Notice to Manualholders

PERSONAL LINES
HOMEOWNERS POLICY PROGRAM MANUAL – MULTISTATE RULES
NOTICE HO-MU-2011-RU-001

CAUTION

Refer to state Notices for announcement of the use of this revision in individual jurisdictions.

INSTRUCTIONS TO MANUALHOLDERS

Revised manual pages are enclosed. If your company has adopted this revision, you should insert these pages into your manual.

EFFECTIVE DATE

Refer to individual state Notices for effective date language.

CHANGE(S)

This notice presents the 2011 revisions to the Homeowners Policy Program Manual – General Rules. The following rules were revised:

- Rule **102.** Description Of Coverages has been revised to more closely reflect coverages provided by the individual Homeowners policy forms.
- Rule **104.** Eligibility, Paragraph **H.** Residence Held In Trust has been revised to provide that a Homeowners policy may be issued to an occupant of a one-, two-, three- or four-family dwelling or condominium unit when legal title to the dwelling or unit is held in trust and one of the occupants is the grantor/settlor of the trust.
- Rule **106.** Protection Classification Information has been revised to refer manual users to the ISO Community Mitigation Classification (CMC) Manual when determining the ISO public protection classification information.
- Rule **210.** Refer To Company has been revised to introduce a facultative reinsurance rule.
- Rule **409.** Replacement Cost Loss Settlement For Certain Non-building Structures has been revised to indicate that replacement cost loss settlement applies to certain inground or semi-inground swimming pools, therapeutic baths and hot tubs, and to introduce a new rating factor for this option.
- Rule **410.** Building Code Effectiveness Grading has been revised to include references to the Community Mitigation Classification Manual.
- Rule **503.** Business Property – Increased Limit, Paragraph **B.** Off-premises, has been revised to reflect an increase in coverage for property away from the residence premises used primarily for business purposes from $500 to $1,500.
- Rule **511.** Supplemental Loss Assessment Coverage has been revised to add "supplemental" to the title of the rule.
- Rule **515.** Personal Property has been revised to reflect the introduction of Paragraph **C.** Increased Limit – Self-storage Facilities and the new description of limits for Electronic Apparatus in Paragraph **E.** Increased Special Limits Of Liability.
- Rule **521.** Limited Water Back-up And Sump Discharge Or Overflow Coverage has been revised to reflect that increased limits of coverage are now available.
- Rule **526.** Residence Held In Trust has been revised to reflect changes as a result of the introduction of new Trust Endorsement **HO 06 15.**

- Rule **610.** Personal Injury Coverage has been revised to accommodate a new Personal Injury Coverage (Aggregate Limit Of Liability) Endorsement **HO 24 10** and to specify that Personal Injury Coverage Endorsement **HO 24 82** provides coverage with a limit of liability on an "any one offense" basis.
- Rule **611.** Incidental Low Power Recreational Motor Vehicles has been revised to delete text in Paragraph **A.** that is reflected in the policy and recognize the newly added reference to coverage not applying to motorized scooters in Incidental Low Power Recreational Motor Vehicle Endorsement **HO 24 13.**
- Rule **616.** Optional Property Remediation For Escaped Liquid Fuel And Limited Lead And Escaped Liquid Fuel Liability Coverages has been revised to reflect changes in the standards for lead safe level and remove reference to Rating Information For Property Remediation For Escaped Liquid Fuel And Limited Lead And Escaped Liquid Fuel Liability Endorsement **HO 05 83.**

The following rules are being introduced :

- Rule **531.** Limited Coverage For Theft Of Personal Property Located In A Dwelling Under Construction is being introduced to accommodate new Limited Coverage For Theft Of Personal Property Located In A Dwelling Under Construction Endorsement **HO 06 07.**
- Rule **617.** Canine Liability Exclusion is being introduced to accommodate new Canine Liability Exclusion Endorsement **HO 24 77.**

The following rule was withdrawn:

- Rule **529.** Modified Other Insurance And Service Agreement Condition was withdrawn to complement the withdrawal of Unit-owners Modified Other Insurance And Service Agreement Condition Endorsement **HO 17 34.**

Additional Rules were previously filed and implemented on an individual state basis for eventual multistate application. Now that the Additional Rules apply in most states, they are being relocated to the following General Rules:

- Rule **305.** Loss History Rating Plan
- Rule **529.** Limited Fungi, Wet Or Dry Rot, Or Bacteria Coverage
- Rule **530.** Identity Fraud Expense Coverage

Exceptions to the General Rules were previously filed and implemented on an individual state basis for eventual multistate application. Now that the exceptions apply in most states, they are being relocated to the following General Rules:

- Rule **303.** Ordinance Or Law Coverage, Paragraph **2.**
- Rule **406.** Deductibles, multistate text in Paragraphs **A.** through **C.3.**
- Rule **505.** Earthquake Coverage, Paragraphs **D.6.** and **D.7.**
- Rule **513.** Ordinance Or Law Increased Amount Of Coverage, Paragraph **B.**

The following rules have been revised to make minor editorial revisions:

- Rule **101.** Limits Of Liability And Coverage Relationships
- Rule **204.** Multiple Company Insurance
- Rule **407.** Additional Amount Of Insurance
- Rule **518.** Sinkhole Collapse Coverage
- Rule **527.** Student Away From Home
- Rule **528.** Home Business Insurance Coverage
- Rule **605.** Other Structures Rented To Others – Residence Premises

COMPANION REVISION

We are simultaneously revising our forms, which are being distributed under a separate Notice.

REVISED PAGE(S)

HO-i thru HO-xii

HO-1 thru HO-43

PAGE CHECKLIST

Included in this distribution is a page checklist displaying the latest page numbers and edition dates.

REFERENCE INFORMATION (FOR COMPANY USE ONLY)

Circular Reference(s):

- Refer to individual state notices for the approval/implementation circular references.
- LI-HO-2010-076 (04/16/2010) Homeowners 2011 Multistate Rules Revision To Be Submitted

Filing Reference(s):

- HO-2010-RRU10

MANUAL DISTRIBUTION NOTICE

We want to know:

- If this mailing was **not** properly addressed.
- If you have **not** received the correct quantity.
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- Contact your company manual coordinator at your home office.

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HOMEOWNERS POLICY PROGRAM MANUAL
PAGE CHECKLIST – MULTISTATE

THIS MANUAL PAGE CHECKLIST DISPLAYS THE LATEST PAGE INFORMATION AS OF **5-11.**

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

IF YOUR MANUAL PAGES DO NOT COINCIDE WITH THIS LISTING, CONTACT THE CUSTOMER SUPPORT CENTER FOR THE NECESSARY MATERIAL TO UPDATE YOUR MANUAL.

	EDITION			EDITION	
PAGE NUMBER	**NUMBER**	**DATE**	**PAGE NUMBER**	**NUMBER**	**DATE**
HO-MU-2011-RU-001	–	5-11	HO-1 thru HO-41	2nd	5-11
			HO-42, HO-43	1st	5-11
HO-i thru HO-v	2nd	5-11			
HO-vi	3rd	5-11	HO-RX-1 thru HO-RX-22	1st	12-09
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PART I
COVERAGE AND DEFINITION TYPE RULES

RULE 100.
INTRODUCTION

A. About The Homeowners Manual

The Homeowners Policy Program provides property and liability coverages, using the forms and endorsements specified in this Manual. This Manual contains the rules and classifications governing the writing of the Homeowners Policy. The rules, rates, forms and endorsements of the company for each coverage shall govern in all cases not specifically provided for in this Manual.

B. Manual Structure

1. Contents

The Manual is divided into two primary sections, multistate general rules and state rules and rates.

2. General Rules

These rules are grouped into the following categories:

a. Part **I** – Coverage And Definition Type Rules,

b. Part **II** – Servicing Type Rules,

c. Part **III** – Base Premium Computation Rules,

d. Part **IV** – Adjusted Base Premium Computation Rules,

e. Part **V** Section **I** – Property – Additional Coverages And Increased Limits Rules,

f. Part **VI** Section **II** – Liability – Additional Coverages And Increased Limits Rules, and

g. Part **VII** Section **II** – Liability – Other Exposures Increased Limits Rules.

3. State Rules And Rates

These rules are grouped into the following categories:

a. Exceptions and Additional Rules,

b. Special State Requirements,

c. Territory Definitions,

d. Base Class Premium Tables,

e. Classification and Key Factor Tables, and

f. Rates, Charges and Credits.

Also, where ISO does not publish any state pages containing premiums, rates, charges and credits expressed in dollars and cents, each company using this Manual should furnish its manualholders with the state rate pages containing this information.

4. Form References

The Manual refers to Forms **HO 00 02, HO 00 03, HO 00 04, HO 00 05, HO 00 06** and **HO 00 08**. These Form references are identified as follows:

a. Homeowners 2 Broad Form **HO 00 02,**

b. Homeowners 3 Special Form **HO 00 03,**

c. Homeowners 4 Contents Broad Form **HO 00 04,**

d. Homeowners 5 Comprehensive Form **HO 00 05,**

e. Homeowners 6 Unit-Owners Form **HO 00 06** and

f. Homeowners 8 Modified Coverage Form **HO 00 08.**

RULE 101.
LIMITS OF LIABILITY AND COVERAGE RELATIONSHIPS

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**	30% of **A**
HO 00 04	30% of **C**
HO 00 06	50% of **C**
HO 00 08	10% of **A**

Table 101.A.1. Property Damage Limits

RULE 101.
LIMITS OF LIABILITY AND COVERAGE RELATIONSHIPS (Cont'd)

2. Section II – Liability (All Forms)

Coverage E – Personal Liability And Coverage F – Medical Payments∗
Refer to Rule **301.** in the state classification pages.
∗ Unless otherwise stated, Coverage **E** limits apply on an "occurrence" basis; Coverage **F** limits apply on an "each person" basis.

Table 101.A.2. Liability Limits

B. All Forms

The limit of liability for Coverages **C** or **D** of Section **I** and **E** or **F** of Section **II** may be increased.

C. Form HO 00 02, HO 00 03 Or HO 00 05

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 HO 00 06

The limit of liability for Coverage **A** of Section **I** may be increased.

E. Form HO 00 08

1. Section I

The following are the only Section **I** options available with this form:

- **a.** $100 Section **I** Deductible,
- **b.** Higher Optional Deductibles,
- **c.** On- and Off-premises Theft Coverage Increase,
- **d.** Actual Cash Value Loss Settlement of Windstorm or Hail Loss to Roof Surfacing, and
- **e.** Reduced Coverage **C** Limits.

2. Section II

All options available for Form **HO 00 02** are available for Form **HO 00 08.**

RULE 102.
DESCRIPTION OF COVERAGES

The following is a general description of the coverages provided by the individual Homeowners Policy forms. The policy should be consulted for exact contract conditions.

A. Section I – Property – Perils Insured Against

Perils	HO 00 02	HO 00 03	HO 00 04 And HO 00 06	HO 00 05	HO 00 08
Fire or Lightning	Yes	Yes*	Yes	Yes**	Yes
Windstorm or Hail, Explosion, Riot or civil commotion, Aircraft, Vehicles or Smoke	Yes	Yes*	Yes	Yes**	Yes
Vandalism or malicious mischief	Yes	Yes*	Yes	Yes**	Yes
Theft	Yes	Yes*	Yes	Yes**	Yes
Volcanic eruption	Yes	Yes*	Yes	Yes**	Yes
Falling objects, Weight of ice, snow or sleet, Accidental discharge or overflow of water or steam, Sudden and accidental tearing apart of a heating system or appliance for heating water, Freezing, Sudden and accidental damage from artificially generated electrical current.	Yes	Yes*	Yes	Yes**	No
Additional risks with certain exceptions	No	Yes***	No	Yes****	No
*	Special Coverage (Coverages **A** and **B**), Named Peril (Coverage **C**)				
**	Special Coverage (Coverages **A, B** and **C**)				
***	Special Coverage (Coverages **A, B** and **D**)				
****	Special Coverage (Coverages **A, B, C** and **D**)				

Table 102.A. Perils Insured Against

B. Section II – Liability – All Forms

1. Coverage E – Personal Liability

Covers payment on behalf of any insured for all sums which the insured shall become legally obligated to pay as damages because of bodily injury or property damage arising out of an insured's premises or personal activities.

2. Coverage F – Medical Payments To Others

Covers medical expenses incurred by persons, other than the insured, who sustain bodily injury caused by an accident arising out of an insured's premises or personal activities.

RULE 103.
MANDATORY COVERAGES

It is mandatory that insurance be written for all coverages provided under both Sections **I** and **II** of the Homeowners Policy.

RULE 104.
ELIGIBILITY

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

A Homeowners Policy may be issued:

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 and premises liability may be covered using Additional Insured Endorsement – **HO 04 41;** or

RULE 104.
ELIGIBILITY (Cont'd)

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 and premises liability may be covered using Additional Insured Endorsement **HO 04 41;** or
4. To cover dwellings in the course of construction provided the policy is issued only in the name of the intended owner-occupant(s) of the dwelling.
5. 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 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 Additional Insured Endorsement **HO 04 41.** A separate Homeowners Policy **HO 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 Policy, without additional premium charge, to cover the interest of a non-occupant joint owner in the building and for premises liability. Use Additional Insured Endorsement **HO 04 41.**

B. Form HO 00 04

A Homeowners Policy may be issued 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 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 HO 00 06

A Homeowners Policy may be issued to the owner(s) of a condominium or cooperative unit which is used exclusively for residential purposes (except as provided in Paragraphs **F.** and **H.**). 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 Policy may be issued to cover a seasonal dwelling.

E. Mobile Home, Trailer Home Or House Trailer

A Homeowners 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 Rules **509.** and **510.** for Section **I** Coverage and Rules **607.** and **608.** for Section **II** Coverage. When it is conducted from an Other Residence, only Section **II** Coverage is available. Refer to Rules **607.** and **608.**

G. Farm Property

A Homeowners Policy shall not be issued to cover any property to which farm forms or rates apply under the rules of the company, except as noted in following Paragraphs **1.** and **2.:**

1. **Section I – Property – Livestock Collision**

   Coverage may be provided for loss due to collision which results in the death of covered livestock owned by an insured and kept either on or away from the residence premises as specified in Rule **520.**
2. **Section II – Liability Coverage**

   Certain farm liability exposures may be covered. Refer to Rules **614.** and **615.**

H. Residence Held In Trust (All Forms Except HO 00 04)

A Homeowners 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;

RULE 104.
ELIGIBILITY (Cont'd)

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.** for the rule of application.

RULE 105.
SECONDARY RESIDENCE PREMISES

A. Application

Homeowners coverage on a secondary residence premises shall be provided under a separate policy. The rules of this Manual apply except that Section **II** Coverage is not mandatory for the secondary residence policy when the same company insures the initial and secondary residence.

B. Premium Adjustment

When coverage is provided on the initial and secondary residence premises under separate policies in the same company, the following premium adjustments should be made:

1. Reduce the Base Premium for the policy covering the secondary residence by the company credit;

2. Refer to state company rates for credit; and

3. Add the charge for Other Insured Location Occupied by Insured, developed from Rule **602.,** to the policy covering the initial residence.

RULE 106.
PROTECTION CLASSIFICATION INFORMATION

Determine the ISO Public Protection classification; refer to ISO's Community Mitigation Classifications (CMC) Manual, applicable to the municipality or classified area where the insured property is located.

RULE 107.
CONSTRUCTION DEFINITIONS

A. Frame

Exterior wall of wood or other combustible construction, including wood iron-clad, stucco on wood or plaster on combustible supports, or aluminum or plastic siding over frame.

B. Masonry Veneer

Exterior walls of combustible construction veneered with brick or stone.

C. Masonry

Exterior walls constructed of masonry materials such as adobe, brick, concrete, gypsum block, hollow concrete block, stone, tile or similar materials and floors and roof of combustible construction (Disregarding floors resting directly on the ground).

D. Superior Construction

1. Non-Combustible

Exterior walls and floors and roof constructed of, and supported by metal, asbestos, gypsum, or other non-combustible materials.

2. Masonry Non-Combustible

Exterior walls constructed of masonry materials (as described in Paragraph **C.**) and floors and roof of metal or other non-combustible materials.

3. Fire Resistive

Exterior walls and floors and roof constructed of masonry or other fire resistive materials.

E. Mixed (Masonry/Frame)

A combination of both frame and masonry construction shall be classed as frame when the exterior walls of frame construction (including gables) exceed 33 1/3% of the total exterior wall area; otherwise class as masonry.

RULE 108.
SEASONAL DWELLING DEFINITION

A seasonal dwelling is a dwelling with continuous unoccupancy of three or more consecutive months during any one year period.

RULE 109.
SINGLE AND SEPARATE BUILDINGS DEFINITION

A. Single Building

All buildings or sections of buildings which are accessible through unprotected openings shall be considered as a single building.

B. Separate Building

1. Buildings which are separated by space shall be considered separate buildings.

2. Buildings or sections of buildings which are separated by:

a. A 6 inch reinforced concrete or an 8 inch masonry party wall; or

b. A documented minimum two hour non-combustible wall which has been laboratory tested for independent structural integrity under fire conditions;

which pierces or rises to the underside of the roof and which pierces or extends to the innerside of the exterior wall shall be considered separate buildings. Accessibility between buildings with independent walls or through masonry, party walls as described shall be protected by at least a Class A Fire Door installed in a masonry wall section.

RULES 110. – 200.
RESERVED FOR FUTURE USE

PART II
SERVICING TYPE RULES

RULE 201.
POLICY PERIOD

The policy may be written for a period of:

A. One year and may be extended for successive policy periods by extension certificate based upon the premiums, forms and endorsements then in effect for the company.

B. Three years prepaid at three times the annual premium.

C. Three years in annual installments. Each annual installment shall be the annual premium then in effect for the company. Use Deferred Premium Payment Endorsement **HO 04 18.**

D. Less than one year or 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 202.
CHANGES OR CANCELLATIONS

A. It shall not be permissible to cancel any of the mandatory coverages in the policy unless the entire policy is cancelled.

B. If insurance is increased, cancelled or reduced, the additional or return premium shall be computed on a pro rata basis, subject to the minimum premium requirement.

RULE 203.
MANUAL PREMIUM REVISION

A manual premium revision shall be made in accordance with the following procedures:

A. The effective date of such revision shall be as announced.

B. The revision shall apply to any policy or endorsement in the manner outlined in the announcement of the revision.

C. Unless otherwise provided at the time of the announcement of the premium revision, the revision shall not affect

  1. In–force policy forms, endorsements or premiums, until the policy is renewed, or

  2. In the case of a Deferred Premium Payment Plan, in–force policy premiums, until the anniversary following the effective date of the revision.

RULE 204.
MULTIPLE COMPANY INSURANCE

A. Application

  1. Section I Property

    a. When the companies agree to do so, insurance under Section **I** may be divided among two or more companies on a percentage basis.

    b. The same form, Section **I** endorsements and deductibles, must apply to all policies.

    c. All Section **I** Coverages must be divided.

    d. Scheduled Personal Property Coverages may be divided.

  2. Section II Liability

  Insurance under Section **II** shall not be divided among two or more companies.

B. Endorsement

Use Multiple Company Insurance Endorsement **HO 04 78.**

C. Premium

  1. Compute the premium for the Total Coverage **A** limit of liability and additional Section **I** Coverages, if any, from the manual of each company.

  2. Each company subtracts the credit for deleting Section **II** Coverage from the premium computed as instructed in Paragraph **1.**

  3. Refer to state company rates for the Section **II** credit.

  4. Allocate to each company their percentage participation of the net total premium under Paragraph **2.**

  5. The company retaining the Section **II** Coverages receives, in addition to the percentage share of its premium under Paragraph **4.,** the amount subtracted from its premium under Paragraph **2.** plus any premium for additional Section **II** limits and exposures.

D. Example

  1. The example following Paragraph **4.** illustrates two companies equally sharing the Section **I** Property Coverages and Limits, with one company, Company B, retaining all the Section **II** Liability Coverages and Limits.

  2. Company A and B each enter:

    a. On their respective policy Declarations, the actual limits for Section **I** Coverages **A, B, C** and **D** for which they are responsible; and

    b. On Multiple Company Insurance Endorsement **HO 04 78,** the total limits that apply to each of the Section **I** Coverages.

RULE 204.
MULTIPLE COMPANY INSURANCE (Cont'd)

3. Company B also enters, on its policy Declarations, the total limits that apply to Section **II** Coverages **E** and **F.**
4. Premiums shown are for illustration only and are not actual premiums.

Each Company's:	Company A	Company B
Percentage share	50%	50%
Premium for $100,000 Cov. **A**	$ 620	$ 606
Section **II** Credit	18	18
Net Premium for $100,000 Cov. **A**	602	588
Net Premium for $50,000 Cov. **A**	301	294
Premium for:		
Section **II** Coverage	–	18
Watercraft Option	–	36
Each Company's Policy Premium	301	348

Table 204.D.4. Example

RULE 205.
MINIMUM PREMIUM

A. For prepaid policies a minimum **annual** premium shall be charged for each policy.

B. When policies are written under a premium payment plan, no payment shall be less than the minimum premium for each annual period.

C. The minimum premium may include all chargeable endorsements or coverages if written at inception of the policy.

D. Refer to state company rates for the minimum premium.

RULE 206.
TRANSFER OR ASSIGNMENT

Subject to the consent of the company, all the rules of this Manual and any necessary adjustment of premium, a policy may be endorsed to effect:

A. Transfer to another location within the same state; or

B. Assignment from one insured to another in the event of transfer of title of the dwelling.

RULE 207.
WAIVER OF PREMIUM

A. When a policy is endorsed after the inception date, an amount of additional or return premium may be waived.

B. Refer to state company rates for premium.

RULE 208.
WHOLE DOLLAR PREMIUM RULE

Each premium shown on the policy and endorsements shall be rounded to the nearest whole dollar. A premium of fifty cents ($.50) or more shall be rounded to the next higher whole dollar.

In the event of cancellation by the company, the return premium may be carried to the next higher whole dollar.

RULE 209.
RESTRICTION OF INDIVIDUAL POLICIES

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.

RULE 210.
REFER TO COMPANY

Refer to company for:

A. Rating or classifying any risk for which there is no manual rate.

B. Situations where a portion of the property and/or liability coverage is reinsured on a facultative basis.

The following rating procedure is available for the determination of the applicable premium:

1. Manual rules and rates shall apply to the portion of the property and/or liability limit(s) of liability retained by the company.
2. For any portion of the limit(s) of liability obtained by means of facultative reinsurance, the premium shall be the facultative cost for such insurance increased by a charge up to but not exceeding 50% of the facultative cost.

   With respect to premium developed in accordance with this Paragraph **2.,** the company is responsible for maintaining complete files, including all details relating to selection of the premium charge.

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

Note

Rates shall not be inadequate, excessive or unfairly discriminatory.

RULE 211.
ADDITIONAL INTEREST

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 **HO 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.**

RULES 212. – 300.
RESERVED FOR FUTURE USE

PART III
BASE PREMIUM COMPUTATION RULES

RULE 301.
BASE PREMIUM COMPUTATION

The Base Premium is developed by multiplying a Key Premium by a Key Factor and rounding to the nearest whole dollar ($0.50 or more rounded to the next higher whole dollar).

