING BASIC AND INCREASED LIMITS AND SPECIAL COVERAGE – HO 00 06

Paragraph **A.** is replaced by the following:

A. Basic Limits

The policy automatically provides a basic Coverage **A** limit of $1,000 on a named perils basis. If increased limits are not desired, enter "$1,000" under Coverage **A** – Dwelling on the Declarations pages.

Paragraph **D.** is replaced by the following:

D. Endorsement

Use Unit-Owners Coverage **A** Special Coverage Endorsement **HO 32 34.**

RULE 508.
FORM HO 00 06 UNITS REGULARLY RENTED TO OTHERS

Paragraph **A.2.** is replaced by the following:

A. Coverage C And Section II Liability

2. The Coverage **C** minimum limit of liability may be waived when the value of the insured's personal property in the rented unit is less than $6,000.

Paragraph **B.** is replaced by the following:

B. Premium Computation

Multiply the Coverage **C** Base Premium (less the credit for higher deductibles) by a factor of .25.

RULE 513.
ORDINANCE OR LAW INCREASED AMOUNT OF COVERAGE – HO 00 04 AND HO 00 06

Paragraph **B.2.** is replaced by the following:

B. Premium Determination

2. The premium for each additional $1,000 of insurance is developed by multiplying the **HO 00 04** or **HO 00 06,** whichever is appropriate, Key Factor for "Each Add'l $1,000" by the appropriate Key Premium.

RULE 515.
PERSONAL PROPERTY

Paragraph **E.** is replaced by the following:

E. Increased Special Limits Of Liability

1. The Special Limits of Liability in the policy form for the categories of property noted in the following table may be increased to the maximum limits shown:

Personal Property	Limit In Form	Maximum Limit Allowed
1. Jewelry, Watches and Furs	$ 1,500	$ 6,500*
2. Money	200	1,000
3. Securities	1,500	3,000
4. Silverware, Goldware and Pewterware	25% of Coverage **C**	10,000**
5. Firearms	10% of Coverage **C**	10,000***
6. Portable Electronic Equipment in or upon a motor vehicle	1,500	6,000 **

* Not exceeding the $1,500 sub-limit for any one article. However, the $1,500 sub-limit for any one article may be increased to $2,500 in increments of $500.

** Increase must be in increments of $500.

*** Increase must be in increments of $100.

Table 515.E.1. Special Limits

2. Refer to the state rate pages for the additional charge.

3. Use Coverage **C** Increased Special Limits Of Liability Endorsement **HO 32 88** – for all forms except as noted in Paragraph **4.**

4. Use Coverage **C** Increased Special Limits Of Liability Endorsement **HO 32 89** for Form **HO 00 05,** Form **HO 00 04** with Special Personal Property Coverage Endorsement **HO 32 95** and Form **HO 00 06** with Unit-owners Coverage **C** Special Coverage Endorsement **HO 32 35.**

RULE 515.
PERSONAL PROPERTY (Cont'd)

The following is added to Rule **515.:**

H. Additional Coverage – Jewelry And Furs

1. The policy may be endorsed to provide an increased limit of liability (up to $6,500) and coverage for additional risks of loss on unscheduled jewelry and furs.

2. The sub-limit payable for theft of any one article is $1,500 and may be increased to $2,500 in increments of $500.

3. Refer to the state rate pages for the additional charge.

4. Use Additional Coverages – Unscheduled Jewelry And Furs Endorsement **HO 32 27.**

5. If Coverage **C** Increased Special Limits Of Liability Endorsement **HO 32 88** or **HO 32 89** is also endorsed on the policy, Item **e.** of the endorsement (which pertains to jewelry and furs) should be left blank in deference to the limits provided under Additional Coverages Endorsement **HO 32 27.**

I. Rented Personal Property

1. Basic Limit

a. Landlords Furnishings

Under Forms **HO 00 02, HO 00 03** and **HO 00 05,** the policy automatically provides, at no additional charge, $2,500 of landlord's furnishings coverage, on a named perils basis, except Theft, for property regularly rented or held for rental in an apartment on the residence premises.

b. Theft (Burglary) Option

Coverage, as noted in Paragraph **1.a.,** may be extended to include loss resulting from burglary.

c. Premium

Refer to the state rate pages for the charge per unit.

2. Increased Limits

a. The basic limit noted in Paragraph **1.a.** may be increased up to the Coverage **C** limit of liability.

b. The increased limit applies to the same perils that apply to the basic limit and may vary by rented unit.

c. Refer to the state rate pages for the additional charge.

3. Endorsement

a. Rented Personal Property Endorsement **HO 32 21** indicates when the Theft option and/or Increased Limits option are selected.

b. When Increased Limits are selected, the increased limit and the total limit of liability are designated on the endorsement.

c. The insured may select one option or both.

RULE 517.
RENTAL TO OTHERS – EXTENDED THEFT COVERAGE ALL FORMS EXCEPT HO 00 05, HO 00 04 WITH HO 32 95 OR HO 00 06 WITH HO 32 35

The title of Rule **517.** Rental To Others – Extended Theft Coverage All Forms Except **HO 00 05, HO 00 04** With **HO 05 24** Or **HO 00 06** With **HO 17 31** is replaced by the preceding title.

RULE 519.
SPECIAL COMPUTER COVERAGE ALL FORMS EXCEPT HO 00 05, HO 00 04 WITH HO 32 95 OR HO 00 06 WITH HO 32 35

The title of Rule **519.** Special Computer Coverage All Forms Except **HO 00 05, HO 00 04** With **HO 05 24** Or **HO 00 06** With **HO 17 31,** is replaced by the preceding title and the text is replaced by the following:

A. Coverage Description

The policy may be endorsed to insure computers and related equipment against additional risks of physical loss subject to certain exclusions.

B. Premium

Refer to the state rate pages for additional charge.

C. Endorsement

Use Special Computer Coverage Endorsement **HO 32 37.**

RULE 520.
LIVESTOCK COLLISION COVERAGE

Rule **520.** does not apply.

RULE 521.
LIMITED WATER BACK-UP AND SUMP DISCHARGE OR OVERFLOW COVERAGE

Paragraph **B.** is replaced by the following:

B. Increased Limits

The basic limit of liability may be increased to $10,000, $15,000 or $25,000.

Paragraph **D.** is replaced by the following:

D. Endorsement

Use Limited Water Back-up And Sump Discharge Or Overflow Coverage Endorsement **HO 04 84.**

RULE 526.
RESIDENCE HELD IN TRUST – ALL FORMS EXCEPT HO 00 04

Paragraph **B.** is replaced by the following:

B. Endorsement

Use Trust Endorsement – North Carolina **HO 32 12.**

RULE 528.
HOME BUSINESS INSURANCE COVERAGE

Paragraph **C.4.b.** does not apply.

Table **528.D.2.a.** is replaced by the following:

Gross Annual Receipts∗	HO 00 02, 3, 5 & 8	HO 00 04	HO 00 06
Up to $50,000	.11	.46	.49
$ 50,001 to $100,000	.16	.69	.73
100,001 to 175,000	.23	.97	1.04
175,001 to 250,000	.31	1.31	1.40
∗ New business, use $50,001 to $100,000 classification			

Table 528.D.2.a. Factors

Paragraph **E.** is replaced by the following:

E. Endorsement

Use Home Business Insurance Coverage – North Carolina Endorsement **HO 32 90.**

Paragraphs **F.5.a.** and **F.5.c.** are replaced by the following:

F. Options

5. Special Coverage – Spoilage Of Perishable Stock

a. Coverage

Provides special coverage for the perishable stock specifically listed in the Schedule of Endorsement **HO 32 55.** The limit of liability is also listed in the endorsement.

c. Endorsement

Use Special Coverage – Spoilage Of Perishable Stock Endorsement **HO 32 55.**

Paragraphs **F.6.b.(1)(b)** and **F.6.b.(3)** are replaced by the following:

6. Valuable Papers And Records Endorsements

b. Special Coverage

(1) Coverage

(b) Special Coverage in Forms **HO 00 05** and **HO 00 04** with **HO 32 95** and **HO 00 06** with **HO 32 35;**

(3) Endorsement

Use Special Coverage For Valuable Papers And Records Endorsement **HO 32 57.**

RULE 529.
LIMITED FUNGI, WET OR DRY ROT, OR BACTERIA COVERAGE

Rule **529.** does not apply.

RULE 530.
IDENTITY FRAUD EXPENSE COVERAGE

Rule **530.** does not apply.

RULE 531.
LIMITED THEFT COVERAGE OPTIONS FOR DWELLINGS NEWLY CONSTRUCTED OR UNDER CONSTRUCTION

The title of Rule **531.** Limited Coverage For Theft Of Personal Property Located In A Dwelling Under Construction is replaced by the preceding title.

Rule **531.** is replaced by the following:

A. Theft Coverage – Newly Constructed Dwelling

1. Coverage Description

The policy may be endorsed to provide theft coverage in or to a newly constructed, unoccupied dwelling.

2. Premium

Charge the rate shown on the state rate pages. This rate will not be refunded if the endorsement is cancelled.

3. Endorsement

Use Theft Coverage – Newly Constructed Unoccupied Dwelling – North Carolina Endorsement **HO 32 26.**

RULE 531.
LIMITED THEFT COVERAGE OPTIONS FOR DWELLINGS NEWLY CONSTRUCTED OR UNDER CONSTRUCTION (Cont'd)

B. Theft Coverage – Dwelling Under Construction

1. Coverage Description

The policy may be endorsed to provide theft coverage in or to a dwelling under construction.

2. Premium

Charge the rate shown on the state rate pages. This rate will not be refunded if the endorsement is cancelled.

3. Endorsement

Use Theft Coverage – Dwelling Under Construction – North Carolina Endorsement **HO 32 25.**

PART VI
SECTION II – LIABILITY – ADDITIONAL COVERAGES AND INCREASED LIMITS RULES

RULE 601.
RESIDENCE PREMISES – BASIC AND INCREASED LIMITS/OTHER EXPOSURES – BASIC LIMITS

Paragraph **A.** is replaced by the following:

A. Residence Premises

1. Basic limits of liability for Coverage **E** (Personal Liability) and Coverage **F** (Medical Payments to Others) are $100,000 and $1,000, respectively. The premium for these limits is included in the Base Premium.

2. Premium credits are provided for reduced Coverage **E** limits of $50,000 and $25,000. No other limits below $100,000 are available.

3. Refer to the state rate pages Rule **601.** for increased and reduced limits rates.

4. If increased or reduced limits are written, then the same limits must apply to any other exposures covered under the policy, unless otherwise stated.

Paragraphs **B.3.** and **B.4.** are replaced by the following:

B. Other Exposures

3. For increased or reduced limits for Other Exposures, refer to Rules **701.** and **702.**

4. If increased or reduced limits are written, then the same limits must apply to the Residence Premises, unless otherwise stated.

RULE 606.
COMPUTER-RELATED DAMAGE OR INJURY EXCLUSION AND COVERAGE OPTIONS

Rule **606.** does not apply.

RULE 607.
HOME DAY CARE COVERAGE

Paragraphs **C.2.** and **C.3.** are replaced by the following:

C. Premium

2. This premium is for an annual aggregate limit of $100,000 with a Coverage **F** sub-limit of $1,000 per-person/per-accident. If other Section **II** exposures are written for higher or lower dollar limits, use the Coverage **E** increased or reduced limits factors to adjust the aggregate limit, and the Coverage **F** charges to raise the Coverage **F** sub-limit.

3. The premium is for 1 through 3 persons or 4 through 5 persons, other than insureds, receiving day care services. If the day care business involves the care of more than 5 persons, other than insureds, refer to company.

RULE 610.
PERSONAL INJURY COVERAGE

Paragraph **C.** is replaced by the following:

C. Endorsement

Use Personal Injury Coverage Endorsement **HO 32 82** for providing coverage with the limit of liability on an "any one offense" basis.

Use Personal Injury Coverage (Aggregate Limit Of Liability) Endorsement **HO 32 10** for providing coverage with the limit of liability on an annual aggregate limit basis.

RULE 613.
OWNED SNOWMOBILE

Rule **613.** does not apply.

RULE 614.
FARMERS PERSONAL LIABILITY

Rule **614.** does not apply.

RULE 616.
OPTIONAL PROPERTY REMEDIATION FOR ESCAPED LIQUID FUEL AND LIMITED LEAD AND ESCAPED LIQUID FUEL LIABILITY COVERAGES

Rule **616.** does not apply.

RULE 617.
CANINE LIABILITY EXCLUSION

Rule **617.** does not apply.

PART VII
SECTION II – LIABILITY – OTHER EXPOSURES
INCREASED LIMITS

RULE 701.
OTHER EXPOSURES – PERSONAL LIABILITY
INCREASED OR REDUCED LIMITS

Rule **701.** is replaced by the following:

Apply the appropriate factor shown in the following table to the basic limits premium for each exposure.

Limit	Factor
$25,000	.67
50,000	.83
200,000	1.15
300,000	1.24
400,000	1.30
500,000	1.35
750,000	1.41
1,000,000	1.47

Table 701. Personal Liability Increased Limits

ADDITIONAL RULE(S)

RULE A2.
INSTALLMENT PAYMENT PLAN

C. Charge per installment – $3

RULE A3.
WINDSTORM OR HAIL EXCLUSION – TERRITORIES 110, 120, 130, 140, 150 AND 160 ONLY

Frame Construction						
	Territory					
	110	120	130	140	150	160
All Forms Except **HO 00 04** And **HO 00 06**	$ 1,717	$ 2,389	$ 1,115	$ 1,508	$ 889	$ 930
HO 00 04	72	84	33	40	12	19
HO 00 06	47	74	29	31	14	14

Table A3.#1 Wind Or Hail Exclusion Credit – Frame

Masonry Construction						
	Territory					
	110	120	130	140	150	160
All Forms Except **HO 00 04** And **HO 00 06**	$ 1,546	$ 2,155	$ 1,048	$ 1,344	$ 790	$ 835
HO 00 04	64	75	30	36	10	17
HO 00 06	42	65	26	28	13	12

Table A3.#2 Wind Or Hail Exclusion Credit – Masonry

RULE A4.
WATERBED LIABILITY – FORMS HO 00 04 AND HO 00 06

B. Premium

Charge per policy – $14

RULE A9.
WINDSTORM MITIGATION PROGRAM – ALL FORMS EXCEPT HO 00 04 AND HO 00 06

Frame Construction						
Mitigation Feature	**Territory 110**	**Territory 120**	**Territory 130**	**Territory 140**	**Territory 150**	**Territory 160**
Total Hip Roof	$ 119	$ 163	$ 78	$ 103	$ 60	$ 63
Opening Protection	122	167	78	104	59	65
Total Hip Roof and Opening Protection	241	328	154	207	118	128
IBHS Designation:						
Hurricane Fortified for Safer Living®	390	575	223	345	129	214
Hurricane Fortified for Existing Homes® Bronze Option 1	94	130	62	82	47	51
Hurricane Fortified for Existing Homes® Bronze Option 2	146	204	87	129	59	79
Hurricane Fortified for Existing Homes® Silver Option 1	234	346	125	210	62	128
Hurricane Fortified for Existing Homes® Silver Option 2	281	418	149	257	71	159
Hurricane Fortified for Existing Homes® Gold Option 1	299	440	167	262	93	162
Hurricane Fortified for Existing Homes® Gold Option 2	347	514	190	310	101	191

Table A9. Windstorm Loss Mitigation Credit – Frame

Masonry Construction						
Mitigation Feature	**Territory 110**	**Territory 120**	**Territory 130**	**Territory 140**	**Territory 150**	**Territory 160**
Total Hip Roof	$ 108	$ 146	$ 73	$ 92	$ 54	$ 57
Opening Protection	110	150	73	94	52	58
Total Hip Roof and Opening Protection	217	296	145	186	105	116
IBHS Designation:						
Hurricane Fortified for Safer Living®	352	518	209	307	115	192
Hurricane Fortified for Existing Homes® Bronze Option 1	84	118	57	72	42	45
Hurricane Fortified for Existing Homes® Bronze Option 2	131	184	82	115	52	71
Hurricane Fortified for Existing Homes® Silver Option 1	211	313	118	188	55	116
Hurricane Fortified for Existing Homes® Silver Option 2	253	377	140	229	62	142
Hurricane Fortified for Existing Homes® Gold Option 1	269	398	157	233	81	145
Hurricane Fortified for Existing Homes® Gold Option 2	311	464	179	276	90	171

Table A9. Windstorm Loss Mitigation Credit – Masonry

RULE 105.
SECONDARY RESIDENCE PREMISES

B. Premium Adjustment

2. Credit – $10

RULE 204.
MULTIPLE COMPANY INSURANCE

C. Premium

3. Credit – $10

RULE 205.
MINIMUM PREMIUM

D. Minimum Premium – $50

RULE 207.
WAIVER OF PREMIUM

B. Amount that may be waived – $3 or less

RULE 403.
PERSONAL PROPERTY (COVERAGE C) REPLACEMENT COST LOSS SETTLEMENT

F. Premium Determination

4. Minimum additional charge – $20

RULE 404.
PROTECTIVE DEVICES

C. Premium Development

Maximum credit allowed – $75

RULE 503.
BUSINESS PROPERTY – INCREASED LIMIT

A. On-premises

2. Rate per $2,500 – $50

RULE 504.
CREDIT CARD, ELECTRONIC FUND TRANSFER CARD OR ACCESS DEVICE, FORGERY & COUNTERFEIT MONEY

B. Premium

Limit	
$ 1,000	$ 1
2,500	3
5,000	4
7,500	5
10,000+	6
+ For limits in excess of $10,000, refer to company.	

Table 504.B. Additional Charge

RULE 505.
EARTHQUAKE COVERAGE

D. Base Premium

Base Deductible – Rate Per $1,000				
	Zone	**Frame+**	**Masonry+**	**Superior**
Table A				
All forms except **HO 00 04** and **HO 00 06**	3	$ .54	$ 1.24	$ .86
	4	.35	1.24	.50
	5	.27	.86	.36
Table B				
Form **HO 00 04** or Form **HO 00 06** (apply to Coverage **C** limit) and Higher Coverage **C** limits for other forms	3	$ .36	$ .95	$ .36
	4	.23	.82	.23
	5	.18	.57	.18
Table C				
Form **HO 00 06** (apply to Coverage **A** limit), Higher Coverage **D** Limits, Endorsement **HO 04 48** and Other Building Options	3	$ .36	$ 1.05	$ .68
	4	.23	1.05	.39
	5	.18	.57	.27
+If exterior Masonry Veneer is covered, rate as Masonry; if **not** covered, rate as Frame.				

Table 505.D.#1 Premium For Base Deductible

Zone 3			
Anson	Columbus	Mecklenburg	Scotland
Brunswick	Davie	Montgomery	Stanly
Cabarrus	Gaston	Richmond	Union
Catawba	Iredell	Robeson	
Cleveland	Lincoln	Rowan	

Table 505.D.#2 Earthquake Zone 3

Zone 4			
Alexander	Clay	Macon	Rutherford
Alleghany	Cumberland	Madison	Surry
Ashe	Davidson	McDowell	Swain
Avery	Forsyth	Mitchell	Transylvania
Bladen	Graham	Moore	Watauga
Buncombe	Haywood	New Hanover	Wilkes
Burke	Henderson	Pender	Yadkin
Caldwell	Hoke	Polk	Yancey
Cherokee	Jackson	Randolph	

Table 505.D.#3 Earthquake Zone 4

Zone 5
Balance of State

Table 505.D.#4 Earthquake Zone 5

RULE 507.
FORM HO 00 06 COVERAGE A DWELLING BASIC AND INCREASED LIMITS AND SPECIAL COVERAGE
HO 00 06

C. Special Coverage

1. Charge per policy for $1,000 in basic form – $2

2. Rate for each add'l $1,000 of Coverage **A** – $1

RULE 509.
HOME DAY CARE COVERAGE

D. Premium Computation

1. Section I

c. Rate per $1,000 for business in other structure – $5

RULE 510.
PERMITTED INCIDENTAL OCCUPANCIES RESIDENCE PREMISES

E. Premium Computation

1. Section I

c. Rate per $1,000 for business in other structure – $5

RULE 511.
SUPPLEMENTAL LOSS ASSESSMENT COVERAGE

A. Residence Premises

3. Premium

All forms except **HO 00 03, HO 00 05** or **HO 00 06** with **HO 32 34**

New Amount Of Coverage	
$ 5,000	$ 3
10,000	6
Each add'l $5,000 up to $50,000	1

Table 511.A.3.#1 Additional Charge

HO 00 03, HO 00 05 or **HO 00 06** with **HO 32 34**

New Amount Of Coverage	
$ 5,000	$ 4
10,000	8
Each add'l $5,000 up to $50,000	2

Table 511.A.3.#2 Additional Charge

B. Additional Locations

2. Premium

All forms except **HO 00 03, HO 00 05** or **HO 00 06** with **HO 32 34**

New Amount Of Coverage	
$ 1,000	$ 6
5,000	9
10,000	11
Each add'l $5,000 up to $50,000	1

Table 511.B.2.#1 Additional Charge

HO 00 03, HO 00 05 or **HO 00 06** with **HO 32 34**

New Amount Of Coverage	
$ 1,000	$ 7
5,000	11
10,000	13
Each add'l $5,000 up to $50,000	2

Table 511.B.2.#2 Additional Charge

RULE 512.
LOSS OF USE – INCREASED LIMIT

B. Rate per $1,000 – $4

RULE 514.
OTHER STRUCTURES

A. On-premises Structures

1. Specific Structure – Increased Limits

a. Premium

Rate per $1,000 for policies with windstorm or hail coverage – $4

Territories 110, 120, 130, 140, 150 And 160 Only – Rate per $1,000 for policies excluding windstorm or hail coverage – $2

2. Structure On The Residence Premises Rented To Others

a. Premium

(1) Rate per $1,000 for policies with windstorm or hail coverage – $5

Territories 110, 120, 130, 140, 150 And 160 Only – Rate per $1,000 for policies excluding windstorm or hail coverage – $3

B. Structures Off The Residence Premises

1. Forms HO 00 02, HO 00 03 And HO 00 05

b. Premium

Off premises structures charge per policy – $15

2. All Forms

a. Premium

(2) Specific structures – Off-Premises Rate per $1,000 – $5

RULE 515.
PERSONAL PROPERTY

A. Increased Limit

3. Rate Per $1,000:

HO 00 02 or **HO 00 03** – $2

HO 00 05 – $3

B. Increased Limit – Other Residences

3. Rate Per $1,000 – $7

C. Increased Limit – Self-storage Facilities

2. Rate per $1,000 – $5

D. Reduction In Limit

2. Credit per $1,000 – $1

E. Increased Special Limits Of Liability

1. Jewelry, Watches and Furs – Rate per $1,000 – $18

Increased sub-limit per article:

Rate for $2,000 – $9

Rate for $2,500 – $18

2. Money Rate per $100 – $6

3. Securities – Rate per $100 – $4

4. Silverware – Rate per $500 – $3.25

5. Firearms – Rate per $100 – $3

6. Portable Electronic Equipment in or upon a motor vehicle – Rate per $500 – $10

F. Refrigerated Personal Property

3. Charge per policy – $10

G. Theft Coverage Increase – HO 00 08

3. Premium

a. On-Premises

Rate per $2,000 – $19

b. Off-Premises

Additional Charge – $10

H. Additional Coverage – Jewelry And Furs

3. Charge per policy – $7

Rate per $1,000 – $15

Increased sub-limit per article:

Rate for $2,000 – $7.50

Rate for $2,500 – $15

I. Rented Personal Property

1. Basic Limit

c. Premium

Theft (Burglary Peril Added) – Charge per unit – $3

2. Increased Limits

c. Rate per $1,000 per unit:

Including Theft – $3

Excluding Theft – $2

RULE 517.
RENTAL TO OTHERS – EXTENDED THEFT COVERAGE ALL FORMS EXCEPT HO 00 05, HO 00 04 WITH HO 32 95 OR HO 00 06 WITH HO 32 35

B. Premium

Rate per policy – $30

RULE 518.
SINKHOLE COLLAPSE COVERAGE ALL FORMS EXCEPT HO 00 04 AND HO 00 06

B. Premium Determination

1. Rate per $1,000 – $.35

RULE 519.
SPECIAL COMPUTER COVERAGE ALL FORMS EXCEPT HO 00 05, HO 00 04 WITH HO 32 95 OR HO 00 06 WITH HO 32 35

B. Premium

Charge per policy – $15

RULE 521.
LIMITED WATER BACK-UP AND SUMP DISCHARGE OR OVERFLOW COVERAGE

D. Premium

1. Basic Limit

Charge per policy – $22

2. Increased Limits

Limit	
$ 10,000	$ 30
15,000	35
25,000	40

Table 521.D.2. Increased Limits Premium

RULE 522.
LANDLORDS FURNISHINGS

C. Premium

Rate per $500 per unit

Forms **HO 00 02, HO 00 03** and **HO 00 05** – $1

RULE 523.
ASSISTED LIVING CARE COVERAGE

C. Premium

1. Section **I** and Section **II** Basic Limits

Rate per unit – $77

2. Increased Limits

Add to the basic limit Rate in Paragraph **1.:**

a. Coverage **C** – Rate per $1,000 – $7

RULE 523.
ASSISTED LIVING CARE COVERAGE (Cont'd)

b. Coverage **E** (Coverage **F** does not apply to this option.)