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

1. One And Two Family Dwelling

a. From the company Base Class Premium Table, select the **HO 00 03** premium for the territory that applies.

b. From the Classification Tables in this Manual, select the Form and Protection – Construction Classification Factors that apply.

c. Multiply the company Base Class Premium by the Form Factor and round to the nearest whole dollar.

d. Multiply this result by the Protection – Construction Classification Factor and round, again, to the nearest whole dollar to arrive at the Key Premium.

e. From the Key Factor Table in this Manual, select the Key Factor for the desired limit of liability. If the limit of liability is not shown in the tables, interpolate as illustrated in Paragraph **C.** of this rule.

f. Multiply the Key Premium from Paragraph **d.** by the Key Factor and round to the nearest whole dollar to arrive at the Base Premium.

2. Three And Four Family Dwelling

Multiply the One and Two Family Dwelling Base Premium by the three and four family factor from the Classification Tables in this Manual to arrive at the Base Premium.

B. Form HO 00 04 Or HO 00 06

1. From the company Base Class Premium Table, select the **HO 00 04** or **HO 00 06** premium for the territory that applies.

2. From the Form **HO 00 04** or **HO 00 06** Classification Table in this Manual, select the Protection – Construction Classification Factor that applies.

3. Multiply the company Base Class Premium by the Protection – Construction Classification Factor and round to the nearest whole dollar to arrive at the Key Premium.

4. From the Form **HO 00 04** or **HO 00 06** Key Factor Table in this Manual, select the Key Factor for the desired limit of liability. If the limit of liability is not shown in the tables, interpolate as illustrated in Paragraph **C.** of this rule.

5. Multiply the Key Premium from Paragraph **3.** by the Key Factor and round to the nearest whole dollar to arrive at the Base Premium.

C. Interpolation Example

1. When the desired limit of liability is **less** than the highest limit shown, interpolate the Key Factors using the nearest limit above and below the desired limit, for example:

a. $203,000 desired limit; the nearest limits are $200,000 and $205,000.

b. For $200,000 the Key Factor is 2.837; for $205,000 the Key Factor is 2.937. Figure the difference between the two Key Factors and divide by 5. This provides a factor per $1,000.

$$\begin{array}{r} 2.937 \\ -\ \underline{2.837} \\ .100 \div 5 = .02 \end{array}$$

c. Multiply the factor per $1,000 times 3, and add 2.837; the Key Factor for $200,000.

$$\begin{array}{r} .02 \\ \times\ \underline{\quad 3} \\ .06 + 2.837 = 2.897 \end{array}$$

d. The result, 2.897, is the Key Factor for this example.

2. The factors shown in the above interpolation example are for illustration only and are not necessarily the factors shown in the Key Factor Table of this Manual.

RULE 302.
LOSS SETTLEMENT OPTIONS

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.

RULE 302.
LOSS SETTLEMENT OPTIONS (Cont'd)

4. **Endorsement**

Use Functional Replacement Cost Loss Settlement Endorsement **HO 05 30.**

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**

The premium is computed by multiplying the Base Premium by the appropriate factor from the following table:

Coverage A Limit Of Liability Equals Less Than_____% Of Replacement Value	Factor
80%, but not less than 50%	1.05
Less than 50%	1.10

Table 302.B.3. Factors

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.**

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 Endorsement **HO 04 56.**

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

A. Basic Limit

The policy automatically provides up to 10% of the Coverage **A** limit of liability (or for Form **HO 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.

RULE 303. ORDINANCE OR LAW COVERAGE – ALL FORMS EXCEPT HO 00 08 (Cont'd)

2. **Premium Determination**

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

   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		
Increase In Amount	**Total Amount**	**Factors**
15%	25%	1.03
40%	50%	1.07
65%	75%	1.11
90%	100%	1.15
For each add'l 25% increment, add:		.04

Table 303.B.2.a. Factors

   b. **Forms HO 00 04 And HO 00 06**

   See Rule **513.** for rating instructions.

3. **Endorsement**

   Use Ordinance Or Law – Increased Amount Of Coverage Endorsement **HO 04 77.**

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

A Coverage Description

1. Coverage **C** – Personal Property under Forms **HO 00 04** and **HO 00 06** is insured against perils named in the form. The policy may be endorsed to insure Coverage **C** against additional risks of physical loss subject to certain exclusions.
2. This option may only be used when:
   a. For Form **HO 00 04,** the apartment, dwelling or cooperative unit rented to the insured is not rented or sublet to another; or
   b. For Form **HO 00 06,** the condominium or cooperative unit is owner occupied and not rented to others.

B. Premium Computation

Multiply the Form **HO 00 04** or **HO 00 06** Base Premium developed in accordance with Rule **301.** by 1.40.

C. Endorsement

1. Use Special Personal Property Coverage Endorsement **HO 05 24** for use with **HO 00 04** only.
2. Use Unit-Owners – Coverage **C** – Special Coverage Endorsement **HO 17 31** for use with **HO 00 06** only.

RULE 305. LOSS HISTORY RATING PLAN

A. Introduction

The Loss History Rating Plan recognizes the loss history of an insured or applicant, for both property and liability coverages, in determining the appropriate premium for a new or renewal policy.

B. Eligibility

A loss shall be considered eligible for rating under this Plan if:

1. The loss occurred during the three years immediately preceding the date of application for a new policy or the preparation of the renewal policy;
2. The loss occurred with respect to a risk eligible for coverage under the Homeowners Policy Program or Mobilehome Supplement to the Homeowners Policy Program;
3. The loss was sustained with respect to the property or liability of an insured under the policy being rated; and
4. The combined claim payments generated for the loss equal or exceed $500.

C. Exceptions

The following shall not be considered eligible for rating under the Plan:

1. A loss resulting from windstorm or hail.
2. A loss resulting from earthquake, mine subsidence or sinkhole collapse.
3. A loss for which payment occurred only with respect to Medical Payments To Others or similar coverage.
4. A loss to a dwelling currently owned by an insured or applicant which occurred prior to ownership.

D. Refund Of Increased Premium

If, after an increased premium is generated based on the requirements of this Plan, it is determined that a loss does not meet the requirements of this Plan, the insurer shall refund the increased portion of the premium attributable to such loss as generated by the Plan.

E. Administration Of Loss History Rating Plan

Information necessary to determine the loss history of the named insured or applicant shall be obtained from any one or combination of the following:

1. An application signed by the applicant.
2. A loss history or claims history database.
3. A company's internal records.

RULE 305.
LOSS HISTORY RATING PLAN (Cont'd)

F. Premium Computation

Multiply the Base Premium by the appropriate factor from the following table:

Number Of Eligible Losses	Factor
0	1.000
1	1.200
2	1.300
3	1.400
4 or More	1.500

Table 305.F. Premium Computation

RULES 306. – 400.
RESERVED FOR FUTURE USE

PART IV
ADJUSTED BASE PREMIUM COMPUTATION RULES

RULE 401.
SUPERIOR CONSTRUCTION

The premium for a dwelling or apartment unit in a building of superior construction is computed by multiplying the masonry Base Premium for a comparable dwelling or apartment unit by a factor of .85.

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

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 & 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

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.

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.

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. 1.15 for all forms except **HO 00 04** and **HO 00 06.**
2. 1.35 for Forms **HO 00 04** or **HO 00 06.**

RULE 404.
PROTECTIVE DEVICES

A. Approved and properly maintained installations of burglar alarms, fire alarms and automatic sprinklers in the dwelling may be recognized for a reduced premium – computed by multiplying the Base Premium by the selected factors from the following table:

Protective Devices Factors

Type Of Installation∗	Factor
Central Station Reporting Burglar Alarm	.95 to 1.00
Central Station Reporting Fire Alarm	.95 to 1.00
Police Station Reporting Burglar Alarm	.97 to 1.00
Fire Department Reporting Fire Alarm	.97 to 1.00
Local Burglar and/or Fire Alarm	.98
Automatic Sprinklers in all areas including attics, bathrooms, closets, attached structures	.87 to 1.00
Automatic Sprinklers in all areas except attic, bathroom, closet and attached structure areas that are protected by a fire detector	.92 to 1.00
∗ Refer to company for eligibility, types of systems and devices, installations, and available credits.	

Table 404.A. Protective Devices Factors

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

RULE 405.
INFLATION GUARD – ALL FORMS EXCEPT HO 00 04 AND HO 00 06

A. Coverage Description

The policy may be endorsed to provide annual increases of the Section **I** Limits of Liability as selected by the insured.

B. Premium Computation

1. The premium is computed by multiplying the Base Premium by the appropriate factor selected from the following table:

Amount Of Annual Increase	Factor
4%	1.02
6%	1.03
8%	1.04
Each Add'l 4% over 8% add:	.02

Table 405.B.1. Inflation Guard Factors

2. The premium for a 3 year policy is 3.2 times the annual policy premium.

C. Endorsement

Use Inflation Guard Endorsement **HO 04 46.**

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

$500 Deductible.

B. Optional Lower Deductibles

1. Additional Premium Charge

a. The options in Paragraphs **2.** and **3.** are subject to a minimum and maximum additional premium charge.

b. Refer to the state company rates for these charges.

2. $100 And $250 All Perils Deductibles

To compute the premium for these options, multiply the Base Premium by the factor selected from the state exception pages.

3. $100 All Perils/$250 Theft Deductible

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

RULE 406.
DEDUCTIBLES (Cont'd)

b. When the $100 deductible applies to All Other Perils, compute the premium by multiplying the Base Premium by the factor selected from the state exception pages.

c. When a higher Windstorm or Hail and $100 All Other Perils deductible applies, subtract a factor of .01 from the factors in the state exception pages for the Windstorm or Hail Deductibles.

C. Optional Higher Deductibles

1. All Perils Deductible

To compute the premium for this deductible type, multiply the Base Premium by the factor selected from the state exception pages.

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 state exception pages.

(2) City And Other Than City Territories (Form HO 00 04 Only)

Refer to state Territory Pages, Paragraph **2.A.** for a listing of City Territories and **2.B.** for Other Than City Territories.

(3) Form HO 00 06

To compute the premium for the deductible amounts selected, multiply the Base Premium by the factor selected from the state exception pages.

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%, 5%, 7.5% and 10% 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.

(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 $500 for All Other Perils.

(b) Deductible – Windstorm or Hail 2% of the Coverage **A** limit, $500 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.

RULE 406.
DEDUCTIBLES (Cont'd)

(5) Use Of Factors

The factors for the Windstorm or Hail Deductibles incorporate the factors for the All Peril 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

To compute the premium for this provision, multiply the Base Premium by the factor selected from the state exception pages.

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, $5,000, $7,500 and $10,000 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 Instructions

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 $500 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 for the Windstorm or Hail 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 Windstorm or Hail deductible.

(6) Deductible Factors

To compute the premium for this provision, multiply the Base Premium by the factor selected from the state exception pages.

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

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. Options Available

When either of the following options 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. Specified Additional Amount Of Insurance For Coverage A Only

a. 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.

The additional amount **cannot** be applied to any other coverage nor does it increase the Coverage **A** limit.

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

Additional Amount Options	Factor
25%	1.03
50%	1.06

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

c. Use Specified Additional Amount Of Insurance For Coverage **A** Endorsement **HO 04 20.**

RULE 407.
ADDITIONAL AMOUNTS OF INSURANCE – FORMS HO 00 02, HO 00 03 AND HO 00 05 (Cont'd)

2. **Additional Limits Of Liability For Coverages A, B, C, And D**
   - **a.** This option differs from Paragraph **C.1.,** in that the Coverage **A** limit of liability is increased, after a loss, to the amount necessary to repair or replace the damaged or destroyed property. The limits of liability for Coverages **B, C,** and **D** will also be increased by the same percentage applied to the Coverage **A** limit.

     When the loss to such property, exceeds the Coverage **A** limit, the policy is endorsed, retroactive to the date of loss, to the limit needed to settle the loss.
   - **b.** The premium is computed by multiplying the Base Premium by a factor of 1.15.
   - **c.** Use Additional Limits of Liability for Coverages **A, B, C,** and **D** Endorsement **HO 04 11.**

D. Endorsement Exception

Do not use either endorsement when the Special Loss Settlement Endorsement or any other endorsement which modifies the required percentage of replacement value is attached to the policy.

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

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.**

RULE 409.
REPLACEMENT COST LOSS SETTLEMENT FOR CERTAIN NON-BUILDING STRUCTURES – FORMS HO 00 02, HO 00 03 AND HO 00 05

A. Introduction

The policy provides actual cash value loss settlement for non-building structures covered under Coverage **B,** or specifically scheduled under this policy.

B. Coverage Description

The policy may be endorsed to provide repair or replacement cost loss settlement for the following types of non-building structures only if they are located on the residence premises:

1. Reinforced masonry walls;
2. Metal or fiberglass fences;
3. Fences made of plastic/resin materials such as polyvinylchloride;
4. Patios, walks (not made of wood or wood products);
5. Driveways; or
6. Inground or semi-inground:
   - **a.** Swimming pools;
   - **b.** Therapeutic baths; or
   - **c.** Hot tubs;

   with walls and floors made of reinforced masonry, cement, metal or fiberglass. However, replacement cost loss settlement does not apply to equipment and accessories attached to or made to be attached to the superstructure of the pool, therapeutic bath or hot tub.

C. Premium Computation

The premium is computed by multiplying the Base Premium by a factor from the following table:

Types Of Non-building Structures	Factors
Inground or semi-inground swimming pools, therapeutic baths or hot tubs	1.05
All Other	1.02

Table 409.C. Types Of Non-building Structures

D. Endorsement

Use Replacement Cost Loss Settlement For Certain Non-building Structures On The Residence Premises Endorsement **HO 04 43.**

E. Endorsement Exception

This loss settlement condition does not apply to covered property insured under Coverage **B** – Other Structures Away From The Residence Premises Endorsement **HO 04 91** and Specific Structures Away From The Residence Premises Endorsement **HO 04 92.**

RULE 410. BUILDING CODE EFFECTIVENESS GRADING

This rule does not apply to Mobile or Trailer homes.

A. General Information

1. The Building Code Effectiveness Grading Schedule (BCEGS) develops a grade of 1 to 10 for a community based on the adequacy of its building code and the effectiveness of its enforcement of that code. Policies which cover the perils of Windstorm or Hail or Earthquake may be eligible for special rating treatment, subject to the criteria in the following paragraphs. The BCEGS factor applies, where applicable, in addition to the Public Protection Classification factors.

2. In some communities, two BCEGS classifications may be assigned. One classification for personal lines indicated next to "PERS" will apply to personal lines properties. The other classification indicated next to "COML" will apply to commercial lines properties. The ISO Community Mitigation Classifications will indicate the application of each classification.

3. Refer to the ISO Community Mitigation Classifications (CMC) Manual for the BCEGS classifications for a community, and their effective dates.

B. Community Grading

1. The BCEGS classification applies to any building that has an original certificate of occupancy dated the year of the effective date of the community grading, or later. A rating factor has been developed for each community classification.

2. If a community is regraded subsequent to its initial grading, the factor for the revised grade applies to buildings that have an original certificate of occupancy dated the year of the effective date of the revised grading, or later.

3. Where certificates of occupancy are not issued, equivalent documentation acceptable to the company may be used.

4. If, due to an addition or alteration, the original building is changed to comply with the latest building code, the factor for the community classification applicable at the time the reconstruction is completed will apply to such building.

5. The BCEGS classification may apply to Windstorm Or Hail or Earthquake, or to both. Specific information is provided in the ISO Community Mitigation Classifications (CMC) Manual. If the grade in the manual does not apply to one of the perils, the factor should not be applied for that peril.

C. Individual Grading

Where buildings have been built in full conformance with the natural hazard mitigation elements of one of the nationally recognized building codes even though the community grade is greater than 1, exception rating procedures may apply.

1. Any building may be classified as a 1 for Windstorm/Hail upon certification by a registered or licensed design professional, based on an on-site inspection, that such building is in compliance with one of the three nationally recognized building codes with respect to mitigation of the windstorm or hail hazard. This classification is effective only from the date of the certification.

2. Any building may be classified as a 1 for Earthquake upon certification by a registered or licensed design professional, based on an on-site inspection, that such building is in compliance with the earthquake mitigation elements of one of the three nationally recognized building codes. This classification is effective only from the date of the certification.

D. Ungraded Risks

Buildings which do **not** meet the criteria in Paragraph **B.** or **C.** for classification assignment are rated and coded as ungraded risks. Do **not** classify as a 10.

E. Premium Credit Computation

1. Community Grading

a. Windstorm Or Hail

Compute the premium credit as follows:

(1) Multiply the Base Class Premium by the appropriate factor in Paragraph **E.1.c.(1)** located in the state exceptions; and

(2) Multiply the result from preceding Paragraph **(1)** by the Key Factor for the desired amount of insurance.

b. Earthquake

When Earthquake Endorsement **HO 04 54** is attached to the policy, multiply the Earthquake Base Premium by the appropriate factor in Paragraph **E.1.c.(2)** located in the state exceptions.

c. Credit Factors

Refer to state exceptions for state-specific factors.

2. Individual Grading

For any building classified as a 1 based upon certification as set forth in Paragraph **C.,** use the appropriate factor listed under Paragraph **E.1.c.** located in the state exceptions.

RULES 411. – 500. RESERVED FOR FUTURE USE

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 **HO 00 04** Key Factor for "Each Add'l $1,000" by the **HO 00 04** Key Premium.

C. Endorsement

Use Building Additions And Alterations Other Residence Endorsement **HO 04 49.**

RULE 502.
BUILDING ADDITIONS AND ALTERATIONS – INCREASED LIMIT – HO 00 04

A. Coverage C Increase

The limit of liability of 10% of Coverage **C** may be increased.

B. Premium Computation

To develop the premium per $1,000 of insurance, multiply the **HO 00 04** Key Factor for "Each Add'l $1,000" by the **HO 00 04** Key Premium.

C. Endorsement

Use Building Additions And Alterations Increased Limit Form **HO 00 04** Endorsement **HO 04 51.**

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. Refer to state company rates for each $2,500 increase.

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 endorsements:

a. Permitted Incidental Occupancies;

b. Home Day Care; or

c. Home Business Insurance Coverage.

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

A. Coverage Increase

The limit of $500 may be increased. An additional rate is to be charged.

B. Premium

Refer to state company rates for an additional charge.

C. Endorsement

Use Credit Card, Electronic Fund Transfer Card Or Access Device, Forgery And Counterfeit Money Coverage Increased Limit Endorsement **HO 04 53.**

RULE 505.
EARTHQUAKE COVERAGE

A. Coverage Description

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 **HO 04 54.**

B. Deductible

Deductible percentage amounts of 5%, 10%, 15%, 20% and 25% of the limit of liability are included in this rule.

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.**

Earthquake rates are displayed for the 5% and 10% deductible in the state company rates. Credit factors for deductible percentage amounts of 15%, 20% and 25% are provided in Paragraph **E.** Premium for Higher Deductibles of this rule.

RULE 505.
EARTHQUAKE COVERAGE (Cont'd)

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 **HO 04 36** for all forms.

D. Base Premium

Develop the base premium as follows:

1. From the state company rates determine whether Construction Table **A, B,** and/or **C** applies for the appropriate deductible.

2. Determine the Earthquake territory according to the ZIP code of the residence premises from the State Territory Definitions pages in this manual.

3. For Forms **HO 00 02, HO 00 03** and **HO 00 05,** add the results of the following three steps:

- **a.** Multiply the Coverage **A** limit by the rate found in Column A of the table;
- **b.** If the Coverage **C** limit is increased, multiply the rate found in Column D by the amount of the increase; and
- **c.** If the Coverage **D** limit is increased, multiply the rate found in Column F by the amount of the increase.

4. For Form **HO 00 04,** add the results of the following two steps;

- **a.** Multiply the Coverage **C** limit by the rate found in Column B of the table; and
- **b.** If the Coverage **D** limit is increased, multiply the rate found in Column F by the amount of the increase.

5. For Form **HO 00 06,** add the results of the following three steps:

- **a.** Multiply the Coverage **C** limit by the rate found in Column C of the table;
- **b.** Multiply the Coverage **A** limit by the rate found in Column E of the table; and
- **c.** If the Coverage **D** limit is increased, multiply the rate found in Column F by the amount of the increase.

6. Building Or Non-building Structure Items – All Forms:

Multiply the rate in Column G of the table by the appropriate limit of liability for the following Building or Non-building Structure items, as applicable, and add to the applicable premium determined in Paragraph **3., 4.** or **5.:**

- **a.** Other Structures – Structures Rented To Others Residence Premises;
- **b.** Other Structures On The Residence Premises – Increased Limits;
- **c.** Specific Structures Away From The Residence Premises;
- **d.** Building Additions And Alterations – Other Residence; and
- **e.** Building Additions And Alterations Increased Limit Form **HO 00 04.**

7. Ordinance Or Law – Basic And Increased Limit – All Forms:

When the basic Ordinance or Law Coverage limit is increased the earthquake premium is developed based on the increased limit of insurance.

- **a.** For Forms **HO 00 02, HO 00 03** and **HO 00 05,** multiply the rate determined in Paragraph **3.a.** by the appropriate factor selected from Rule **303.B.2.a.**
- **b.** For Forms **HO 00 04** and **HO 00 06,** 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. The rate for each additional $1,000 of insurance is determined as follows:
  - **(1)** For Form **HO 00 04,** multiply the rate in Column G of the table by .30.
  - **(2)** For Form **HO 00 06,** multiply the rate in Column E of the table by .30.

  and add to the applicable premium determined in Paragraph **4.** or **5.**

RULE 505.
EARTHQUAKE COVERAGE (Cont'd)

E. Premium For Higher Deductibles

Multiply the Earthquake base premium determined in Paragraph **D.** for the 10% deductible by the appropriate factor from the following table:

Deductible Percentage	Factor		
	Frame	**Masonry**	**Superior**
15%	.80	.85	.75
20%	.65	.70	.60
25%	.50	.60	.45

Table 505.E. Higher Deductibles Factor

F. Building Code Effectiveness Grading

Refer to Rule **410.** for information which may affect Earthquake rating.

RULE 506.
FIRE DEPARTMENT SERVICE CHARGE

The limit of $500 may be increased subject to the rules and rates of the company.

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

A. Basic Limits

The policy automatically provides a basic Coverage **A** limit of $5,000 on a named perils basis. If increased limits are not desired, enter "$5,000" 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 **HO 00 06** Key Factor for "Each Add'l $1,000" by the **HO 00 06** Key Premium.

C. Special Coverage

The Section **I** Perils Insured Against may be broadened to cover additional risks of loss. The additional premium is developed as shown in the state company rates.

D. Endorsement

Use Unit-Owners Coverage **A** – Special Coverage Endorsement **HO 17 32.**

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

A. Coverage C And Section II Liability

1. There is no coverage for Coverage **C** – Personal Property and Section **II** Liability when the residence premises is regularly rented or held for rental to others. The policy may be endorsed, however, to provide such coverage, including Theft.
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 $10,000.