Reduced Coverage E Limits (Credit)	
Limit	**Rates**
$ 25,000	$ 6
50,000	3
Basic And Increased Coverage E Limits	
Limit	**Rates**
$ 200,000	$ 3
300,000	4
400,000	5
500,000	6
750,000	7
1,000,000	8

Table 523.C.2.b. Coverage E Limits

RULE 524.
OTHER MEMBERS OF A NAMED INSURED'S HOUSEHOLD

C. Premium

1. Section **I** and Section **II** Basic Limits

Rate per person named in the Schedule – $60

2. Section **II** Increased Limits

Add to the basic limit Rate in Paragraph **1.:**

a. For Coverage **E:**

Reduced Coverage E Limits (Credit)	
Limit	**Rates**
$ 25,000	$ 17
50,000	9
Basic And Increased Coverage E Limits	
Limit	**Rates**
$ 200,000	$ 8
300,000	12
400,000	15
500,000	18
750,000	21
1,000,000	24

Table 524.C.2.a. Coverage E Limits

b. For Coverage **F:**

Refer to Rule **702.** for Rates for limits above $1,000

RULE 525.
MOTORIZED GOLF CART – PHYSICAL LOSS COVERAGE

E. Premium

The following charge is the minimum annual premium for each motorized golf cart for any period within a policy year:

Rate per motorized golf cart **without** collision – $7

Rate per motorized golf cart **with** collision – $12

RULE 526.
RESIDENCE HELD IN TRUST – ALL FORMS EXCEPT HO 00 04

C. Premium

For basic limits rates:

Trust charge per policy – $26

For increased limits:

For Coverage **E:**

Refer to Rule **701.** for increased limits factors.

For Coverage **F:**

Refer to Rule **702.** for increased limits charges.

RULE 527.
STUDENT AWAY FROM HOME

C. Premium Determination

1. Section **I** and Section **II** Basic Limits

Rate per location – $68

2. Section **II** Increased Limits

Add to the basic limit Rate in Paragraph **1.:**

a. For Coverage **E:**

Reduced Coverage E Limits (Credit)	
Limit	**Rates**
$ 25,000	$ 17
50,000	9
Basic And Increased Coverage E Limits	
Limit	**Rates**
$ 200,000	$ 8
300,000	12
400,000	15
500,000	18
750,000	21
1,000,000	24

Table 527.C.2.a. Coverage E Limits

RULE 527.
STUDENT AWAY FROM HOME (Cont'd)

b. For Coverage **F:**

Refer to Rule **702.** for Rates for limits above $1,000.

RULE 528.
HOME BUSINESS INSURANCE COVERAGE

D. Home Business Premium Computation

3. Section II – Business Liability

a. Basic Limits Premium

For Coverages **E** and **F:**

(1) Office (Gross Annual Receipts up to $250,000)

Business Visitors Per Week*	Under 10	10 Or More
	$ 2.44	$ 3.66
* New Business, use 10 or more classification		

Table 528.D.3.a.(1) Office Basic Limits Premium

(2) Service, Sales and Crafts

	Business Visitors Per Week*					
	Services		Sales		Crafts	
Gross Annual Receipts**	Under 10	10 Or More	Under 10	10 Or More	Under 10	10 Or More
Up to $50,000	$ 14.50	$ 21.75	$ 6.50	$ 9.75	$ 6.50	$ 9.75
$50,001 to $100,000	43.50	65.25	19.50	29.25	19.50	29.25
$100,001 to $175,000	79.75	119.63	35.75	53.63	35.75	53.63
$175,001 to $250,000	123.25	184.88	55.25	82.88	55.25	82.88
* New Business, use 10 or more classification. ** New Business, use $50,001 to $100,000 classification.						

Table 528.D.3.a.(2) Service, Sales And Crafts Basic Limits Premium

RULE 528.
HOME BUSINESS INSURANCE COVERAGE (Cont'd)

c. Coverage F – Increased Limits

(2) All home business classifications:

	All Home Business Classifications			
	Homeowners Increased Limit Of Liability			
Business Visitors Per Week	**$2,000**	**$3,000**	**$4,000**	**$5,000**
Under 10	$ 5.00	$ 10.00	$ 15.00	$ 19.00
10 or more	7.00	12.00	18.00	22.00

Table 528.D.3.c.(2) Increased Limit

F. Options

1. Additional Insured

a. Managers Or Lessors Of Premises Leased To An Insured

(2) Premium

Rate per location/per additional insured – $14

5. Special Coverage – Spoilage Of Perishable Stock

b. Premium

Rate per $1,000:

(1) Florists – $2

(2) Other Classes of Business – Refer to Company

6. Valuable Papers And Records Endorsements

Rate per $1,000:

a. Increased Limits

For Endorsement **HO 07 56:**

(2) Premium

(a) Named Perils Coverage (**HO 00 02, HO 00 03, HO 00 04** and **HO 00 06**) – $1

(b) Open Perils Coverage (**HO 00 05, HO 00 04** with **HO 32 95** and **HO 00 06** with **HO 32 35**) – $2

b. Special Coverage

For Endorsements (**HO 07 56** and **HO 32 57**):

(2) Premium

(a) First $2,500:

HO 00 02, HO 00 03, HO 00 04 and **HO 00 06** – $3

HO 00 05, HO 00 04 with **HO 32 95** and **HO 00 06** with **HO 32 35** – $2

(b) Each additional $1,000 – all forms – $2

7. Off-Premises Property Coverage – Increased Limits

b. Premium

Rate per $2,500:

HO 00 02, HO 00 03, HO 00 04 and **HO 00 06** – $25

HO 00 05, HO 00 04 with **HO 32 95** and **HO 00 06** with **HO 32 35** – $37

RULE 531.
LIMITED THEFT COVERAGE OPTIONS FOR DWELLINGS NEWLY CONSTRUCTED OR UNDER CONSTRUCTION

A. Theft Coverage – Newly Constructed Dwelling

2. Premium

Charge per policy – $13

B. Theft Coverage – Dwelling Under Construction

2. Premium

Rate per $1,000 of Coverage **A** limit – $1

RULE 601.
RESIDENCE PREMISES – BASIC AND INCREASED LIMITS/OTHER EXPOSURES – BASIC LIMITS

A. Residence Premises

3. Increased Limits

Coverage E – Liability			
1 and 2 Family Premium		3 or 4 Family Premium	
Reduced Coverage E Limit (Credit)			
Limit	Rate	Limit	Rate
$ 25,000	$ 11	$ 25,000	$ 22
50,000	6	50,000	11
Basic And Increased Coverage E Limit			
Limit	Rate	Limit	Rate
$ 100,000	–	100,000	–
200,000	$ 5	200,000	$ 10
300,000	8	300,000	16
400,000	10	400,000	20
500,000	12	500,000	23
750,000	14	750,000	28
1,000,000	16	1,000,000	32

Table 601.A.3.#1 Coverage E – Liability

Coverage F – Medical Payments	
Limit	Rate
$ 1,000	–
2,000	$ 3
3,000	6
4,000	9
5,000	12

Table 601.A.3.#2 Coverage F – Medical Payments

RULE 602.
OTHER INSURED LOCATION OCCUPIED BY INSURED

B. Premium

Rate per Residence:

One Family – $7

Two Family – $14

Three Family – $27

Four Family – $29

RULE 603.
RESIDENCE EMPLOYEES

B. Rate per Person in Excess of Two – $5

RULE 604.
ADDITIONAL RESIDENCE RENTED TO OTHERS

B. Premium

Rate per Residence:

One Family – $32

Two Family – $51

Three Family – $86

Four Family – $93

RULE 605.
OTHER STRUCTURES RENTED TO OTHERS – RESIDENCE PREMISES

B. Premium

Rate per Structure – $32

RULE 607.
HOME DAY CARE COVERAGE

C. Premium

1. Rate per Person:

1 – 3 Persons – $114

4 – 5 Persons – $199

RULE 608.
PERMITTED INCIDENTAL OCCUPANCIES – RESIDENCE PREMISES AND OTHER RESIDENCES

B. Premium

Rate per Residence:

1. Residence Premises – $17
2. Other Residence – $17

RULE 609.
BUSINESS PURSUITS

B. Premium

Rate per Insured Person:

1. Clerical Employees – $5
2. Sales person, Collector or Messenger – Installation, demonstration or servicing operation:

   Included – $7

   Excluded – $5
3. Teachers
   a. Laboratory, athletic, manual or physical training – $13
   b. Not otherwise classified – $6
   c. Corporal punishment (add to Paragraph **3.a.** or **3.b.**) – $5

RULE 610.
PERSONAL INJURY COVERAGE

B. Premium

Rate per Policy (Per Offense) – $13

Rate per Policy (Aggregate) – $12

RULE 611.
INCIDENTAL LOW POWER RECREATIONAL MOTOR VEHICLES

B. Premium

Rate per Policy – $15

RULE 612.
OUTBOARD MOTORS AND WATERCRAFT

C. Premium

1. Outboard, Inboard, or Inboard-Outdrive Engines or Motors:

	Length	
	Up To 15 Feet	Over 15 To 26 Feet
Horsepower	Rate	Rate
Up to 50∗	$ 41	$ 64
51 to 100	69	92
101 to 150	98	121
151 to 200	Refer to Company	149
Over 200	Refer to Company	Refer to Company
∗ Outboard engines or motors of up to 25 horsepower or sailboats less than 26 feet in overall length with or without auxiliary power are covered in the policy form.		

Table 612.C.1. Outboard, Inboard, Or Inboard-Outdrive Engines Or Motors

2. Sailboats With or Without Auxiliary Power:

Overall Length/Feet	Rate
26 to 40 feet∗	$ 44
Over 40 feet	Refer to Company
∗ Outboard engines or motors of up to 25 horsepower or sailboats less than 26 feet in overall length with or without auxiliary power are covered in the policy form.	

Table 612.C.2. Sailboats With Or Without Auxiliary Power

RULE 613.
OWNED SNOWMOBILE

B. Premium

Rate per Snowmobile – Not Applicable

RULE 615.
INCIDENTAL FARMING PERSONAL LIABILITY

A. On The Residence Premises

2. Premium

Farming done On The Residence Premises – $40

B. Away From The Residence Premises

2. Premium

Farming done Away From The Residence Premises – $60

RULE 702.
OTHER EXPOSURES – MEDICAL PAYMENTS TO OTHERS INCREASED LIMITS

Basic Limit Rule #	Coverage F – Medical Payments	$2,000	$3,000	$4,000	$5,000
524.	Other Members of an Insured's Household	$ 1	$ 2	$ 3	$ 4
526.	Residence Held in Trust All Forms Except **HO 00 04**	1	2	3	4
527.	Student Away From Home	1	2	3	4
602.	Other Insured Locations Occupied By Insured	1	2	3	4
603.	Residence Employees	1	2	3	4
604.	Add'l. Residence Rented to Others	1	2	3	4
605.	Other Structures Rented to Others – Residence Premises	1	2	3	4
607.	Home Day Care Coverage	5	10	15	19
608.	Permitted Incidental Occupancies				
	1. Residence Premises	5	10	15	19
	2. Other Residence	3	6	9	11
609.	Business Pursuits				
	1. Clerical Employees	1	2	3	4
	2. Salesperson, Installation, etc.				
	Included or Excluded	1	2	3	4
	3. Teachers				
	a. Lab, etc.	2	4	6	7
	b. Not otherwise classified	1	2	3	4
	c. Corporal Punishment	Medical Payments Not Available			
611.	Incidental Motorized Land Conveyances	1	2	3	4
612.	Outboard Motors and Watercraft				
	1. Outboard, Inboard or Inboard – Outboard engines or Motors				
	a) Up to 15 feet:				
	Up to 50 hp.	3	6	9	11
	51 to 100 hp.	4	8	12	14
	101 to 150 hp.	6	12	18	21
	151 to 200 hp.	Refer to Company			
	Over 200 hp.	Refer to Company			
	b) Over 15 to 26 feet:				
	Up to 50 hp.	4	8	12	14
	51 to 100 hp.	6	12	18	21
	101 to 150 hp.	8	16	24	28
	151 to 200 hp.	12	24	36	42
	Over 200 hp.	Refer to Company			
	2. Sailboats, with or without auxiliary power				
	26 to 40 feet	3	6	9	11
	Over 40 feet	Refer to Company			
613.	Owned Snowmobile	Not Applicable			
615.	Incidental Farming Personal Liability	1	2	3	4

Table 702. Other Exposures – Medical Payments To Others Increased Limits

1. TERRITORY ASSIGNMENTS

If a territory shown is defined in terms of United States Postal Service (USPS) ZIP code:

A. Determine the applicable rating territory based on the location of the dwelling.

B. An insured's rates shall not be changed solely because the USPS changed his or her ZIP code and the physical boundaries of a rating territory shall be determined by the ZIP code boundaries in effect at the time of the latest rate filing defining the territory.

Territory boundaries in North Carolina are concurrent with USPS ZIP code boundaries in effect as of **July 1, 2013.** If the USPS introduces a new ZIP code or realigns a ZIP code boundary after **July 1, 2013,** the new ZIP code may not yet be listed in Rule **2.C.** If this is the case, assign the rating territory based on the ZIP code boundary that formerly applied to the dwelling before the USPS changed the ZIP code.

2. TERRITORY DEFINITIONS – (For all Coverages and Perils Other than Earthquake).

Assign the applicable territory using the following order of priority:

A. Counties

County of	Code
Alamance	310
Alexander	340
Alleghany	360
Anson	300
Ashe	360
Avery	370
Beaufort	150
Bertie	180
Bladen	230
Buncombe	360
Burke	360
Cabarrus	320
Caldwell	360
Camden	150
Caswell	310
Catawba	360
Chatham	280
Cherokee	390
Chowan	150
Clay	390
Cleveland	350
Columbus	200
Craven	150
Cumberland	220
Currituck (other than Beach Areas)	130
Dare (other than Beach Areas)	130
Davidson	320
Davie	310
Duplin	190
Durham	270
Edgecombe	210
Forsyth	310
Franklin	240
Gaston	350
Gates	170
Graham	390
Granville	260
Greene	180
Guilford	310
Halifax	240
Harnett	250
Haywood	380
Henderson	360
Hertford	170
Hoke	250
Hyde (other than Beach Areas)	130
Iredell	340
Jackson	390
Johnston	240
Jones	150
Lee	290
Lenoir	190
Lincoln	350
Macon	390
Madison	380
Martin	180
McDowell	360
Mecklenburg	340
Mitchell	370
Montgomery	300
Moore	290
Nash	240
Northampton	240
Orange	280
Pamlico	130
Pasquotank	150
Perquimans	150
Person	260
Pitt	180
Polk	360
Randolph	320
Richmond	300
Robeson	230
Rockingham	310
Rowan	320
Rutherford	350
Sampson	220
Scotland	250
Stanly	340
Stokes	310
Surry	310
Swain	380
Transylvania	380
Tyrrell	150
Union	340
Vance	260
Wake	270
Warren	260
Washington	150
Watauga	360
Wayne	180
Wilkes	340
Wilson	210
Yadkin	330
Yancey	360

B. Beach Areas

Beach Area – Localities south and east of the Inland Waterway from the South Carolina Line to Fort Macon (Beaufort Inlet), thence south and east of Core, Pamlico, Roanoke and Currituck Sounds to the Virginia Line, being those portions of land generally known as the "Outer Banks".

Beach Areas in Currituck, Dare and Hyde Counties: 110

Beach areas in Brunswick, Carteret, New Hanover, Onslow and Pender Counties: 120

C. Other Than Beach Areas Of Brunswick, Carteret, New Hanover, Onslow And Pender Counties

For areas of Brunswick, Carteret, New Hanover, Onslow and Pender Counties, other than the Beach Areas, refer to the following ZIP codes. If portions of these ZIP codes fall in Counties other than Brunswick, Carteret, New Hanover, Onslow and Pender Counties use the territory code for those Counties.

1. Eastern Coastal Territory

ZIP Code	USPS ZIP Code Name	Code
28403	Wilmington	140
28404	Wilmington	140
28405	Wilmington	140
28406	Wilmington	140
28407	Wilmington	140
28408	Wilmington	140
28409	Wilmington	140
28410	Wilmington	140
28411	Wilmington	140
28412	Wilmington	140
28422	Bolivia	140
28428	Carolina Beach	140
28443	Hampstead	140
28445	Holly Ridge	140
28459	Shallotte	140
28460	Sneads Ferry	140
28461	Southport	140
28462	Supply	140
28467	Calabash	140
28468	Sunset Beach	140
28469	Ocean Isle Beach	140
28470	Shallotte	140
28480	Wrightsville Beach	140
28511	Atlantic	140
28516	Beaufort	140
28520	Cedar Island	140
28524	Davis	140
28528	Gloucester	140
28531	Harkers Island	140
28532	Havelock	140
28533	Cherry Point	140
28539	Hubert	140
28553	Marshallberg	140
28557	Morehead City	140
28570	Newport	140
28577	Sealevel	140
28579	Smyrna	140
28581	Stacy	140
28584	Swansboro	140
28589	Williston	140

2. Western Coastal Territory

ZIP Code	USPS ZIP Code Name	Code
28401	Wilmington	160
28402	Wilmington	160
28420	Ash	160
28421	Atkinson	160
28425	Burgaw	160
28429	Castle Hayne	160
28435	Currie	160
28436	Delco	160
28447	Ivanhoe	160
28448	Kelly	160
28451	Leland	160
28452	Longwood	160
28454	Maple Hill	160
28456	Riegelwood	160
28457	Rocky Point	160
28466	Wallace	160
28478	Willard	160
28479	Winnabow	160
28518	Beulaville	160
28521	Chinquapin	160
28540	Jacksonville	160
28541	Jacksonville	160
28542	Camp Lejeune	160
28543	Tarawa Terrace	160
28544	Midway Park	160
28545	McCutcheon Field	160
28546	Jacksonville	160
28547	Camp Lejeune	160
28555	Maysville	160
28574	Richlands	160
28582	Stella	160

To convert the Homeowners Manual to a Homeowners Windstorm And Hail Policy Program Manual, replace the corresponding rules in the Homeowners Policy Program Manual General Rules and Homeowners Policy Program Manual North Carolina Exception Pages with the following rules:

ADDITIONAL RULE(S)

RULE A1. SPECIAL STATE REQUIREMENTS

A. Special Provisions Endorsement HS 32 32

Use this endorsement with all Homeowners Windstorm and Hail Policies.

B. Windstorm Exterior Paint And Waterproofing Exclusion Endorsement HO 32 86

Use this endorsement with all Homeowners Windstorm and Hail Policies in Territories 110 and 120.

C. Company Rates/State Rate Pages

References in the manual to "state company rates" mean "state rate pages" in North Carolina.

D. Insert – North Carolina Endorsement HO 32 46

Use this endorsement with all Homeowners Windstorm and Hail Policies.

RULE A3. WINDSTORM OR HAIL EXCLUSION – TERRITORIES 110, 120, 130, 140, 150 AND 160 ONLY

Rule **A3.** does not apply.

RULE A4. WATERBED LIABILITY – FORMS HO 00 04 AND HO 00 06

Rule **A4.** does not apply.

RULE A6. INFLATION GUARD ENDORSEMENT

Subject to the provisions noted in Paragraph **B.** and **C.**, the inflation guard endorsements referenced in this rule may be used instead of the endorsement noted in General Rule **405**.

A. Eligible Forms

The limits of liability for the following forms and coverages may be adjusted, automatically, to respond to inflation as recognized by the indexes named in Paragraph **B.:**

1. Forms **HS 00 02 and HS 00 03** - Coverages **A, B, C** and **D.**; and
2. Forms **HS 00 04 and HS 00 06** - Coverages **C** and **D.**

These limits will be adjusted at the same rate as the change in the Index shown on the Declarations, billing notice or named on the form.

B. Approved Inflation Cost Indexes

The following Indexes have been approved by the Department of Insurance and may be used with the Inflation Guard Endorsement listed in Paragraph **C.**

A company that elects to use one of these indexes must use it exclusively and notify the Rate Bureau of its election:

1. Marshall and Swift Boeckh Residential Cost Index published by the American Appraisal Company, Inc.
2. Composite Construction Cost Index published by the U.S. Department of Commerce.
3. Consumer Price Index published by the U.S. Department of Labor.
4. Marshall and Swift Boeckh Construction Cost Index published by Marshall and Swift Boeckh.
5. RSMeans CostWorks Valuator published by RSMeans.
6. Xactware Inflation Index published by Xactware Solutions, Inc.

C. Endorsement

1. Inflation Guard Endorsement **HO 32 18**

   Use this endorsement with Forms **HS 00 02** and **HS 00 03.**
2. Inflation Guard Endorsement **HO 32 19**

   Use this endorsement with Forms **HS 00 04** and **HS 00 06.**

D. Premium

There is no additional charge for this optional endorsement.

RULE A8. PRIMARY INSURANCE COVERAGE

Rule **A8.** does not apply.

PART I
COVERAGE AND DEFINITION TYPE RULES

RULE 100.
INTRODUCTION

Unless otherwise specified, in this rule, "policy" refers to the Homeowners Windstorm And Hail Coverage Forms. For rules not accommodated below, refer to the standard Homeowners Manual. Utilize the following table to determine, where applicable, the appropriate corresponding form:

Homeowners Windstorm Or Hail Policy	Corresponding Form In Homeowners
HS 00 02	HO 00 02
HS 00 03	HO 00 03
HS 00 04	HO 00 04
HS 00 06	HO 00 06
HS 00 08	HO 00 08

Table 100. Corresponding Forms

RULE 101.
LIMITS OF LIABILITY AND COVERAGE RELATIONSHIPS

A. Limits

The limits of liability required under the Homeowners Policy are as follows:

Coverage A – Dwelling	
HS 00 02, HS 00 03, or **HS 00 08**	Refer to Rule **301.** in the state classification pages.
HS 00 04 or **HS 00 06**	For **HO 00 06** refer to Rule **507.A.**
Coverage B – Other Structures	
HS 00 02, HS 00 03, or **HS 00 08**	10% of **A** (One- and two-family dwelling) 5% of **A** (Three- and four-family dwelling)
Coverage C – Personal Property	
HS 00 02, HS 00 03, or **HS 00 08**	50% of **A** (One- and two-family dwelling) 30% of **A** (Three-family dwelling) 25% of **A** (Four-family dwelling)
HS 00 04 or **HS 00 06**	Refer to Rule **301.** in the state classification pages.
Coverage D – Loss Of Use	
HS 00 02 or HS 00 03	20% of **A**
HS 00 04	20% of **C**
HS 00 06	40% of **C**
HS 00 08	10% of **A**

Table 101.A. Property Damage Limits

B. All Forms

The limit of liability for Coverage **C** or **D** of Section **I** may be increased.

C. Form HS 00 02 Or HS 00 03

Under Coverage **B** of Section **I,** an additional amount of insurance may be written on a specific structure.

Under Coverage **C** of Section **I,** it is permissible to reduce the limit of liability to an amount not less than 40% of the limit of a one- and two-family dwelling; 20% of the limit of a three-family dwelling; and 15% of the limit of a four-family dwelling.

D. Form HS 00 06

The limit of liability for Coverage **A** of Section **I** may be increased.

E. Form HS 00 08

The following are the only Section **I** options available with this form:

1. Higher Optional Deductibles,
2. Actual Cash Value Loss Settlement of Windstorm or Hail Loss to Roof Surfacing, and
3. Reduced Coverage **C** Limits.

RULE 102.
DESCRIPTION OF COVERAGES

The following is a general description of the coverages provided by the Homeowners Windstorm And Hail Coverage forms:

A. The Homeowners Windstorm And Hail Policy Program:
1. Provides coverage for the peril of Windstorm Or Hail.
2. Does not provide liability coverage.

B. The policy should be consulted for exact contract provisions which will have control over this manual supplement. Refer to:
1. Homeowners 2 – Windstorm And Hail Form **HS 00 02**.
2. Homeowners 3 – Windstorm And Hail Form **HS 00 03**.
3. Homeowners 4 – Windstorm And Hail Form **HS 00 04**.
4. Homeowners 6 – Windstorm And Hail Form **HS 00 06**.
5. Homeowners 8 – Windstorm And Hail Form **HS 00 08**.

RULE 103.
MANDATORY COVERAGES

It is mandatory that insurance be written for all coverages provided under Section **I** of the Homeowners Policy.

RULE 104. ELIGIBILITY

A. Forms HS 00 02, HS 00 03 And HS 00 08

A Homeowners Windstorm And Hail Policy may be issued in Territory 110, 120, 130, 140, 150 or 160, to the following:

1. To the owner-occupant(s) of a one-, two-, three- or four-family dwelling which is used exclusively for private residential purposes (except as provided in Paragraphs **F.** and **H.**). A one-family dwelling may not be occupied by more than one additional family or two roomers or boarders. In a two-, three- or four-family dwelling, an individual family unit may not be occupied by more than two families or one family with two roomers or boarders; or

2. To the purchaser-occupant(s) who has entered into a long-term installment contract for the purchase of the dwelling and who occupies the dwelling but to whom title does not pass from the seller until all the terms of the installment contract have been satisfied. The seller retains title until completion of the payments and in no way acts as a mortgagee. The seller's interest in the building may be covered using Additional Insured Endorsement **HS 04 41**; or

3. To the occupant of a dwelling under a life estate arrangement when the Coverage **A** amount is at least 80% of the dwelling's replacement cost. The owner's interest in the building may be covered using Endorsement **HS 04 41**; or

4. When two or more apartment units in a two-, three- or four-family dwelling are occupied by co-owners, each occupying distinct living quarters with separate entrances. Given these circumstances, a Homeowners Windstorm And Hail Policy providing building coverage may be issued to only one of the co-owner occupants of the dwelling. The policy may be endorsed to cover the interest of the other co-owner(s) in the building and for premises liability. Use Endorsement **HS 04 41**. A separate Homeowners Windstorm And Hail Form **HS 00 04** may be issued to the co-owner(s) occupying the other apartment(s) in the dwelling.

It is permissible to extend the Homeowners Windstorm And Hail Form, without additional premium charge, to cover the interest of a non-occupant joint owner in the building. Use Endorsement **HS 04 41**.

B. Form HS 00 04

A Homeowners Windstorm And Hail Policy may be issued in Territory 110, 120, 130, 140, 150 or 160, to:

1. The tenant(s) (non-owner) of a dwelling or an apartment situated in any building; or

2. The owner-occupant(s) of a dwelling, cooperative unit or of a building containing an apartment not otherwise eligible for a Homeowners Windstorm And Hail Policy under Paragraph **A.;**

provided the residence premises occupied by the insured is used exclusively for residential purposes (except as provided in Paragraph **F.**). The dwelling or apartment unit may not be occupied by more than one additional family or two boarders or roomers.

C. Form HS 00 06

A Homeowners Windstorm And Hail Policy may be issued in Territory 110, 120, 130, 140, 150 or 160, to the owner(s) of a condominium or cooperative unit which is used exclusively for residential purposes. The unit may not be occupied by more than one additional family or two boarders or roomers.

D. Seasonal Dwelling

Subject to all other sections of this rule, a Homeowners Windstorm And Hail Policy may be issued to cover a seasonal dwelling.

E. Mobile Home, Trailer Home Or House Trailer

A Homeowners Windstorm And Hail Policy:

1. Shall not be issued to cover such structures under Coverage **A** – Dwelling, but

2. May be issued to cover personal property in such structures as noted in Paragraph **B.**

F. Permitted Business Occupancies

Certain business occupancies are permitted, provided:

1. The premises is occupied principally for private residential purposes, and

2. There is no other business occupancy on the premises.

When the business is conducted on the residence premises, refer to Rule **510.** for Section **I** Coverage. When it is conducted from an Other Residence, no coverage is available.

G. Farm Property

A Homeowners Windstorm And Hail Policy shall not be issued to cover any property to which farm forms or rates apply under the rules of the company. In no event shall a policy be issued to provide Section I property damage coverage to any property situated on premises used for farming purposes.

RULE 104.
ELIGIBILITY (Cont'd)

H. Residence Held In Trust (All Forms Except HS 00 04)

A Homeowners Windstorm And Hail Policy may be issued to an occupant of a one-, two-, three- or four-family dwelling or a condominium unit when legal title to the dwelling or unit is held in trust and:

1. One of the occupants of the dwelling or condominium unit is the grantor/settlor of the trust;

2. The residence held in trust is used exclusively for residential purposes, except as provided in Paragraph **F.;** and

3. No trustee of the trust is:

a. A partnership or joint venture;

b. A corporation;

c. A limited liability company;

d. An organization other than a partnership or joint venture, a corporation or a limited liability company; or

e. A licensed professional who provides ongoing professional services with respect to the profession for which that individual is licensed, in connection with the administration of the trust. However, this Paragraph **e.** does not apply to an individual who is a relative of the grantor/settlor of the trust.

Refer to Rule **526.** in this supplement manual for the rule of application.

RULE 105.
SECONDARY RESIDENCE PREMISES

Homeowners Windstorm And Hail Coverage on a secondary residence premises shall be provided under a separate policy. The rules of this manual apply.

RULE 106.
PROTECTION CLASSIFICATION INFORMATION

Rule **106.** does not apply.

PART II
SERVICING TYPE RULES

RULE 204.
MULTIPLE COMPANY INSURANCE

Rule **204.** does not apply.

RULE 211.
ADDITIONAL INTERESTS

A. In addition to the mortgagee(s) shown in the Declarations or elsewhere in the policy, other persons or organizations may have an insurable interest in the residence premises. When coverage is **not** provided to such persons or organizations under Additional Insured Endorsement **HS 04 41** or its equivalent, their interest in the residence premises may be acknowledged by naming them in the endorsement referenced in Paragraph **D.**

B. Such persons or organizations are entitled to receive notification if the policy is canceled or nonrenewed by the insurer.

C. No additional charge is made for use of this endorsement.

D. Use Additional Interest Residence Premises Endorsement **HO 04 10**.

PART III
BASE PREMIUM COMPUTATION RULES

RULE 301.
BASE PREMIUM COMPUTATION

A. All Forms Except HS 00 04 And HS 00 06

1. One- And Two-family Dwelling

a. From the following Base Class Premium Table, select the Form **HS 00 03** premium for the territory and construction that applies.

b. From the following Key Factor Table, select the Key Factor for the desired limit of liability.

c. Multiply the Base Class Premium from Paragraph a. by the Key Factor and round to the nearest whole dollar to arrive at the Base Premium.

Base Class Premium Table

	Territory					
	110	120	130	140	150	160
Frame Construction						
HS 00 03	$ 1,826	$ 2,506	$ 1,223	$ 1,629	$ 1,015	$ 1,073
HS 00 04	93	108	52	65	34	44
HS 00 06	61	88	41	45	25	27
Masonry Construction						
HS 00 03	$ 1,655	$ 2,272	$ 1,156	$ 1,465	$ 916	$ 978
HS 00 04	85	99	49	61	32	42
HS 00 06	56	79	38	42	24	25

Table 301.A.1.c.#1 Base Class Premium

Key Factor Table

Cov. A Amt. (In 000)	Factor
**$ 10	.258
50	.453
75	.556
100	.644
150	.822
200	1.000
300	1.339
500	1.972
750	2.764
1,000	3.556
1,500	5.111
2,000	6.667
3,000	9.778
4,000	12.889
5,000	16.000
Each Add'l $1,000	0.003

Minimum Limits Of Liability		
**Section I – Property	HS 00 02 And HS 00 03	HS 00 08
Primary Location	$ 25,000	$ 15,000
Secondary Location	$ 15,000	$ 10,000

Table 301.A.1.c.#2 Key Factors

2. Three- And Four-family Dwelling

Multiply the One- and Two-family Dwelling Base Premium by the three- and four-family factor of 1.04 to arrive at the Base Premium.

RULE 301.
BASE PREMIUM COMPUTATION (Cont'd)

B. Form HS 00 04 Or HS 00 06

1. From the Base Class Premium Table contained in Paragraph **301.A.1.c.#1**, select the Form **HS 00 04** or **HS 00 06** premium for the territory and construction that applies.
2. From the following Form **HS 00 04** or **HS 00 06** Key Factors Table **301.B.3,** select the Key Factor for the desired limit of liability.
3. Multiply the Base Class Premium from Paragraph **1.** by the Key Factor and round to the nearest whole dollar to arrive at the Base Premium.

Key Factor Table

Cov. C Amt. (In 000)	Factor	Cov. C Amt. (In 000)	Factor
∗∗$ 1	.37	$ 21	1.98
∗∗ 2	.44	22	2.06
∗∗ 3	.51	23	2.14
∗∗ 4	.58	24	2.22
∗∗ 5	.65	25	2.30
∗∗ 6	.72	26	2.38
∗∗ 7	.79	27	2.46
∗∗ 8	.86	28	2.54
∗∗ 9	.93	29	2.62
∗∗ 10	1.00	30	2.70
11	1.10	31	2.78
12	1.20	32	2.86
13	1.30	33	2.94
14	1.40	34	3.02
15	1.50	35	3.10
16	1.58	36	3.18
17	1.66	37	3.26
18	1.74	38	3.34
19	1.82	39	3.42
20	1.90	40	3.50
Each Add'l $1,000			.08
Minimum Limits Of Liability			
∗∗**Section I – Property**			
HS 00 04 – $ 6,000 **HS 00 06** – $ 10,000			

Table 301.B.3. Key Factors

RULE 302. LOSS SETTLEMENT OPTIONS

A. Actual Cash Value Loss Settlement – HS 00 02, HS 00 03 Only

1. Introduction

The policy provides building loss settlement on a replacement cost basis if, at the time of loss, the amount of insurance on the damaged building represents at least 80% of the full replacement cost of the building immediately before the loss.

2. Coverage Description

The policy may be endorsed to provide building loss settlement exclusively on an actual cash value basis if, on the inception date for the policy, the Coverage **A** limit of liability selected by the insured is less than 80% of the full replacement cost of the dwelling.

3. Premium Computation

To develop the Base Premium for the Coverage **A** limit of liability shown in the policy declarations:

a. Multiply the Coverage **A** limit of liability by the appropriate factor from the following table and round to the nearest $1,000:

% Of Replacement Value	Factor
20%	4.00
30%	2.67
40%	2.00
50%	1.60
60%	1.33
70%	1.14

Table 302.A.3.a. Factors

b. Develop a Base Premium in accordance with Rule **301.** for the amount of insurance computed in Paragraph **A.3.a.**

c. Multiply the premium determined in Paragraph **A.3.b.** by the appropriate factor from the following table:

% Of Replacement Value	Factor
20%	.73
30%	.74
40%	.75
50%	.76
60%	.77
70%	.78
80%	.80

Table 302.A.3.c. Factors

4. Endorsement

Use Actual Cash Value Loss Settlement Endorsement **HO 04 81**.

.

B. Special Loss Settlement – HS 00 02, HS 00 03 Only

1. Introduction

The policy provides building loss settlement on a replacement cost basis if, at the time of loss, the amount of insurance on the damaged building represents at least 80% of the full replacement cost of the building immediately before the loss.

2. Coverage Description

This percentage amount may be modified to 50%, 60% or 70% of replacement value without affecting the loss settlement provisions. If this option is selected, the Coverage **A** limit of liability representing 50%, 60% or 70% of replacement value is to be shown in the policy declarations.

3. Premium Computation

To develop the Base Premium for the Coverage **A** limit of liability shown in the policy declarations:

a. Multiply the Coverage **A** limit of liability by the appropriate factor from the following table and round to the nearest $1,000:

% Of Replacement Value	Factor
50%	1.60
60%	1.33
70%	1.14

Table 302.B.3.a. Factors

b. Develop a Base Premium in accordance with Rule **301.** for the amount of insurance computed in Paragraph **a.**

c. Multiply the premium determined in Paragraph **b.** by the appropriate factor from the following table:

% Of Replacement Value	Factor
50%	.96
60%	.97
70%	.98

Table 302.B.3.c. Factors

4. Endorsement

Use Special Loss Settlement – North Carolina Endorsement **HS 32 56**.

RULE 303.
ORDINANCE OR LAW COVERAGE – ALL FORMS EXCEPT HS 00 08

The title of Rule **303.** Ordinance Or Law Coverage – All Forms Except **HO 00 08** is replaced by the preceding title.

A. Basic Limit

The policy automatically provides up to 10% of the Coverage **A** limit of liability (or for Form **HS 00 04,** the Building Additions and Alterations limit) to pay for the increased costs necessary to comply with the enforcement of an ordinance or law.

B. Increased Amount Of Coverage

1. Description

The policy may be endorsed to increase the basic Ordinance or Law Coverage amount, as noted in Paragraph **2.** to accommodate the increased costs known or estimated by the insured for materials and labor to repair or replace the damaged property and to demolish the undamaged portion of damaged property and clear the site of resulting debris according to the ordinance or law.

2. Premium Determination

a. Forms HS 00 02, HS 00 03

To develop the Base Premium multiply the premium computed in accordance with Rule **301.** by the appropriate factor selected from the following table:

Percentage Of Coverage A		Factors Coverage A Limit	
Increase In Amount	**Total Amount**	**$60,000 To $140,000**	**All Other**
15%	25%	1.13	1.05
40%	50%	1.35	1.14
65%	75%	1.51	1.20
90%	100%	1.67	1.27
For each add'l 25% increment, add		.16	.07

Table 303.B.2.a. Factors

b. Forms HS 00 04 And HS 00 06

See Rule **513.** for rating instructions.

3. Endorsement

Use Ordinance Or Law – Increased Amount Of Coverage Endorsement **HS 04 77**.

RULE 304.
SPECIAL PERSONAL PROPERTY COVERAGE HO 00 04 AND HO 00 06

Rule **304.** does not apply.

PART IV
ADJUSTED BASE PREMIUM COMPUTATION RULES

RULE 403.
PERSONAL PROPERTY (COVERAGE C) REPLACEMENT COST LOSS SETTLEMENT

A. Introduction

The policy provides loss settlement on an Actual Cash Value basis for certain types of property.

B. Loss Settlement Option

The policy may be endorsed to provide loss settlement on a Replacement Cost basis for such property whether insured on a blanket or scheduled basis. If endorsed, the Coverage **C** limit must be at least:

1. 40% of Coverage **A** for all forms except **HS 00 04** and **HS 00 06**.
2. $12,000 (if policy limit is less than $12,000 for Forms **HS 00 04** or **HS 00 06**).

C. Endorsement

Use Personal Property Replacement Cost Endorsement **HO 04 90**.

D. Scheduled Personal Property

Multiply the Base Premium including any premium adjustment for coverage C limits by a factor of:

1. 1.05 for all forms except **HS 00 04** and **HS 00 06**.
2. 1.40 for Form **HS 00 04** or **HS 00 06**.
3. The charge for Replacement Cost Coverage should be applied before the credit or charge for optional deductibles.
4. Minimum additional charge - $20.

RULE 404.
PROTECTIVE DEVICES

Rule **404.** does not apply.

RULE 406. DEDUCTIBLES

All policies are subject to a deductible that applies to loss from all Section **I** Perils, except Earthquake. A separate deductible provision applies to Earthquake Coverage as described in Rule **505.**

A. Base Deductible

A Base Deductible of $1,000 applies to all forms except **HS 00 04** and **HS 00 06.**

A Base Deductible of $500 applies to Forms

HS 00 04 and **HS 00 06.**

B. Optional Windstorm Or Hail Deductibles – All Forms Except HS 00 04 And HS 00 06

The following deductible options may be used:

1. Percentage Deductibles

a. Deductible Amounts

This option provides for percentage deductibles of 1%, 2%, and 5% of the Coverage **A** limit of liability.

b. Endorsement

Use Windstorm Or Hail Percentage Deductible Endorsement **HO 32 12**.

c. Declarations Instructions

Enter, on the policy Declarations, the percentage amount that applies to Windstorm or Hail. For example:

(i) Deductible – Windstorm or Hail 1% of Coverage **A** limit.

(ii) Deductible – Windstorm or Hail 2% of Coverage **A** limit.

d. Deductible Application

In the event of a Windstorm or Hail loss to covered property, the dollar amount is deducted from the total of the loss for all coverages.

Percentage Windstorm Or Hail Deductible				
Deductible Percent Amount	Coverage A Limit (Expressed In $)			
	Up To 59,999	60,000 To 99,999	100,000 To 200,000	200,001 & Over
1%	.99	.99	.99	1.11
2%	.96	.96	.96	1.08
5%	.91	.91	.92	1.05

Table 406.B.1.d. Percentage Deductible

2. Fixed-dollar Deductibles

a. Deductible Amounts

This option provides for fixed-dollar deductible amounts of $250, $500, $1,000, $2,000 and $5,000.

b. Endorsement

An endorsement is not required.

c. Declarations Instruction

Separately enter, on the policy Declarations, the deductible amount that applies. For example: $1,000 for Windstorm or Hail.

d. Deductible Application

In the event of a Windstorm or Hail loss to covered property, the dollar amount is deducted from the total of the loss for all coverages.

Fixed-dollar Windstorm Or Hail Deductible				
Deductible Amount	Coverage A Limit (Expressed In $)			
	Up To 59,999	60,000 To 99,999	100,000 To 200,000	200,001 & Over
$ 250	1.27	1.27	1.27	1.27
500	1.15	1.15	1.16	1.22
1,000	1.00	1.00	1.00	1.13
2,000	.95	.95	.97	1.11
5,000	.91	.91	.95	1.09

Table 406.B.2.d. Fixed-dollar Deductible

RULE 406.
DEDUCTIBLES (Cont'd)

C. Named Storm Percentage Deductible

1. Deductible Amounts

The Named Storm Percentage Deductible option may be used, when an Optional Windstorm Or Hail Deductible is not selected.

A percentage amount of 1%, 2% or 5% of the Coverage **A** or **C** limit of liability, whichever is greater, is available.

2. Endorsement

Use Named Storm Percentage Deductible – North Carolina Endorsement **HO 03 63**.

3. Schedule Instructions

Enter on the Endorsement **HO 03 63** or the policy Declarations the percentage amount that applies to Named Storm.

4. Loss By Windstorm That Is A Named Storm

In the event of Named Storm loss to covered property, the dollar amount is deducted from the total of the loss for all coverages.

Named Storm Deductible Percentage	HS 00 02, HS 00 03 And HS 00 08	HS 00 04	HS 00 06
1%	1.13	1.01	1.01
2%	1.09	1.00	1.00
5%	1.06	.99	.99

Table 406.C.4. Named Storm Percentage Deductible

RULE 407.
ADDITIONAL AMOUNTS OF INSURANCE – FORMS HS 00 02 And HS 00 03

The title of Rule **407.** Additional Amounts Of Insurance – Forms **HO 00 02** And **HO 00 03,** is replaced by the preceding title.

A. Introduction

The policy provides loss settlement for buildings insured under Coverage **A** or **B** on a replacement cost basis without deduction for depreciation, if, at the time of loss, the amount of insurance on the damaged building is 80% or more of the replacement cost of the building immediately before the loss.

B. Coverage Description

The policy may be endorsed to provide additional insurance for Coverage **A** only or for Coverages **A**, **B, C**, and **D** when loss, to property insured under Coverage **A** – Dwelling, exceeds the limit of liability shown in the policy Declarations.