B. Premium Computation

Multiply the Coverage **C** Base Premium (reflecting the credit or surcharge for optional deductibles) by a factor of .25.

C. Endorsement

Use Unit–Owners Rental To Others Endorsement **HO 17 33.**

RULE 509.
HOME DAY CARE COVERAGE

A. Coverage Description

Coverage for a home day care business is limited under Section **I** and excluded under Section **II.** The policy may be endorsed to provide expanded Section **I** Coverage and Section **II** Coverage on a home day care business in the dwelling or in an other structure on the residence premises. Use Home Day Care Coverage Endorsement **HO 04 97** for Sections **I** and **II** Coverage.

B. Other Structures

If the home day care business is located in an other structure, Coverage **B** does not apply to that structure. See Paragraph **D.** for charge for specific insurance on the structure.

C. Personal Property

The home day care endorsement also covers personal property pertaining to this business within the Coverage **C** limits stated in the declarations. If increased Coverage **C** limits are desired, see Rule **515.A.**

RULE 509.
HOME DAY CARE COVERAGE (Cont'd)

D. Premium Computation

1. Section I

a. If the home day care business is located in the dwelling, no additional charge is made.

b. If the business is located in an other structure, charge the amount per $1,000 of specific insurance on the structure.

c. Refer to state company rates for rate to be charged.

2. Section II

Refer to Rule **607.** in the state company rates to develop the premium for the increased Coverages **E** and **F** exposure.

RULE 510.
PERMITTED INCIDENTAL OCCUPANCIES RESIDENCE PREMISES

A. Coverage Description

Coverage for a permitted incidental occupancy is limited under Section **I** and excluded under Section **II.** The policy may be endorsed to provide expanded Section **I** Coverage and Section **II** 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 **HO 04 42** for Sections **I** and **II** 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. Section I

a. If the permitted incidental occupancy is located in the dwelling, no additional charge is made.

b. If the permitted incidental occupancy is located in an other structure, charge the amount per $1,000 of specific insurance on the structure.

c. Refer to state company rates for rate to be charged.

2. Section II

Refer to Rule **608.** in the state company rates to develop the premium for the increased Coverages **E** and **F** exposure.

RULE 511.
SUPPLEMENTAL LOSS ASSESSMENT COVERAGE

A. Residence Premises

1. Coverage Description

The policy automatically provides, under Section **I** Additional Coverage and Section **II** Additional Coverage, a limit of $1,000 each for assessments relating to the residence premises, excluding assessments resulting from the peril of earthquake. (Refer to Rule **505.** Earthquake Coverage for the Earthquake rule of application.)

2. Higher Limits

The policy may be endorsed to provide a single additional amount of insurance to be applied to one or more assessments arising out of a single loss covered under:

a. Either Section **I** Additional Coverage or Section **II** Additional Coverage; or

b. Both Section **I** and Section **II** Additional Coverages.

3. Premium

Refer to the state company rates for the additional charge.

B. Additional Locations

1. Coverage Description

a. The policy may be endorsed to provide loss assessment coverage pertaining to additional locations for the insured's share of loss assessments arising out of a single loss covered as noted in Paragraph **A.2.**

b. No more than two additional locations can be written in addition to the residence premises.

2. Premium

Refer to the state company rates for the additional rates which apply to each location covered.

C. Endorsement

Use Supplemental Loss Assessment Coverage Endorsement **HO 04 35.**

RULE 512.
LOSS OF USE – INCREASED LIMIT

A. When the limit of liability for Coverage **D** is increased, charge the rate per $1,000 of additional insurance.

B. Refer to state company rates for rate to be charged.

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

A. Coverage Increase

1. The basic amount of coverage may be initially increased to 100% of the Form **HO 00 04** Building Additions and Alterations limit or 50% of the Form **HO 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 **HO 00 04** or **HO 00 06,** whichever is appropriate, Key Factor for "Each Add'l $1,000" by .30 and then multiplying that amount by the appropriate Key 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

Refer to state company rates.

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

Use the sum of:

(1) The rate per $1,000 of insurance shown in the state company rates, and

(2) The premium for the increased Coverages **E** and **F** exposure, as developed from the Section **II** rules of this Manual.

b. Use Structures Rented to Others – Residence Premises Endorsement **HO 04 40.**

B. Structures Off The Residence Premises

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

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

Refer to state company rates for rate to be charged.

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) Refer to state company rates for rate to be charged.

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. Refer to state company rates for additional charge.

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.

RULE 515.
PERSONAL PROPERTY (Cont'd)

2. Charge the additional company rate per $1,000.
3. Refer to state company rates for additional charge.
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.
3. Refer to state company rates for the 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. Refer to state company rates for credit.

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	2,500	10,000**
5. Firearms	2,500	6,500***
6. Portable Electronic Equipment in or upon a motor vehicle	1,500	6,000**
* Not exceeding $1,000 for any one article		
** Increase must be in increments of $500		
*** Increase must be in increments of $100		

Table 515.E.1. Special Limits

2. Refer to state company rates for additional charges.
3. Use Coverage **C** Increased Special Limits Of Liability Endorsement **HO 04 65** – for all forms except as noted in Paragraph **4.**
4. Use Coverage **C** Increased Special Limits Of Liability Endorsement **HO 04 66** for Form **HO 00 05,** Form **HO 00 04** with Endorsement **HO 05 24** and Form **HO 00 06** with Endorsement **HO 17 31.**

F. Refrigerated Personal Property

1. The policy may be endorsed to provide $500 of coverage for covered property stored in freezers or refrigerators on the residence premises for loss caused by power service interruption or mechanical failure.
2. A deductible of $100 applies.
3. Refer to state company rates for the additional charge.
4. Use Refrigerated Property Coverage Endorsement **HO 04 98.**

G. Theft Coverage Increase – HO 00 08

1. **On-premises**

   The $1,000 limit for On-premises Theft Coverage may be increased to an aggregate limit of $3,000 or $5,000.

2. **Off-premises**

   When On-premises Theft Coverage is increased, a limit of $1,000 may be provided for Off-premises Theft Coverage.

3. **Premium**

   Refer to state company rates for additional charge.

4. **Endorsement**

   Use Theft Coverage Increase Endorsement **HO 04 30.**

RULE 516.
PERSONAL PROPERTY – SCHEDULED

A. Introduction

Coverage may be provided on scheduled personal property subject to the rules and rates of the Company.

B. Loss Settlement

1. Endorsement **HO 04 61** provides for standard loss settlement for all classes of property except Fine Arts; and agreed value loss settlement for Fine Arts.
2. Endorsement **HO 04 60** provides for agreed value loss settlement for the following classes:
   a. Cameras
   b. Furs
   c. Golfer's Equipment
   d. Jewelry
   e. Musical Instruments
   f. Silverware
   g. Stamps and Rare Coins

   This endorsement may also be used for scheduled articles of Fine Arts.

RULE 516.
PERSONAL PROPERTY – SCHEDULED (Cont'd)

C. Endorsements

1. Use Scheduled Personal Property Endorsement **HO 04 61** for standard loss settlement or agreed value loss settlement for fine arts.
2. Use Scheduled Personal Property (with Agreed Value Loss Settlement) Endorsement **HO 04 60** for agreed value loss settlement.

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

A. Coverage Description

The policy may be endorsed to insure against loss by theft to covered property when all or part of the residence premises usually occupied by the insured is occasionally rented, in whole or in part, to others, or is regularly or occasionally rented to roomers or boarders.

B. Premium

Refer to the state company rates for additional charge.

C. Endorsement

Use Extended Theft Coverage For Residence Premises Occasionally Rented To Others Endorsement **HO 05 41.**

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

A. Coverage Description

The policy may be endorsed to provide Sinkhole Collapse Coverage.

B. Premium Determination

1. Refer to state company rates; and
2. Multiply the rate per $1,000 by:
   a. Coverage **A** amount of insurance;
   b. Increased Limits for Coverages **C** and **D;**
   c. Loss Assessment Coverage, increased limits and additional locations;
   d. Ordinance Or Law Coverage, basic amount and, if applicable, increased amount of coverage; or
   e. Other Building or Structure options, for example: Other Structures Rented To Others (Residence Premises) Endorsement **HO 04 40;** Other Structures (Increased Limits) Endorsement **HO 04 48;** Specific Structures Away From The Residence Premises Endorsement **HO 04 92;** and Building Additions And Alterations (Other Residence) Endorsement **HO 04 49.**

C. Endorsement

Use Sinkhole Collapse Endorsement **HO 04 99.**

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

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 state company rates for additional charge.

C. Endorsement

Use Special Computer Coverage Endorsement **HO 04 14.**

RULE 520.
LIVESTOCK COLLISION COVERAGE

A. Coverage Description

When the policy is endorsed with either Incidental Farming Personal Liability Endorsement **HO 24 72** or Farmers Personal Liability Endorsement **HO 24 73,** the policy may also be endorsed to cover loss resulting in death of covered livestock resulting from:

1. Collision or overturn of a vehicle on which the livestock are being transported; or
2. Livestock running into or being struck by a vehicle.

B. Coverage Exclusion

Coverage is excluded if a vehicle owned or operated by an insured or an insured's employee:

1. Collides with the vehicle on which the livestock are being transported; or
2. Strikes the livestock.

C. Premium

1. Each horse, mule or head of cattle under one year of age at the time of loss will be counted as 1/2 head.
2. No deductible applies to this coverage.
3. The limit per head of livestock is $400.
4. Refer to state company rates for charge.

D. Endorsement

Use Livestock Collision Coverage Endorsement **HO 04 52.**

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

A. Coverage Description

The policy forms exclude coverage for loss resulting from water or waterborne material which backs up through sewers or drains or which overflows or is discharged from a sump, sump pump or related equipment.

When the optional Limited Water Back-up And Sump Discharge Or Overflow Coverage endorsement is attached to the policy, coverage is provided with respect to direct physical loss, not caused by the negligence of an "insured", to property covered under Section **I,** caused by water or waterborne material which originates from within the dwelling where the named insured resides and backs up through sewers or drains or which overflows or is discharged from a sump, sump pump or related equipment. The basic limit is $5,000. Unless increased limits are selected, the basic limit must be entered on the coverage endorsement or the policy Declarations.

B. Increased Limits

The limit may be increased to $10,000, $15,000, $20,000 or $25,000. The limit selected is entered on the coverage endorsement or the policy Declarations.

C. Premium

Refer to state company rates for the additional charge.

D. Endorsement

Use Limited Water Back-up And Sump Discharge Or Overflow Coverage Endorsement **HO 04 95.**

RULE 522.
LANDLORDS FURNISHINGS

A. Basic Limit

Forms **HO 00 02, HO 00 03** and **HO 00 05** automatically cover, on a named perils basis (except Theft), 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

Refer to state company rates for additional charge.

D. Endorsement

Use Landlord's Furnishings Endorsement **HO 05 46.**

RULE 523.
ASSISTED LIVING CARE COVERAGE

A. Introduction

The policy provides coverage to named insureds and resident relatives who are members of the insured's household.

B. Coverage Description

1. The policy may be endorsed to provide personal property, additional living expense and personal liability coverage to a person regularly residing in an Assisted Living Care facility, provided such person:

  a. Is related to an insured by blood, marriage or adoption; and

  b. Is not a member of that insured's household.

2. An assisted living care facility is a facility that provides assisted living services such as dining, therapy, medical supervision, housekeeping and social activities. It is **not** a hospice, prison or rehabilitation facility.

3. The endorsement provides the following basic limits of coverage:

  a. $10,000 for Coverage **C** – Personal Property with limitations ranging from $100 to $500 for certain items of property;

  b. $6,000, at $500 per month, for Additional Living Expenses; and

  c. $100,000 for Coverage **E** – Personal Liability.

C. Premium

Refer to state company rates for additional charge.

D. Endorsement

Use Assisted Living Care Coverage Endorsement **HO 04 59.**

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** and **II** 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

Refer to state company rates for additional charge.

D. Endorsement

Use Other Members Of Your Household Endorsement **HO 04 58.**

RULE 525. MOTORIZED GOLF CART – PHYSICAL LOSS COVERAGE

A. Coverage Description

The policy may be endorsed to provide coverage for physical loss to a motorized golf cart, including permanently installed accessories, equipment and parts, owned by an insured.

Also covered, for an amount equal to 10% of the limit of the highest scheduled cart, are accessories, equipment or parts designed or made solely for the cart that are **not** permanently installed provided such property is at an insured's residence or in or upon the cart off the insured's residence at the time of loss.

Coverage for loss caused by collision is optional and only applies if declared on the schedule of the endorsement.

B. Eligibility

To be eligible for coverage, the motorized golf cart shall be of the type designed to carry up to four people on a golf course for the purpose of playing golf and shall not have been built, or modified after manufacture, to exceed a speed of 25 m.p.h. on level ground.

Read the endorsement for all conditions of coverage.

C. Limit Of Liability

The limit of liability shall be selected by the insured. However, that limit should be representative of the actual cash value of the motorized golf cart including any permanently installed accessories, etc.

D. Deductible

A deductible amount of $500 applies separately to each involved golf cart and, separately to Section **I** Property Coverages if not in or upon a golf cart at the time of loss.

The $500 deductible replaces any other deductible in the policy with respect to property covered under the endorsement.

E. Premium

Rate each cart separately using the premium per $500 of insurance. Refer to the state company rates for additional charge.

F. Endorsement

Use Owned Motorized Golf Cart – Physical Loss Coverage Endorsement **HO 05 28.**

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

A. Coverage

A Homeowners Policy may be endorsed to insure a trustee, and if applicable, a trust:

1. Under Section **I** – Property Coverages, for any insurable interest in the dwelling or other structure held in trust; and

2. Under Section **II** – Liability Coverages, for bodily injury or property damage liability arising out of the ownership, maintenance or use of an insured location held in trust.

RULE 526.
RESIDENCE HELD IN TRUST – ALL FORMS EXCEPT HO 00 04 (Cont'd)

B. Endorsement

1. Use Trust Endorsement **HO 06 15.**

2. The following must be shown in the endorsement:

a. The name and address of the Trust; and

b. The name and address of the trustee(s).

3. The Trust may also be listed as an Insured if the Trust can be recognized under applicable state law as a legal entity with the capacity to sue or be sued in a court having jurisdiction.

C. Premium

Refer to state company rates for the additional charge.

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

Refer to state company rates for additional charge.

D. Endorsement

Use Additional Insured – Student Living Away From The Residence Premises Endorsement **HO 05 27.**

RULE 528.
HOME BUSINESS INSURANCE COVERAGE

A. Eligibility

1. The Home Business Insurance Coverage endorsement may be used in conjunction with a Homeowners Policy to cover the Section **I** and Section **II** exposures of a permitted business.

2. To be eligible for coverage under this endorsement, a risk must meet at least the following criteria:

a. The home business:

(1) Must be owned by the named insured or by a partnership, joint venture or other organization comprised only of the named insured and resident relatives;

(2) Must be operated from the residence premises that is declared on the Homeowners Declarations and used principally for residential purposes;

(3) May be operated from the home and/or other structure on the residence premises;

(4) May have up to three employees; and

(5) May not involve the:

(a) Manufacture, sale or distribution of food products;

(b) Manufacture of personal care products such as shampoo, hair color, soap, perfume or other like items applied to the body or consumed; or

(c) Sale or distribution of personal care products **manufactured by the insured** such as shampoo, hair color, soap, perfume or other like items applied to the body or consumed;

b. For all business classifications described in Paragraph **C.** that follows**,** the Gross Annual Receipts of the home business may not exceed $250,000.

3. Certain businesses may be **ineligible** for coverage under this endorsement. Refer to company for its underwriting instructions.

4. When a permitted business that is operated from the residence premises is afforded coverage under either the Permitted Incidental Occupancy or Home Day Care Coverage endorsement, that business may not be afforded coverage under the Home Business endorsement.

B. Classifications

The four principal classifications of business accommodated in this rule follow. Refer to company for the businesses that are eligible within each of these classifications and name and describe the business in the Schedule that is part of the endorsement:

1. Office

Use this classification when the business involves professional or administrative activities for its customers. It could apply to businesses like accounting, resume writing, telephone answering, etc.

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

2. Service

Use this classification when the business provides repair or other services for its customers. It could apply to businesses like bicycle repair, clock/jewelry repair, housecleaning, videotaping, etc.

3. Sales

Use this classification when the business involves product sales, other than crafts made in the home or other structure and sold from the home or other locations. It could apply to businesses involving the sale of books and magazines, costume jewelry, plants and flowers, stationery/other paper products, etc.

4. Crafts

Use this classification when the business involves selling, from the home, other structure or other locations, crafts made in the home or other structure. It could apply to crafts like ceramics, dolls, flower arrangements, quilts, etc.

C. Coverages

1. Section I – Property

The Home Business endorsement:

a. Provides coverage for the property of the described business and for property of others in the care of the business up to the Coverage **C** limit of liability entered on the Homeowners Declarations. Therefore, the Coverage **C** limit should reflect the values of the personal and business property to be insured;

b. Provides coverage for:

(1) Accounts receivable ($5,000 limit);

(2) Loss of business income/extra expense (actual cost for a maximum of 12 months); and

(3) Valuable papers ($2,500 limit); and

c. Increases the Coverage **C** Special Limits of Liability on:

(1) Money to $1,000;

(2) Credit Cards to $1,000; and

(3) Business property away from the residence premises to $5,000.

2. Section II – Business Liability

a. The Home Business endorsement provides coverage for such business liability exposures as premises operations, products-completed operations, advertising injury, and personal injury. The limits of liability for these coverages are on an annual aggregate basis and are determined in the following manner:

(1) For Products-completed Operations Hazard Liability, the limit is the **same as** the Coverage **E** limit shown in the Homeowners Declarations;

(2) For All Other Business Liability, the limit is **twice the sum** of the combined Coverage **E** and Coverage **F** limits shown in the Homeowners Declarations; and

(3) For the Coverage **F** Sublimit of Liability, the limit is the **same as** the Coverage **F** limit shown in the Homeowners Declarations.

b. The limit of liability for Additional Coverage **C** Damage To Property Of Others is increased to $2,500.

3. Professional Liability

No professional liability coverage is provided in the Home Business endorsement.

4. Computer-related Damage Or Injury Exclusion And Coverage Options

a. Exclusions

(1) Coverage for loss or damage caused by, resulting from, or arising out of the failure of computers and electronic componentry to properly recognize a particular date or time may be excluded. Under Section **I,** the exclusion applies to any date or time, including the Year 2000 and beyond. Under Section **II,** the exclusion applies only to the Year 2000 and beyond, but does not apply to bodily injury that occurs on the covered premises from which the business is conducted.

(2) Use Sections **I** and **II** Exclusions for Computer-related Damage Or Injury Endorsement **HO 07 58.**

b. Sections I And II Limited Coverage

When Endorsement **HO 07 58** is attached to the policy, the policy may be further endorsed to provide:

(1) Section **I** coverage for Business Income and Extra Expense when computer system, appliances, equipment, or protective devices used for business fail to operate because of the Year 2000 and renders the business structure unfit for habitation; or renders an off-premises computer used in the business operations at the structure deficient and inoperative; and

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

(2) Section **II** coverage for claims or suits alleging bodily injury away from the residence premises and property damage, personal injury, or advertising injury arising out of a computer failure as defined in the endorsement. Such coverage is subject to the Coverage **E** and **F** limits of liability stated in the schedule of the Home Business Insurance Coverage endorsement.

(3) Use Sections **I** and **II** – Limited Coverage For Year 2000 Computer-related And Other Electronic Problems Endorsement **HO 07 59.**

c. Premium

Refer to company.

D. Home Business Premium Computation

1. Development Of The Home Business Premium

Add the Section **I** and Section **II** premium components developed according to Paragraphs **2.** and **3.** that follow, to arrive at the Home Business premium.

2. Section I – Property

a. From the state company rates, select the Base Class Premium that applies to the residence premises with the home business and multiply it by the appropriate factor in the following table:

Gross Annual Receipts∗	HO 00 02, 3, 5 & 8	HO 00 04	HO 00 06
Up to $50,000	Refer to state exceptions for State-specific factors.		
$ 50,001 to $100,000			
100,001 to 175,000			
175,001 to 250,000			
∗ New business, use $50,001 to $100,000 classification			

Table 528.D.2.a. Factors

b. Multiply the result computed in Paragraph **a.** by the rating factors in the Homeowners manual for the following risk categories:

(1) Protection-construction (Rule **301.** Classification Table) – apply the factor that applies to **HO 00 04** regardless of the Homeowners form attached to the policy; and

(2) Superior Construction (Rule **401.**) and Protection Devices (Rule **404.**) – apply these factors only if they are applied to the dwelling building or other structure for the residential exposure; and

(3) Townhouse or Row House Construction (Rule **402.**) in the following manner:

(a) For All Forms except **HO 00 04** and **HO 00 06,** apply the same factor used for the residential exposure; or

(b) For Forms **HO 00 04** and **HO 00 06:**

(i) Apply the factor for the number of individual family units within a fire division that best describes the building that contains the residential and business property; or

(ii) If such building has nine or more individual family units within a fire division, apply the factor for the five through eight units' classification.

c. When a home business is operated from one or more other structures on the residence premises and declared in the Schedule, multiply the limit of liability for each structure by the "premium per $1,000" shown in Rule **514.** Paragraph **A.1.a.** in the Homeowners state company rates.

3. Section II – Business Liability

a. Basic Limits Premium

Select the company basic limits premium that applies to the Office, Service, Sales or Crafts classification from the Home Business state company rates,

b. Coverage E – Increased Limits

(1) When the Coverage **E** limit is increased for Homeowners Insurance, the Home Business limits shall also be increased as illustrated in following Paragraph **(2).**

(2) Multiply the company's basic limits premium determined in Paragraph **a.** by the appropriate factor from the following table:

Increased Limits Of Liability				
Homeowners		Home Business		
Coverage E Personal Liability	Coverage F Med. Pay'ts To Others	Products-Completed Operations	All Other Liability	Increased Limit Factor
$ 200,000	$ 1,000	$ 200,000	$ 402,000	1.15
300,000	1,000	300,000	602,000	1.24
400,000	1,000	400,000	802,000	1.30
500,000	1,000	500,000	1,002,000	1.35

Table 528.D.3.b.(2) Factors

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

c. Coverage F – Increased Limits

(1) When the Coverage **F** limit is increased for Homeowners Insurance, the Home Business Coverage **F** limit shall also be increased.

(2) Select the premium for the desired increased limit from the Home Business state company rates.

(3) Add the premium determined in Paragraph **(2)** to the premium developed in Paragraph **a.** or **b.** to compute the Section **II** premium component.

E. Endorsement

Use Home Business Insurance Coverage Endorsement **HO 07 01.**

F. Options

The following options may only be used when the Home Business Coverage endorsement is attached to the policy:

1. Additional Insured

a. Managers Or Lessors Of Premises Leased To An Insured

(1) Coverage

Covers persons or organizations designated on the endorsement for their liability as owners of designated premises leased to the named insured.

(2) Premium

Refer to state company rates.

(3) Endorsement

Use Additional Insured – Managers Or Lessors Of Premises Leased To An Insured Endorsement **HO 07 50.**

b. Vendors

(1) Coverage

Provides coverage for liability arising out of the vendor's sale or distribution of the named insured's products.