C. Specified Additional Amount Of Insurance For Coverage A Only

When the following option is selected, the Coverage **A** limit of liability shall be at least 100% of the full replacement cost of the property insured under Coverage **A** at policy inception or at the time the endorsement is added to the policy:

1. An additional amount of insurance equal to 25% or 50% of the Coverage A limit of liability may be selected. This additional amount is available when loss to property insured under Coverage A – Dwelling exceeds the Coverage A limit of liability shown in the Declarations.

2. The premium for this option is computed by multiplying the Base Premium by the appropriate factor selected from the following table:

Additional Amount Of Insurance Options	Factor
25%	1.02
50%	1.03

Table 407.C.2. Additional Amounts Of Insurance Factors

3. Use Specified Additional Amount Of Insurance For Coverage **A** – Dwelling – North Carolina Endorsement **HO 32 20**.

RULE 408.
ACTUAL CASH VALUE LOSS SETTLEMENT WINDSTORM OR HAIL LOSSES TO ROOF SURFACING – ALL FORMS EXCEPT HS 00 04

The title of Rule **408.** Actual Cash Value Loss Settlement Windstorm Or Hail Losses To Roof Surfacing – All Forms Except **HO 00 04**, is replaced by the preceding title.

Paragraph **D. Endorsement** is replaced by the following:

D. Endorsement

Use Actual Cash Value Loss Settlement Windstorm Or Hail Losses To Roof Surfacing (All Forms Except **HS 00 04**) Endorsement **HS 04 93**.

PART V
SECTION I – PROPERTY – ADDITIONAL COVERAGES AND INCREASED LIMITS RULES

RULE 501.
BUILDING ADDITIONS AND ALTERATIONS AT OTHER RESIDENCES

A. Coverage Description

The policy may be endorsed to provide this coverage at residences, other than the residence premises, rented to an insured.

B. Premium Computation

To develop the premium per $1,000 of insurance, multiply the **HS 00 04** Key Factor for "Each Add'l $1,000" by the **HS 00 04** Key Premium.

C. Endorsement

Use Building Additions And Alterations Other Residence Endorsement **HO 04 49**.

RULE 503.
BUSINESS PROPERTY – INCREASED LIMIT

A. On premises

1. The $2,500 limit of liability for business property on the residence premises may be increased to $10,000 in increments of $2,500.

2. Rate per $2,500 increase - $50.

3. The limit of liability in excess of $2,500 does not apply to:

a. Business property in storage or held as a sample or for sale or delivery after sale;

b. Business property pertaining to a business actually conducted on the residence premises.

4. The property described in Paragraphs **3.a.** and **3.b.** are covered under the following optional endorsement: Permitted Incidental Occupancies.

B. Off premises

When the on-premises limit is increased, the off-premises limit of $1,500 is automatically increased, at no additional charge, to an amount that is 60% of the total on-premises limit of liability.

C. Endorsement

Use Increased Limits On Business Property Endorsement **HO 04 12**.

RULE 504.
CREDIT CARD, ELECTRONIC FUND TRANSFER CARD OR ACCESS DEVICE, FORGERY AND COUNTERFEIT MONEY

Rule **504.** does not apply.

RULE 505.
EARTHQUAKE COVERAGE

Rule **505.** does not apply.

RULE 506.
FIRE DEPARTMENT SERVICE CHARGE

Rule **506.** does not apply.

RULE 507.
FORM HS 00 06 COVERAGE A DWELLING BASIC AND INCREASED LIMITS

The title of Rule **507.** Form **HO 00 06** Coverage **A** Dwelling Basic And Increased Limits And Special Coverage - **HO 00 06** is replaced by the preceding title.

A. Basic Limits

The policy automatically provides a basic Coverage **A** limit of $1,000 on a named perils basis. If increased limits are not desired, enter "$1,000" under Coverage **A** – Dwelling in the Policy Declarations.

B. Increased Limits

The basic limit may be increased. The premium is developed based on the additional limit of insurance. To develop the premium for each additional $1,000 of insurance, multiply the **HS 00 06** Key Factor for "Each Add'l $1,000" by the **HS 00 06** Base Class Premium.

RULE 508.
FORM HO 00 06 UNITS REGULARLY RENTED TO OTHERS

Rule **508.** does not apply.

RULE 509.
HOME DAY CARE COVERAGE

Rule **509.** does not apply.

RULE 510.
PERMITTED INCIDENTAL OCCUPANCIES RESIDENCE PREMISES

A. Coverage Description

Coverage for a permitted incidental occupancy is limited under Section **I** Property Coverages. The policy may be endorsed to provide expanded Section **I** Coverage on a permitted incidental occupancy in the dwelling or in an other structure on the residence premises. Use Permitted Incidental Occupancies (Residence Premises) Endorsement **HS 04 42** for Section **I** Coverage.

B. Permitted Incidental Occupancies

Examples of such occupancies are Offices, Schools or Studios meaning offices for business or professional purposes, and private schools or studios for music, dance, photography and other instructional purposes.

C. Other Structures

If the permitted incidental occupancy is located in an other structure, Coverage **B** does not apply to that structure. See Paragraph **E.** for charge for specific insurance on the structure.

D. Personal Property

The permitted incidental occupancies endorsement also covers personal property pertaining to the permitted incidental occupancy within the Coverage **C** limits stated in the declarations. If increased Coverage **C** limits are desired, see Rule **515.A.**

E. Premium Computation

1. If the permitted incidental occupancy is located in the dwelling, no additional charge is made.

2. If the permitted incidental occupancy is located in an other structure, charge the following amount per $1,000 of specific insurance on the structure – $5.

RULE 511.
SUPPLEMENTAL LOSS ASSESSMENT COVERAGE

Rule **511.** does not apply.

RULE 513.
ORDINANCE OR LAW INCREASED AMOUNT OF COVERAGE – HS 00 04 AND HS 00 06

The title of Rule **513.** Ordinance Or Law Increased Amount Of Coverage - **HO 00 04** And **HO 00 06**, is replaced by the preceding title.

A. Coverage Increase

1. The basic amount of coverage may be initially increased to 100% of the Form **HS 00 04** Building Additions and Alterations limit or 50% of the Form **HS 00 06** Coverage **A** limit.

2. The amount may be further increased in 25% increments above those listed in Paragraph **1.**

B. Premium Determination

1. The premium for this additional coverage is determined based on the dollar amount of increase, represented by the increased percentage amount selected above the basic limit.

2. The premium for each additional $1,000 of insurance is developed by multiplying the **HS 00 04** or **HS 00 06**. Whichever is appropriate, Key Factor for "Each Add'l $1,000" by the appropriate Base Class Premium.

RULE 514.
OTHER STRUCTURES

A. On-Premises Structures

When insurance is written on a specific structure on the residence premises the rates per $1,000 of insurance shall apply separately to each structure.

1. Specific Structure – Increased Limits

a. Premium

Rate per $1,000 for policies with Windstorm Or Hail Coverage – $4

b. Endorsement

Use Other Structures On The Residence Premises – Increased Limits Endorsement **HO 04 48**.

2. Structure On The Residence Premises Rented To Others

a. Premium

Rate per $1,000 for policies with Windstorm or Hail coverage – $5.

b. Endorsement

Use Structures Rented to Others – Residence Premises Endorsement **HS 04 40**.

RULE 514.
OTHER STRUCTURES (Cont'd)

B. Structures Off The Residence Premises

1. Forms HS 00 02 And HS 00 03

a. Coverage Description

(1) The policy automatically provides Coverage **B** – Other Structures on a blanket basis to structures located on the residence premises.

(2) This blanket coverage may be endorsed to expand coverage to include structures located away from the residence premises if used in connection with the residence premises.

b. Premium

Off–premises structures charge per policy - $15.

c. Endorsement

Use Other Structures Away From The Residence Premises **HO 04 91**.

2. All Forms

a. Premium

(1) When insurance is written on a specific structure located away from the residence premises, the rate per $1,000 of insurance shall apply separately to each location.

(2) Specific structures – Off-premises Rate per $1,000 - $5.

b. Endorsement

Use Specific Structures Away From Residence Premises Endorsement **HO 04 92**.

RULE 515.
PERSONAL PROPERTY

A. Increased Limit

1. The limit of liability for Coverage **C** may be increased.

2. Charge the additional company rate per $1,000 of insurance.

3. Rate per $1,000:

HS 00 02 or **HS 00 03** - $2.

B. Increased Limits – Other Residences

1. Coverage for personal property usually located at other residences is limited in the policy form to 10% of Coverage **C** or $1,000, whichever is greater. This limit may be increased.

2. Charge the additional company rate per $1,000.

3. Rate per $1,000 - $7.

4. Use Increased Limits On Personal Property In Other Residences Endorsement **HO 04 50**.

C. Increased Limit – Self-storage Facilities

1. Coverage for personal property located in self-storage facilities is limited in the policy form to 10% of Coverage **C,** or $1,000, whichever is greater. This limit may be increased.

2. Charge the additional company rate per $1,000 of insurance.

3. Refer to state company rates for additional charge.

4. Use Increased Amount of Insurance For Personal property Located In A Self-storage Facility Endorsement **HO 06 14**.

D. Reduction In Limit

1. The limit of liability for Coverage **C** may be reduced in accordance with Rule **101.C.**

2. Credit per $1,000 - $1.

RULE 516.
PERSONAL PROPERTY – SCHEDULED

Rule **516.** does not apply.

RULE 517.
RENTAL TO OTHERS - EXTENDED THEFT COVERAGE ALL FORMS EXCEPT HO 00 05, HO 00 04 WITH HO 05 24 OR HO 00 06 WITH HO 17 31

Rule **517.** does not apply.

RULE 518.
SINKHOLE COLLAPSE COVERAGE – ALL FORMS EXCEPT HO 00 04 AND HO 00 06

Rule **518.** does not apply.

RULE 519.
SPECIAL COMPUTER COVERAGE ALL FORMS EXCEPT HO 00 05, HO 00 04 WITH HO 05 24 OR HO 00 06 WITH HO 17 31

Rule **519.** does not apply.

RULE 520.
LIVESTOCK COLLISION COVERAGE

Rule **520.** does not apply.

RULE 521.
LIMITED WATER BACK-UP AND SUMP DISCHARGE OR OVERFLOW COVERAGE

Rule **521.** does not apply.

RULE 522.
LANDLORDS FURNISHINGS

A. Basic Limit

Forms **HS 00 02** and **HS 00 03** automatically cover, on a named perils basis, landlord furnishings in an apartment on the residence premises regularly rented or held for rental. The basic limit per apartment unit is $2,500.

B. Increased Limits

The basic limit of $2,500 may be increased in increments of $500 up to a total of $10,000 per apartment. The increased limit applies to the same perils that apply to the basic limit and may vary by rented unit.

C. Premium

Rate per $500 per unit:

Forms **HS 00 02** and **HS 00 03** – $1.

D. Endorsement

Use Landlord's Furnishings Endorsement **HS 05 46**.

RULE 523.
ASSISTED LIVING CARE COVERAGE

Rule **523.** does not apply.

RULE 524.
OTHER MEMBERS OF A NAMED INSURED'S HOUSEHOLD

A. Introduction

The policy provides coverage to named insureds, resident relatives who are members of the insured's household and persons under the age of 21 who are in the care of an insured.

B. Coverage Description

1. The policy may be endorsed to provide coverage to a person who is a member of the named insured's household but does not fall under the definition of insured in the policy. It does not cover a guest, residence employee, roomer, boarder or tenant. Coverage extends to the person named in the endorsement, and a person under the age of 21 who is in the legal custody of that person.

2. All coverages and provisions under Sections **I** of the policy that apply to insureds also apply to the persons described in Paragraph **1.** except Coverages **A, B** and **D** (Fair Rental Value only).

C. Premium

Section **I** additional charge:

Rate per person named in the Schedule – $60

D. Endorsement

Use Other Members Of Your Household Endorsement **HS 04 58**.

.

RULE 525.
MOTORIZED GOLF CART – PHYSICAL LOSS COVERAGE

Rule **525.** does not apply.

RULE 526.
RESIDENCE HELD IN TRUST – ALL FORMS EXCEPT HS 00 04

The title of Rule **526.** Residence Held In Trust – All Forms Except **HO 00 04,** is replaced by the preceding title.

A. Coverage

A Homeowners Windstorm And Hail Policy may be endorsed to insure a trustee, and if applicable, a trust under Section **I** – Property Coverages, for any insurable interest in the dwelling or other structure held in trust.

B. Endorsement

Use Trust Endorsement **HS 32 12**.

C. Premium

For basic limits rates:

Trust charge per policy - $26.

RULE 527.
STUDENT AWAY FROM HOME

A. Introduction

The policy provides coverage for a full-time student, who was a resident of the named insured's household before moving out to attend school and is under the age of:

1. 24 and a relative of the named insured; or

2. 21 and in the care of the named insured or a resident relative.

B. Coverage Description

The policy may be endorsed to provide coverage for other types of students who were residents of the named insured's household before moving out to attend school. For example, part-time students or students 24 or older.

C. Premium Determination

Section **I**

Rate per location – $68.

D. Endorsement

Use Additional Insured – Student Living Away From The Residence Premises Endorsement **HS 05 27.**

RULE 528.
HOME BUSINESS INSURANCE COVERAGE

Rule **528.** does not apply.

RULE 531.
LIMITED THEFT COVERAGE OPTIONS FOR DWELLINGS NEWLY CONSTRUCTED OR UNDER CONSTRUCTION

Rule **531.** does not apply.

PART VI
SECTION II – LIABILITY – ADDITIONAL COVERAGES AND INCREASED LIMITS RULES

RULES 601. – 700.

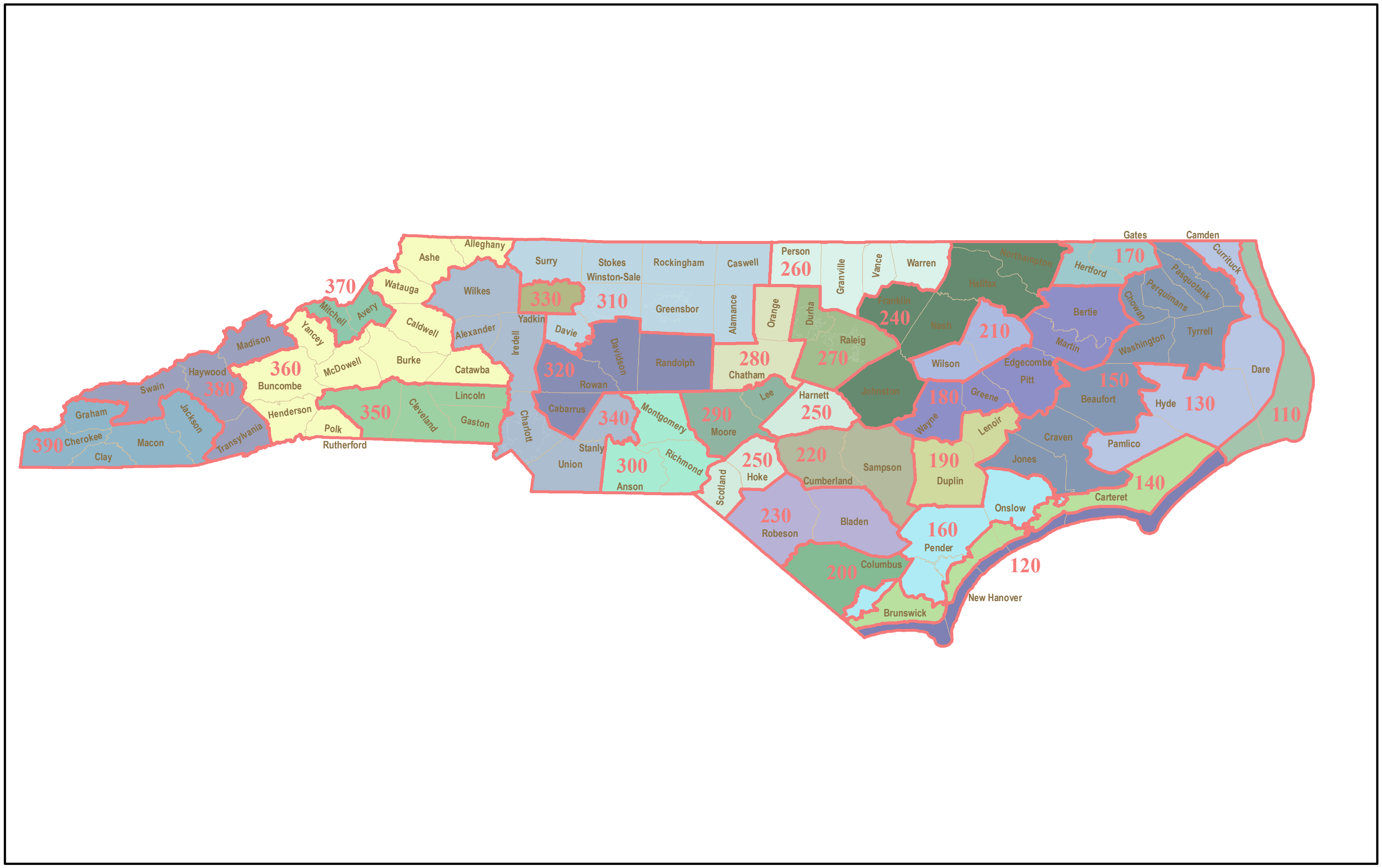
Part **VI** – Section **II** – Liability – Additional Coverages And Increased Limits, of the Homeowners Policy Program Manual does not apply to the North Carolina Windstorm And Hail Policy Program.

PART VII
SECTION II – LIABILITY – OTHER EXPOSURES INCREASED LIMITS

RULES 701. – 702.

Part **VII** – Section **II** – Liability – Other Exposures Increased Limits, of the Homeowners Policy Program Manual does not apply to the North Carolina Windstorm And Hail Policy Program.

Homeowners Territories Effective June 1 , 2015
Statewide



PREFILED TESTIMONY
OF
YANJUN YAO

2018 HOMEOWNERS INSURANCE
RATE FILING BY THE
NORTH CAROLINA RATE BUREAU

Q: Please state your name and business address.

A: My name is Yanjun Yao. My business address is Insurance Services Office, 545 Washington Boulevard, Jersey City, New Jersey.

Q: By whom are you employed?

A: I am employed by Insurance Services Office (ISO) and have been employed by ISO since July 25, 2016.

Q: What are your responsibilities at ISO?

A: I am the actuarial director responsible for the actuarial aspects of ISO Personal Property and Farmowner insurance products. My responsibilities include maintaining and enhancing ISO's existing actuarial products as well as developing rating plans and loss costs for new programs. In this role, I have also been responsible for managing and overseeing preparation of North Carolina personal property rate reviews and filings.

Q: What is your employment background?

A: I started my actuarial career as an actuarial analyst with ISO in 2001 and worked in the increased limits division for two years. In 2003, I joined GEICO in Chevy Chase, Maryland, as an actuarial associate and worked in the personal auto pricing division for a year. In 2004, I joined Chubb as an actuarial specialist in its homeowners pricing division. I worked on several homeowners state rate reviews, on a countrywide pricing study as well as running the RMS hurricane catastrophe model for the team. In 2005, I joined the Chubb Corporate Actuarial division and was promoted to actuarial officer. I worked on a variety of projects there relating to property insurance, including return on equity (ROE) calculation by line of business, capital allocation, reinsurance treaty renewal analysis, probable maximum loss calculations, A.M. Best stress tests, regulatory capital need analyses, and reinsurance commutation work.

In 2008, I joined the Chubb Commercial pricing division and was promoted to Senior Actuarial Officer. I mainly worked on commercial property lines pricing including monoline property, commercial multiple peril property, commercial inland marine and machinery breakdown. I also worked on pricing for a number of large accounts across multiple lines of business. In July 2016, I rejoined ISO as actuarial director for the Personal Property Actuarial Products division.

Q: What is your background in actuarial science and your educational background?

A: I have a Bachelor of Art degree in economics from Peking University in Beijing, China and a Master of Science degree in Actuarial Science from the University of Iowa in Iowa City, Iowa. I am a Fellow of the Casualty Actuarial Society (CAS) and a member of the American Academy of Actuaries (AAA). I have met the continuing professional education requirements of the AAA and am in good standing with those organizations.

Q: Are you familiar with homeowners insurance ratemaking in North Carolina and other states?

A: Yes. In my current position with ISO, I oversee and manage all the work on North Carolina Rate Bureau's ("Bureau") personal property reviews and filings. As part of my duties at ISO, I am familiar with the data collection and ratemaking procedures in use in states in addition to North Carolina. In addition to my ratemaking experience with ISO, I have worked in various property and casualty pricing roles for over 10 years for multiple lines of business.

Q: What work have you performed with respect to the Bureau's 2018 homeowners rate filing in North Carolina?

A: Through ISO, I have been involved in the preparation of the 2018 homeowners rate filing for the Bureau in several respects. First, ISO, as a licensed statistical agent in North Carolina, collects homeowners insurance data from a significant number of the companies which write that line in North Carolina, as well as from the North Carolina Insurance Underwriting Association (commonly called the "Beach Plan" and discussed further below).

Second, ISO collects, reviews and compiles data from three other statistical organizations licensed in North Carolina that collect homeowners data from Bureau member companies. All companies writing homeowners insurance in North Carolina must report to one of these four organizations. The other three organizations are: the Independent Statistical Service (ISS), the American Association of Insurance Services (AAIS) and the National Independent Statistical Service (NISS).

Third, ISO provides consulting actuarial services directly to the Bureau. I have been directly involved in this aspect of the Bureau's homeowners insurance rate reviews and filings since 2016. As in the past, ISO staff and I compiled the ratemaking data to be reviewed by the Bureau's Property Rating Subcommittee, Property Committee and Governing Committee in preparation of rate reviews and filings.

Fourth, ISO staff put together the vast majority of the data, information and calculations contained in Exhibit RB-1. This lengthy process was performed under the direction of the Bureau committees. I attended meetings of those Bureau committees together with other ISO staff.

Finally, I have reviewed the filed rates to determine if they are calculated in accordance with the CAS guidance, including the Statement of Principles Regarding Property and Casualty Insurance Ratemaking and the Actuarial Standards of Practice. In accordance with Actuarial Standard of Practice No. 17 Expert Testimony by Actuaries, I conducted my review in terms of reasonableness rather than solely in terms of whether there is precise agreement on each issue. In addition, I applied the applicable rate standards set forth in Article 36 of Chapter 58 of the North Carolina General Statutes, including but not limited to 58-36-10, i.e., that rates must not be excessive, inadequate or unfairly discriminatory and that certain statutory rating factors must be considered.

Q: What is the source of the data utilized in Exhibit RB-1?

A: The Bureau has the responsibility of filing forms and making rates for all homeowners insurance policies written in North Carolina (with the exception of such policies that may be written by county farm mutuals pursuant to N.C.G.S. 58-36-50). ISO, on behalf of the Bureau, combines the data as to those policies in its filings as if there were a single company with the aggregate loss experience of all those policies. Rates are then analyzed in rate filings as if those rates were being made for this hypothetical one company. The ratemaking data reflected in Exhibit RB-1 is, in general, based on the aggregate homeowners experience of the approximately 100 individual insurance companies that write homeowners policies in North Carolina, together with the experience written on homeowners insurance policies in the Beach Plan. Those entities submit their data to one of the four statistical agents described above. The four statistical agents subject each entity's data to a series of verification edits and then consolidate the data. The statistical agents then transmit their consolidated data to ISO for final review and consolidation with the ISO data. After consolidating the data, ISO produces exhibits of the combined data in a format and detail necessary for review by the Bureau committees and ultimately for use in rate filings.

The statistical agents are licensed by the Commissioner of Insurance in North Carolina. They have collected, reviewed, compiled and submitted the data underlying this filing in the regular course of their business responsibilities.

Q. Please describe what is commonly called the “Beach Plan” and the role of its loss data in this filing?

A. The term “Beach Plan” is a commonly used name for the North Carolina Insurance Underwriting Association. It is a residual market organization created by the North Carolina legislature in Article 45 of the insurance statutes. It writes homeowners and other lines of insurance for policyholders in the 18 coastal counties. It uses forms, rules and rates filed by the Bureau.

A residual market organization writes policies for policyholders who cannot obtain insurance in the voluntary market. Although voluntary companies have chosen not to accept the risk of writing homeowners policies, North Carolina law requires those companies to be responsible for payment of the losses that may occur on those policies when they are written by the Beach Plan, up to an aggregate statutory cap of $1 billion annually. The significance of such non-recoupable assessments on the companies will be discussed elsewhere in my testimony.

The Beach Plan uses the same homeowners forms that are used by the voluntary companies. Those forms have been prepared and filed by the Bureau on behalf of all member companies. The Beach Plan writes policies in its own name. The Beach Plan receives and retains premiums, adjusts losses (on full homeowners policies), reports statistics and operates in a manner similar to voluntary insurance companies in many respects. It uses classifications and rating plans filed by the Bureau. It uses rates filed by the Bureau, except that, by statute, the Beach Plan applies a 15% surcharge above the Bureau rate on full homeowners policies and a 5% surcharge on the wind rate where it writes only the wind and hail coverage on homeowners policies. When the Beach Plan reports its statistical data to ISO, ISO reviews those statistical data in the same manner that it does for voluntary companies.

Statutes distinguish between the “beach” areas under the Beach Plan’s jurisdiction and the “coastal” areas under its jurisdiction. In the “beach” territories, (territories 110 and 120) approximately 70% of the homeowners premium was written by the Beach Plan in 2016, and in “coastal” territories (territories 130, 140, 150 and 160) approximately 55% of the homeowners premium was written in the Beach Plan. On a statewide basis, approximately 12% of homeowners premium was written in the Beach Plan even though the Beach Plan is only able to write policies in the 18 coastal counties.

Over the years, the Beach Plan’s large growth reflects the fact that voluntary companies are unwilling to write in the beach and coast, due in large part to the inadequacy of the Bureau manual rate in those areas. This growth has occurred despite the fact that the legislature only intended the Beach Plan to be the "market of last resort" in those areas.

The Beach Plan also writes dwelling fire and extended coverage insurance policies ("essential property insurance") in the geographic area under its jurisdiction. Dwelling fire and extended coverage is a line of insurance distinct from the homeowners line of insurance.

There is a second statutory residual market mechanism in North Carolina called the North Carolina Joint Underwriting Association or Fair Access to Insurance Requirements organization (commonly called the "FAIR Plan.") It writes in all areas of the state except the beach. It writes dwelling fire and extended coverage policies but does not write homeowners policies. Its premium volume has been growing rapidly in recent years.

Loss and exposure data from these two residual market organizations have always been included in Bureau property filings for the line of insurance (the homeowners line of insurance or the dwelling fire and extended coverage line of insurance) under review, in the same manner as data from voluntary insurance companies that write that line of insurance. It is actuarially appropriate and necessary to include the residual market data with the voluntary data to ensure that the rates developed are representative of the entire market, since every policy has the potential to be written in the voluntary market. Since the FAIR Plan does not write homeowners policies, its data are not included in this filing. Only the homeowners data from the Beach Plan are included in this filing.

Q: What statistical data supporting the filing are contained in Exhibit RB-1?

A: In general, the supporting data for the rate level changes are contained in Section C. The most recent five years of experience are displayed in Section C.

The loss experience used in the filing is what we call "accident year" experience for the years ended December 31, 2012 through December 31, 2016. This is the most recent five years of data available. I can explain what is meant by accident year experience by providing an example. The losses for the accident year ended December 31, 2016 consist of all losses caused by accidents which occurred during the one-year period ended December 31, 2016. If an accident occurred on December 29, 2016 and resulted in either a loss being paid or a reserve being established after January 1, 2017, that loss would be a part of the accident year losses for the period ended December 31, 2016. The test for breaking losses down into accident years is the date the accident occurred. The term "accident year" is an insurance accounting term that includes the various incidents that give rise to a homeowners insurance claim, including fires, hurricanes, tornados, etc during a 12-month period.

Q: What is the reason for using five years of data to determine the indicated rate level change?

A: Ratemaking is prospective. The objective is to set rates at the level sufficient to pay expected losses, expected expenses and to allow insurance companies to earn a reasonable margin for profit. This is the fundamental equation in insurance ratemaking to set the adequate rate level; i.e., a rate level that is not “excessive, inadequate or unfairly discriminatory” as required by law.

Rates are set for the period when they will be in effect, which is often the year after the effective date of the filing. The assumed effective date for this filing is October 1, 2019. Historical loss data are generally used for the purpose of projecting expected losses. For non-catastrophic types of loss, five years of data balance the stability of the rates with responsiveness to more recent conditions. For catastrophic hurricane losses, the average of modeled losses from two hurricane models is used. For non-hurricane catastrophic wind losses, a separate excess wind smoothing procedure is employed to reduce large swings in the indications due to irregular events in the experience period. The North Carolina statutes allow the Bureau to review five years of experience in its rate level filings in addition to other factors that are to be considered.

Traditional homeowners ratemaking has for many years relied on the consideration of five years of experience with weights of .10, .15, .20, .25 and .30 being given to each year respectively. Those weights are used in this filing as in past Bureau homeowners filings. The weights used by the Bureau are identical to those used by ISO in all other states for homeowners insurance. These weights are generally accepted in all jurisdictions in which ISO makes homeowners filings.

Q: Please turn to page C-2 of Exhibit RB-1. Would you explain what that page shows?

A: Page C-2 is what is called a statewide rate level calculation for homeowners forms 2, 3, 5, 7 and 8 for North Carolina. These are the forms commonly referred to as the "owners forms." Page C-2 determines the actuarially indicated rate level changes for policy forms 2, 3, 5, 7, and 8. The data shown are for all business written in the state on those forms.

The overall homeowners program to which this filing applies consists of three categories of forms: the forms identified above for “owners,” as well as form 4 for “tenants” and form 6 for “condominium owners.” Page C-2 shows the statewide rate level calculation for the owners forms, and similar calculations are shown on C-3 for tenants and on C-4 for condominium owners. In my testimony, I will generally refer to the owners forms, but it should be noted that my testimony generally applies to the analysis and calculations as to the tenants and condominium owners forms as well, unless otherwise noted. As can be seen in the filing, the owners forms constitute the overwhelming majority of the premium volume.

Q: Referring to column 1 on page C-2, what are "Incurred Losses Excluding Hurricane"?

A: The incurred losses in column 1 are the losses from all causes, except those losses identified as caused by hurricanes, from insured events that occurred during each of the five respective accident years. The figure includes losses which have already been paid, losses which are not yet paid and are represented by outstanding claim reserves, and losses which have been incurred but for which no individual reserve yet exists because they have not yet been reported. Hurricane losses have been replaced by average modelled losses from two modelers, as discussed later in my testimony.

Q: Have the losses excluding hurricanes as shown in column (1) been adjusted in any way?

A: Yes, as explained below, there are two adjustments. First, these losses have been adjusted to a common $1,000 deductible level. Second, these losses have been developed to ultimate by applying the loss development factors.

Q: Please explain what is done to adjust losses to a common deductible level.

A: In order to properly analyze losses for ratemaking, it is necessary to adjust losses from all policies to some common deductible level. The common deductible level that is assumed for owners forms is the base deductible of $1,000. The common deductible level that is assumed for the tenants and condominium owner forms is the base deductible of $500. Loss elimination ratios (LERs) are applied to the reported losses in order to account for the difference between the reported deductible and the assumed common deductible.

In the 2017 homeowners filing that introduced the new base deductibles ($1,000 for the owners form and $500 for the tenants and condominium owner forms), and a new base Amount of Insurance ($200,000 for owners form), the LERs were rebased along with the deductible relativities and the manual rates to reflect the new base deductibles.

Q: What is the purpose of adjusting the reported losses by applying loss development factors?

A: The losses in column 1 of page C-2 include losses from events which have happened but which have not yet been reported. Such events are included by what is known as an adjustment for IBNR (incurred but not reported) losses.

In addition, adjustments must be made to reflect that loss payments occur over time. The losses, as they are reported to statistical agents, cover all accidents which occur during the respective accident years ended December 31. When they are reported to the statistical agent, they are evaluated as of March 31 of the next year. As of March 31 some of the losses have already been paid and some have not. Those that have not are represented by loss reserves. Loss reserves are estimates of what will ultimately be paid on these outstanding claims.

Since we want the losses used in the filing to be as accurate as possible, we look at history to see how losses have changed, or "developed," from the time they were initially reported to the time they were ultimately paid. For example, if we want to evaluate how losses reported in 2016 will eventually turn out, we look back and see what has happened in the past. If historically there has been a 1% increase in the dollar amount of losses from the time they were initially reported as reserves until the time they were ultimately paid, we would logically assume that the same development will hold true for losses incurred during the accident year ended December 31, 2016. Accordingly, we would make an adjustment by increasing the losses as they are initially reported to us by 1%.

Q: What causes losses to change or develop as you have described?

A: Changes to the reserve portion of the losses typically result from the fact that the ultimate loss payments turn out to be more or less than estimated at the time of the initial report that led to the reserve. Another factor that could lead to changes in losses is the late reporting of claims. For example, if a loss event occurred in late December of any given year and for some reason was not timely reported to the company by the end of the year, it might very well be that the losses as initially reported would not include any provision for that particular claim. By next year's evaluation, however, the claim would have worked its way into the system and the total loss would include either the paid amount or the reserved amount for that particular claim. This would cause an upward development in the losses as initially reported.

Q: Please refer to page D-12 of RB-1 and explain how the loss development factors used in the filing were calculated.

A: In calculating loss development factors, we have used the data of companies reporting to ISO and three large writers reporting to PCI. In the past filings, we used all policy forms combined due to limitations on data availability. For this filing, we were able to calculate separate loss development factors for owners, tenants and condominium owners forms. The illustrations below are for the owners forms, but apply the same way to other forms. The top section of that page shows the incurred losses evaluated as of 15, 27, 39, 51 and 63 months for the accident years for which available data are shown. For instance, the first entry for the accident year ended December 31, 2013 is $642,959,930. This is in the column which is labeled "15 Months." This is the first evaluation of the losses caused by loss events which occurred during the year which ended December 31, 2013. The evaluation was made as of March 31, 2014, 15 months after the beginning of the accident year. Twelve months later (March 31, 2015) the losses caused by accidents which occurred during the year ended December 31, 2013 had grown to $657,197,316. This is the evaluation as of 27 months after the beginning of the accident year. This increase from roughly $643 million to $657 million represents a growth in losses, or a positive development, of 2.2% (or 1.022) as shown in the column under Link Ratios located lower on that page labeled "27:15." As shown on page D-12, we have looked at the development from 15 months to 27 months for all years. The average development for these years was 2.4%. The selected loss development factor for 15 to 27 months is 1.024.

Q: Does page D-12 also show development figures for periods longer than 27 months?

A: Yes. We also calculate loss development factors for the periods from 27 months to 39 months, 39 months to 51 months and 51 months to 63 months. Studies have shown that for homeowners insurance virtually all losses have been paid by the time of the evaluation at 63 months after the beginning of an accident year. For example, by the time of the 39 month evaluation, the losses for the accident year ended December 31, 2013 had become $657,530,875. This represents an increase of 0.1% over the losses for the same accident year evaluated as of 27 months. The average development over the period 27 months to 39 months for the years for which the data are available was 1.002, or 0.2%.

Q: Please explain how the loss development factor used to determine the ultimate payment value of the accident year ended December 31, 2016 losses was determined.

A: For the owner forms, the loss development factors for each of the applicable periods, as shown on page D-12, are:

Development Period	Factor
15 to 27	1.024
27 to 39	1.002
39 to 51	1.000
51 to 63	0.999

If you multiply all of these factors together, you will get a factor of 1.025 to apply to the year ended December 31, 2016 losses.

Q: You referred earlier to a separate procedure for dealing with non-hurricane excess wind losses. Please describe that procedure.

A: An adjustment was made to the non-hurricane wind losses in the years in which there were severe storms such as tornadoes, thunderstorms, hailstorms, derechos and other damaging wind storms, other than hurricanes. The adjustment caps average losses by territory in years where abnormally high losses coincide with severe non-hurricane windstorm activity. The adjustment relies on a factor developed by using a statewide average. As a result of this procedure, a long-term Excess Factor of 1.068 was calculated and therefore applied to the losses. This procedure has been employed in past homeowners filings and is customarily employed to smooth out and properly reflect prospective non-hurricane wind losses. In this filing, more non-hurricane wind losses have been removed than have been added back in by applying the 1.068 factor. In the five most recent years, there were a number of wind events that caused unusually high non-hurricane wind losses.

Q: Was it necessary to exclude hurricane losses in calculating the excess wind factor?

A: Yes, such losses have been excluded in the calculation of the Excess Factor derived on pages D-33 through D-35.

Q: How have hurricane losses been identified in order to be excluded from the Derivation of Excess Factor (Excludes Hurricane Losses) exhibit on pages D-33, D-34 and D-35?

A: The method to remove the hurricane losses from the derivation of the excess factor depends on the detail of the available data during different periods of time. For 1950-1965, only statewide data is available, and it is only from dwelling policies for the early years. Consequently, for a year in which a hurricane occurred, the year is excluded from the calculation of the statewide non-hurricane excess factor. This is shown on page D-33. For example, in 1954 Hurricane Hazel was a Category 4 storm that caused major losses in North Carolina, so that year was removed from the exhibit.

Since territory data is available (in varying detail) for 1966-2016, the calculation of the non-hurricane losses is performed at the territory level for this period.

For 1966 - 1986, the non-hurricane wind losses for a territory are calculated by replacing the hurricane year wind to non-wind ratio by the average wind to non-wind ratio of the non-hurricane years. Given the revised wind to non-wind ratio for the hurricane year, the reported non-hurricane total losses and the reported non-hurricane wind losses are then “backed into.” For the years 1966 – 1982, during which old territory codes were in effect, the average wind to non-wind ratios are based on the non-hurricane years. For the years 1983-1999, during which the former territory codes were in effect, the average wind to non-wind ratios are based on the non-hurricane years. For the territory codes introduced as part of the 1993 filing, the average wind to non-wind ratios from the predecessor territories have been used.

For the period 1987--September 1995, territory losses by month are available for ISO data only. The territory non-hurricane losses for this period are calculated as follows: first, the average losses for the month in which the hurricane occurred are calculated based on the non-hurricane years. The average monthly losses are then added to the eleven remaining months of the hurricane year and divided by the hurricane year annual losses resulting in a non-hurricane adjustment factor. This factor is then applied to either reported losses or adjusted losses by territory for all statistical agents to obtain non-hurricane losses. For hurricanes, wind losses are sometimes reported as water losses or "all other" property damage losses. To accurately estimate the non-hurricane losses, the above non-hurricane factors are calculated for water and all other property damage and then applied to the water losses and the all other property damage losses.

For October 1995-2016, based on information from NOAA and other sources, the specific dates on which a given hurricane was active in North Carolina are determined. The loss experience for ISO is then examined by date and cause-of-loss. Wind losses and losses for other weather-related perils which occurred on these dates are assumed to be hurricane losses. For ISO data, the percentage of hurricane losses to total losses is calculated. To estimate the hurricane losses for statistical agents other than ISO, the percentage of hurricane losses in the ISO data (relative to the ISO yearly total) is applied to the total loss amounts for the other statistical agents.

For 2003-2016, the data described above is also available from ISS and has been examined together with the ISO data. For the combined ISO and ISS data, the percentage of hurricane losses to total losses is calculated. To estimate the hurricane losses for statistical agents other than ISO and ISS, the combined percentage of hurricane losses from ISO and ISS data (relative to the ISO and ISS yearly total) is applied to the total loss amounts for the other statistical agents.

Q. Can you use the year 2016 as an example of how losses have been smoothed and how the smoothing affects the losses for an individual year?

A. Yes. The loss smoothing process for 2016 consists of two parts. The first part is to remove the actual hurricane losses and load back expected long-term average hurricane loss costs based on the average of two hurricane models. The second part is to remove the actual non-hurricane wind excess losses and spread those losses over the long run by the use of the excess wind factor. For year 2016, total losses without any smoothing were $1,046,058,715 for the owners forms. Hurricane losses in the amount of $222,440,120 were removed and long-term average hurricane losses of $271,160,877 were loaded back. We also analyzed the non-hurricane wind losses and removed a large number of those losses under our excess wind procedure which was described above. By using that excess wind procedure, we removed $155,536,251 in losses and spread those losses over the long run by the use of the excess wind factor. These smoothing procedures have been consistently applied by the Bureau for many years and serve to keep rate indications significantly lower than they otherwise would be following years with high wind losses and vice versa for years with low wind losses.

Q: Do you have an opinion as to whether the incurred losses excluding hurricanes shown in column 1 on page C-2 of Exhibit RB-1 accurately represent the ultimate value of owners forms incurred losses excluding actual hurricane which resulted from accidents which took place during each of the years ended December 31 in North Carolina?

A: Yes, I do.

Q: What is that opinion?

A: I believe that the losses shown in column 1 do accurately represent the expected ultimate value of those losses excluding actual hurricane losses. More detailed information will be set out later in my prefiled testimony about the actual hurricane losses that were considered but excluded from the data in this filing.

Q: Please explain trending of the losses.

A: The losses need to be adjusted by trend to reflect the cost levels anticipated to prevail during the period that the proposed rates are expected to be in effect. For this filing, the assumed effective date is October 1, 2019. This date is relevant for trending purposes. If the filing were to become effective on a date later than the October 1, 2019 assumed effective date, then the rate indications would be higher than those set forth in the filing for the owners and condominium forms and lower for the tenants form.

Q: Please describe how the loss trend is developed and applied.

A: The loss trend is developed in a two-step process. The first step is the development of a Current Cost Factor, which brings the losses up to the cost level of the external Current Cost Index that is used as the basis of loss trend. The second step is the development of a Loss Projection Factor based upon an exponential fit of the last twelve quarters of the Current Cost Index and the actual homeowners pure premium trend. The Loss Projection Factor projects the losses from May 15, 2018 (the midpoint of the latest quarter of the external index) to October 1, 2020, the average date of loss for policies which will be written at the proposed rates (i.e. one year beyond the assumed effective date of October 1, 2019).

Q: What are the components of the Current Cost Index used for the owners forms?

A: The Current Cost Index is a weighted average of the Modified Consumer Price Index (MCPI) and the CoreLogic Residential Index, with the MCPI receiving 20%

weight and the CoreLogic index receiving 80% weight. The intent of the weights is to reflect the split between contents type losses and buildings type losses.

Q: What is the CoreLogic Residential index?

A: The CoreLogic Residential index is the successor to the Boeckh Residential Index that has been used in homeowners filings for many years. It is an index of construction costs compiled by CoreLogic. The particular index used in the filing is based on information compiled specifically for construction costs in North Carolina.

Q: How are the weights of 80% to the CoreLogic index and 20% to the Modified Consumer Price Index determined?

A: The weights were based on an examination of losses by cause of loss and apportioning the losses between buildings and contents. North Carolina homeowners losses (normalized for catastrophe losses) were reviewed by cause of loss and split into percentages that correspond to buildings and contents as shown below:

	Buildings	Contents
2008	78.9%	21.1%
2009	79.4%	20.6%
2010	81.6%	18.4%
2011	89.7%	10.3%
2012	83.5%	16.5%
2013	82.1%	17.9%
2014	86.0%	14.0%
2015	84.6%	15.4%
Average	83.2%	16.8%

Q: What is the Modified Consumer Price Index?

A: The Modified Consumer Price Index is composed of selected components of the Bureau of Labor and Statistics' Consumer Price Index that correspond to the items for which homeowners insurance provides coverage. The components used and the weights given to them are House Furnishings (54%), Medical Care (10%), Apparel Commodities (18%) and Entertainment Commodities (18%).

Q: Please illustrate what factors would be applied to trend the losses for the year ended December 31, 2016.

A: The losses from the accident year ended December 31, 2016 are first adjusted by the Current Cost Factor for 2016 of 1.040, which is found on page D-15. The Current Cost Factor is the ratio of the Current Cost Index from the quarter ending June 30, 2018 to the Current Cost Index value for the full year 2016. The Current

Cost Factor brings the losses from the cost levels corresponding to an average date of loss of June 30, 2016 to the cost levels corresponding to the midpoint of the latest quarter (May 15, 2018).

The second adjustment projects the losses from May 15, 2018 to the average date of loss for policies which will be written at the proposed rates (October 1, 2020, or one year past the assumed effective date). This is accomplished by projecting the losses at the annual rate of change of +1.2% (as determined by an exponential fit of the Current Cost Index) for 28.5 months. This factor is calculated on page D-16.

Q: You mentioned that the pure premium trend was considered in the selection of trend factors. How was that data considered?

A: A pure premium is the ratio of the losses to the number of insured house years. The pure premium experience was examined by ISO and the Bureau Property Rating Subcommittee. These data were fit to an exponential curve, and an annual rate of change was calculated. This rate of change was compared with the annual rate of change of the Current Cost Index. In reviewing the loss trends, the annual rates of change in homeowners pure premium during the 2012-2016 experience period are higher than the observed annual changes in the external indices. Therefore, to project losses to an October 1, 2020 level, a 3% additional annual loss trend adjustment was indicated and selected by the Property Rating Subcommittee for owners forms. This results in the 4.2% annual rate of change used to trend the prospective losses for the owners forms. After reviewing the pure premium data for the tenants and condominium forms, the Bureau selected a 0% loss trend adjustment for the tenants form and a 5% loss trend adjustment for condominium form.

Q: Please describe the development of the Current Amount Factor.