(2) Premium

Refer to company.

(3) Endorsement

Use Additional Insured – Vendors Endorsement **HO 07 51.**

2. Loss Payable Condition

a. Coverage

Enables the naming of a loss payee, lender's loss payee, or loss payable under a contract-of-sale arrangement.

b. Premium

No charge is made for this endorsement.

c. Endorsement

Use Loss Payable Provisions Endorsement **HO 07 52.**

3. Personal And Advertising Injury Exclusion

a. Coverage

Excludes all Personal and Advertising Injury Coverage.

b. Premium

Refer to company.

c. Endorsement

Use Exclusion – Personal And Advertising Injury Endorsement **HO 07 53.**

4. Liquor Liability Exclusion And Exception For Scheduled Activities

a. Coverage

This endorsement excludes liability coverage for:

(1) Manufacturing, selling or distributing alcoholic beverages or;

(2) Serving or furnishing alcoholic beverages with a charge whether or not such activity requires a license and;

(3) Serving or furnishing of alcoholic beverages without a charge, if a license is required for such activity.

This exclusion does not apply to bodily injury or property damage arising out of the selling, serving or furnishing of alcoholic beverages for an activity or function described in the Schedule of this endorsement.

b. Premium

Refer to company.

c. Endorsement

Use Liquor Liability Exclusion And Exception For Scheduled Activities Endorsement **HO 07 54.**

5. Special Coverage – Spoilage Of Perishable Stock

a. Coverage

Provides special coverage for the perishable stock specifically listed in the Schedule of Endorsement **HO 07 55.** The limit of liability is also listed in the endorsement.

b. Premium

Refer to state company rates.

c. Endorsement

Use Special Coverage – Spoilage Of Perishable Stock Endorsement **HO 07 55.**

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

6. Valuable Papers And Records Endorsements

a. Increased Limits

(1) Coverage

The Home Business Insurance Coverage endorsement provides a basic limit of $2,500 for Valuable Papers and Records Coverage. This limit may be increased. The amount is specified in the Schedule of Endorsement **HO 07 56.**

(2) Premium

Refer to state company rates.

(3) Endorsement

Use Valuable Papers And Records Coverage Increased Limits Endorsement **HO 07 56.**

b. Special Coverage

(1) Coverage

Extends the basic $2,500 limit of liability for Valuable Papers and Records Coverage from:

(a) Named-perils in Forms **HO 00 02, HO 00 03, HO 00 04** and **HO 00 06;** and

(b) Special Coverage in Forms **HO 00 05, HO 00 04** with **HO 05 24** and **HO 00 06** with **HO 17 31;**

to expanded special coverage. Increased Limits for expanded special coverage are also available.

(2) Premium

Refer to state company rates.

(3) Endorsement

Use Special Coverage Valuable Papers And Records Endorsement **HO 07 57.**

7. Off-premises Property Coverage – Increased Limits

a. Endorsement

Coverage for business property, other than money and securities, that is away from the residence premises at the time of loss may be increased from $5,000 to $10,000. Check the appropriate box in the schedule of the Home Business endorsement.

b. Premium

Refer to state company rates.

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

A. Coverage Description – Basic Limits

When the optional Limited Fungi, Wet Or Dry Rot, Or Bacteria Coverage endorsement is attached to the policy, limited amounts of insurance are automatically provided as follows:

1. Section I – Fungi, Wet Or Dry Rot, Or Bacteria

$10,000, on an aggregate basis, to pay for loss and associated costs to covered real or personal property, owned by an insured, that is damaged by fungi or wet or dry rot, or bacteria on the "residence premises" as defined in the coverage endorsements. If the basic limit is selected, it is entered on the coverage endorsements or the policy Declarations.

This coverage applies only to the policy period in which the loss or costs occur.

2. Section II – Fungi, Wet Or Dry Rot, Or Bacteria

$50,000, on an aggregate basis, to pay for damages because of bodily injury or property damage involving the inhalation of, ingestion of, contact with, exposure to, existence of, or presence of any fungi, wet or dry rot, or bacteria. If the basic limit is selected, it is entered on the coverage endorsements or the policy Declarations.

B. Increased Limits

1. Section I – Fungi, Wet Or Dry Rot, Or Bacteria

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

b. Refer to Paragraph **C.** for premium computation instructions.

2. Section II – Fungi, Wet Or Dry Rot, Or Bacteria

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

b. Refer to Paragraph **C.** for premium computation instructions.

C. Premium Computation

1. Basic Limits

There is no premium adjustment.

2. Increased Limits

Refer to state company rates for an additional charge.

RULE 529.
LIMITED FUNGI, WET OR DRY ROT, OR BACTERIA COVERAGE (Cont'd)

D. Endorsements

Use Limited Fungi, Wet Or Dry Rot, Or Bacteria Coverage Endorsement:

1. **HO 04 26** – For use with Forms **HO 00 02, HO 00 04** and **HO 00 06.**
2. **HO 04 27** – For use with Forms **HO 00 03** and **HO 00 05.**
3. **HO 04 28** – For use with Form **HO 00 04** with Special Personal Property Endorsement and Form **HO 00 06** with Unit-owners Coverage **C** Special Coverage Endorsement or Unit-owners Coverage **A** Special Coverage Endorsement.

RULE 530.
IDENTITY FRAUD EXPENSE COVERAGE

A. Coverage Description

When the optional Identity Fraud Expense Coverage endorsement is attached to the policy, $15,000 of coverage is available to pay for expenses incurred by an insured as a direct result of any one identity fraud first discovered or learned of during the policy period. Such expenses include the costs for notarizing fraud affidavits or similar documents; certified mail sent to law enforcement, financial institutions and credit agencies; lost income resulting from time taken off work to meet with or talk to law enforcement or credit agencies; loan application fees for reapplying for a loan when the application is rejected solely because the lender received incorrect credit information and reasonable attorney's fees incurred to defend lawsuits brought against the insured and to remove criminal or civil judgments.

B. Limits Of Liability

Up to $15,000 coverage will be provided for the identity fraud of an insured discovered or first learned of during the policy period.

C. Premium Computation

Refer to state company rates for additional charge.

D. Endorsement

Use Identity Fraud Expense Coverage Endorsement **HO 04 55.**

RULE 531.
LIMITED COVERAGE FOR THEFT OF PERSONAL PROPERTY LOCATED IN A DWELLING UNDER CONSTRUCTION

A. Introduction

The policy does not cover theft of personal property in or to a dwelling under construction, or of materials and supplies for use in the construction, until the dwelling is finished and occupied.

B. Coverage Description

The policy may be endorsed to provide theft coverage for personal property in a dwelling that is under construction but not occupied provided the dwelling is fully enclosed with windows and doors and has operational locks.

The time period for which coverage will be provided should be specified in the endorsement.

C. Premium Computation

Refer to state company rates for the charge applicable per 30-day period of coverage. The premium for this coverage shall be fully earned.

D. Endorsement

Use Limited Coverage For Theft Of Personal Property Located In A Dwelling Under Construction Endorsement **HO 06 07.**

RULES 532. – 600.
RESERVED FOR FUTURE USE

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

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

A. Residence Premises

1. Minimum limits of liability for Coverage **E** (Personal Liability) and Coverage **F** (Medical Payments to Others) are shown in Rule **301.** in the state classification section. The premium for these limits is included in the Base Premium.

2. Refer to the state company rates Rule **601.** for increased limits rates.

3. If increased limits are written, then the same limits must apply to any Other Exposures covered under the policy, unless otherwise stated.

B. Other Exposures

1. There is an additional charge for Other Exposures listed in the following rules.

2. The minimum limits for Other Exposures are the same as the limits for the Residence Premises, unless otherwise stated.

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

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

C. Rates And Factors Not Shown

1. Rates and factors for limits between the lowest and highest limits shown in this Manual may be developed by interpolation.

2. For rates and factors for limits above the highest shown, refer to company.

RULE 602.
OTHER INSURED LOCATION OCCUPIED BY INSURED

A. Introduction

1. Section **II** Coverage may be provided on locations, other than the residence premises, where an insured resides, but which are insured for Section **I** Coverage under another insurance program or by another company.

2. Make the appropriate charge for each other insured location shown in the Declarations of this policy. If the insured location is in another state, refer to the Manual for that state.

B. Premium

Refer to the state company rates.

RULE 603.
RESIDENCE EMPLOYEES

A. There is no additional charge for up to two residence employees.

B. Refer to the state company rates to determine the premium when there are more than two residence employees.

C. Charges do not apply to employees working less than half of the customary full time or to whom workers' compensation exclusion applies as stated in Section **II** of the policy.

RULE 604.
ADDITIONAL RESIDENCE RENTED TO OTHERS

A. Introduction

1. The policy may be endorsed to provide coverage when an additional residence is rented to others.

2. If the additional residence rented to others is in another state, refer to the Manual for that state.

B. Premium

Refer to state company rates.

C. Endorsement

Use Additional Residence Rented To Others Endorsement **HO 24 70.**

RULE 605.
OTHER STRUCTURES RENTED TO OTHERS – RESIDENCE PREMISES

A. Coverage Description

1. The policy may be endorsed to provide coverage when a structure on the residence premises is rented to others for dwelling purposes.

2. Refer to Rule **514.A.2.** for rating Section **I** Coverage.

B. Premium

Refer to state company rates.

C. Endorsement

Use Structures Rented To Others – Residence Premises Endorsement **HO 04 40.**

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

A. Exclusions

1. When the policy covers an insured's business pursuits, home day care or other permitted business occupancies, coverage for loss caused by, resulting from or arising out of the failure of computers and electronic componentry to properly recognize a particular date or time may be excluded. Under Section **I,** the exclusion applies to any date or time, including the Year 2000 and beyond. Under Section **II,** the exclusion applies only to the Year 2000 and beyond, but does not apply to bodily injury that occurs on the covered premises from which the business is conducted.
2. Use Sections **I** and **II** Exclusions for Computer-Related Damage Or Injury Endorsement **HO 04 13.**

B. Section II Liability Limited Coverage

1. When **HO 04 13** is attached to the policy, the policy may be further endorsed to provide liability coverage for claims or suits alleging bodily injury away from the covered premises and property damage on or away from the covered premises arising out of a computer failure as defined in the endorsement. Such coverage is subject to the Coverages **E** and **F** limits of liability stated in the declarations or, if applicable, the schedule of the Home Day Care endorsement.
2. Use Section **II** – Limited Coverage for Year 2000 Computer-Related And Other Electronic Problems Endorsement **HO 04 15.**

C. Premium

Refer to company.

RULE 607. HOME DAY CARE COVERAGE

A. Coverage Description

The policy may be endorsed to provide coverage for the increased exposure arising from a home day care business on the residence premises.

B. Endorsement

1. Use Home Day Care Coverage Endorsement **HO 04 97** for Sections **I** and **II** Coverage.
2. This endorsement provides for an annual aggregate limit of liability for Coverages **E** and **F** combined. Coverage **F** is subject to a sub-limit of liability which applies per-person/per-accident and does not increase the aggregate limit of liability.
3. The annual aggregate limit of liability (Coverages **E** and **F** combined) for this endorsement is the same as the dollar amount of Coverage **E** shown in the Declarations. The Coverage **F** sub-limit for this endorsement is the same as the dollar amount of Coverage **F** shown in the Declaration.

C. Premium

1. Refer to state company rates.
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 dollar limits, use the Coverage **E** increased limit factors to raise the aggregate limit, and the Coverage **F** charges to raise the Coverage **F** sub-limit.
3. This premium is for 1 through 3 persons, other than insureds, receiving day care services. If the day care business involves the care of more than 3 persons, other than insureds, refer to company.
4. If the business is located in an other structure on the residence premises, also refer to Rule **509.** for rating the property exposure.

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

A. Coverage Description

The policy may be endorsed to provide coverage for the increased exposure arising from a permitted incidental occupancy on the residence premises or in an other residence occupied by the insured.

1. **Residence Premises**

   Use Permitted Incidental Occupancies – Residence Premises Endorsement **HO 04 42.**

2. **Other Residence**

   Use Permitted Incidental Occupancies – Other Residence Endorsement **HO 24 43.**

B. Premium

Refer to state company rates.

RULE 609. BUSINESS PURSUITS

A. Coverage Description

The policy may be endorsed to provide coverage for the liability of the insured arising out of business activities. Coverage is excluded if the insured owns the business, is a partner or maintains financial control in the business.

RULE 609.
BUSINESS PURSUITS (Cont'd)

B. Premium

1. Refer to the state company rates for eligible business activities and rates.
2. Refer to company for eligibility and rates for business activities not listed.

C. Endorsement

Use Business Pursuits Endorsement **HO 24 71.**

RULE 610.
PERSONAL INJURY COVERAGE

A. Introduction

Liability coverage for personal injury arising out of specified offenses, such as false arrest, malicious prosecution, wrongful eviction, slander or libel may be added to the policy. The limit of liability for this coverage may be provided on either an "any one offense" basis or on an annual aggregate limit basis.

B. Premium

Refer to state company rates.

C. Endorsement

Use Personal Injury Coverage Endorsement **HO 24 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 24 10** for providing coverage with the limit of liability on an annual aggregate limit basis.

RULE 611.
INCIDENTAL LOW POWER RECREATIONAL MOTOR VEHICLES

A. Coverage Description

1. The policy may be endorsed to provide liability coverage with respect to certain types of recreational motor vehicles.
2. Coverage does not apply with respect to the following vehicles owned by a named insured if the occurrence takes place off the insured location:
   a. Motorized bicycles;
   b. Motorized golf carts;
   c. Mopeds; or
   d. Motorized scooters.

B. Premium

Refer to state company rates.

C. Endorsement

Use Incidental Low Power Recreational Motor Vehicle Liability Coverage Endorsement **HO 24 13.**

RULE 612.
OUTBOARD MOTORS AND WATERCRAFT

A. Introduction

Coverage is included in the policy form, at no additional charge, for certain watercraft powered by an outboard engine or motor or combination of outboard engines or motors of up to 25 horsepower, and sailboats less than 26 feet in overall length with or without auxiliary power. Coverage is also included for watercraft powered by inboard or inboard-outdrive engines or motors, including those that power a water jet pump, of 50 horse power or less when not owned by an insured or more than 50 horse power when not owned by or rented to an insured.

B. Coverage Description

1. The policy may be endorsed to provide coverage for the following types of craft:
   a. Watercraft, up to 26 feet in length powered by outboard engines or motors exceeding 25 horsepower; or powered by inboard or inboard-outdrive engines or motors, including those that power a water jet pump.

      Accumulate total horsepower if two or more engines or motors are regularly used together with any single watercraft owned by insured.
   b. Sailboats 26 feet or more in overall length, with or without auxiliary power.
2. Coverage must be written to expiration of the policy. It is permissible, however, to stipulate for all watercraft eligible in this rule, the navigational period of each year. Premium shall be adjusted on a pro rata basis.
3. For watercraft not described in preceding Paragraphs **A.** and **B.1.,** coverage is not permitted under the Homeowners Policy.
4. The premium in the state where the Insured's residence premises is located shall apply. However, if the insured owns another residence premises in a different state and principally operates the watercraft from that residence, apply the premium for that state.

C. Premium

Refer to the state company rates.

D. Endorsement

Use Watercraft Endorsement **HO 24 75.**

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**

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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-2022-RU-001

REFERENCE INFORMATION (FOR COMPANY USE ONLY)

Circular Reference(s):

- P-21-11 (11/23/2021) Revised Homeowners Insurance Rates And Rules

Filing Reference(s):

- NCRI-132574647 (Bureau)

INSURANCE SERVICES OFFICE, INC.
545 Washington Boulevard, Jersey City, NJ 07310-1686

**RULE 301.
BASE PREMIUM COMPUTATION**

Base Class Premium Table

Territory	HO 00 03	HO 00 04	HO 00 06
110	2,908	126	107
120	3,427	144	131
130	1,775	81	83
140	2,403	98	90
150	1,465	61	62
160	1,614	78	67
170	896	57	55
180	1,049	61	58
190	1,249	64	61
200	1,363	68	67
210	928	61	56
220	1,131	81	57
230	1,215	62	60
240	906	61	53
250	1,034	59	51
260	676	60	51
270	796	51	58
280	698	46	43
290	833	52	53
300	884	54	51
310	683	55	45
320	765	52	46
330	635	49	50
340	696	58	49
350	710	51	48
360	614	40	39
370	667	46	50
380	620	46	48
390	633	47	49

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

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

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 – North Carolina Endorsement HO 32 32

Use this endorsement with all Homeowners policies.

B. Windstorm Exterior Paint And Waterproofing Exclusion – North Carolina 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 Insurance Underwriting Association

Section XV of the Plan of Operation of the North Carolina Insurance Underwriting Association (Beach Plan) sets forth the following as to "Member Insurer Responsibility with Respect to Cancellation or Non-renewals":

With regard to risks eligible for coverage by the Association, each Member Insurer agrees that with respect to cancellation or non-renewals initiated by it, the Member Insurer will give to all of its policyholders, except in cases of non-payment of premium, material misrepresentation or evidence of incendiarism, thirty (30) days to obtain coverage from the Association of the cancelled or non-renewed risks and shall, in writing, explain to the policyholder the procedures for making application for coverage from the Association.

E. Company Rates/State Rate Pages

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

F. Insert – North Carolina Endorsement HO 32 46

Use this endorsement with all Homeowners policies.

G. Home-sharing Host Activities Amendatory Endorsements

Use the following endorsements with all Homeowners policies unless Broadened Home-sharing Host Activities Coverage is purchased:

1. **HO 32 43,** Home-sharing Host Activities Amendatory Endorsement – North Carolina (For Use With **HO 00 02**)
2. **HO 32 44,** Home-sharing Host Activities Amendatory Endorsement – North Carolina (For Use With **HO 00 03**)
3. **HO 32 45,** Home-sharing Host Activities Amendatory Endorsement – North Carolina (For Use With **HO 00 04**)
4. **HO 32 48,** Home-sharing Host Activities Amendatory Endorsement – North Carolina (For Use With **HO 00 05**)
5. **HO 32 49,** Home-sharing Host Activities Amendatory Endorsement – North Carolina (For Use With **HO 00 06**)
6. **HO 32 51,** Home-sharing Host Activities Amendatory Endorsement – North Carolina (For Use With **HO 00 08**)

Refer to the Additional Rule for the requirements for Broadened Home-sharing Host Activities Coverages.

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 Insurance Underwriting Association; and

2. A Windstorm or Hail Rejection Form is secured and maintained by the company.

Use Absolute Windstorm Or Hail Exclusion – North Carolina 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.

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.

E. For Rules **501., 502., 507.** and **513.,** use the Key Premium excluding Windstorm or Hail Coverage from Paragraph **B.2.** to determine the premium per $1,000 for those options.

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. AGE OF CONSTRUCTION – ALL FORMS EXCEPT HO 00 04 AND HO 00 06

A. Determine the age of construction based 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. Multiply the Base Premium by the appropriate factor selected from the following table:

Age Of Construction	Factor
0 *	.797
1	.809
2	.822
3	.834
4	.847
5	.860
6	.873
7	.886
8	.900
9	.913
10	.927
11	.941
12	.956
13	.970
14	.985
15 □	1.000

* Age 0 applies to homes built within the last year as well as homes still under construction.

□ Applies to dwellings built at least 15 years ago.

Table A5.B. Age Of Construction Factors

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.

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. <u>Marshall and Swift Boeckh Residential Cost Index</u> published by the American Appraisal Company, Inc.
2. <u>Composite Construction Cost Index</u> published by the U.S. Department of Commerce.
3. <u>Consumer Price Index</u> published by the U.S. Department of Labor.
4. <u>Marshall and Swift Boeckh Construction Cost Index</u> published by Marshall and Swift Boeckh.
5. <u>RSMeans CostWorks Valuator</u> published by RSMeans.
6. <u>Xactware Inflation Index</u> 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.

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

Effective prior to March 31, 2019:

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) prior to March 31, 2019;

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 prior to March 31, 2019;

c. The dwelling contains Opening Protection in accordance with the qualification requirements set forth in Paragraph **D.2.;** 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 (designations prior to March 31, 2019):

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 certified as having met the Large Missile Test (Missile D) of the American Society for Testing and Materials ASTM E 1886 (standard test method) and ASTM E 1996 (standard specification) or other standards that are determined to be equivalent, including the American Architectural Manufacturers Association (AAMA), AAMA 506 or the Florida Building Code Testing Application Standards TAS 201 and 203. 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.2.a:**

(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.

Effective *on or after* March 31, 2019:

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 FORTIFIED for Safer Living® program promulgated by the Institute for Business and Home Safety® (IBHS) for use on or after March 31, 2019;

b. The dwelling has been certified as meeting, either the Roof, Silver or Gold hurricane mitigation measures in the FORTIFIED Home™ program promulgated by the IBHS for use on or after March 31, 2019;

c. The dwelling contains Opening Protection in accordance with the qualification requirements set forth in Paragraph **D.2.;** or

d. The dwelling contains a Total Hip Roof.

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

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.

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 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 FORTIFIED Home™

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 FORTIFIED programs (designations on or after March 31, 2019):

a. A home designated by the IBHS as FORTIFIED for Safer Living®.

b. A home designated by the IBHS as FORTIFIED Home™, including:

(1) FORTIFIED Roof – Hurricane – Existing Roof

(2) FORTIFIED Roof – Hurricane – New Roof

(3) FORTIFIED Home – Hurricane – Silver – Existing Roof

(4) FORTIFIED Home – Hurricane – Silver – New Roof

(5) FORTIFIED Home – Hurricane – Gold – Existing Roof

(6) FORTIFIED Home – Hurricane – Gold – New Roof

2. Opening Protection

a. Building opening protective features must have been certified as having met the Large Missile Test (Missile D) of the American Society for Testing and Materials ASTM E 1886 (standard test method) and ASTM E 1996 (standard specification) or other standards that are determined to be equivalent, including the American Architectural Manufacturers Association (AAMA), AAMA 506 or the Florida Building Code Testing Application Standards TAS 201 and 203. Such opening protective features shall be considered qualified.

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.2.a.:**

(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.

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

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.

RULE A10.
BROADENED HOME-SHARING HOST ACTIVITIES COVERAGE

A. Introduction

Coverage is limited or excluded for certain rental activities conducted on the residence premises through a home-sharing network platform.

B. Coverage Description

The policy may be endorsed to provide the following optional coverages:

1. Broadened Coverage For Home-sharing Host Activities

This coverage provides broadened property and liability coverages for an insured who engages in home-sharing host activities on the residence premises.

2. Increased Limits For Home-sharing Host Activities Damage To Property Of Others

The policy provides $1,000 of coverage for Damage To Property Of Others. This limit may be increased, for home-sharing host activities only, to $5,000, $10,000, $25,000 or $50,000. The limit selected is entered on the coverage endorsement or in the policy Declarations.

C. Type Of Home-sharing Accommodations

The three types of home-sharing host accommodation rating classifications are described below. If more than one type of accommodation will be made available, the highest applicable rating classification will apply.

1. Entire Residence Premises

Use this classification when the entire residence premises, as shown in the Declarations, will be made available for home-sharing host activities.