A: The Current Amount Factor is calculated by taking the ratio of the average policy size relativity for each year to the projected policy size relativity as of May 15, 2018, the same projection date as is used for the losses in the development of the Current Cost Factor. The average policy size relativity is calculated by taking a weighted average of the policy size relativity curve for each amount of insurance using the exposures for each amount of insurance as weights. By taking the ratio of these relativities for each year to the May 15, 2018 value, we are in effect measuring the percentage growth in the premiums at present rates from year to year caused by changes in amount of insurance. These changes in average amount of insurance are not based on a consistent set of insureds, since some of the growth is due to the addition of new homes. A selection of an annual growth of 1.0% was made by the Property Rating Subcommittee of the Bureau for owners forms.

Q: Where on page C-2 are these factors applied?

A: The Current Cost Factor for each year is applied as part of the Current Cost/Current Amount factor in column 5. For example, for the year ended December 31, 2016, the Current Cost/Current Amount Factor of 1.016 is shown on page D-21. The Loss Projection Factor is combined with the Premium Projection Factor and the Trend from First Dollar to produce the Composite Projection Factor. This Composite Projection Factor is applied on page C-2 in column 7 in the development of the Trended Base Class Loss Cost.

Q: You mentioned the Trend from First Dollar. Please describe what that is and how it is developed and applied.

A: The external indices used in the trend analysis are all first dollar indices. This means that they are measuring changes from the first dollar of an item's value. Since a deductible is applied when insurance claims are settled, an adjustment must be made to the trends from the external indices so that they are appropriate for use with a deductible. All of the losses have been adjusted to a common $1,000 deductible level. As such, increases in cost as measured by the Current Cost Index would affect losses below the deductible less, and cause an additional increase for losses above the deductible. For example, a loss of $1,500 subject to a $1,000 deductible results in a payment of $500 to the insured. If there is 10% inflation, the $1,500 loss grows to $1,650. This results in a payment to the insured of $650, which is a resulting effective inflation of 30%, an incremental trend of 18.2%. The Trend from First Dollar procedure used in the filing accounts for this effect. The procedure in essence converts all losses to a first dollar basis before the trend factor is applied. To obtain the resulting trended losses, the deductible portion of the trended losses is subtracted. The Trend from First Dollar factor as shown on page D-21 is the incremental difference in the trend factor resulting from the application of this procedure. Using the above example, the formula for trend from first dollar on page D-21 results in a trend from first dollar factor of 1 + (((.1)(1000))/((1.1)(500))) = 1.182, which matches what was calculated earlier.

Q: Please refer to column 4 of page C-2. With reference to the column headed "Adjusted Incurred Losses Including LAE," please tell us what the figure 819,825,223 represents.

A: These are the losses and loss adjustment expenses associated with claims or accidents that occurred in the accident year ended December 31, 2016. The losses are the sum of the adjusted incurred losses excluding hurricane losses found in Column 1, minus the non-modeled adjusted excess losses in Column 2, all multiplied by the non-modeled excess factor of 1.068, adjusted by a trended loss adjustment expense factor of 1.149.

Q: How is the trended loss adjustment expense factor of 1.149 developed?

A: Each year the Bureau sends a call to its member companies for expense-related data. These calls showed that loss adjustment expenses for the calendar years

December 31, 2012, December 31, 2013, December 31, 2014, December 31, 2015 and December 31, 2016, after dropping the high and low values, averaged 14.8% for the period, as shown on page D-30.

This factor of 14.8% must be adjusted for the change in cost levels of the items that go into loss adjustment expenses. These expenses include items such as adjuster's salaries, rents and overhead items related to claims settlement. In essence, these items will vary as general economic trends vary. We adjust the loss adjustment expense factor by taking a ratio of the expense trend to the loss trend on page D-31. This adjustment results in a trended loss adjustment factor of 1.149.

The Bureau relied on AON Benfield (AON) for the loss adjustment expense factor relating to modeled hurricane losses. AON's data showed that the factor for loss adjustment expenses on modeled hurricane losses is 6%, which is lower than the loss adjustment expense for non-hurricane losses. These loss adjustment expenses are reflected with the weighted, trended, modeled hurricane shown later in the calculation.

Q: Please explain how the expense trend used to adjust the loss adjustment expense factor is developed.

A: The expense trend used to adjust the loss adjustment expense factor is based on an analysis of the Current Expense Index, which is an index based on a 50% weighting to the Compensation Cost Index, a 25% weight to the all items CPI (less energy) and a 25% weight to the all items CPI (including energy). The latest available information for marine, fire and casualty insurance was used. The data for this index are shown on pages D-27-28. Based on an analysis of these data, an annual rate of change of 2.5% was selected by the Property Rating Subcommittee of the Bureau.

Q: Please explain the development and application of the expense projection factor in adjusting the loss adjustment expense factor.

A: The five year (excluding the high and low values) average loss adjustment expense factor of 14.8% reflects an averaging of the five years. As such, the factor is representative of the time period corresponding to July 1, 2014.

The expense projection factor uses the 2.5% annual rate of change based on an exponential curve of the Current Expense Index. Since the Loss Adjustment Expense ratio is at the cost level corresponding to July 1, 2014, it is necessary to project this cost to the average date of accident for the period during which our rates are assumed to be effective, October 1, 2020 (one year beyond our assumed effective date of October 1, 2019). This calculation is displayed on page D-31.

Q: What other adjustments must be made to the Loss Adjustment Expense factor in order to use it?

A: The Loss Adjustment Expense Factor is determined as the ratio of loss adjustment expenses to losses. Having adjusted the expense portion of the factor in the numerator, we need to adjust the losses in the denominator by the Loss Trend to reflect both the Current Cost Factor and the Loss Projection Factor.

Q: Please describe what is done in Column 5 on page C-2.

A: In Column 5 the Current Cost Factors and Current Amount of Insurance Factors are combined into the Current Cost/Current Amount Factors. This is done by taking the ratio of the Current Cost Factor to the Current Amount Factor. For example, the Current Cost/Current Amount Factor of 1.016 for 2016 is the ratio of the 2016 Current Cost Factor of 1.040 to the 2016 Current Amount Factor of 1.024. In combining these steps, the losses and average rating factor have been brought to the cost level of May 15, 2018.

Q: Please describe what is done in Column 7 of page C-2.

A: Column 7 combines all of the elements in Columns 1 to 6. In Column 7, the losses and loss adjustment expenses are trended to the cost level expected to prevail during the period in which the policies written at the proposed rates will be providing coverage (average date of accident of October 1, 2020). The house years in column 6 are also projected via the current amount factor in column 6 to reflect the anticipated amounts of insurance for business written between October 1, 2019 and September 30, 2020. As an example, the calculation of column 7 for 2016 is:

(1)	Adjusted Incurred Losses Inc. LAE (C-2, Col 1):	823,618,595
(2)	Excess Losses (C-2, Col. 2):	155,536,251
(3)	Incurred Losses Adjusted for Excess (C-2, Col.3):	713,511,943
(4)	Losses * LAE Factor (C-2, Col 4):	819,825,223
(5)	Current Cost/Amount Factor (C-2, Col.5):	1.016
(6)	Earned House Years (C-2, Col. 6):	1,924,189
(7)	Trended Average Loss Cost (C-2, Col. 7)(4)*(5)*(CPF)/6):	472.27

Q: Please describe the development of the Premium Projection Factor.

A: For each year we compute an average policy size relativity, which is calculated as a weighted average of each amount of insurance relativity. The Premium Projection Factor is calculated by fitting an exponential curve to the average policy size relativities. This curve is used to develop an annual rate of change for the policy size relativities. In the case of owners forms, the average annual rate of change is 1.0% as shown on page D-20. Since the Current Amount Factor has been calculated as the value up to May 15, 2018, the premium projection factor will be calculated as the expected growth from May 15, 2018 to April 1, 2020 (six months beyond the assumed effective date of October 1, 2019). This date of April 1, 2020 represents the midpoint of the year in which policies are assumed to be written using the proposed rates. This results in a Premium Projection Factor of 1.019, which is shown on Page D-21.

Q: Could you please explain column 8 on page C-2?

A: Column 8 is the average rating factor for the policies purchased in each year. The average rating factor is the ratio of the average rate at manual level to the average current base rate. The average current base rate assumes a base coverage A amount of insurance of $200,000. For example, let's assume that the current territory base rate for frame construction with $200,000 coverage A is $100, that the rating factor for masonry is 0.9 and that the rating factor to purchase an additional $25,000 of coverage A is 1.2. Then the average rating factor for a $225,000 coverage A masonry policy is calculated as:

$$(100 * 1.2 * 0.9) / 100 = 1.08$$

This factor is needed to adjust the average trended loss costs in column (7) to a base class level. Since most policyholders do not purchase exactly the base amount of coverage, the average trended loss cost is divided by the average rating factor to convert this average trended loss cost into a trended base class loss cost which is shown in column 9.

Q: Please explain line 11 on page C-2.

A: Line 11 is the resulting Weighted Trended Non-hurricane Base Class Loss Cost obtained by applying the accident year weights shown in Column 10 to the Trended Base Class Loss Cost for each year shown in Column 9. This Weighted Trended Base Class Loss Cost is the forecasted Base Class Non-hurricane Loss Cost for policies written during the one-year period after the assumed effective date of October 1, 2019.

Q: Please explain line 12 on page C-2.

A: Line 12 is the reflection of the credibility of the experience based on the number of house years during the five year experience period. The full credibility standard is based on a procedure considering the frequency of claims and the variability of the size of those claims. The procedure is explained in a CAS Proceedings Paper "Credibility of the Pure Premium" by Mayerson, Jones and Bowers. The full credibility standard is based on a normal distribution with a 90% probability of the pure premium being within 5% of the expected value. The full credibility standard for the owners forms is 240,000 house years.

Q: Please explain the figure contained on Line 13 of page C-2 labeled "Trended Modeled Hurricane Base-Class Loss Cost".

A: That figure is the expected hurricane losses for a base risk written in the prospective period. AON provided the average modeled hurricane losses from running two hurricane simulation models developed by AIR Worldwide (AIR) and Risk Management Solutions (RMS). The average modeled hurricane losses were then trended and loaded with catastrophe loss adjustment expenses (LAE). To obtain an average loss cost value, the modeled loss amounts are divided by 2016 house years. To convert the average trended modeled hurricane losses with LAE to base class level, it is divided by the latest year trended average rating factor. The trended average rating factor is calculated as the product of 2016 average rating factor, 2016 Current Amount Factor and Premium Projection Factor. The derivation of the modeled hurricane base class loss cost is shown on page D-42.

Q: Did the Bureau consider actual hurricane losses?

Yes. The actual hurricane losses during the five years of experience were reviewed and considered; however, as has been done in Bureau filings since 1993, those losses have been excluded from the historical losses used in the filing and have been replaced by modeled losses.

Q: What were the amounts of actual hurricane losses that were excluded from the losses in the five years of experience?

A: The statewide losses that were excluded are :

Year	**Owners Forms**	**Tenants**	**Condos**	**Total**
2012	$8,927,809	$83,516	$179,795	$9,191,120
2013	0	0	0	0
2014	7,799,045	73,232	98,853	7,971,130
2015	21,225,158	129,742	121,745	21,476,645
2016	222,440,120	1,299,211	878,966	224,618,297
Total	$260,392,132	$1,585,701	$1,279,359	$263,257,192

The excluded losses by territory are shown on pages D43-D45.

Q: In addition to excluding actual losses from hurricanes on Page C-2, have such losses been excluded anywhere else in the filing?

A. Yes, the actual hurricane losses have been excluded in the development of the indications by class and by territory, and in the calculation of the non-hurricane excess factor that was explained earlier in my testimony.

Q. Why were models used to develop the projected hurricane losses instead of using actual hurricane losses?

A. The catastrophic nature of the hurricane peril makes it a very volatile peril in terms of loss severity, frequency and location of occurrence. Catastrophe losses in general tend to be high severity, low frequency events. Since we use five years' of loss experience data in homeowners' rate making calculations, it is likely that there will be scenarios such as either no hurricane losses or extremely severe hurricane losses during the experience period. Also, if a hurricane were to hit a particular area of the state, the losses might be reflected only in that area of the state, with little or no reflection in other areas of the state. Therefore, if we analyze hurricane losses without any adjustment, the indicated rate need level will be subject to large yearly fluctuations resulting in rates beyond the actuarially sound level.

The excess loss smoothing procedure described earlier in my testimony to smooth non-hurricane wind will not work for hurricanes given that hurricanes occur so infrequently and result in huge volatility in the loss amounts when they occur. Devastating hurricanes are relatively uncommon events in comparison with other causes of loss. The occurrence or non-occurrence of actual hurricane events is not properly predictive of the range of hurricane events that can occur or the probability of occurrence of those events. In addition, there is not enough experience with hurricanes since accurate insurance loss records began to be maintained for actuaries to employ actual losses as opposed to models. For the older years, much of the past insurance data is quite outdated for the purpose of examining hurricane exposure and is of limited utility in projecting future hurricane losses. It includes losses from hurricanes that occurred when housing patterns were different, population density was lower, houses were built differently, building codes were different, construction prices were different, houses had fewer and less expensive contents and labor costs and practices were different, etc.

The hurricane models are based on publicly available scientific data, mathematical and empirical models, and the experience of engineering, geological, meteorological, economic and insurance experts. Actual hurricane loss experience is also used to calibrate the models. The models are run for a large number of simulated events (e.g. 100K years) to estimate what would be the expected long term average hurricane losses for a given risk profile. The modeled hurricane losses are accurate, stable, and representative projections of the long term average annual hurricane losses. The benefits of using models to project hurricane losses over using actual hurricane losses include the following: First, the models improve the accuracy of hurricane loss projection in a long term average view as described above. Second, replacing the volatile actual hurricane losses with modeled hurricane losses will smooth out the periodic spikes in the indications following hurricanes. Hurricane modeling is the widely accepted and most accurate way of considering the hurricane exposure. Modeling has become the standard practice in the insurance industry for insurers to estimate long term expected hurricane losses for ratemaking purposes and has been widely accepted by the regulatory bodies in the United States. Modeling is also uniformly employed in the reinsurance industry, financial world and meteorological world to determine expected prospective hurricane losses. Scientists who work on the models update those models frequently to reflect the latest understanding of meteorological science.

An example of the need and value of models in producing stable loss costs can be seen from the hurricane season of 2017 and its effects in other states. In 2017, there were multiple significant hurricane events that hit Florida, Puerto Rico and the Gulf coast. If rates for the next year in those jurisdictions were based on those hurricanes rather than on models, rates would spike up. Conversely, if rates for 2017 had been made the year before based on there being no major hurricane strikes during the preceding five year period in those jurisdictions, it would not be actuarially appropriate to assume that the absence of hurricane losses would be the expectation for 2017 or for a future prospective rating period.

My actuarial opinion is that it is actuarially unsound for regulators to justify suppressing rates by claiming that there have been no recent significant hurricane losses and promising to raise rates after a future significant hurricane. Further, from a practical and public policy standpoint, raising rates significantly following a devastating and often tragic hurricane is the worst time for the policyholder. The use of simulation models produces a stable and actuarially sound projection of the true loss potential both in terms of statewide exposure values and in terms of territorial distribution of that exposure. Modeling is far preferable to any analysis based on the happenstance of historical hurricane loss data.

The Property Rating Subcommittee and I have examined actual hurricane losses in North Carolina and have excluded those losses from the incurred losses in filings for a number of years. As done for the 2017 homeowners filing, we have replaced the actual hurricane losses with the average modeled hurricane losses from two hurricane models for the rate review underlying this filing, which I deem to be the actuarially sound practice for the hurricane peril.

Q. What did ISO furnish to AON to enable AON to perform its analysis?

A. ISO furnished to AON the North Carolina insurance exposure data on the total number of earned house years and earned insurance years by territory for the most recent year in the experience period. These data included ISO, Beach Plan, NISS and ISS data that were compiled by ISO. These data are correct to the best of my knowledge, information and belief.

Q. How were modeled hurricane losses derived?

A. AON ran two hurricane models, one from RMS and one from AIR. These two models are the most widely used and relied upon hurricane models. The use of multiple models is required by statute starting with filings made on or after October 1, 2017.

The hurricane models simulate many years of hurricanes and resulting losses for the portfolio of North Carolina exposures. The results of the two models were averaged by AON. AON also trended the losses for use in the filing. The Property Rating Subcommittee reviewed the blended model results provided by Aon and found them to be actuarially sound. By averaging the two models, the Bureau has appropriately given them equal weight. Given the legislature's mandate to use more than one model, it would be inappropriate to employ the results of just a single model. Using an average of the two models also produces an unbiased estimate for future hurricane losses. The modeled hurricane losses are shown on page D-38.

Aon also accounted for loss adjustment expenses (LAE). AON's database shows that LAE, as a percentage of hurricane losses, is lower than the LAE percentage for non-hurricane losses. Therefore, upon review of AON's database, the Property Rating Subcommittee selected a 6% provision to be applied to the modeled hurricane losses.

Q: Please explain what line 14 entitled "fixed expense per policy" on page C-2 refers to and what it represents.

A: Line 14 "fixed expense per policy" refers to the amount of the prospective premium dollar needed to cover general expenses on policies written in the prospective period. General expenses along with other acquisition expenses constitute the so-called fixed expenses. They are fixed in that they do not vary as a direct function of the premium dollar. For example, the cost of office equipment, rent and other overhead-type expenses are fixed expenses. Expenses such as commissions and premium taxes, on the other hand, are examples of expenses that rise or fall directly with premium. The number shown on line 14, $86.73, represents the dollars of general and other acquisition expenses trended to the levels anticipated to prevail during the prospective period. This is appropriate because general and other acquisition expenses are normally incurred at the time a policy is written.

Q: Please explain how the figure $86.73 on line 14 of page C-2 was derived.

A: The derivation of the $86.73 is shown on page D-32. The untrended general expense ratio of .044 and the other acquisition expense ratio of .066 are obtained from the expense data collected by the Bureau and based on an average of the 2014, 2015 and 2016 ratios. These are shown on page D-29. This average represents the average fixed expense ratio corresponding to calendar year 2015. In order to trend these to the cost levels anticipated to prevail, we project these forward to the prospective period. The average selected expense trend of 2.5% is applied over the time period from July 1, 2015 (the average date of the experience on which the general expense ratio is based) to April 1, 2020 (the average date of writing under the proposed rates). Since this ratio is relative to premium, we must also project the amount of insurance from 2015 levels to the level anticipated to be in effect on business written between October 1, 2019 and September 30, 2020. This is done by using the Current Amount Factor for 2015 of 1.033 and the premium projection factor of 1.019 which I have previously discussed. The resulting calculation is:

$$\frac{(.044 + .066) \times 1.124}{1.033 \times 1.019} = 0.118$$

This trended fixed expense ratio is then multiplied by the trended average rate for all forms of $922.45. The result is a statewide all forms fixed expense loading of $108.85. It is projected that forms 4 and 6 need 50% of the fixed expenses of Forms 1-3, 5, 7, and 8. Since general expense and other acquisition expense information is not available separately by policy form, selections were made by the Bureau's Property Rating Subcommittee to reflect the expectation that general and other acquisition expenses for the Tenant and Condominium forms are expected to be significantly smaller than the Owners forms.

A calculation is then performed to ensure that the average fixed expense loadings by form balance to the $108.85. The average dollar loading for owners forms is $120.54, as shown in column 7 on page D-32. This is adjusted to a base policy level by dividing by the average rating factor of 1.332, the premium projection factor of 1.019 and a current amount factor of 1.024. This results in a fixed expense loading of $86.73.

Q: What does Line 15 show on page C-2?

A: Line 15 is a combination of the Trended Base Class Loss Cost and the Trended General Expense and Other Acquisition expenses. The figure $555.42 is the dollar amount that is required to cover the portion of the base rate that covers losses, loss adjustment expenses, general expenses and other acquisition expenses.

Q: What does line 16 on page C-2 show?

A: This line takes into account the variable expenses, profit, contingencies and dividends. If you look at page D-29 of the filing, you can see that the commission and brokerage rounds to 12.0%, and taxes, licenses and fees round to 2.7%. The provision for dividends is 0.4%. The provision for underwriting profit is 9% statewide.

As in past homeowners filings, Bureau committees reviewed the latest available policyholder dividends payment data as well as the multi-year history of companies consistently paying dividends to policyholders. The Bureau's subcommittee concluded that a factor for expected dividends is appropriate to include in this filing. The data contained on page D-29 show that the dividends, though constituting a small percentage of premium, have been paid consistently and in material amounts over the years. Based on these facts, the Bureau has included a provision of 0.4% of premium to reflect anticipated dividends during the experience period. Given the consistency of the historical data as to the payment of dividends, this is a reasonable assumption. Reflecting dividends in a filing by a rating bureau is an actuarially sound methodology. If dividends were not reflected, the profit level in the filing would not be achieved because of dividends paid.

The 9% underwriting profit provision was selected by the Bureau's committees based on reviewing the analyses by Dr. Vander Weide and Dr. Appel. This filing also contains a 1% margin for contingencies. The profit and contingency factors are applied equally across the state.

The items known as variable expenses are also reflected in line 16. They vary in direct proportion with the premium dollar.

Combining variable expenses, profit, contingencies, and dividends results in 25.1 cents of every premium dollar being paid for these expenses. The remaining 74.9 cents pays for losses, loss adjustment expenses, general expenses and other acquisition expenses.

Q: What is the source of the percentages on page D-29 with respect to commissions and brokerage and taxes, licenses, and fees?

A: They were calculated from the 2014, 2015 and 2016 North Carolina expense call for data undertaken by the Bureau.

Q: What is the source of the percentage on page D-29 for contingencies?

A: The Bureau committees selected that factor, and I agree with it. A 1% factor has been consistently employed in past Bureau property insurance rate filings. A 1% contingency factor is a standard factor that has been used for many years across the country in property insurance ratemaking. The factor was selected by the Bureau committees based upon recognition of the systematic bias that causes actual underwriting results, analyzed over time, to be worse than the provision assumed in the rates. Reasons for this bias are many.

One reason is that property insurance involves many risks, but not all of them are observable in the experience or are adequately recognized in normal ratemaking.

In addition, the writing of property insurance in North Carolina is subject to law changes, court interpretations, jury determinations and judicial decisions that expand losses beyond what was contemplated when the policies were written.

An additional and significant factor contributing to the justification for a contingency factor is the delay, uncertainty and difficulty in obtaining needed rate increases in North Carolina. In North Carolina and a very few other states, insurance companies writing homeowners insurance are required to go through rating bureaus in order to achieve needed rate increases. This regulatory system can cause significant delay in obtaining needed rate level increases. North Carolina differs from states that rely more on competition to set rates. The system in this state requires that data be collected from almost a hundred companies writing homeowners insurance and then be aggregated and analyzed prior to making a filing for needed higher rates on behalf of all companies. As the physical size of this 2018 filing demonstrates, the amount of information required to be submitted is massive, and it takes significant time to compile that information.

Q: Would you explain line 17 on page C-2 entitled "Base Class Rate Excluding Comp. for Assess. Risk, Net Reinsurance Cost, Deviations"?

A: The net base rate per policy is calculated by dividing the Loss and Fixed expenses in line 15 by the expected loss and expense ratio in line 16. This is the net base rate before incorporating the factors for deviations, the compensation for assessment risk and the net cost of reinsurance per policy.

Q: Would you explain line 18 on page C-2 entitled "Compensation for Assessment Risk per Policy"?

A: Compensation for assessment risk is a provision that is calculated by Mr. Anderson of Milliman (see his prefiled testimony and exhibits) to reflect the cost to voluntary market insurers of maintaining sufficient capital to pay the assessments for residual market losses, to the extent required by law. If the two residual market mechanisms (the Beach Plan and the FAIR Plan) do not have sufficient capital, reinsurance and reserves to pay losses for a catastrophic hurricane event or series of events, then companies writing homeowners in the voluntary market will be assessed for such losses even if they had chosen not to write in the coastal or beach areas where the losses originated. In effect, the voluntary market companies are being required to provide free reinsurance to the residual market and its policyholders who can only find coverage in the residual market. The voluntary market companies must therefore maintain capital sufficient to cover such losses, in addition to their own losses, even though those companies have elected not to write the policies that give rise to those losses.

The compensation for assessment risk factor is the provision that must be reflected in the rates for voluntary market insurers bearing this risk of assessments from the Beach/FAIR Plans, i.e., it is the cost of the capital required to support the exposure to potential residual market assessments.

A factor to reflect this exposure began to be incorporated in homeowners filings to reflect the extremely rapid growth in the residual market's exposure that has occurred in the last decade or more years. As a result of rapid growth during that period, the residual market writes approximately 53% of policies in the beach territories (full and wind-only policies) and about 77% of the premium. In the coastal territories, the residual market writes about 40% of the policies and 55% of the premium.

As a result of legislative action in 2009, some of the exposure of the voluntary market companies to residual market assessments has been capped at one billion dollars per year. Milliman's analysis of the necessary compensation for the risk of residual market assessments incorporates this cap.

It should be noted that the $1 billion cap only applies to assessments by the Beach Plan (i.e., for losses in the beach and coastal areas) and does not apply to assessments to pay for losses in the FAIR Plan. In recent years, the FAIR Plan has rapidly increased its writings statewide. As the number of policies and amount of uncapped exposure in the FAIR Plan has grown in the last few years, that growth is reflected in the factor for the compensation for assessment risk.

The compensation for assessment risk of $25.77 is calculated by first multiplying the 2.8% provision by the current average statewide base rate of $785.15, resulting in a value of $21.98. To be incorporated in the rates, however, this provision must be adjusted to account for the commissions and the taxes, licenses and fees that the companies will need to pay on this additional premium. That is done by dividing the 21.98 by 1 minus the sum of commission and brokerage expense and taxes, licenses and fees expense as shown below:

$$\frac{21.98}{1-0.120-.027} = 25.77$$

Q: What is the source of the $228.57 for net cost of reinsurance in line 19?

A: The source of the $228.57 for net cost of reinsurance is an analysis performed for the Bureau by AON. In that analysis, AON determined the expected net cost of reinsurance for the composite one company writing homeowners in North Carolina. The need for reinsurance results from the fact that companies need to buy catastrophe reinsurance due to North Carolina's significant hurricane exposure. The net cost of that reinsurance is the expense and profit component of the reinsurance premium paid by insurers (the loss component is in the direct losses used in the overall rate determination). More details of the analysis are included in the testimony of other witnesses.

The Bureau relies upon the data that AON has accumulated as to the actual cost of purchasing reinsurance in the current reinsurance market. AON is the largest reinsurance broker and maintains a database of reinsurance transactions in the actual reinsurance market.

To calculate the net cost of reinsurance per policy, the amount of total dollars of reinsurance is divided by the number of house years for 2016 times the 2016 average rating factor, current amount factor and premium projection factor. This quantity is then divided by the expected loss and fixed expense ratio. For owners, the actual calculation is:

$$\frac{457{,}861{,}369}{1{,}924{,}189 * 1.332 * 1.024 * 1.019 * 0.749} = 228.57$$

Q: What is the source of the percentages used on line 21 for anticipated deviations?

A: As in past homeowners filings, the Bureau committees reviewed deviations. The Bureau reviewed them in conjunction with consent to rate data and surcharges on homeowners policies written in the Beach Plan. The Bureau and ISO believe that it is actuarially appropriate for filings made by rating bureaus to contain a factor to reflect expected deviations and other variations from the manual rate that would result in the filed profit level not being achieved. However, in this filing the Bureau elected to file a provision of zero for deviations.

Q: Would you explain line 23 on page C-2 entitled "Required Base Class Rate per Policy"?

A: Line 23 is the required base rate that is needed to ensure that sufficient revenue is collected to cover the losses and expenses that are expected to result from the policies written during the year following the effective date of this filing.

Q: Would you explain line 24 on page C-2 entitled "Current Average Base Class Rate"?

A: Line 24 is the current average base class rate for all of the owners policies included in the review. This rate assumes that each policyholder is buying only the base coverage.

Q: Would you explain line 25 on page C-2 entitled "Indicated Rate Level Change"?

A: Line 25 is the percentage change in the current rates that will be necessary to make the rates adequate for the cost levels that are expected to prevail in the one-year period following the effective date of the filing. The percentage change is determined by taking the required base rate per policy on line 23 and dividing it by the current base rate from line 24. This results in an indicated rate level change for the owners forms of 26.8%.

Q: Does the filing contain a revision of the present territory rate levels?

A: Yes. In connection with the overall rate level change we have been discussing, new territory rates are displayed on page A-4.

The development of the indicated relative change by territory is completed in such a way that the overall effect is to balance to the overall statewide change. This is shown in Column 12 of page C-8.

Q: How has the Bureau treated general and other acquisition expense by territory?

A: The Bureau has treated general expense and other acquisition expense as not varying by territory.

Q: Have the indications been voluntarily capped by the Bureau?

A: Yes. To minimize the impact on policyholders, the Bureau has capped the rate changes varying by policy forms and territory groups. For owners, the territories are grouped into three territory groups with indicated rate needs falling into the following "buckets": less than +30%, +30% to +40% and greater than +40%. These territory groups' indications are capped at +20%, +25% and +30% respectively. For tenants and condominium owners, the territories are grouped into three territory groups with indicated rate needs falling into the following buckets: less than +15%, +15% to +20% and greater than +20%. These territory groups' indications are capped at +5%, +10% and +15% respectively. These caps result in a reduction of the overall indicated rate level increase of 26.1% to 17.4% across all forms.

Q. Thus far in your prefiled testimony, you have been primarily describing the data and calculations for the owners forms. In general, are the calculations for tenants forms (Form 4) and condominium owners forms (Form 6) on pages C-3 and C-4, respectively, the same or similar to the calculations you have described for the owners forms on Page C-2?

A. Yes, they are, with a few exceptions as previously noted or apparent from the calculations and exhibits relating to those forms. For Form 4 (tenants) and Form 6 (condominium owners) there is no non-hurricane excess wind procedure used in determining the statewide rate level change. The external indices used for tenants and condominium owners forms reflect the items insured under those types of policies, and the selected values for premium trend of -1.4% for tenants forms and 0.2% for condominium forms differ from that of the owners forms. Other parts of the calculations are the same or similar.

Q: What other changes does the filing make for homeowners insurance?

A: The filing revises the credits for the windstorm or hail exclusion that are available in Territories 110, 120, 130, 140, 150 and 160. The derivation of these credits is shown on pages C-14 and C-15. These credits are used when policies are written "ex. wind;" i.e., referring to those situations in the beach and coastal territories where companies voluntarily write homeowners policies covering perils other than wind and hail, and the Beach Plan writes the wind and hail coverage. When this is done, there is a 5% statutory surcharge above Bureau rates. The wind only rates are also being revised in this filing. The wind mitigation credits for these territories are also being revised in accordance with the data and methodology shown in the filing. The filing also makes changes to several rating rules in both the homeowners rate manual and the wind only manual supplement to withdraw rule 522 for landlord's furnishings coverage since this coverage is already offered in rule 515, and to revise the rating algorithm for rules 501, 502, 507 and 513 to make sure the premium for coverage offered by these rules is calculated based on key premium excluding windstorm and hail for ex-wind policies. The details of these revisions are included in section B of the filing.

Q: Please turn to page A-2 of Exhibit RB-1 and explain what is shown on that page.

A: Page A-2 of Exhibit RB-1 shows the indicated and filed statewide rate level changes. The differences between these percentages are due to capping as described above.

Q: What is shown on Page A-3 of Exhibit RB-1?

A: Page A-3 shows the indicated and filed rate level change for each territory.

Q: Do you have an opinion as to whether the data utilized and the methods of calculating the indicated rate level changes contained in the filing are actuarially sound and reliable and if so, what is that opinion?

A: Yes, I have an opinion. In my opinion, the data utilized and the ratemaking methodologies used by the Bureau are based on and consistent with generally accepted actuarial principles and procedures, and the indicated rates are actuarially sound and reliable. In my opinion the ratemaking methodology is actuarially sound and produces indicated rates that meet the statutory standard of being not excessive, inadequate or unfairly discriminatory. The filed rates differ from the actuarially indicated rates because of territory caps of +20%, +25% and +30% for owners forms and +5%, +10% and +15% for tenants and condominium owners forms as described above. The filed rates are a reasonable step toward an adequate level.

Q: Do you have an opinion as to whether the indicated rate level changes contained in Exhibit RB-1 are fully justified and, if so, what is that opinion?

A: In my opinion, the indicated rate level changes are fully justified and are not excessive or unfairly discriminatory in any respect.

Q: Are there any qualifications you wish to attach to your opinion?

A: Yes. In reaching my opinion, I have relied on the accuracy of the data supplied by the Bureau, by ISS, AAIS, NISS, by the individual companies that reported their data to ISO and the other statistical agents and by the Beach Plan and FAIR Plan. I have relied on Dr. Vander Weide and Dr. Appel for the determination of the appropriate profit. I have relied on Mr. Anderson as to the compensation for assessment risk component of the rates. I have relied on AON for the net cost of reinsurance component of the rates. Additionally, I have relied upon AON and Mr. Anderson for the blended output of the AIR and RMS models. I have also relied upon and concur with the decisions and the actuarial judgments of the persons on the Bureau's committees, who in many cases are actuaries. I have applied appropriate actuarial standards when reviewing these various data sources.

Q: Does that conclude your testimony?

A: Yes, it does.

Exhibit RB-4

**PREFILED TESTIMONY
OF
MATTHEW BERRY
2018 HOMEOWNERS INSURANCE
RATE FILING BY THE
NORTH CAROLINA RATE BUREAU**

Q: Please state your name and your employer.

A: My name is Matthew Berry. I work at Allstate Insurance Company at 2775 Sanders Road, Northbrook, IL 60062.

Q: What is your educational background?

A: I received my Bachelors of Science in 2013 from Purdue University – West Lafayette with a double major in Actuarial Science (with Honors) and Applied Statistics.

Q: Do you have any additional certifications or qualifications?

A: Yes. I have been a Fellow of the Casualty Actuarial Society (CAS) since 2016 after passing each exam on my first attempt. I am a current member of the Casualty Actuarial Society Examination Committee where I volunteer for writing as well as grading committees. I also hold the Certified Specialist in Predictive Analytics credential awarded by the CAS Institute. I am a member of the American Academy of Actuaries and meet all of its continuing education requirements. I am in good standing with the CAS and the AAA.

Q: What is your employment background?

A: I have worked as an Actuary for Allstate Insurance Company's Auto and Owners lines of business for my entire career since August 2013. I started on Allstate's Actuarial Training Unit before becoming an Actuarial Analyst in 2014 for the West Central region which encompasses Colorado, North Dakota, South Dakota, Montana, Wyoming, Kansas, Nebraska, Iowa and Missouri. In 2016 I became an Actuarial Analyst for the state of California. Finally, in 2017 I was promoted to my current role as Actuarial Manager for the state of North Carolina.

Q: Do you have experience with homeowners insurance?

A: Yes. I have worked on homeowners insurance for my entire career. My most recent roles on California and North Carolina involved work on Owners, Condominium and Tenants forms, while my earlier roles solely involved the Owners form. On the Training Unit and West Central regions, I ran Owners rate-level indications where I analyzed factors that drove Owners loss and premium trends and evaluated the adequacy of segmented rates. While working on California, I lead a research project on incorporating catastrophe exposure into rate-level indications for Owners, Condo and Tenants that complied with the unique regulatory environment. That California catastrophe exposure methodology remains in place today and has been incorporated into multiple filings approved by the California Department of Insurance.

In my current role as Actuarial Manager for the state of North Carolina, I have led multiple initiatives to modernize Allstate's Owners product in the state of North Carolina through ratemaking improvements. Additionally, I have analyzed and implemented multiple North Carolina Rate Bureau ("Bureau") changes for the Owners, Condo and Tenants forms and run rate-level indications for the Owners form.

Q: **What is your role with respect to homeowners insurance at the Bureau?**

A: I am Chairman of the Property Rating Subcommittee of the Bureau. That Subcommittee has jurisdiction over homeowners insurance rates. I am also on the Property Committee of the Bureau. That Committee has jurisdiction over forms and rates for the homeowners line of insurance.

Q: **Can you explain the nature and role of the Bureau in setting manual rates?**

A: The Bureau was created by statute in 1977. Its jurisdiction and role include the establishment of policy forms and rates for residential real property insurance policies written in North Carolina. This jurisdiction includes all forms in the homeowners line of insurance. Homeowners policies in North Carolina are written by approximately 100 companies that are required by law to be members of the Bureau, as well as by the North Carolina Insurance Underwriting Association (which is commonly called the "Beach Plan"). The Beach Plan, a residual market mechanism that is discussed in more detail later in my testimony, is statutorily authorized to write homeowners policies in the 18 coastal counties using Bureau forms. Policyholders in those 18 counties have the option of seeking insurance either from a company in the voluntary market or from the Beach Plan.

The manual rates for all homeowners policies written in the state (with the limited statutory exception of any that may be written pursuant to N.C. G. S. 58-36-50) are filed by the Bureau and are subject to approval by the Commissioner of Insurance in filings such as this one. Total written premium for homeowners insurance in North Carolina is approximately $2.4 billion dollars a year.

Individual companies can charge more or less than the approved Bureau manual rates through deviations and consent to rate. Such actions by individual companies require separate steps by that individual company and are subject to the ultimate approval of the Commissioner through statutory and regulatory provisions outside of the Bureau's jurisdiction.

Consent to rate is the procedure by which companies may charge premiums that are higher than the manual rate on individual policies after obtaining the consent of the policyholder. In recent years, there has been a significant growth in the use of consent to rate on homeowners policies.

When homeowners policies are written by the Beach Plan, the premium charged is the Bureau rate with an additional surcharge prescribed by statute. Despite that surcharge, the Beach Plan is overwhelmingly the largest writer of homeowners policies in the 18 coastal counties.

The growth of consent to rate and the growth of the Beach Plan business both result from the fact that the Bureau rate level is inadequate.

Q: Can you explain the responsibilities of the Bureau's Property Rating Subcommittee?

A: The Property Rating Subcommittee (Subcommittee) is involved in the development of homeowners rating for the Bureau. Companies on the Subcommittee include American Bankers Insurance Company of Florida, American Modern Home Insurance Company, Farmers Insurance Exchange, Foremost Insurance Company, Horace Mann Insurance Company, Nationwide Mutual Insurance Company, N.C. Farm Bureau Mutual Insurance Company, State Farm Mutual Automobile Insurance Company, Travelers Indemnity Company, USAA and Allstate Insurance Company. Allstate Insurance Company chairs the Subcommittee. All representatives on the Subcommittee are actuaries and/or have extensive experience in ratemaking.

Q: Please describe how the Property Rating Subcommittee was involved in this particular Filing.

A: The Subcommittee analyzed the data and methodologies that were presented to the Subcommittee by the Bureau's consultants who are experts in their fields. This includes premium and loss data, expense data, modeled hurricane results, reinsurance analyses and economic analyses. The Subcommittee makes selections based on the data and the expertise provided by Yanjun Yao and others of Insurance Services Office (ISO); Dr. David Appel and Paul Anderson of Milliman; Dr. James Vander Weide; and Elizabeth Henderson and Steve Fiete of Aon Benfield.

Ultimately, the Subcommittee developed recommendations to the Property Committee and the Governing Committee as to rate levels that meet the statutory requirement that rates not be "excessive, inadequate, or unfairly discriminatory." Those Committees adopted the recommendations of the Subcommittee as to the rate level change required to make homeowners rates actuarially sound and in accordance with the statutory standard.

The Subcommittee has always been involved in developing and recommending to the Bureau the methodology used in property filings. The approach in this Filing is generally consistent with prior filings. It should be noted that in this Filing, two changes were made to more accurately determine the actuarially sound rates by form. First, loss development factors were calculated separately by policy form. Second, the Net Cost of Reinsurance was appropriately allocated to policy form by Aon Benfield.

Q: **Please describe the overall ratemaking equation in the Filing.**

A: The fundamental insurance ratemaking equation in this and prior filings is that premiums should equal expected losses plus expected expenses plus a margin for a fair and reasonable profit. In this Filing, the required base rate per policy is developed by adding the appropriate profit and contingencies to the estimated costs associated with the policy. The required base rate is then compared to the current base rate to determine the “indicated” rate change, which in this case is an overall 26.1% increase. The indicated rate change is the actuarially sound rate change necessary to make the rates comply with the statutory standard that they not be excessive, inadequate or unfairly discriminatory.

Q: **Why does the indicated rate change differ from the filed rate change?**

A: The indicated rate level differs from the “filed” rate level because of capping. As a result of capping, the details of which will be discussed later in my testimony, the filed rate change is for an overall 17.4% increase. The Bureau’s Governing Committee elected to cap in order to mitigate the premium impact of this Filing on policyholders.

The Bureau’s responsibility is to have rates eventually reach the full indicated rate level, but the Bureau has in the past engaged in a process of gradualism to reach the actuarially sound rate level. This practice is also common in the industry. As will be explained in greater detail below in my testimony, capping was applied across the state based on the size of the indicated changes by territory. Since the indicated changes generally were the largest in the territories in the eastern portion of the state, the impact of caps is generally greatest in those areas.

Q: **How does the methodology in the Filing account for the loss experience of all of the insurance companies and entities that write homeowners policies subject to the Bureau’s jurisdiction in North Carolina?**

A: For purposes of Bureau rate filings for the homeowners line of insurance, all homeowners loss data in the state is consolidated to essentially assume a single insurance entity (often called the “hypothetical one company”). This data contains the aggregate loss and expense experience of all homeowners policies in the state as well as the rating characteristics of every homeowners policy. Since the Beach Plan writes many of these policies, its losses and exposure data are included. ISO aggregates the data that it receives directly from insurers reporting to ISO, as well as the data compiled by other licensed statistical organizations.

There are three general types of forms in the Bureau's overall homeowners program: Owners, Tenants and Condominium forms. Page A-2 of the Filing shows the relationship between the amounts of premium written on these three types of forms, based on earned premiums at current rates (a calculation that restates premiums to today's rate level as well as to a common deductible of $1,000). The vast majority of the premium is written on the Owners forms.

Q: How are the expected losses determined?

A: This Filing uses the loss experience of the most recent five accident years for which such experience is available. These are the years ending December 31, 2012 through December 31, 2016. Using five years is consistent with prior filings, North Carolina statutes and generally accepted homeowners ratemaking practices throughout the country.

The losses, excluding hurricane and excess wind losses, are adjusted to the base class level ($1,000 deductible level) and loss development factors are applied. The loss development factors account for the fact that the ultimate losses are oftentimes different from early estimates. Reasons for loss development include but are not limited to claims that were incurred in the policy period but have not been reported yet, as well as reported claims for which their current estimate will ultimately be inaccurate.

As is explained in more detail below, hurricane losses were determined by modeling. As to non-hurricane wind losses, a smoothing factor for excess wind losses of 6.8% for Owners forms was determined based on historical experience and applied to each accident year. The use of an excess wind factor is consistent with the general actuarial approach of using either a greater number of years or a model-based approach to estimate exposures that tend to be significantly lower in frequency and higher in severity and therefore might not be properly reflected in the five years of experience data. The excess wind factor was determined based on the longstanding excess wind procedure employed by ISO in prior homeowners filings. Under that procedure, hurricane losses are first excluded. Then, the long-term excess factor is the ratio of the long-term average of the excess loss ratios to the average of the long-term normal loss ratios. Historical non-hurricane wind experience back to 1950 is considered. In my opinion, this excess wind factor is a conservative estimate of excess wind losses. This opinion comes from the actual data by year, which shows an increasing ratio of wind to non-wind losses as well as much more frequent excess wind loss years in the more recent timeframe.

Losses are also trended to reflect the change in costs. The Current Cost Index reflects this trend and is based on a Modified Consumer Price Index and the CoreLogic index. In determining the Current Amount Factor, the Subcommittee reviewed the filing's actual pure premium experience and determined that observed loss trends outpaced the Modified Consumer Price Index and the CoreLogic index. Therefore, an additional trend adjustment of 3% was selected for Owners, 0% for Tenants and 5% for Condominiums. The trended losses and loss adjustment expenses are divided by the earned house years (the exposure-base of this filing) to determine the average trended loss cost. That cost is then converted to the trended base-class loss cost by dividing by the average rating factor for each accident year.

Each of the five accident years is applied a weight. The use of differing weights is a longstanding procedure in homeowners filings that is intended to reflect responsiveness to changes while incorporating the stability of multiple years of data. The weights are consistent with prior filings and are as follows: 30% for Accident Year (AY) 2016, 25% for AY 2015, 20% for AY 2014, 15% for AY 2013 and 10% for AY 2012.

Finally, the number of house years determines the credibility of trended base loss costs. For owners, tenants and condominiums the data is considered fully credible.

Q: How are losses from North Carolina's hurricane exposure reflected?

A. The Subcommittee considered actual historical experience of hurricanes in North Carolina. However, hurricane losses are so extreme and volatile that for many years the accepted and uniform actuarial procedure for determining prospective hurricane losses has been through the use of hurricane models rather than past hurricane losses. The Bureau began doing so in 1993 using the AIR model, and that model was used uniformly and exclusively by the Bureau in all property filings until 2015 when the Bureau resolved to use two models. The Bureau first filed using two models in its 2016 Dwelling filing. In considering whether to use two models in that filing, the Subcommittee reviewed the positions and statements of the North Carolina Commissioner of Insurance, the North Carolina Department of Insurance, legislation that had been proposed in the North Carolina legislature and the practices of many companies that use two models despite the significant expense and technical difficulty compared to only using one model. The Bureau decided that an actuarially appropriate methodology for a Bureau filing is to use two models and to weight their results equally. The legislature subsequently enacted a requirement that the Bureau use more than one hurricane model in Bureau property rate filings made after October 1, 2017 which is satisfied in this Filing through the use of two models.