2. Separate Unit In A Dwelling Or Other Structure On The Residence Premises

Use this classification when:

a. The residence premises shown in the Declarations is not:

(1) A condominium,

(2) A cooperative unit, or

(3) An apartment situated in any building;

b. The named insured resides in one of the family units or other structures on the residence premises; and

c. One or more of the family units or other structures on the residence premises, wherein the named insured does not reside, such as an attached apartment or detached guest house, will be made available for home-sharing host activities.

3. Partial Or Shared Unit

Use this classification when:

a. The named insured resides in one of the family units on the residence premises; and

b. A portion of the family unit in which the named insured resides, such as a private or shared room, will be made available for home-sharing host activities.

These classifications apply regardless of whether access to certain areas of the residence premises, such as a storage area or garage, is limited or prohibited during such home-sharing host activities.

RULE A10.
BROADENED HOME-SHARING HOST ACTIVITIES COVERAGE (Cont'd)

D. Premium Determination

1. Broadened Coverage For Home-sharing Host Activities

a. Determine the:

(1) Type(s) of applicable accommodations; and

(2) Total number of nights that one or more accommodations or family units will be rented;

during the policy period. Any night in which more than one rental has or will occur on the residence premises shall be counted as one night. Consideration may be given to the home-sharing host activities engaged in by an insured during the three years immediately preceding the date of application for a new policy or the preparation of a renewal policy.

b. The premium including broadened coverage for home-sharing host activities is computed by multiplying the Base Premium by the appropriate factor selected from the following table(s):

(1) All Forms Except HO 00 04 And HO 00 06

Territories 110, 120, 130 And 140			
	Type Of Home-sharing Accommodations		
Number Of Nights	**Entire Residence Premises**	**Separate Unit In A Dwelling Or Other Structure**	**Partial Or Shared Unit**
1-30	1.004	1.002	1.001
31-90	1.017	1.008	1.004
91-180	1.037	1.019	1.009
181 or more	1.075	1.038	1.019

Table D.1.b.(1)(a) Factors For All Forms Except HO 00 04 And HO 00 06

Territories 150, 160, 170, 180, 190, 200, 210, 220, 230, 240, 250, 260, 270, 280, 290, 300, 310, 320, 330, 340, 350 And 360			
	Type Of Home-sharing Accommodations		
Number Of Nights	**Entire Residence Premises**	**Separate Unit In A Dwelling Or Other Structure**	**Partial Or Shared Unit**
1-30	1.008	1.004	1.002
31-90	1.031	1.016	1.008
91-180	1.069	1.035	1.017
181 or more	1.140	1.070	1.035

Table D.1.b.(1)(b) Factors For All Forms Except HO 00 04 And HO 00 06

Territories 370, 380 And 390			
	Type Of Home-sharing Accommodations		
Number Of Nights	**Entire Residence Premises**	**Separate Unit In A Dwelling Or Other Structure**	**Partial Or Shared Unit**
1-30	1.011	1.006	1.003
31-90	1.044	1.022	1.011
91-180	1.099	1.050	1.025
181 or more	1.200	1.100	1.050

Table D.1.b.(1)(c) Factors For All Forms Except HO 00 04 And HO 00 06

(2) Forms HO 00 04 And HO 00 06

All Territories		
	Type Of Home-sharing Accommodations	
Number Of Nights	**Entire Residence Premises**	**Partial Or Shared Unit**
1-30	1.014	1.004
31-90	1.055	1.014
91-180	1.124	1.031
181 or more	1.250	1.063

Table D.1.b.(2) Factors For Forms HO 00 04 And HO 00 06

RULE A10.
BROADENED HOME-SHARING HOST ACTIVITIES COVERAGE (Cont'd)

c. When the home-sharing host activities are conducted in a separate structure on the residence premises, refer to Rule **514.A.2.** for additional charges that may apply.

2. **Increased Limits For Home-sharing Host Activities Damage To Property Of Others**

   Charge the rate shown on the state rate pages for the additional charge corresponding to the increased limit selected.

E. Administration

Information necessary to determine the type(s) and frequency of home-sharing host activities may be obtained from any one or combination of the following:

1. An application signed by the applicant.
2. A renewal questionnaire signed by the named insured.
3. Publically available information from one or more home-sharing websites.
4. A company's internal records.

F. Endorsement

Replace the Home-sharing Host Activities Amendatory Endorsement with the applicable Broadened Home-sharing Host Activities Coverage Endorsement corresponding to the applicable Homeowners policy:

1. **HO 32 52,** Broadened Home-sharing Host Activities Coverage Endorsement – North Carolina (For Use With **HO 00 02**)
2. **HO 32 53,** Broadened Home-sharing Host Activities Coverage Endorsement – North Carolina (For Use With **HO 00 03**)
3. **HO 32 58,** Broadened Home-sharing Host Activities Coverage Endorsement – North Carolina (For Use With **HO 00 04**)
4. **HO 32 59,** Broadened Home-sharing Host Activities Coverage Endorsement – North Carolina (For Use With **HO 00 05**)
5. **HO 32 60,** Broadened Home-sharing Host Activities Coverage Endorsement – North Carolina (For Use With **HO 00 06**)
6. **HO 32 61,** Broadened Home-sharing Host Activities Coverage Endorsement – North Carolina (For Use With **HO 00 08**)

RULE A11.
DAMAGE TO PROPERTY OF OTHERS – INCREASED LIMITS

A. Coverage Description

The policy provides a limit of $1,000 per occurrence for damage to property of others caused by an insured. This limit may be increased to $5,000, $10,000, $25,000 or $50,000.

The limit selected is entered on the coverage endorsement or the policy Declarations.

B. Premium Determination

Refer to the rate pages for the additional charge corresponding to the increased limit selected.

C. Endorsement

Use Damage To Property Of Others – Increased Limits Endorsement **HO 06 51.**

RULE A12.
UNMANNED AIRCRAFT EXCLUSIONARY ENDORSEMENTS – ALL FORMS AND ENDORSEMENT HO 32 82 And HO 32 10

A. Introduction

Liability coverage for bodily injury or property damage is currently provided in the policy form for model or hobby aircraft not used or designed to carry people or cargo. The policy may be endorsed to exclude coverage for liability related to unmanned aircraft, including model or hobby aircraft.

Liability coverage for personal injury, on a per offense basis or aggregate basis, is available by endorsement to the policy. Coverage for aircraft liability is currently provided in Personal Injury Coverage. Personal Injury Coverage may be endorsed to exclude liability for aircraft, including unmanned aircraft whether or not model or hobby.

B. Endorsements

1. To exclude liability for bodily injury or property damage in Forms **HO 00 02, HO 00 03, HO 00 04, HO 00 05, HO 00 06** and **HO 00 08** related to unmanned aircraft, whether or not model or hobby, attach Aircraft Liability Definition Revised To Remove Exception For Model Or Hobby Aircraft Endorsement **HO 34 02.**

RULE A12.
UNMANNED AIRCRAFT EXCLUSIONARY ENDORSEMENTS – ALL FORMS AND ENDORSEMENT HO 32 82 And HO 32 10 (Cont'd)

2. To exclude liability for personal injury related to aircraft, including unmanned aircraft whether or not model or hobby on an "any one offense basis", attach Personal Injury For Aircraft Liability Excluded Endorsement – North Carolina **HO 34 14** to Endorsement **HO 32 82** – Personal Injury Coverage – North Carolina. To exclude liability for personal injury related to aircraft, including unmanned aircraft whether or not model or hobby on an annual aggregate basis, attach Endorsement **HO 34 14** to Endorsement **HO 32 10** – Personal Injury Coverage (Aggregate Limit Of Liability) – North Carolina.

C. Premium Determination

1. Endorsement **HO 34 02**

To determine the premium for this option, multiply the Base Premium by 0.996.

2. Endorsement **HO 34 14**

To determine the premium for this option, multiply the rate that corresponds to Endorsement **HO 32 82** or Endorsement **HO 32 10** by 0.90.

RULE A13.
FORTIFIED ROOF – HURRICANE – NEW ROOF EXPENSE COVERAGES – FORMS HO 00 02, HO 00 03, HO 00 05 AND HO 00 08

A. Coverage Description

FORTIFIED Home™ is an engineering and building standard developed by the Insurance Institute for Business & Home Safety (IBHS) to mitigate wind-related hurricane damage. The program also includes evaluation and inspection requirements to ensure the technical standards are properly implemented, resulting in the designation of a home as meeting the FORTIFIED Home requirements.

With respect to a risk located in Territory **110, 120, 130, 140, 150** or **160,** a policy may be endorsed to provide the following optional coverages:

1. FORTIFIED Roof – Hurricane – New Roof Expense Coverage

This coverage will pay up to $5,000, without application of a deductible, for certain expenses necessary to obtain the **FORTIFIED Roof – Hurricane – New Roof** designation from the IBHS for the roof of the insured dwelling damaged by a covered peril, which requires the roof to be fully replaced. This coverage applies only if:

a. The amount of the covered loss to the roof covering of the insured dwelling is greater than 50% of the replacement cost value of the entire roof covering;

b. The roof sheathing on that dwelling is (or was immediately prior to the loss) a minimum of 7/16-inch Oriented Strand Board (OSB) or plywood; and

c. That dwelling is not (or was not immediately prior to the loss) on an unreinforced dry stacked foundation or is otherwise ineligible for FORTIFIED Home Review as defined by the IBHS.

2. IBHS Certified Evaluator Expense Coverage

If the **FORTIFIED Roof – Hurricane – New Roof** Expense Coverage described in Paragraph **A.1.** does not apply, this coverage will pay up to $600, without application of a deductible, for the direct expenses incurred by the named insured for the services of an IBHS certified evaluator. This coverage applies only if:

a. The entire roof covering of the insured dwelling is replaced to the **FORTIFIED Roof – Hurricane – New Roof** standard as recognized by the IBHS during the policy period;

b. The named insured obtains the IBHS designation **FORTIFIED Roof – Hurricane – New Roof** from the IBHS; and

c. Satisfactory proof of the IBHS designation **FORTIFIED Roof – Hurricane – New Roof** for the insured dwelling is submitted to the insurer.

The insured will be responsible for arranging and coordinating the roof replacement work, as well as the inspections, assessments and verifications required by the IBHS. Nothing in Rule **A13.** is intended to change the applicable loss settlement provisions of the policy, other than to pay the IBHS costs as referenced previously in Rule **A13.,** subject to the maximum coverage limits of the endorsement.

B. Premium

1. For policies providing Windstorm or Hail Coverage, multiply the Base Premium by .032.

2. For policies excluding Windstorm or Hail Coverage, multiply the Base Premium by .011.

C. Endorsement

Use **FORTIFIED Roof – Hurricane – New Roof** Expense Coverages – North Carolina Endorsement **HO 32 04.**

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

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

E. Form HO 00 08

1. Section I

The following are the only Section **I** options available with this form:

a. $100 Section **I** Deductible,

b. Higher Optional Deductibles,

c. On- and Off-premises Theft Coverage Increase,

d. Actual Cash Value Loss Settlement of Windstorm or Hail Loss to Roof Surfacing,

e. Reduced Coverage **C** Limits; and

f. Broadened Home-sharing Host Activities Coverage.

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

3. Loss Settlement Condition Endorsement HO 04 81

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

RULE 302.
LOSS SETTLEMENT OPTIONS (Cont'd)

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.**

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

RULE 303.
ORDINANCE OR LAW COVERAGE – ALL FORMS EXCEPT HO 00 08 (Cont'd)

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

A. Coverage Description

2. This option may only be used when:

a. For Form **HO 00 04,** the apartment, dwelling or cooperative unit rented to the insured is not rented or sublet to another or used for home-sharing host activities; or

b. For Form **HO 00 06,** the condominium or cooperative unit is owner-occupied and not rented to others or used for home-sharing host activities.

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.**

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

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.

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.

RULE 404.
PROTECTIVE DEVICES (Cont'd)

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.

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.

RULE 404.
PROTECTIVE DEVICES (Cont'd)

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 Burglar 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.

RULE 406.
DEDUCTIBLES (Cont'd)

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 Amount	Coverage A Limit					
	Up To $59,999	$60,000 To $99,999	$100,000 To $200,000	$200,001 To $250,000	$250,001 To $350,000	$350,001 And Over
$ 250	1.27	1.27	1.27	1.27	1.27	1.27
500	1.15	1.15	1.16	1.22	1.22	1.22
1,000	1.00	1.00	1.00	1.13	1.13	1.13
1,500	0.92	0.92	0.92	1.06	1.06	1.06
2,000	0.85	0.85	0.85	1.00	1.00	1.00
2,500	0.78	0.78	0.78	0.95	0.95	0.95
3,000	0.76	0.76	0.76	0.92	0.92	0.92
4,000	0.74	0.74	0.74	0.87	0.87	0.87
5,000	0.72	0.72	0.72	0.82	0.82	0.82
7,500	–	–	–	0.76	0.76	0.76
10,000	–	–	–	0.71	0.71	0.71
1 %	1.13	1.05	0.90	0.89	0.89	0.89

HO 00 04		
Deductible Amount	Coverage C Limit	
	Up To $25,000	$25,001 And Over
$ 250	1.10	1.10
500	1.00	1.02
1,000	0.85	0.92
1,500	0.77	0.86
2,000	0.70	0.80
2,500	0.65	0.75
3,000	0.61	0.71
4,000	0.54	0.64
5,000	0.48	0.58

HO 00 06		
Deductible Amount	Coverage C Limit	
	Up To $40,000	$40,001 And Over
$ 250	1.11	1.11
500	1.00	1.02
1,000	0.84	0.90
1,500	0.76	0.83
2,000	0.69	0.76
2,500	0.62	0.70
3,000	0.58	0.66
4,000	0.51	0.59
5,000	0.46	0.54

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	$25,001 And over
$ 1,000	$ 100	1.02	1.04
	250	0.97	1.01
	500	0.92	0.98
2,500	100	0.91	0.97
	250	0.88	0.93
	500	0.82	0.90
	1,000	0.76	0.85

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	$40,001 And over
$ 1,000	$ 100	1.12	1.11
	250	1.06	1.07
	500	0.97	1.00
2,500	100	1.08	1.08
	250	1.01	1.02
	500	0.92	0.96
	1,000	0.80	0.86

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%, 3%, 4%, 5%, 7.5% and 10% 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.

(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.

RULE 406.
DEDUCTIBLES (Cont'd)

(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)

Windstorm Or Hail Deductible Percentage	All Other Perils Deductible Amount	Coverage A Limit: Up To $59,999	$60,000 To $99,999	$100,000 To $200,000	$200,001 To $250,000	$250,001 To $350,000	$350,001 And Over
1%	$ 100	1.33	1.32	1.32	1.32	1.32	1.32
	250	1.22	1.22	1.22	1.22	1.22	1.22
	500	1.13	1.13	1.13	1.18	1.18	1.18
	1,000	–	–	0.99	1.11	1.11	1.11
	1,500	–	–	0.92	1.06	1.06	1.06
	2,000	–	–	–	0.99	0.99	0.99
	2,500	–	–	–	–	0.94	0.94
	3,000	–	–	–	–	0.90	0.90
	4,000	–	–	–	–	–	0.85
	5,000	–	–	–	–	–	0.80
	7,500	–	–	–	–	–	0.73
	10,000	–	–	–	–	–	0.68
	1%	–	–	–	–	–	–
2%	$ 100	1.29	1.29	1.29	1.29	1.29	1.29
	250	1.18	1.18	1.19	1.20	1.20	1.20
	500	1.09	1.09	1.10	1.15	1.15	1.15
	1,000	0.96	0.96	0.96	1.08	1.08	1.08
	1,500	–	0.90	0.90	1.01	1.01	1.01
	2,000	–	–	0.83	0.96	0.96	0.96
	2,500	–	–	0.76	0.91	0.91	0.91
	3,000	–	–	0.75	0.87	0.87	0.87
	4,000	–	–	–	0.82	0.82	0.82
	5,000	–	–	–	–	0.77	0.77
	7,500	–	–	–	–	–	0.71
	10,000	–	–	–	–	–	0.67
	1%	1.10	0.99	0.89	0.85	0.85	0.85
3%	$ 100	1.27	1.27	1.28	1.28	1.28	1.28
	250	1.16	1.16	1.18	1.19	1.19	1.19
	500	1.07	1.07	1.09	1.14	1.14	1.14
	1,000	0.94	0.94	0.95	1.07	1.07	1.07
	1,500	0.87	0.88	0.89	1.00	1.00	1.00
	2,000	–	0.82	0.82	0.95	0.95	0.95
	2,500	–	0.76	0.76	0.90	0.90	0.90
	3,000	–	–	0.75	0.86	0.86	0.86
	4,000	–	–	0.73	0.81	0.81	0.81
	5,000	–	–	0.71	0.76	0.76	0.76
	7,500	–	–	–	–	0.71	0.71
	10,000	–	–	–	–	0.66	0.66
	1%	1.08	0.97	0.88	0.84	0.84	0.84

RULE 406.
DEDUCTIBLES (Cont'd)

Windstorm Or Hail Deductible Percentage	All Other Perils Deductible Amount	Coverage A Limit Up To $59,999	$60,000 To $99,999	$100,000 To $200,000	$200,001 To $250,000	$250,001 To $350,000	$350,001 And Over
4%	$ 100	1.25	1.25	1.26	1.28	1.28	1.28
	250	1.15	1.15	1.16	1.19	1.19	1.19
	500	1.06	1.06	1.07	1.14	1.14	1.14
	1,000	0.93	0.93	0.93	1.06	1.06	1.06
	1,500	0.86	0.87	0.87	1.00	1.00	1.00
	2,000	0.79	0.81	0.81	0.95	0.95	0.95
	2,500	–	0.75	0.75	0.90	0.90	0.90
	3,000	–	0.74	0.74	0.86	0.86	0.86
	4,000	–	–	0.72	0.81	0.81	0.81
	5,000	–	–	0.70	0.76	0.76	0.76
	7,500	–	–	0.65	0.70	0.70	0.70
	10,000	–	–	–	–	0.66	0.66
	1%	1.07	0.96	0.87	0.83	0.83	0.83
5%	$ 100	1.23	1.23	1.25	1.27	1.27	1.27
	250	1.13	1.13	1.15	1.18	1.18	1.18
	500	1.04	1.04	1.06	1.13	1.13	1.13
	1,000	0.91	0.91	0.92	1.05	1.05	1.05
	1,500	0.85	0.85	0.86	0.99	0.99	0.99
	2,000	0.80	0.80	0.80	0.94	0.94	0.94
	2,500	0.75	0.75	0.75	0.89	0.89	0.89
	3,000	–	0.74	0.74	0.85	0.85	0.85
	4,000	–	0.72	0.72	0.80	0.80	0.80
	5,000	–	–	0.70	0.75	0.75	0.75
	7,500	–	–	0.65	0.70	0.70	0.70
	10,000	–	–	–	0.65	0.65	0.65
	1%	1.05	0.94	0.86	0.82	0.82	0.82
7.5%	$ 100	1.20	1.20	1.22	1.25	1.25	1.25
	250	1.11	1.11	1.12	1.16	1.16	1.16
	500	1.02	1.02	1.04	1.11	1.11	1.11
	1,000	0.90	0.90	0.91	1.03	1.03	1.03
	1,500	0.84	0.84	0.85	0.97	0.97	0.97
	2,000	0.79	0.79	0.79	0.92	0.92	0.92
	2,500	0.74	0.74	0.74	0.87	0.87	0.87
	3,000	0.73	0.73	0.73	0.84	0.84	0.84
	4,000	0.71	0.71	0,71	0.79	0.79	0.79
	5,000	–	0.69	0.69	0.74	0.74	0.74
	7,500	–	–	0.64	0.69	0.69	0.69
	10,000	–	–	0.59	0.64	0.64	0.64
	1%	1.03	0.93	0.85	0.81	0.81	0.81

RULE 406.
DEDUCTIBLES (Cont'd)

Windstorm Or Hail Deductible Percentage	All Other Perils Deductible Amount	Coverage A Limit					
		Up To $59,999	$60,000 To $99,999	$100,000 To $200,000	$200,001 To $250,000	$250,001 To $350,000	$350,001 And Over
10%	$ 100	1.18	1.18	1.20	1.23	1.23	1.23
	250	1.09	1.09	1.10	1.14	1.14	1.14
	500	1.00	1.00	1.02	1.09	1.09	1.09
	1,000	0.89	0.89	0.90	1.02	1.02	1.02
	1,500	0.83	0.83	0.84	0.96	0.96	0.96
	2,000	0.78	0.78	0.78	0.91	0.91	0.91
	2,500	0.73	0.73	0.73	0.86	0.86	0.86
	3,000	0.72	0.72	0.72	0.83	0.83	0.83
	4,000	0.70	0.70	0.70	0.78	0.78	0.78
	5,000	0.68	0.68	0.68	0.73	0.73	0.73
	7,500	–	0.63	0.63	0.68	0.68	0.68
	10,000	–	–	0.58	0.63	0.63	0.63
	1%	1.01	0.91	0.84	0.80	0.80	0.80

Table 406.C.3.a.(6) Windstorm Or Hail Percentage Deductibles

RULE 406.
DEDUCTIBLES (Cont'd)

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, $5,000, $7,500 and $10,000 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.

(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.

RULE 406.
DEDUCTIBLES (Cont'd)

Windstorm Or Hail Deductible Amount	All Other Perils Deductible Amount	Coverage A Limit					
		Up To $59,999	$60,000 To $99,999	$100,000 To $200,000	$200,001 To $250,000	$250,001 To $350,000	$350,001 And Over
$1,000	$ 100	1.29	1.30	1.33	1.34	1.34	1.34
	250	1.20	1.20	1.23	1.24	1.24	1.24
	500	1.11	1.11	1.14	1.20	1.20	1.20
$2,000	$ 100	1.24	1.27	1.30	1.32	1.32	1.32
	250	1.15	1.16	1.20	1.22	1.22	1.22
	500	1.08	1.08	1.11	1.18	1.18	1.18
	1,000	0.95	0.95	0.97	1.11	1.11	1.11
	1,500	0.89	0.89	0.91	1.06	1.06	1.06
$5,000	$ 100	1.22	1.23	1.28	1.29	1.29	1.29
	250	1.11	1.13	1.16	1.19	1.19	1.19
	500	1.04	1.04	1.08	1.15	1.15	1.15
	1,000	0.91	0.91	0.95	1.09	1.09	1.09
	1,500	0.85	0.85	0.89	1.04	1.04	1.04
	2,000	0.79	0.80	0.83	0.99	0.99	0.99
	2,500	0.73	0.75	0.76	0.94	0.94	0.94
	3,000	0.72	0.74	0.75	0.91	0.91	0.91
	4,000	0.71	0.73	0.73	0.86	0.86	0.86
$7,500	$ 100	1.21	1.22	1.25	1.26	1.26	1.26
	250	1.10	1.12	1.15	1.17	1.17	1.17
	500	1.02	1.03	1.06	1.13	1.13	1.13
	1,000	0.90	0.90	0.93	1.06	1.06	1.06
	1,500	0.84	0.84	0.87	1.01	1.01	1.01
	2,000	0.78	0.79	0.81	0.96	0.96	0.96
	2,500	0.72	0.73	0.75	0.92	0.92	0.92
	3,000	0.71	0.72	0.74	0.89	0.89	0.89
	4,000	0.70	0.71	0.72	0.85	0.85	0.85
	5,000	0.69	0.70	0.71	0.81	0.81	0.81
$10,000	$ 100	1.20	1.21	1.23	1.24	1.24	1.24
	250	1.09	1.11	1.13	1.15	1.15	1.15
	500	1.01	1.02	1.05	1.11	1.11	1.11
	1,000	0.89	0.89	0.91	1.04	1.04	1.04
	1,500	0.83	0.83	0.85	0.99	0.99	0.99
	2,000	0.77	0.78	0.79	0.95	0.95	0.95
	2,500	0.71	0.72	0.74	0.91	0.91	0.91
	3,000	0.70	0.71	0.73	0.88	0.88	0.88
	4,000	0.69	0.70	0.71	0.84	0.84	0.84
	5,000	0.68	0.69	0.70	0.80	0.80	0.80
	7,500	–	–	–	0.75	0.75	0.75

Table 406.C.3.b.(6) Windstorm Or Hail Fixed-dollar Deductibles

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	1.09	1.11
	250	1.23	1.06	1.07
	500	1.19	1.01	1.01
	1,000	1.13	0.91	0.89
	1,500	1.08	0.85	0.82
	2,000	1.01	0.79	0.75
	2,500	0.95	0.74	0.69
	3,000	0.91	0.69	0.63
	4,000	0.86	0.60	0.52
	5,000	0.81	0.52	0.42
	7,500	0.75	–	–
	10,000	0.70	–	–
	1%	–	–	–
2%	100	1.30	1.08	1.10
	250	1.22	1.05	1.06
	500	1.16	1.00	1.00
	1,000	1.09	0.90	0.88
	1,500	1.03	0.84	0.81
	2,000	0.97	0.78	0.74
	2,500	0.92	0.73	0.68
	3,000	0.88	0.68	0.62
	4,000	0.83	0.59	0.51
	5,000	0.78	0.51	0.41
	7,500	0.72	–	–
	10,000	0.68	–	–
	1%	0.86	–	–
5%	100	1.28	1.07	1.09
	250	1.19	1.04	1.05
	500	1.14	0.99	0.99
	1,000	1.06	0.89	0.87
	1,500	1.00	0.83	0.80
	2,000	0.95	0.77	0.73
	2,500	0.90	0.71	0.67
	3,000	0.86	0.66	0.61
	4,000	0.81	0.56	0.50
	5,000	0.76	0.47	0.40
	7,500	0.71	–	–
	10,000	0.66	–	–
	1%	0.83	–	–

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

Paragraphs **A.1.** and **A.2.** are replaced by the following:

A. Coverage C And Section II Liability

1. There is no coverage for Coverage **C** – Personal Property and Section **II** Liability when the residence premises is regularly rented or held for rental to others. The policy may be endorsed, however, to provide such coverage, including Theft. When the rental is considered a home-sharing host activity, refer to the requirements for Broadened Home-sharing Host Activities in this manual.

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 514.
OTHER STRUCTURES

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

A. On-Premises Structures

3. Increased Limit

a. The limit of liability for Coverage **B** may be increased.

b. If increased, the limit of liability for Coverage **B** may not exceed the Coverage **A** limit.

c. Charge the additional company rate per $1,000 of insurance.

d. Refer to state company rates for additional charge.

4. Endorsement

Use Coverage **B** – Unscheduled Other Structures Increased Limit – North Carolina Endorsement **HO 32 03.**

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.**

RULE 515.
PERSONAL PROPERTY (Cont'd)

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.**

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.

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

A. Coverage Description

The policy may be endorsed to insure against loss by theft to covered property when all or part of the residence premises usually occupied by the insured is occasionally rented, in whole or in part, to others, or is regularly or occasionally rented to roomers or boarders. When the rental is considered a home-sharing host activity, refer to the requirements for Broadened Home-sharing Host Activities in this manual.

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 522.
LANDLORDS FURNISHINGS

Rule **522.** does not apply.

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

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

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, tenant or home-sharing occupant. 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.

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

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.**

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 605.
OTHER STRUCTURES RENTED TO OTHERS – RESIDENCE PREMISES

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

A. Coverage Description

1. The policy may be endorsed to provide coverage when a structure on the residence premises is rented to others for dwelling purposes. When the rental is considered a home-sharing host activity, refer to the requirements for Broadened Home-sharing Host Activities in this manual.

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**	$ 2,076	$ 2,862	$ 1,295	$ 1,773	$ 959	$ 997
HO 00 04	70	84	29	39	8	15
HO 00 06	34	65	17	18	1	4

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**	$ 1,871	$ 2,572	$ 1,191	$ 1,581	$ 851	$ 895
HO 00 04	62	75	26	35	7	14
HO 00 06	31	57	15	16	1	3

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

Effective prior to March 31, 2019:

Frame Construction						
Mitigation Feature	**Territory 110**	**Territory 120**	**Territory 130**	**Territory 140**	**Territory 150**	**Territory 160**
Total Hip Roof	$ 146	$ 195	$ 91	$ 121	$ 64	$ 68
Opening Protection	149	200	91	122	63	70
Total Hip Roof and Opening Protection	295	393	179	243	126	137
IBHS Designation prior to March 31, 2019:						
Hurricane Fortified for Safer Living®	477	689	259	406	138	229
Hurricane Fortified for Existing Homes® Bronze Option 1	115	156	72	96	50	55
Hurricane Fortified for Existing Homes® Bronze Option 2	179	245	101	152	63	85
Hurricane Fortified for Existing Homes® Silver Option 1	286	415	145	247	66	137
Hurricane Fortified for Existing Homes® Silver Option 2	344	501	173	302	76	170
Hurricane Fortified for Existing Homes® Gold Option 1	366	528	194	308	99	174
Hurricane Fortified for Existing Homes® Gold Option 2	424	616	221	365	108	205

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	$ 132	$ 174	$ 83	$ 108	$ 58	$ 61
Opening Protection	134	179	83	111	56	62
Total Hip Roof and Opening Protection	265	353	165	219	112	124
IBHS Designation prior to March 31, 2019:						
Hurricane Fortified for Safer Living®	429	618	237	361	123	206
Hurricane Fortified for Existing Homes® Bronze Option 1	102	141	65	85	45	48
Hurricane Fortified for Existing Homes® Bronze Option 2	160	220	93	135	56	76
Hurricane Fortified for Existing Homes® Silver Option 1	257	374	134	221	59	124
Hurricane Fortified for Existing Homes® Silver Option 2	309	450	159	269	66	152
Hurricane Fortified for Existing Homes® Gold Option 1	328	475	178	274	86	155
Hurricane Fortified for Existing Homes® Gold Option 2	379	554	203	325	96	183

Table A9. Windstorm Loss Mitigation Credit – Masonry

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

Effective *on or after* March 31, 2019:

Frame Construction						
Mitigation Feature	**Territory 110**	**Territory 120**	**Territory 130**	**Territory 140**	**Territory 150**	**Territory 160**
Total Hip Roof	$ 146	$ 195	$ 91	$ 121	$ 64	$ 68
Opening Protection	149	200	91	122	63	70
Total Hip Roof and Opening Protection	295	393	179	243	126	137
IBHS Designation on or after March 31, 2019:						
FORTIFIED for Safer Living®	477	689	259	406	138	229
FORTIFIED Roof – Hurricane – Existing Roof	115	156	72	96	50	55
FORTIFIED Roof – Hurricane – New Roof	179	245	101	152	63	85
FORTIFIED Home – Hurricane – Silver – Existing Roof	286	415	145	247	66	137
FORTIFIED Home – Hurricane –Silver – New Roof	344	501	173	302	76	170
FORTIFIED Home – Hurricane – Gold – Existing Roof	366	528	194	308	99	174
FORTIFIED Home – Hurricane – Gold – New Roof	424	616	221	365	108	205

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	$ 132	$ 174	$ 83	$ 108	$ 58	$ 61
Opening Protection	134	179	83	111	56	62
Total Hip Roof and Opening Protection	265	353	165	219	112	124
IBHS Designation on or after March 31, 2019:						
FORTIFIED for Safer Living®	429	618	237	361	123	206
FORTIFIED Roof – Hurricane – Existing Roof	102	141	65	85	45	48
FORTIFIED Roof – Hurricane – New Roof	160	220	93	135	56	76
FORTIFIED Home – Hurricane – Silver – Existing Roof	257	374	134	221	59	124
FORTIFIED Home – Hurricane –Silver – New Roof	309	450	159	269	66	152
FORTIFIED Home – Hurricane – Gold – Existing Roof	328	475	178	274	86	155
FORTIFIED Home – Hurricane – Gold – New Roof	379	554	203	325	96	183

Table A9. Windstorm Loss Mitigation Credit – Masonry

RULE A10.
BROADENED HOME-SHARING HOST ACTIVITIES COVERAGE

D. Premium

2. Increased Limits For Home-sharing Host Activities Damage To Property Of Others

Limit	
$ 5,000	$ .20
10,000	.45
25,000	1.20
50,000	2.46

Table A10.D.2. Additional Charge

RULE A11.
DAMAGE TO PROPERTY OF OTHERS – INCREASED LIMITS

B. Premium

Limit	
$ 5,000	$ .50
10,000	1.13
25,000	3.00
50,000	6.14

Table A11.B. Additional Charge

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

3. Increased Limit

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

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

RULE 514.
OTHER STRUCTURES (Cont'd)

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 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

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 $500 per motorized golf cart **without** collision – $7

Rate per $500 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

MANUAL SUPPLEMENTAL RULES

RULE 1.
OPTIONAL INFLATION GUARD ENDORSEMENTS

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

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 **B.** below:

1. **HO 00 02, 03, 05** and **HE 00 07 –** Coverages **A**, **B**, **C** and **D**; and
2. **HO 00 04** and **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 Indexes noted below have been approved by the Department of Insurance and may be used with the Inflation Guard Endorsements listed in **C.** below.

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

1. Marshall & Swift Boeckh (MS/B) 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 & Swift Boeckh Construction Cost Index published by Marshall & Swift Boeckh (MS/B).

C. Endorsements

A Company that elects to use one or both of the endorsements noted below 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, HO 00 05** and **HE 00 07.**

2. **Inflation Guard Endorsement HO 32 19**

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

The Rate Bureau or Insurance Services Office will not furnish supplies of these endorsements.

D. Premium

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

RULE 2. HISTORIC HOME PROGRAM

The following rules are in addition to, modify or replace rules in the standard Homeowners manual and apply only to the North Carolina Homeowners Historic Home Program.

For rules not accommodated below, refer to the standard Homeowners manual.

A. Introduction

A Homeowners Form **HO 00 03** policy may be issued for an historic home as long it meets the eligibility and other requirements in this Additional Rule **2.**

B. Endorsements

HH 32 03	Historic Home Endorsement
HH 32 10	Scheduled Architectural Features Endorsement

Table 2. B. Historic Home Endorsements

C. Eligibility

1. Historic Home Defined

A historic home is one that is architecturally or historically significant to the area in which it is located. It must be:

a. Listed, or nominated for listing, in the National Register of Historic Places; or

b. In a historic district so designated by Federal, State or Local Government.

A new home in a designated historic district is eligible if built to match the surrounding architecture.

2. Occupancy

The dwelling must be occupied by the owner, have no more than four families and used exclusively for private residential purposes. The term "residential purposes":

a. Includes incidental farming or incidental office, professional, private school and studio occupancies, provided the premises is occupied principally for dwelling purposes and no other business is conducted on the premises; and

b. Does not include the business of public viewing, which means the charging of admission fees for viewing all or part of the home during regularly scheduled viewing hours announced to the general public.

3. Dwelling Condition

The dwelling must have the items noted below in good repair. These conditions must be verified by a proper inspection service report.

a. Roof	d. Electrical Wiring
b. Plumbing	e. Heating Plant
c. Tuckpointing	f. Gas Lines And Fixtures (if not disconnected)

Table 2. C.3. Dwelling Condition Criteria

4. Scheduled Architectural Features

If disclosed by the required inspection, special architectural features that add to the historic value of the dwelling must be separately insured at the agreed values.

D. Limits Of Liability And Coverage Relationships

The limits of liability for the Historic Home Program are as follows:

1. Section I – Property Damage

a. Coverage A – Dwelling

The Coverage **A** limit may be set at 80%, 70%, 60% or 50% of the reproduction cost of the dwelling building, exclusive of Scheduled building features.

The limit may not be less than 50% of the full reproduction cost or $30,000, whichever is greater.

b. Coverage B – Other Structures

Coverage for other structures is available by option. See Rule **G.1.** below.

c. Coverage C – Personal Property

The Coverage **C** limit may be set at 40% of the full reproduction cost of the dwelling building exclusive of Scheduled building features.

This limit may be reduced to not less than 30% of the full reproduction cost.

d. Coverage D –Loss of Use

The Coverage **D** limit shall be 20% of the Coverage **A –** Dwelling limit.

2. Section II – Liability

a. Coverage E–Personal Liability

$100,000 Each Occurrence

b. Coverage F –Medical Payments to Others

$1,000 Each Person

E. Mandatory Coverages

It is mandatory that insurance be written on all coverages provided under Sections **I** and **II** of the Historic Home policy except as follows:

1. Under Section **I –** Property Coverages**,** Coverage **B** does not automatically apply.

Coverage for Other Structures is available for an additional premium. See Rule **G.1.** below.

2. Under Section **I –** Conditions, Loss Settlement provides for reproduction of damaged property using building materials of like kind and quality that are available in the USA without deduction for depreciation.

3. Under Section **II** Exclusions, Coverage **E** – Liability and Coverage **F** – Medical Payments To Others do not apply to bodily injury or property damage arising out of public viewing of the insured residence premises for a fee.

This exclusion may be waived for an additional premium. See Rule **G.2.** below.

RULE 2.
HISTORIC HOME PROGRAM (Cont'd)

F. Deductibles

The Historic Home policy is subject to a deductible that applies to loss from all Section **I** Perils, except Earthquake. A separate deductible provision applies to Earthquake Coverage. See Earthquake Rule **505.** in the standard Homeowners manual.

1. $250 Deductible

This amount is the base and minimum amount available for a historic home policy.

2. Higher Deductibles

Higher deductible amounts are optionally available. See Rule **H.1.b.** below for the amounts and rating instructions.

G. Optional Coverages

1. Other Structures On The Residence Premises (Section I – Property Coverages)

a. Other Structures on the residence premises may be insured under a historic home policy. Separately identify each structure insured in the endorsement noted in **b.** below.

b. Use Historic Home Other Structures Endorsement **HH 32 11**.

2. Public Viewing Of Residence Premises (Section II – Liability)

a. The Coverages **E** and **F** exclusion pertaining to loss arising out of the public viewing of the residence premises may be deleted for an additional premium.

Public viewing means the charging of admission fees for viewing all or part of the home during regularly scheduled viewing hours announced to the public.

b. Use Historic Home Special Endorsement **HH 32 03**.

H. Premiums

1. Base Premium Computation

a. Base Deductible

(1) In accordance with Rule **301.** Base Premium Computation in the standard Homeowners manual, develop the Base Premium for Form **HO 00 03** for the Coverage **A** – Dwelling limit that contemplates 80% of the dwelling's replacement cost.

(2) Multiply the premium developed in **(1)** above by the factor for the **Full Reproduction Cost** percentage amount desired:

Percentage Of Full Reproduction Cost Amount	80%	70%	60%	50%
Historic Home Rating Factor	.90	.88	.86	.84

Table 2. H.1.a. Historic Home Factors

b. Higher Deductibles

Multiply the Base Premium developed in **a.** above by the factor for the deductible amount desired.

Coverage A Limit	**Deductible Amount**		
	$500	$1,000	$2,500
Up to $59,999	.91	.83	.75
$ 60,000 to $ 99,999	.93	.85	.75
l00,000 to 200,000	.95	.88	.75
200,00l to 250,000*	.95	.88	.85
*Refer to Co. for credits for higher limits.			

Table 2. H.1.b. Higher Deductible Factors

2. Scheduled Building Features (Coverage A – Dwelling)

a. Develop the rate per $1,000 of insurance as follows:

(1) Select the Key Premium used to compute the Base Premium;

(2) Develop the Key Factor as follows:
.115 x **.10** x the rating factor from **1.a.** above; and

(3) Multiply the result computed in **(2)** above by the Key Premium determined in **(1)** above.

b. Multiply the rate per $1,000 computed in **a. (3)** above by the total amount of insurance for all building features that are scheduled.

3. Coverage B – Other Structures

Rate per $1,000 - **$2.00**

4. Waiver Of Public Viewing Exclusion (Section II – Liability)

a. Coverages E ($100,000) And F ($1,000)

Tours Per Year	**Premium**
Less Than 4	$12
4 to l0	17
11 or more	32

Table 2.H.4.a. Public Viewing Basic Limits Premium

b. Increased Limit – Coverage E

Multiply the premium selected in **a.** above by the factor for the desired limit of liability:

Limit Of Liability	**Factor**
$200,000	1.14
300,000	1.26

Table 2.H.4.b. Public Viewing Increased Limit Factors

c. Increased Limit – Coverage F

To increase the limit of liability from $1,000 to $2,000, add **$3.00**.

RULE 3.
HOMEOWNERS ENHANCEMENT PROGRAM

The following rules are in addition to, modify or replace the rules in the standard Homeowners manual and apply only to the Homeowners Enhancement Program.

For rules not accommodated below, refer to the standard Homeowners manual.

A. Introduction

The North Carolina Homeowners Enhancement Program provides enhanced property and liability coverages using the form and endorsements specified in **C.** below.

B. Eligibility

Each Company shall determine which changes, if any, to Eligibility Rule **104.** in the standard Homeowners manual are necessary to accommodate the class of risk eligible for an enhancement policy.

C. Available Form and Endorsements

1. Enhancement Coverage Form HE 00 07

Attach this form to all enhancement policies.

This form is based on the latest edition of Homeowners Comprehensive Form **HO 00 05** of the Insurance Services Office, Inc. The enhancements made to Form **HO 00 05** are described in Rule **F.**

2. Expanded Enhancement Coverage Endorsements HE 32 20

This endorsement adds more enhancements to the policy. The coverage enhancements are outlined in **F.** below.

3. Extended Enhancement Coverage Endorsements HE 32 21

This endorsement includes the enhancements in **HE 32 20** plus other enhancements. The extended enhancements are also outlined in **F.** below.

4. Optional Coverages

The endorsements noted below add to or modify the enhancements in the form or endorsements noted above. Refer to Rule **G.** for coverage details.

HE 32 22	Specified Additional Amount Of Insurance For Coverage **A**
HE 32 30	Debris Removal–Broadened Tree Removal Coverage
HE 32 40	Blanket Property Limit Coverage
HE 32 45	Property Coverage Enhancement

Table 3. C.4. Other Coverage Endorsements

D. Deductibles

The Homeowners Enhancement policy is subject to a deductible that applies to loss from all Section **I** Perils, except Earthquake. A separate deductible provision applies to Earthquake Coverage. See Earthquake Rule **505.** in the standard Homeowners manual

This Section **I** All Perils Deductible is waived when a covered loss exceeds $50,000 for all covered perils except Windstorm or Hail.

1. $250 Deductible

This amount is the base and minimum amount available for an enhancement policy.

2. Higher Deductibles

The higher deductible options in the standard Homeowners manual are available for an enhancement policy.

E. Limits Of Liability And Coverage Relationships

The limits of liability required for an enhancement policy are as follows:

1. Section I – Property Damage

a. Coverage A – Dwelling

Refer to Company.

b. Coverage B – Other Structures
Coverage C – Personal Property
Coverage D – Loss Of Use

Number Of Families	Percent Of Coverage A Limit		
	Cov. B	Cov. C	Cov. D
1 or 2	10%	70%	20%
3	5%	50%	20%
4	5%	45%	20%

Table 3. E.1.b. Cov. B & C Limit Of Liability

2. Section II – Liability

a. Coverage E – Personal Liability

$100,000 Each Occurrence

b. Coverage F – Medical Payments

$1,000 Each Person

3. Optional Higher Limits

a. Coverages C, D, E and F

The limit of liability for these coverages may be increased.

b. Coverage B

An additional amount of insurance may be written on a specific structure.

RULE 3.
HOMEOWNERS ENHANCEMENT PROGRAM (Cont'd)

F. Mandatory Coverages

It is mandatory that insurance be written for all coverages provided under Sections **I** and **II** of the enhancement policy.

The following enhanced coverages and limits are included in Form **HE 00 07** and Endorsements **HE 32 20** and **HE 32 21**:

1. Section I Coverages

a. Coverage A – Dwelling And Coverage B – Other Structures

(1) Special Coverage;

(2) Ordinance Or Law Coverage for buildings up to the policy limits;

(3) Guaranteed Replacement Cost Loss Settlement for buildings;

(4) Coverage **B** limit:

(a) 10% of Coverage **A** in form **HE 00 07**; and

(b) 20% of Coverage **A** in endorsements **HE 32 20** and **HE 32 21**.

b. Coverage C – Personal Property

(1) Special Coverage;

(2) Replacement Cost Loss Settlement;

(3) Agreed Value Loss Settlement for scheduled personal property up to the limits shown in the schedule;

(4) Personal Property at a New Residence covered for up to 30 days in form **HE 00 07** and 60 days in endorsements **HE 32 20** and **HE 32 21**; and

(5) Personal Property At Other Locations

(a) Other Residences

Coverage for personal property usually located at other residences is 10% of Coverage **C** or $1,000, whichever is greater in form **HE 00 07** and 10% of Coverage **C**, or $10,000 whichever is greater in endorsements **HE 32 20** and **HE 32 21**.

(b) Self-storage Facilities

Coverage for certain personal property located in self-storage facilities is 10% of Coverage **C** or $1,000, whichever is greater in form **HE 00 07** and 10% of Coverage **C,** or $5,000 whichever is greater in endorsements **HE 32 20** and **HE 32 21**.

c. Coverage C – Enhanced Special Limits

Special Limits	HE 00 07	With Endt HE 32 20	With Endt HE 32 21
Money, bank notes	$1,000	$1,000	$1,000
Securities, accounts	$5,500	$5,500	$5,500
Firearms	$10,000	$10,000	$10,000
Silverware, goldware	$10,000	$10,000	$10,000
Jewelry, watches, furs	$5,500	$5,500	$5,500
Watercraft	$1,500	$2,500	$2,500
Trailers or Semitrailers not used with watercraft of all types	$1,500	$3,500	$3,500
Business property used on the "residence premises"	$2,500	$2,500	$5,000
Business property used away from the "residence premises"	$1,500	$1,500	$1,500
Portable Electronic Equipment in or upon a motor vehicle	$1,500	$1,500	$1,500
Jewelry, securities if lost or stolen from a safe deposit box	N/A	$50,000	$50,000

Table 3.F.1.c. Special Limits

d. Coverage D – Loss of Use

(1) If a civil authority prohibits use of the residence premises:

(a) Because a covered peril damages a neighboring premises, additional living expense and fair rental value coverages are extended for up to 30 days; or

(b) Because life or health is endangered from a covered peril, earth movement or contaminants or pollutants, up to $1,000 is provided for additional living expense and fair rental value loss incurred by an insured.