Prior to selecting the two modelers, the Subcommittee reviewed which modelers are most commonly relied upon by insurers, reinsurers and parties to related financial transactions. The Subcommittee found that AIR and RMS are the two most widely used hurricane modelers. Therefore, the Subcommittee selected RMS to be the second modeler and decided to continue using AIR as the Bureau has done since 1993.

In determining prospective hurricane losses in the Filing, the Subcommittee made certain to use modelers whose models have been approved by the rigorous review process of the Florida Commission on Hurricane Loss Projection Methodology. That Commission has examined hurricane models in great detail over many years and authorizes their use in Florida rate filings. It retains experts in relevant fields who review the meteorological, wind engineering, damageability, claims, statistical, computer programming, economic and other aspects of modeling in great detail. Over the years, it has reviewed advancements in various scientific disciplines related to hurricane modeling and has required modelers to reflect such advancements. It approves only those models that meet its rigorous standards.

The Subcommittee noted that it is natural and expected that model results will differ and will change over time. Different models project different loss costs in different areas. Prior to the Bureau having a second model run for the first time, the Subcommittee concluded that the actuarially sound and fair approach to the use of two models is to blend those models by averaging the loss costs of the two models. The Subcommittee determined that Aon Benfield, the world's largest reinsurance broker with extensive experience with modeling, is able to supply the modelers' results and to average the results from the two modelers. The blended results from the AIR standard catalogue and the RMS long term historical model are employed to determine the prospective hurricane losses on page C-1 of the Filing. As will be discussed further below, the AIR warm sea surface temperature catalogue and the RMS medium term model are employed in the analysis by Aon Benfield of the net cost of reinsurance factor in the filing.

Q. Is hurricane modeling designed to produce high rate levels?

A. Absolutely not. One of the great values of models is that they help stabilize rate levels. Without modeling, rate levels would fluctuate wildly following the occurrence or non-occurrence of significant hurricanes. Modeling is relied upon on all sides of insurance, reinsurance, catastrophe bond and other financial transactions to give the best and most unbiased projection of future hurricane losses. Different parties to those transactions often have opposing economic interests but nevertheless rely on models in their negotiations with each other.

Further, the Subcommittee made decisions that led to a lower estimate of hurricane loss costs than could otherwise have resulted. For example, the Subcommittee chose not to utilize the storm surge component of the models. The storm surge component is intended to reflect the fact that losses from storm surge flooding, that are not intended to be covered under a homeowners policy, are sometimes paid as wind losses after a hurricane. Additionally, for catastrophe loss expenses in this Filing, the Bureau elected to employ the loss adjustment expense factor based on AON's data as to catastrophes, a factor that is lower than the factor based on data in non-catastrophe situations.

The model versions used were RMS RiskLink v 18 and AIR Touchstone v 5. As is the customary and accepted practice in the insurance, reinsurance, and catastrophe bond industries the models were run with aggregate demand surge (AIR) and loss amplification (RMS) included. The aforementioned Florida Commission on Hurricane Loss Projection Methodology has approved the use of aggregate demand surge and loss amplification for the RMS and AIR models respectively. These aspects of the models account for the expected additional cost for supplies and labor if a very large hurricane event or series of events occurs. Experience demonstrates that when such catastrophic events have occurred, there is significant increase in demand for the limited supply of plywood, shingles, labor, hotel rooms and other necessities that in aggregate result in larger than normal claims payments. Additionally, there are delays in repairing properties, there are longer stays in hotels and there are other increased costs beyond those when smaller hurricanes occur. Loss amplification also factors in claims inflation. Claims adjusters may not investigate every claim if it is under a certain threshold, given the volume of claims they have to settle post-event in a limited amount of time.

Q: How is the expense data compiled and reviewed?

A: The Bureau conducts special expense data calls annually. Companies individually complete the special expense call, which includes reporting expense dollars as well as premiums at collected level and adjusted to manual level. The Bureau checks and compiles this information for all companies and sends it to ISO to include in the Filing.

The percentages for Commissions and Brokerage, Taxes, Licenses, and Fees are a function of written premium. The determination of whether to select expenses as a percentage of written premium or as a percentage of earned premium considers which premium best matches the time at which the expenses are incurred. The ratios for these expenses from the North Carolina special calls for 2014, 2015 and 2016 were considered. The three-year average was selected. This equates to 12% for Commissions and Brokerage and 2.7% for Taxes, Licenses, and Fees. General and Other Acquisition Expenses are determined based on a ratio to earned premium at current manual level. The North Carolina special calls for 2014, 2015, and 2016 were used for these as well. The three-year average was selected. This equates to 4.4% for General Expense and 6.6% for Other Acquisition Expense.

The loss adjustment expenses, both allocated and unallocated, are included with the losses in calculating the indication. Like the other expenses, the Subcommittee reviewed the data from NCRB's data calls. Experience from calendar years 2012-2016 was reviewed. The ratio of loss adjustment expenses to incurred losses was analyzed. Consistent with past filings, the highest and lowest years were removed to allow for more stability due to the variable nature of incurred losses. The selected loss adjustment expense was 14.8%. A lower loss adjustment expense provision for modeled hurricane losses of 6.0% was selected, based upon data from AON.

The Subcommittee reviewed expense index trends, including the All Items CPI Index (both with and without Energy) and the Total Compensation Cost Index – Insurance Carriers, Agent Brokers, and Service from the Bureau of Labor Statistics. Based on the review, the Subcommittee selected a 2.5% trend. This factor was then used to trend expense dollars from the midpoint of the expense experience period to the midpoint of the prospective loss period.

Q: Please describe the nature and the operations of the Beach Plan and FAIR Plan as they relate to homeowners insurance in North Carolina.

A. The "Beach Plan" and the FAIR Plan are both residual market mechanisms created by the North Carolina legislature to write property insurance in situations where policyholders cannot obtain insurance through the voluntary market, which consists of approximately 100 competing insurance companies.

The Beach Plan (officially the North Carolina Insurance Underwriting Association, as set up by Article 45 of the North Carolina insurance statutes) is highly relevant to homeowners ratemaking in North Carolina. It writes property insurance in the 18 coastal counties but not in the remaining 82 counties of North Carolina. In addition to writing homeowners policies, it writes dwelling fire and extended coverage and commercial property insurance policies.

The 18 coastal counties are divided into the "beach" area and the "coastal" area by statute. The beach area generally consists of areas south and east of the Inland Waterway, often called the Outer Banks or barrier islands. The coastal area consists of the remainder of those 18 counties. The Bureau subdivides these two areas into several insurance rating territories based on differences in expected loss costs. Currently there are six distinct rating territories that in aggregate contain all of the 18 coastal counties.

The Beach Plan generally writes homeowners policies on the same forms filed by the Bureau and approved for use by all Bureau member companies when writing homeowners insurance. In some instances, the Beach Plan writes the entire homeowners policy. In other instances, it writes only the wind and hail portion of such policies, with companies in the voluntary market writing the remainder of the policy. Loss data from all Beach Plan policies is considered in this Filing.

Voluntary insurance companies that desire to write homeowners insurance anywhere in North Carolina are required to be members of the Beach Plan, regardless of whether they write policies in the 18 coastal counties. Voluntary companies are statutorily prohibited from receiving a distribution or profit from the Beach Plan's operations. In effect, companies give up any opportunity to make a profit by allowing policyholders to be written in the Beach Plan. Even though the companies give up a chance to make a profit, they are nevertheless exposed to the losses sustained by the Beach Plan when those losses exceed the ability of the Beach Plan to pay.

Statutes provide for surcharges on Beach Plan homeowners policies above the Bureau manual rate. When a full homeowners policy is written by the Beach Plan, policyholders pay a 15% surcharge above the Bureau manual rate. When voluntary companies exclude the wind/hail portion of a policy and policyholders obtain that coverage through the Beach Plan, there is a 5% surcharge on the Bureau manual rate for the wind/hail coverage.

When a prospective policyholder seeks homeowners insurance in the 18 coastal counties, it is not predetermined whether that policyholder will be written by the Beach Plan or by a voluntary company. Policyholders often switch back and forth depending on which option works best for them and depending on whether a voluntary company will write them. The Beach Plan's exposures and loss experience are reported to ISO and are combined with the rest of the data as if the Beach Plan were a private insurance company for the purpose of this Filing.

The other property residual market in North Carolina is the FAIR Plan. It writes dwelling fire and extended coverage policies throughout the state. These policies provide essential property coverage. Since the FAIR Plan does not write homeowners policies, data from its policies are not included in the loss data in this Filing, but such data has always been used in dwelling fire and extended coverage rate filings. As explained below, despite the fact that the FAIR Plan does not write homeowners policies, the growing number of FAIR Plan policies increases the risk of assessments on companies writing homeowners policies in North Carolina.

Q. Was the Beach Plan intended to be the dominant writer at the coast?

A. No, by statute the Beach Plan was expressly intended to be "the market of last resort." The Beach Plan was designed to write homeowners policies only in situations where policyholders cannot obtain such policies from companies voluntarily writing homeowners policies in the competitive market. Essentially, the reason that companies are unwilling to write policies voluntarily is that the Bureau manual rates they are permitted to charge in the voluntary market are inadequate. As shown in the Filing, the current Bureau manual rate is far too low in the beach and coastal territories. Even after the 15% or 5% surcharge is applied, depending on whether it is a full homeowners policy or a wind/hail peril policy, the rate charged by the Beach Plan is frequently much lower than the actuarially sound rate.

Q. Please comment on the size and financial condition of the Beach Plan as those factors impact homeowners ratemaking.

A. A very large percentage of homeowners premium in the 18 coastal counties goes to the Beach Plan. In the "beach" territories, approximately 77% of the homeowners premium is written by the Beach Plan, and in "coastal" territories approximately 55% of the homeowners premium is written by the Beach Plan. On a statewide basis, approximately 13% of homeowners premium is written by the Beach Plan.

Another factor contributing to the size of the Beach Plan is the fact that the consent to rate process is impractical in the beach and coastal areas. The consent to rate process permits companies in the competitive market to charge a rate higher than the Bureau rate with the consent of the policyholder. Doing so at the beach and coast is impractical since the actuarially sound rate companies seek to charge is much higher than the Beach Plan rate, even with the surcharge. Companies often encourage their customers to obtain a lower premium policy by referring them to the Beach Plan for a wind/hail policy. Doing so directly benefits their customers but may allow the company to retain the customer's business on the non-wind/hail coverage.

Thus, while the Beach Plan is intended by statute to be the market of last resort, it appears to have become the market of first resort in many instances. As stated above, the reason for this fact is largely that the currently approved Bureau manual rates are highly inadequate for the risk in those 18 coastal counties. Otherwise, with approximately 100 companies competing to write homeowners insurance in the state, normal competitive market forces would come into play and companies would write voluntarily.

Q. What are some of the other consequences of the inadequacy of Bureau manual rates at the coast?

The prospect of a Beach Plan assessment affects the willingness of a company to write in North Carolina. A company knows that following a powerful hurricane, it will be subject to Beach Plan assessments for huge losses on business that the company did not choose to write in the first place. Companies that elect to write in the state make a further decision as to the extent that they will do so in areas of the state such as the beach and coastal territories.

The fact that rates at the beach and coast are significantly inadequate creates a dilemma for the Beach Plan. The inadequacy of rates diminishes the Beach Plan's ability to build up sufficient surplus from premiums in the "good" years, when there are no hurricanes, to provide a cushion to pay losses in the "bad" years when one or more severe hurricanes occur. Even in the good years, the Beach Plan still pays claims for more frequent insured events such as fires, thefts, non-hurricane wind, personal injury, etc.

The Beach Plan addresses the risk of large losses, particularly from Hurricane events, by purchasing reinsurance and engaging in the catastrophe bond market.

However, whatever amounts the Beach Plan spends to protect itself by use of reinsurance and catastrophe bonds is at the expense of building up surplus in those good years when hurricanes do not affect North Carolina.

The greater the extent that homeowners rates are inadequate, the more policies the Beach Plan writes because of inadequate rates. The more policies written, the greater the chance that Beach Plan losses will have to be paid by companies throughout the state. This can be a vicious cycle.

Q. Please explain assessments on companies and policyholders that will occur when a catastrophic hurricane hits the coastal area and exceeds the ability of the Beach Plan to pay losses.

A. When a truly catastrophic hurricane occurs, the inadequacy of rates at the beach and coast will lead to one and possibly two types of assessments to pay for Beach Plan losses: "non-recoupable assessments" on the companies that voluntarily write homeowners insurance throughout the state and "catastrophe recovery charges" on all property insurance policyholders throughout the state. These assessments are established by the Beach Plan statutes, which essentially provide that assessments will be made after the Beach Plan's surplus and reinsurance are exhausted. The first assessment to occur is on companies and is capped at $1 billion dollars. The catastrophe recovery charge on property insurance policyholders statewide will occur following exhaustion of that assessment on companies. Mr. Anderson's testimony goes into detail as to this process and the Beach Plan's current reinsurance program.

Since the assessment will be imposed in accordance with a formula reflecting each company's property insurance writings across the entire state, a company will be assessed even if it elected not to write any homeowners policies in the beach and coastal counties. Other witnesses have quantified the cost of this potential $1 billion assessment to the companies, and it is reflected in the factor called the "compensation for assessment risk." The Property Rating Subcommittee reviewed and approved this factor.

Once the $1 billion assessment on the companies is exhausted, the catastrophe recovery charge on policyholders throughout the state could be up to 10% of their premium per year. The voluntary companies will be required to administer the charge by billing and collecting the charge from policyholders. The 10% charge would continue annually as long as necessary to collect the amounts that were paid out for Beach Plan losses.

The ultimate effect of the regulatory system in North Carolina is that rates for policyholders insured through the Beach Plan area are being subsidized, both explicitly and implicitly. The explicit subsidy arises from the fact that insurance companies have to pay the first $1 billion of losses over and above the Beach Plan's existing surplus and reinsurance, and the Filing passes along this cost in the form of the provision for the compensation for assessment risk. This provision is paid by policyholders throughout the state, not just those in the Beach Plan. In addition, there is the further subsidy in that policyholders across the state face the possibility of the 10% catastrophe recovery charge. Another way of looking at the situation is that the insurance industry and policyholders across the state are providing free reinsurance to the Beach Plan.

It is important to note that the companies' exposure to losses of the FAIR Plan are not subject to the $1 Billion cap that is applicable to Beach Plan losses. While the FAIR Plan does not write homeowners policies, it writes dwelling fire and extended coverage policies statewide, except in the beach territories. Such policies are vulnerable to losses from catastrophic hurricanes. Companies are subject to unlimited assessments from these losses. The FAIR Plan has experienced significant growth in the years before and during the experience period of this Filing.

Q: **Has the risk of residual market assessments been considered in the Filing?**

A: Yes. The prospect of residual market assessments is a cost of doing business in the state and is a condition for writing homeowners insurance. This cost is imposed by state law. Two residual market mechanisms write property insurance policies in North Carolina: the "Beach Plan" and the FAIR Plan. As mentioned above and as set forth in Mr. Anderson's testimony, in the event that hurricanes render the Beach Plan unable to pay claims, a non-recoupable assessment will be imposed of up to $1 billion dollars annually on the voluntary companies. Losses from the FAIR Plan are also assessed on the companies, but without the existence of any cap on those assessments. Assessments by the Beach Plan and the FAIR Plan constitute a significant consideration for companies choosing to do business in North Carolina and selecting the amount of insurance they are willing to write. The voluntary companies need to have and retain capital in order to contemplate these potential assessments. The Subcommittee reviewed an analysis done by Milliman on the compensation for this assessment risk. The analysis is explained in the testimony of Mr. Anderson. Based on this analysis, the Subcommittee determined that a 2.8% factor is appropriate to reflect in the Filing. It is important to note that the assessment potential changes with the surplus level of the Beach Plan and with the size of the FAIR Plan. The assessment percentage would be much higher if the exposure for the voluntary market companies for Beach Plan losses were potentially greater than $1 billion.

Q: **Was the cost of reinsurance considered in the Filing?**

A: Yes. There are numerous scenarios where the potential losses due to a single hurricane are far greater than the entire premium collected by all the companies for the entire state of North Carolina. To remain viable long-term and protect against insolvency, the industry must purchase reinsurance to account for these scenarios. The costs associated with such reinsurance are costs of doing business in the state.

Q: What is reinsurance?

A: Simply, reinsurance is insurance for insurers. When insurers are aware of situations in which the potential losses are greater than the company is willing or able to tolerate, they will frequently purchase reinsurance to mitigate those situations. Additionally, insurers may issue catastrophe bonds to mitigate those situations. Essentially the insurers will use a portion of the premium to purchase reinsurance. This is common across the industry, including at Allstate.

Q: How are the reinsurance costs reflected in the Filing?

A: The costs of reinsurance are incorporated through the work of Aon Benfield, the largest reinsurance broker in the world. Based on Aon Benfield's extensive data and experience related to reinsurance transactions, Aon Benfield advised the Subcommittee as to the parameters of the reinsurance program that the hypothetical one company for which rates are being made in the Filing would reasonably select. Aon Benfield then applied these selected parameters to calculate the net cost of reinsurance. As the world's largest reinsurance broker, Aon Benfield maintains extensive and up to date data on reinsurance transactions and has vast experience as to those transactions. The parameters that were recommended by Aon Benfield and selected by the Subcommittee include the attachment and exhaustion points, the placement percentage, the perils that are commonly included in reinsurance treaties for a hurricane prone state such as North Carolina, and the inclusion of one reinstatement. The parameters reflect the amount of reinsurance that the hypothetical one company should purchase to optimally protect its solvency. Consistent with Aon Benfield's extensive experience and advice, the Subcommittee recommended the use of AIR's warm sea surface temperature event set and RMS' medium term model as the bases for determining the provision for reinsurance costs. Reinsurers, primary insurers and other parties customarily use such models to determine reinsurance rates. The results from those two models were used in the calculation of the net cost of reinsurance displayed on page C-2 of the Filing.

Q: Can reinsurance payments by each company writing in North Carolina be allocated and aggregated for use in this Filing?

A: No. It is not possible to measure reinsurance costs of the various insurance companies applicable to homeowners insurance written in North Carolina. The first reason is that companies often do not enter reinsurance treaties exclusive to only one line of insurance. The approximately 100 individual insurance companies have hundreds of different treaties that cover many different lines of insurance (automobile, commercial property, other residential property, etc.) as well as homeowners. Second, reinsurance treaties often are not exclusive to just

North Carolina or for only one peril. Companies negotiate reinsurance treaties in many different geographical areas (portion of a state, single state, multiple states, Atlantic Basin areas, countrywide, international, etc.), and covering many different perils (such as automobile flooding, hurricanes, direct earthquake losses, tornados, wildfires, etc.). Finally, reinsurance for a given set of risk exposure (such as North Carolina homeowners) is often not limited to one treaty. An individual company will purchase reinsurance from different reinsurers for different layers of loss under different types of treaties or also use catastrophe bonds for different layers of loss. For these reasons, it is not feasible to measure reinsurance costs specific to North Carolina and specific to the line of homeowners insurance in each individual treaty or bond or for each individual company.

It is important to note that the calculation of the net cost of reinsurance in this Filing relates exclusively to the loss costs in North Carolina. It would not be appropriate for North Carolina insureds to assume the reinsurance costs of exposures in other states and vice-versa. Aon Benfield's database is based on actual reinsurance transactions and on conditions in the current reinsurance market and is updated regularly to reflect changes in actual market conditions. Aon Benfield's database and expertise are a great source of information as to actual reinsurance practices and costs for the hypothetical one company writing homeowners insurance in North Carolina.

Q. Is the reason that the Beach Plan purchases reinsurance similar to the reason that the hypothetical one company must purchase reinsurance?

A. Yes. The Beach Plan and companies must purchase reinsurance for essentially the same reasons. Likewise, for ratemaking purposes, the hypothetical "one company" for which the Bureau files rates must purchase reinsurance. That hypothetical one company is faced with numerous realistic hurricane loss scenarios that far exceed its ability to pay.

The hypothetical one company (voluntary companies plus the Beach Plan) receives about $2.4 billion in homeowners written premium annually in North Carolina. There are many scenarios in which hurricane losses are projected to be many multiples of that amount. If an individual company experienced a loss many multiples of its collected premium, it would first look to its surplus and reinsurance. If the surplus and reinsurance were not sufficient, then that company would become insolvent. Individual companies do not have a backstop like the Beach Plan which can call upon the companies and policyholders across the state to pay its claims. There has been a history of company insolvencies following major hurricanes in the United States. Following Hurricane Hugo that hit Charleston, South Carolina and Hurricane Andrew that hit Florida, there were multiple insolvencies.

It would be irresponsible and imprudent for the hypothetical one company not to purchase reinsurance. The net cost of reinsurance analysis prepared by Aon Benfield reflects the need of that hypothetical one company to purchase and maintain reinsurance. Aon Benfield has access to the world's largest database of reinsurance transactions and uses that database to calculate the net cost of reinsurance provision used in the Filing. The Rating Subcommittee reviewed and approved Aon Benfield's analysis.

Q: Have dividends to policyholders been considered in the Filing?

A: Yes. According to the Statement of Principles Regarding Property and Casualty Insurance Company Ratemaking, the rates should contemplate the cost of policyholder dividends. Policyholder dividends are returns of premium to a company's policyholders and are not the same as dividends that publicly traded stock companies (owned by shareholders) pay to their shareholders. The Subcommittee reviewed policyholder dividends over the years 2012 through 2016. It noted that payments have consistently been made and in material amounts. Therefore, the Filing has incorporated a provision of 0.4% of premium to reflect anticipated dividends during the prospective period for which rates are being made in this Filing. Reflecting anticipated dividends is an actuarially sound methodology in a rating bureau context such as that in North Carolina where rates are made for all companies.

Q: Have deviations been considered in the Filing?

A: Yes. Deviations are a cost of doing business in North Carolina for the insurers that have them approved by the Department. They are a cost of risk transfer and therefore need to be contemplated in the rates according to the Statement of Principles Regarding Property and Casualty Insurance Ratemaking. They constitute "savings" that must be considered pursuant to statute. Companies are required to report their approved deviations. If rates were set without contemplating them, the industry would not achieve the profit provision included in the rates. The Subcommittee reviewed the net variances from manual premium from deviations, consent to rate and Beach Plan surcharges and did not elect to include a factor for deviations in this Filing.

Q: Did the Subcommittee consider the profit provision?

A: Yes. The Subcommittee picked a conservative underwriting profit provision. Dr. Vander Weide provided a range for the current cost of capital, which was relied on by the Subcommittee. The range varied from 9.0% to 13.8% on net worth.

The committee selected an underwriting profit provision of 9.0% of premium.