(2) Additional Living Expense coverage is extended to pay the monthly payment of an existing primary mortgage, for up to 12 months, while the residence premises is not fit to live in. Use endorsement **HE 32 21.**

RULE 3.
HOMEOWNERS ENHANCEMENT PROGRAM (Cont'd)

e. Additional Coverages

(1) Personal property loss due to temperature change covered if it results from power interruption at the residence premises which is caused by a covered peril;

(2) Additional Living Expense and Fair Rental Value loss covered if due to power interruption that occurs away from the residence premises and caused by a covered peril;

(3) Trees, Shrubs & Other Plants subject to a per tree minimum of $1,000;

(4) Up to $2,000 available for removal of fallen tree(s) subject to a per tree maximum of $1,000;

(5) Up to $1,000 available for loss under Fire Department Service Charge coverage;

(6) Up to $500 available for loss to Refrigerated Property;

(7) Property Removed from a premises endangered by a covered peril covered for up to 30 days in form **HE 00 07** and for up to 90 days in endorsement **HE 32 20** and **HE 32 21**;

(8) Witness Reimbursement Expenses covered up to $250 a day for wages and $50 a day for expenses subject to a $3,000 maximum limit. Use endorsement **HE 32 21;**

(9) Up to $5,000 available for loss under Loss Assessment coverage. Use endorsement **HE** 32 21;

10) Up to $500 available for replacement of door lock(s) when house key(s) are stolen. Use endorsement **HE 32 20** or **HE 32 21;**

11) Up to $10,000 for the cost to replace, stabilize or rebuild land necessary to support the dwelling or other structure. Use endorsement **HE 32 21**.

(12) The policy provides up to $500 for loss under Credit Card and Electronic Fund Transfer Card Or Access Device coverage in form **HE 00 07** and increased to $5,000 in endorsement **HE 32 20** and **HE 32 21**;

(13) Up to $2,500 available to reward person(s) for information leading to arrest & conviction of person(s) committing a crime that involved loss to insured property; Use endorsement **HE 32 21;**

(14) Up to $5,000 available to reward person(s) for return of stolen covered property; Use endorsement **HE 32 21**; and

(15) Up to $50,000 available for loss caused by water or water-borne material that backs up through sewers or drains or discharges or overflows from a sump. This coverage does not apply to direct physical loss of the sump pump, or related equipment, which is caused by mechanical breakdown. Use endorsement **HE 32 21.**

2. Section II Coverages

a. **Coverage E – Personal Liability**

$ 100,000 per occurrence

b. **Coverage F – Medical Payments**

$ 1,000 per person

c. **Additional Coverages**

(1) Prejudgement Interest;

(2) Water Damage Legal Liability;

(3) Personal Injury;

(4) Business Pursuits of Minors;

(5) Liability Coverage for Directors and Officers of Not-For-Profit Organizations;

(6) Watercraft Liability – the horsepower threshold for outboard motors is increased from 25 to 50 horsepower or less. Use endorsement **HE 32 20** or **HE 32 21;**

(7) Damage to Property of Others – Up to $1,500 is available. Use endorsement **HE 32 20 or HE 32 21;**

(8) Loss Assessment Coverage – Up to $1,000 is available in form **HE 00 07** and up to $5,000 is available in endorsement **HE 32 21**;

(9) Reasonable Expenses incurred by insured to assist insurer to investigate or defend a liability claim. The most we will pay for such expense is $250.

RULE 3.
HOMEOWNERS ENHANCEMENT PROGRAM (Cont'd)

G. Optional Coverages

1. Specified Additional Amount of Insurance for Coverage A - Dwelling

a. Coverage

The enhancement policy may be endorsed to provide a limitation on the replacement cost loss settlement provision. This endorsement is designed to provide a replacement cost limit of 125% or 150% of Coverage **A** – Dwelling including the increased costs incurred due to the enforcement of any ordinance or law.

b. Endorsement

Specified Additional Amount of Insurance for Coverage **A** – Dwelling **HE 32 22**

c. Premium

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
125%	.96
150%	.97

Table 3.G.1.c. Additional Amount of Insurance Options

2. Debris Removal–Broadened Tree Removal

a. Coverage

The enhancement policy may be endorsed to provide up to $2,000 to remove trees from the residence premises that are felled by a covered peril.

The fallen tree does not have to damage a covered structure on the residence premises.

The most paid for removal of any one tree is $1,000.

b. Endorsement

Debris Removal Broadened Tree Removal Endorsement **HE 32 30**

c. Premium – $30

3. Property Coverage Enhancement

a. Coverage

The following enhanced coverages are included in **HE 32 45**:

(1) Witness Reimbursement - Pays up to $100 per day for lost earnings and $50 for reimbursement of expenses as a result of appearing as a witness in a claim under the policy. Maximum aggregate limit is $600.

(2) Accidental Death Benefit - $1,000.

(3) Personal Records - $250 available to reproduce, restore or replace personal records damaged as a result of a covered peril.

(4) Cost of Preparing Proof of Loss - $250 available for reasonable expenses incurred for an outside service to prepare a proof of loss or other exhibits required by the policy.

b. Endorsement

Use Property Coverage Enhancement Endorsement **HE 32 45.**

c. Premium – $20.

4. Blanket Property Limit Coverage

a. Coverage

The enhancement policy may be endorsed to be written on a Blanket Property Limit Basis.

b. Endorsement

Blanket Property Limit Coverage Endorsement **HE 32 40**

c. Premium – To develop the premium for this option, refer to **H. Base Premium Computation** below.

5. Broadened Home-sharing Host Activities Coverage

a. Coverage

The enhancement policy may be endorsed to provide coverage for Home-sharing Host Activities.

b. Endorsement

Broadened Home-sharing Host Activities Coverage Endorsement **HE 32 74**

d. Premium – To develop the premium for this option, refer to **Rule A10** of the Standard Homeowners Manual.

6. Other Optional Coverages

Optional Section **I** and **II** coverages available for the standard Homeowners policy are available for an enhancement policy.

Compare the desired standard Homeowners options with the coverages and limits in the Homeowners Enhancement form and endorsements to avoid duplication.

H. Base Premium Computation

1. Develop the 1, 2, 3 or 4 family Base Premium for Form **HO 00 03** in accordance with Rule **301.** Base Premium Computation in the standard Homeowners manual; and

2. Multiply the **HO 00 03** Base Premium developed above by the factor for the desired level of coverage:

Level Of Enhancement	Factor
HE 00 07	1.25
HE 00 07 with HE 32 20	1.30
HE 00 07 with HE 32 21	1.37
HE 00 07 with HE 32 20 & HE 32 40	1.35
HE 00 07 with HE 32 21 & HE 32 40	1.42

Table 3. H.2. Enhancement Coverage Rating Factors

RULE 4.
BLANKET PROPERTY LIMIT COVERAGE

The following rules are in addition to, modify or replace the rules in the standard Homeowners manual and apply only to this Blanket Property Limit coverage.

For rules not accommodated below, refer to the standard Homeowners manual.

A. Introduction

A Homeowners Policy may be written on a Blanket Property Limit basis. The Blanket Property Limit provides for a single amount of coverage for covered losses under Coverages **A, B, C** and **D**.

B. Eligibility

A Blanket Property Limit policy may be issued for:

1. An owner-occupied one or two family dwelling;

2. A person who occupies an apartment in a one through four family dwelling or other residential building; and

3. A person who owns a residential unit in a building owned by a condominium association.

C. Basic Coverage Forms And Endorsements

1. Special Provisions Endorsement HB 32 32

Use this endorsement instead of **HO 32 32.**

2. Special Form HO 00 03 And Blanket Property Limit Endorsement HB 00 03

Use this form and endorsement for a one or two family dwelling occupancy.

3. Contents Broad Form HO 00 04 and Blanket Property Limit Endorsement HB 00 04

Use this form and endorsement for apartment occupancy.

4. Condominiums Unit Owners Form HO 00 06 And Blanket Property Limit Endorsement HB 00 06

Use this form and endorsement for an owner occupied unit in a building owned by a condominium association.

5. Comprehensive Form HO 00 05 And Blanket Property Limit Endorsement HB 00 05

Use this form and endorsement for a one or two family dwelling occupancy.

6. Personal Property Replacement Cost Endorsement HO 04 90

Use this endorsement on all policies.

The Coverage **C** limit shall be 100% of replacement value. An additional 'endorsement' charge that varies by form applies but no additional charge is made for increasing the Coverage **C** limit.

The Coverage **C** limit may not be reduced.

D. Optional Coverages

1. Ordinance or Law Coverage

a. Basic Amount Of Coverage

The policy automatically provides coverage to pay for the increased costs necessary to comply with the enforcement of an ordinance or law up to the following amounts:

Form	Amount Of Coverage
HO 00 03 or HO 00 05	5% Of The Blanket Property Limit
HO 00 04	1% Of The Blanket Property Limit
HO 00 06	2% Of The Blanket Property Limit

Table 4.D.1.a, Ordinance Or Law Basic Limits

b. Increased Amount of Coverage

(1) Coverage

The policy may be endorsed to increase the basic amount of coverage to accommodate increased costs known or estimated by the insured for materials and labor to repair or replace the damaged property; demolish the undamaged portion of damaged property; and clear the site of resulting debris to comply with an ordinance or law.

(2) Premium

Refer to Rule **F.2.** below.

2. Other Optional Coverages

If any of the following optional coverages are selected, use the endorsements specified below:

HB 03 12	Windstorm or Hail Percentage Deductible
HB 04 46	Inflation Protection (**HO 00 03 or HO 00 05** Only)
HB 32 54	Earthquake Coverage (apply the earthquake rates to the Blanket Property rating limit to determine the premium.)
HB 04 77	Ordinance or Law Coverage
HB 04 98	Refrigerated Property Coverage
HB 05 46	Landlord's Furnishings (**HO 00 03 or HO 00 05** Only)
HB 32 11	Additional Blanket Property Limit Coverage (**HO 00 03 or HO 00 05** Only)
HB 32 20	Specified Additional Blanket Property Limit Coverage (**HO 00 03 or HO 00 05** Only)

Table 4.D.2. Optional Coverage Endorsements

RULE 4.

BLANKET PROPERTY LIMIT COVERAGE (Cont'd)

E. Developing The Blanket Policy Limit

Establish the appropriate limit for **each** of the principal coverage components included in the form taking into account any coverage increases the insured may need.

1. Form HO 00 03 And Endorsement HB 00 03 or Form HO 00 05 And Endorsement HB 00 05

Add together the limits for Coverages **A, B, C** and **D** to determine the Blanket Property Limit.

The Blanket Property Limit must be at least **200%** of the dwelling replacement cost for a Primary Residence or **170%** of the dwelling replacement cost for a Secondary Residence.

Since any increase in Coverage **B, C** or **D** limits must be factored into Blanket Property Limit, the rules in the standard Homeowners manual for the following coverage increases do not apply:

a. Coverage **B –** Other Structures, Increased Limits Endorsement **HO 04 48**;

b. Coverage **C** – Personal Property, Increased Limits; and

c. Coverage **D** – Loss of Use.

2. Form HO 00 04 And Endorsement HB 00 04

Add together the limits for Coverages **C** and **D** to determine the Blanket Property Limit.

The Blanket Property Limit must be at least **120%** of the replacement cost value of the personal property.

Since any increases in Coverage **D** must be factored into the Blanket Property Limit, the rule in the standard Homeowners manual for Coverage **D** – Loss of Use Increased Limit does not apply.

3. Form HO 00 06 And Endorsement HB 00 06

Add together the limits for Coverages **A, C** and **D** to determine the Blanket Property Limit.

The Blanket Property Limit must be at least **160%** of the replacement cost value of the personal property.

Coverage **A** named perils coverage may be broadened to cover additional risks of loss (Special Coverage) for an additional premium.

Since any increases in Coverage **A** or **D** must be factored into the Blanket Property Limit, the rule regarding Coverage **D** – Loss of Use Increased Limit does not apply.

F. Premium Development

1. Basic Coverage Premium Computation

a. Divide the Blanket Property Limit by the appropriate factor in the table below and round to the nearest $100. The result is the rating amount.

Form	Rating Amount Factors
HO 00 03 or HO 00 05	2.00 Primary Residence 1.70 Secondary Residence
HO 00 04	1.20
HO 00 06	1.60

Table 4.F.1.a. Rating Amount Factors

b. Using the rating amount developed in **a.** above, compute the Base Premium in accordance with Rule **301.** in the standard Homeowners manual.

c. To account for the personal property replacement cost coverage automatically included in the policy, multiply the Blanket Property Limit Base Premium computed in **b.** above by the appropriate factor below:

Form	Rating Factors
HO 00 03 & HO 00 05	.05
HO 00 04 & HO 00 06	.40

Table 4.F.1.c. Personal Property Replacement Cost Rating Factors

2. Optional Coverage Premium Computation

a. Ordinance Or Law Increased Limit

When the limit for Ordinance or Law Coverage is increased, develop the adjusted base premium or additional premium as follows:

(1) Form HO 00 03 And HO 00 05 – Adjusted Base Premium

Multiply the Blanket Property Limit Base Premium computed in **1.b.** above by the appropriate factor below:

Ordinance Or Law		Blanket Property Limit Rating Factors	
Increase In % Amount	**Total % Amount**	**$120,000 to $280,000**	**All Other**
7.5%	12.5%	1.13	1.05
20.0%	25.0%	1.35	1.14
32.5%	37.5%	1.51	1.20
45.0%	50.0%	1.67	1.27

Table 4.F.2.a.(1) Ordinance Or Law Rating Factors

RULE 4.
BLANKET PROPERTY LIMIT COVERAGE (Cont'd)

(2) Forms HO 00 04 And HO 00 06 – Additional Premium

(a) From the Key Factor and Key Premium tables used to develop the Blanket Property Limit Base Premium for Form **HO 00 04** or **HO 00 06**, multiply the Key Factor for "Each Add'l $1,000 Of Insurance" by the Key Premium.

The result is the premium per $1,000 of insurance.

(b) Multiply the amount of increase by the premium per $1,000 of insurance developed in **(a)** above.

b. Building Additions and Alterations Increased Limit - Form HO 00 04 Only

The limit of liability of 8.5% may be increased.

To develop the additional premium, follow the instructions in **2.a.(2)** above.

c. Special Coverage - Coverage A Form HO 00 06 Only

Multiply the amount of increase by the following premium per $1,000 of insurance: **$7.00**

G. Windstorm Or Hail Percentage Deductibles

In Territories 07, 08, 48, 49 and 52, when the property is located in an area serviced by the North Carolina Insurance Underwriting Association (NCIUA), additional calculations must be performed.

These calculations 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.

1. Property NOT Located in Area Serviced by the NCIUA

To compute the premium for this provision, multiply the Base Premium by the factor selected for the desired windstorm or hail deductible option for the deductible amounts desired.

2. Property IS located in Area Serviced by the 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 standard Homeowners Manual state rate pages, under Additional Rule **A3.** Windstorm Or Hail Exclusion – Territories 07, 08, 48, 49 and 52 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.

3. Windstorm or Hail Percentage Deductible Rating Factor Tables

0.5% Windstorm or Hail Deductible					
Blanket Property Limit		**Up To $119,999**	**$120,000 To $199,999**	**$200,000 To $400,000**	**$400,000 And Over**
	Factors				
All Other Perils Ded. Amt.	$ 100	1.05	1.04	1.04	1.04
	250	.96	.96	.96	.96
	500	.89	.89	.89	.93
	1,000	–	–	.78	.88
	2,500	–	–	–	.74

Table 4.G.3.#1 0.5% Windstorm or Hail Deductible

1% Windstorm or Hail Deductible					
Blanket Property Limit		**Up To $119,999**	**$120,000 To $199,999**	**$200,000 To $400,000**	**$400,000 And Over**
	Factors				
All Other Perils Ded. Amt.	$ 100	1.02	1.02	1.02	1.02
	250	.93	.93	.94	.95
	500	.86	.86	.87	.91
	1,000	.76	.76	.76	.85
	2,500	–	–	.60	.72

Table 4.G.3.#2 1% Windstorm or Hail Deductible

RULE 4.
BLANKET PROPERTY LIMIT COVERAGE (Cont'd)

2.5% Windstorm or Hail Deductible					
Blanket Property Limit		Up To $119,999	$120,000 To $199,999	$200,000 To $400,000	$400,000 And Over
	Factors				
All Other Perils Ded. Amt.	$ 100	.97	.97	.99	1.00
	250	.89	.89	.91	.93
	500	.82	.82	.84	.89
	1,000	.72	.72	.73	.83
	2,500	.59	.59	.59	.70

Table 4.G.3.#3 2.5% Windstorm or Hail Deductible

H. Windstorm Or Hail Higher Fixed-Dollar Deductibles

In Territories 07, 08, 48, 49 and 52, when the property is located in an area serviced by the North Carolina Insurance Underwriting Association (NCIUA), additional calculations must be performed.

These calculations 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.

1. **Property NOT Located in Area Serviced by the NCIUA**

   To compute the premium for this provision, multiply the Base Premium by the factor selected for the desired windstorm or hail deductible option for the deductible amounts desired.

2. **Property IS located in Area Serviced by the 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 standard Homeowners Manual state rate pages, under Additional Rule **A3.** Windstorm Or Hail Exclusion – Territories 07, 08, 48, 49 and 52 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.

3. **Windstorm or Hail Higher Fixed Dollar Deductible Rating Factor Tables**

$1,000 Windstorm or Hail Deductible					
Blanket Property Limit		Up To $119,999	$120,000 To $199,999	$200,000 To $400,000	$400,000 And Over
	Factors				
All Other Perils Ded. Amt.	$ 100	1.02	1.03	1.05	1.06
	250	.95	.95	.97	.98
	500	.88	.88	.90	.95
	1,000	-	-	-	-
	2,500	-	-	-	-

Table 4.H.3.#1 $1,000 Windstorm or Hail Deductible

$2,000 Windstorm or Hail Deductible					
Blanket Property Limit		Up To $119,999	$120,000 To $199,999	$200,000 To $400,000	$400,000 And Over
	Factors				
All Other Perils Ded. Amt.	$ 100	.98	1.00	1.03	1.04
	250	.91	.92	.95	.96
	500	.85	.85	.88	.93
	1,000	.75	.75	.77	.88
	1,500	.70	.70	.72	.84

Table 4.H.3.#2 $2,000 Windstorm or Hail Deductible

$5,000 Windstorm or Hail Deductible					
Blanket Property Limit		Up To $119,999	$120,000 To $199,999	$200,000 To $400,000	$400,000 And Over
	Factors				
All Other Perils Ded. Amt.	$ 100	.96	.97	1.01	1.02
	250	.88	.89	.92	.94
	500	.82	.82	.85	.91
	1,000	.72	.72	.75	.86
	1,500	.67	.67	.70	.82
	2,500	.58	.59	.60	.74

Table 4.H.3.#3 $5,000 Windstorm or Hail Deductible

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	$ 2,181	$ 2,981	$ 1,403	$ 1,896	$ 1,087	$ 1,138
HS 00 04	95	112	50	68	33	44
HS 00 06	48	79	28	31	11	16
Masonry Construction						
HS 00 03	$ 1,976	$ 2,691	$ 1,299	$ 1,704	$ 979	$ 1,036
HS 00 04	87	103	47	64	32	43
HS 00 06	45	71	26	29	11	15

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**.

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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%, 3%, 4%, 5%, 7.5% and 10% of the Coverage **A** limit of liability.

b. Endorsement

Use Windstorm Or Hail Percentage Deductible Endorsement **HO 03 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						
	Coverage A Limit					
Deductible Percentage	Up To $59,999	$60,000 To $99,999	$100,000 To $200,000	$200,001 To $250,000	$250,001 To $350,000	$350,001 And Over
1 %	0.99	0.99	0.99	1.11	1.11	1.11
2	0.96	0.96	0.96	1.08	1.08	1.08
3	0.94	0.94	0.95	1.07	1.07	1.07
4	0.93	0.93	0.93	1.06	1.06	1.06
5	0.91	0.91	0.92	1.05	1.05	1.05
7.5	0.90	0.90	0.91	1.03	1.03	1.03
10	0.89	0.89	0.90	1.02	1.02	1.02

Table 406.B.1.d. Percentage Deductible

RULE 406.
DEDUCTIBLES (Cont'd)

2. Fixed-dollar Deductibles

a. Deductible Amounts

This option provides for fixed-dollar deductible amounts of $250, $500, $1,000, $2,000, $5,000, $7,500 and $10,000.

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						
	Coverage A Limit					
Deductible Amount	Up To $59,999	$60,000 To $99,999	$100,000 To $200,000	$200,001 To $250,000	$250,001 To $350,000	$350,001 And Over
$ 250	1.27	1.27	1.27	1.27	1.27	1.27
500	1.15	1.15	1.16	1.22	1.22	1.22
1,000	1.00	1.00	1.00	1.13	1.13	1.13
2,000	0.95	0.95	0.97	1.11	1.11	1.11
5,000	0.91	0.91	0.95	1.09	1.09	1.09
7,500	0.90	0.90	0.93	1.06	1.06	1.06
10,000	0.89	0.89	0.91	1.04	1.04	1.04

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** Base Class Premium.

C. Endorsement

Use Building Additions And Alterations Other Residence Endorsement **HO 04 49**.

RULE 502.
BUILDING ADDITIONS AND ALTERATIONS – INCREASED LIMIT – HS 00 04

The title of Rule **502.** Building Additions And Alterations - Increased Limit - **HO 00 04**, is replaced by the preceding title.

A. Coverage C Increase

The limit of Liability of 10% of Coverage **C** maybe increased.

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** Base Class Premium.

C. Endorsement

Use Building Additions And Alterations Increased Limit Form **HS 00 04** Endorsement **HS 04 51**.

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. Rate per $1,000 - $5.

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.

E. Rented Personal Property

1. Basic Limit

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

2. Increased Limits

a. The basic limit noted in Paragraph **1.** 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. Rate per $1,000 per unit - $2.

3. Endorsement

a. Rented Personal Property Endorsement **HO 32 21** indicates when the Increased Limits option is selected.

b. The Theft Option designated on the endorsement does not apply and should not be selected.

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

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

Rule **522.** does not apply.

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.

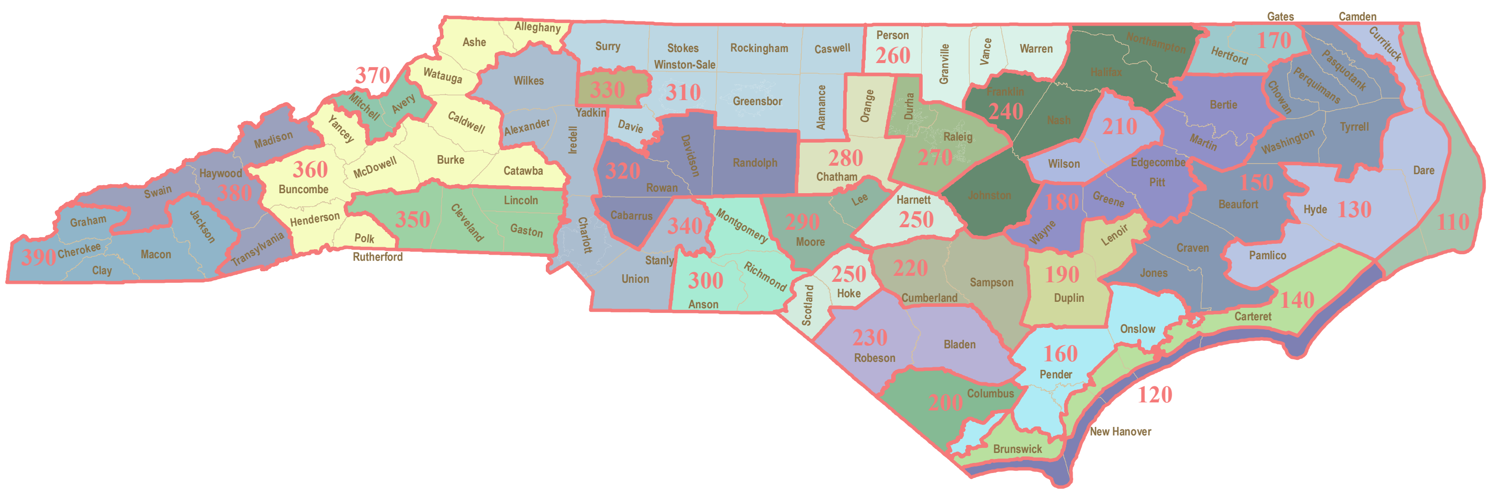
Part **VI** – Section **II** – Liability – Additional Coverages And Increased Limits, of the Homeowners Policy Program Manual does not apply to the North Carolina Windstorm And Hail Policy Program.

PART VII
SECTION II – LIABILITY – OTHER EXPOSURES INCREASED LIMITS

RULES 701. – 702.

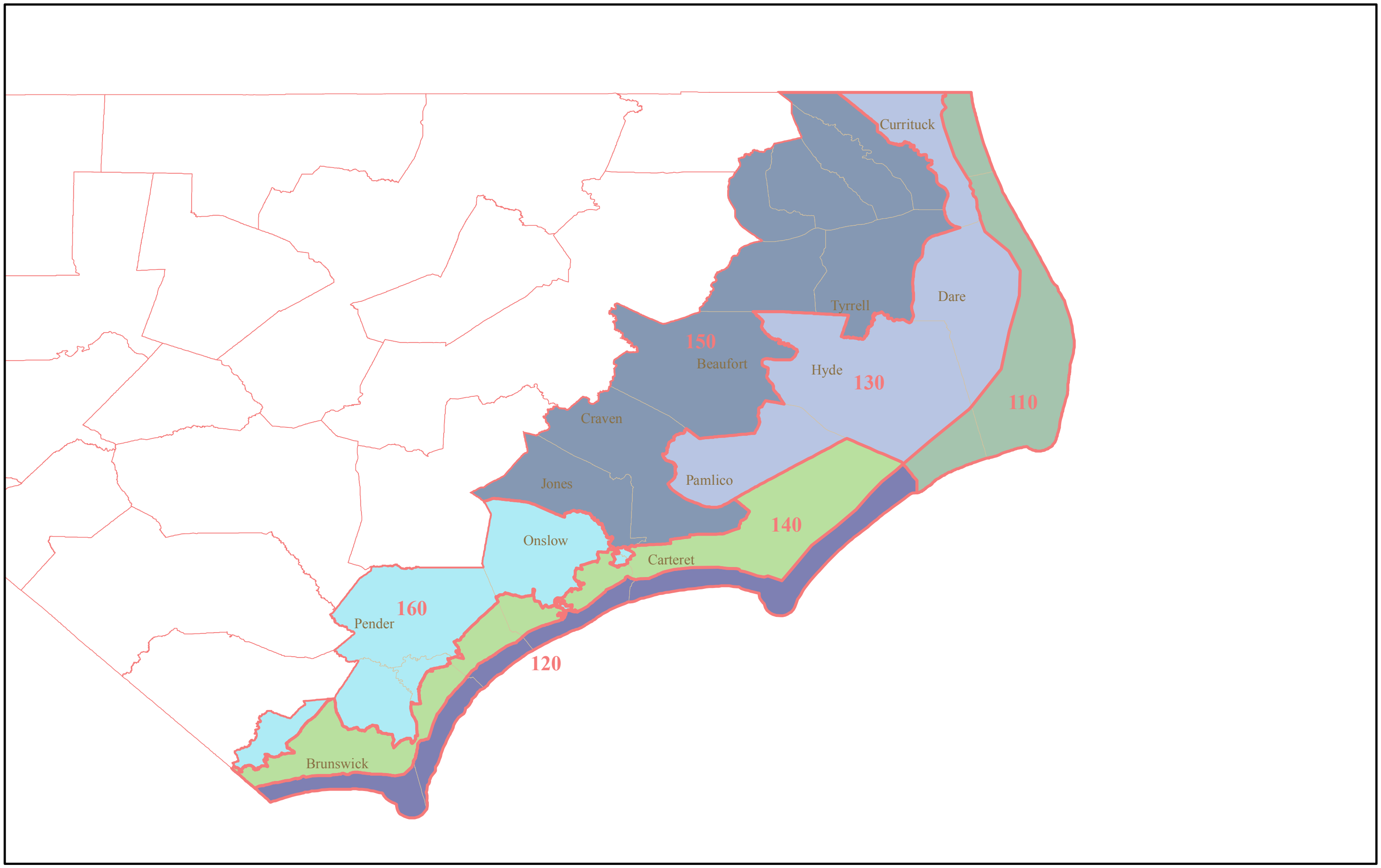
Part **VII** – Section **II** – Liability – Other Exposures Increased Limits, of the Homeowners Policy Program Manual does not apply to the North Carolina Windstorm And Hail Policy Program.

Dwelling and Homeowner Territories
Statewide



Dwelling and Homeowner Territories

Beach and Coastal Area



Dwelling and Homeowner Territories

Southern Beach and Coastal Area

By ZIP Code

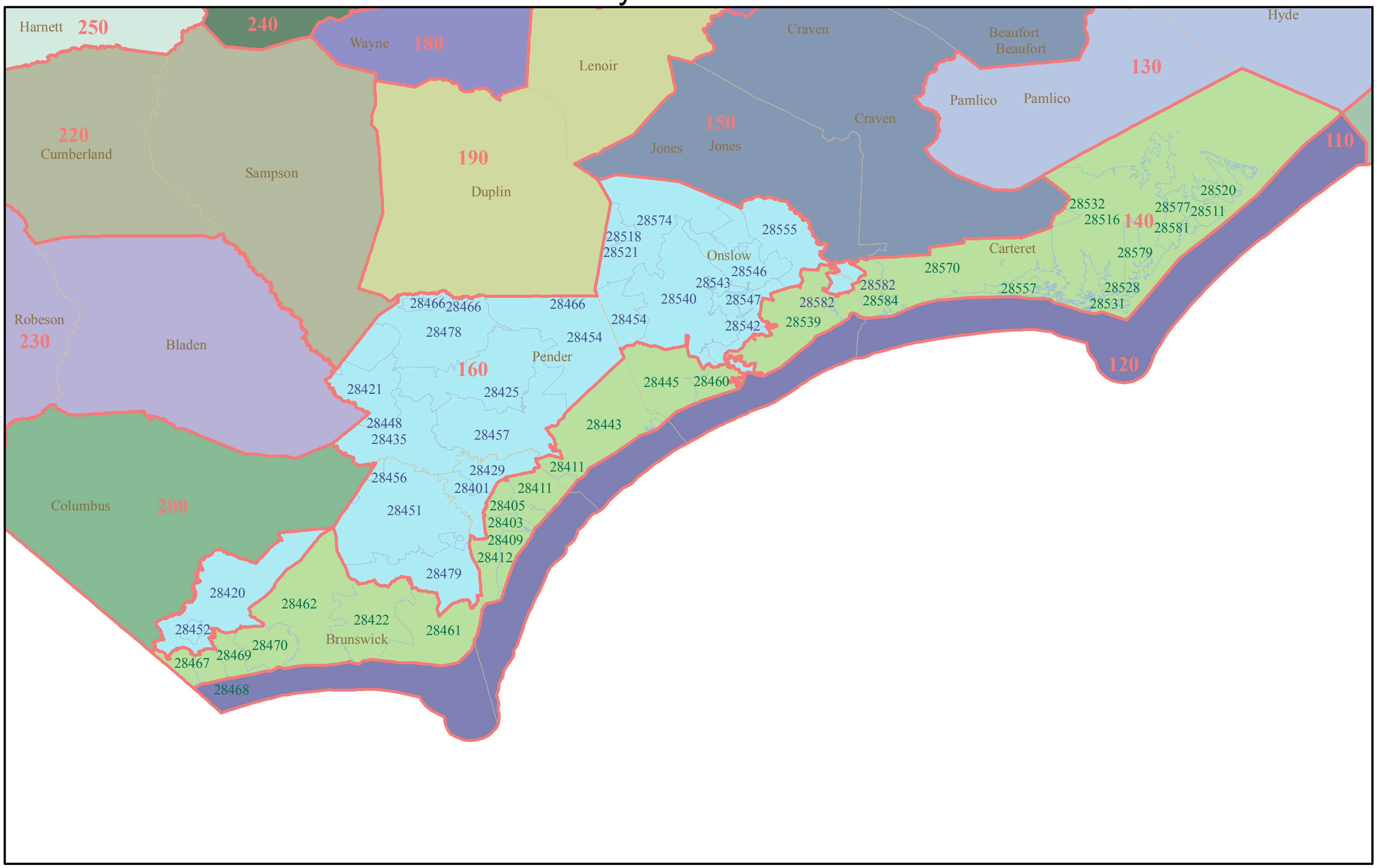


EXHIBIT RB-4

PRE-FILED TESTIMONY
OF
JOANNA BILIOURIS

JANUARY 2024

2024 NORTH CAROLINA HOMEOWNERS INSURANCE RATE FILING BY THE NORTH CAROLINA RATE BUREAU

Q. Would you state your full name and business address?

A. My name is Joanna Biliouris. My business address is 2910 Sumner Blvd, Raleigh, North Carolina 27616.

Q. Are you employed by the North Carolina Rate Bureau ("Bureau")?

A. Yes.

Q. In what capacity?

A. I am the General Manager.

Q. What is the Bureau's function with respect to rates for Homeowners insurance?

A. The Bureau promulgates rates for Homeowners insurance in North Carolina.

Q. Can you identify Exhibits RB-1 through RB-25?

A. Yes. Exhibit RB-1 sets forth the filed rates for the homeowner market in North Carolina, as well as the data and calculations underlying those rates and the homeowner rate manual changes that accompany the filed rate changes. Exhibit RB-1 also includes the supplemental data and exhibits required by statute and by regulation for this filing. Exhibit RB-2 is the current homeowner rate manual. Exhibit RB-3 is the current homeowner rating territories. Exhibits RB-4 through RB-25 contain the required accompanying pre-filed testimony and exhibits. Together, these materials constitute a filing (the "Filing") that is dated January 3, 2024 submitted by the Bureau to the Honorable Mike Causey, Commissioner of Insurance, with respect to homeowner rates in North Carolina.

Q. Do you know how the expense data underlying the Filing were compiled?

A. Yes. The underwriting expense provisions included in the Filing were derived from the results of a special call for expense experience that is issued on an annual basis to all member companies of the Bureau. The responses received from that special call were compiled, reviewed, and furnished to Insurance Services Office ("ISO") for incorporation into the Filing.

Q. Was the information from the special call for expense experience that was furnished to ISO and utilized in the Filing correct and accurate to the best of your knowledge, information and belief?

A. Yes.

Q. To the extent that actuarial expertise was necessary in the preparation of this Filing, where did the Bureau obtain that expertise?

A. Actuarial expertise was obtained from ISO and Milliman. ISO is retained by the Bureau to provide actuarial services for, among numerous other tasks, preparation of this Filing. The individual company representatives serving on the Bureau's Property Rating Subcommittee are mostly actuaries. The Bureau's Property Rating Subcommittee reviewed the data underlying the Filing and made recommendations to the Property Committee, which then made recommendations to the Bureau's Governing Committee as to the items contained in the Filing. In addition, the Bureau has an actuary on its staff who assisted in the review and the preparation of the Filing.

Q. Can you identify Exhibit RB-2 entitled Homeowners Policy Program Manual?

A. Yes. The Homeowner Policy Program Manual marked Exhibit RB-2 is the current manual of the rules, rates, and classifications used to write homeowner insurance in North Carolina. The manual and any approved amendments are on file with the North Carolina Commissioner of Insurance and a copy is maintained at the offices of the Bureau.

Q. Can you identify Exhibit RB-3 entitled "Dwelling and Homeowner Territories"?

A. Yes. This exhibit shows the current territory map for homeowners insurance in North Carolina. These territories have previously been filed with and approved by the North Carolina Commissioner of Insurance.

Q. What is the proposed effective date of the rates in the Filing?

A. The rate review was prepared with the assumption that the effective date of any rate changes would be August 1, 2024, and that is the proposed effective date of the rates in the Filing.

Q. Does the Filing submitted to the Commissioner include, to the extent available, the information to be furnished in connection with filings under Article 36 of Chapter 58 of the General Statutes?

A. Yes. Those data that were available have been submitted to the Commissioner as part of the Filing. As shown and explained in that submission, some data were not collected or, if collected, were not retrievable from the statistical data in the form requested. The individual circumstances with respect to such data are explained in the submission.

Q. Does that conclude your pre-filed testimony?

A. Yes.

Exhibit RB-5

PREFILED TESTIMONY
OF
PAUL ERICKSEN

2024 HOMEOWNERS INSURANCE
RATE FILING BY THE
NORTH CAROLINA RATE BUREAU

Q: Please state your name and business address.

A: My name is Paul Ericksen. My business address is Insurance Services Office, 545 Washington Boulevard, Jersey City, New Jersey.

Q: Please describe your educational background and your background in actuarial science.

A: I graduated from Princeton University in 1992 with a B.A. in mathematics.

I became a Fellow of the Casualty Actuarial Society (CAS) in 1995 and am a member of the American Academy of Actuaries (AAA). I am in good standing with those organizations.

I served as a member of the CAS Examination Committee from 1996 through 2009, and I have given multiple presentations at CAS meetings.

Q: By whom are you employed?

A: I am employed by Insurance Services Office (ISO) and started employment at ISO in 1992.

Q: What are your current responsibilities at ISO?

A: I lead the Actuarial Consulting unit at ISO. ISO's Actuarial Consulting unit specializes in providing a wide array of consulting services to individual companies. I have been responsible for managing, overseeing, and developing customized actuarial analyses including ratemaking, reserving, and other miscellaneous studies. I have provided services to insurers, captives, managing general agents, law firms, and insurance departments.

Q: What is your employment background?

A: I started my career in 1992 as an actuarial assistant in the increased limits division of ISO. In 1993, I left ISO and spent a year as a consulting actuary in the New York office of Milliman, working primarily on medical malpractice projects. I returned to ISO in 1994 as an actuarial associate in the Financial Analysis division. In 1999, I transferred to ISO's Actuarial Consulting unit and assisted clients as a consulting actuary. In 2007, I was promoted to Principal of the Actuarial Consulting unit.

During the past 24 years that I have provided actuarial consulting services, I have worked on a wide range of projects involving several different lines of insurance within the property/casualty insurance industry. I have prepared rate analyses for homeowners, dwelling, personal auto, and other lines of insurance. I have also conducted reserve analyses as the Appointed Actuary for several insurers.

A large part of my consulting experience has dealt with property insurance in areas of the country that have exposure to hurricane losses. For example, I was the Appointed Actuary for Citizens Property Insurance Corporation of Florida ("Citizens") for four years (2004, 2005, 2007 and 2009), and was also responsible for preparing rate analyses for Citizens' homeowners, mobile home, dwelling, and commercial property programs. Citizens is the insurer of last resort in Florida and has been one of the largest property insurers in the state. In addition to work performed on behalf of Citizens, I have also conducted ratemaking and reserving projects for several voluntary insurers that write homeowners and dwelling business in Florida. I have developed indicated rates for both multi-peril policies and wind-only policies. I have extensive experience working with multiple hurricane models (including both AIR and RMS) and developing provisions for the cost of reinsurance.

In North Carolina, I have provided actuarial consulting services to both the North Carolina Insurance Underwriting Association ("NCIUA") and the North Carolina Joint Underwriting Association ("NCJUA"). Those organizations rely upon the rates set in filings by the North Carolina Rate Bureau ("Bureau").

Q: Are you familiar with homeowners insurance ratemaking in North Carolina and other states?

A: Yes. ISO has provided actuarial consulting services to the Bureau on North Carolina homeowners rate filings since the Bureau was created. I have extensive knowledge of the methodologies employed by ISO and the Bureau in this filing as well as in past Bureau homeowners filings. I provided written testimony in support of the Bureau's 2018 and 2020 Homeowner's rate filings.

As part of a consulting assignment that I performed for the NCIUA and NCJUA, I have also reviewed prior homeowners filings by the Bureau on which ISO provided actuarial consulting and filing preparation assistance. I have prepared many homeowners rate analyses in several different states. In addition, I have testified as an expert witness in support of my clients' homeowners rate filings in various hearings that were held in Florida and Massachusetts. In Florida, I have testified in support of rate filings submitted by Citizens.

Q: Based on your experience with other states, from the standpoint of individual companies, how does ratemaking in North Carolina differ from other states?

A: In almost every other state, each company files its own homeowners rates independently. However, in North Carolina, the Bureau has the responsibility to file rates on behalf of the entire industry. The filing process in North Carolina establishes a system of “Bureau rates” (often called “manual” rates) for use on all homeowners policies written in the state.

In essence, the Bureau makes rates based on the aggregate policyholder attributes and loss experience of all the homeowners policies written in the state. Those policies include characteristics such as the dollar amount of insurance written on each home, the geographic location of the home, the protection class of the area in which the house is located, the type of construction, the deductible amount, etc.

Once the Bureau rate has been set through the filing and approval process, Bureau companies must charge that rate unless they file their own deviations with the Commissioner or engage in the consent to rate process. A company’s proposed premium may exceed the Bureau rate through the consent to rate process only if that higher premium is charged in accordance with rules adopted by the Commissioner.

Q: What work has ISO performed with respect to the Bureau's 2024 homeowners rate filing in North Carolina?

A: First, ISO, as a licensed statistical agent in North Carolina, collects homeowners insurance data from a significant number of the companies writing that line in North Carolina, as well as from the North Carolina Insurance Underwriting Association (commonly called the “NCIUA” or 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 their data to one of these four organizations in accordance with statistical plans filed with and approved by the North Carolina Commissioner of Insurance. 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 actuarial consulting services directly to the Bureau. As in the past, ISO staff 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 much of the data, information, and calculations contained in Exhibit RB-1. This lengthy process was performed under the direction of the Bureau committees. ISO staff attended meetings of those Bureau committees.

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 N.C.G.S. 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: Please describe the overall ratemaking equation in the Filing.

A: The approach in this Filing is consistent with prior property filings of the Bureau. Premiums should equal expected losses, plus expected expenses, plus a margin for a fair and reasonable profit. This is the fundamental insurance ratemaking equation to comply with the statutory ratemaking standard. 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.

The indicated rate change is the actuarially sound percentage change necessary to make the rates comply with the statutory standards that they not be excessive, inadequate or unfairly discriminatory.

Q: What is the source of the data utilized in Exhibit RB-1?

A: The Bureau has the statutory 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). For purposes of Bureau rate filings for homeowners, all homeowners loss and exposure data written on NCRB policy forms in the state is consolidated to essentially assume a single insurance entity (often called the "hypothetical one company"). 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 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 individual company data. The non-ISO 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 Chapter 58. It writes homeowners and other lines of insurance for policyholders in the 18 coastal counties. For residential property insurance, the Beach Plan 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 insurers have chosen not to accept the risk of writing those homeowners policies, North Carolina law requires voluntary insurers to pay any losses that exceed the Beach Plan’s resources, up to an aggregate statutory cap of $1 billion annually. The significance of such non-recoupable assessments on the companies is discussed later in my testimony.

The Beach Plan generally 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.

North Carolina statutes distinguish between the “beach” and “coastal” areas under the Beach Plan’s jurisdiction. In the “beach” territories (territories 110 and 120), approximately 43% of the homeowners premium was written by the Beach Plan in 2021. In the “coastal” territories (territories 130, 140, 150 and 160), approximately 47% of the homeowners premium was written in the Beach Plan. In 2021, on a statewide basis, approximately 10% of homeowners premium was written in the Beach Plan even though the Beach Plan is only able to write policies in the 18 beach and coastal counties.

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.

Over the years, the Beach Plan's large market share 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 rates in those areas. This high market share has occurred despite the fact that the legislature intended the Beach Plan to be the "market of last resort" in those areas.

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 loss and exposure 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.

When a prospective policyholder seeks homeowners insurance, it is not predetermined whether the policyholder will be written by the Beach Plan or instead by a voluntary company. Policyholders can switch back and forth between the Beach Plan and a voluntary company depending on which option works best for them and depending on whether a voluntary company will write them. In computing the exposures and the loss experience of the hypothetical one company in North Carolina for which rates are being made in this Filing, the exposures and loss experience of the Beach Plan must be combined with the rest of the data as if the Beach Plan was a private insurance company. For purposes of exposure count, we do not include the Beach Plan wind only policies because there is an ex-wind policy for every wind only policy and we do not want to double count those exposures.

The inadequacy of homeowners rates creates a dilemma for the Beach Plan. The inadequate rates diminish their ability to build up sufficient surplus in the "good" years when there are no hurricanes in order to provide a cushion to pay losses in the “bad” years when severe hurricanes occur. Even in the good years, they have to pay claims for higher frequency insured events such as fires, etc.

The Beach Plan’s approach has been to purchase both reinsurance and catastrophe bonds. Whatever amounts it spends in the reinsurance and catastrophe bond markets is at the expense of building up its surplus in those years when hurricanes do not affect North Carolina.

Q: What are some of the other consequences of the inadequacy of Bureau manual rates, both at the coast and in the rest of the state?

A: The prospect of Beach Plan and FAIR Plan assessments affects the willingness of a company to write property insurance in North Carolina. A company knows that, following a powerful hurricane, it will be subject to residual market assessments for huge losses on business that the company did not choose to write in the first place, and those assessments are based on the company’s market share throughout the state. Therefore, companies that elect to write in the state must consider the extent that they will do so in various areas of the state, particularly in the beach and coastal territories where the risk of hurricane losses is greater.

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. Using five years is consistent with prior filings, North Carolina statutes, and generally accepted ratemaking practices.

The loss experience used in the filing is what we call "accident year" experience for the years ended December 31, 2017 through December 31, 2021. 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, 2021 consist of all losses caused by accidents which occurred during the one-year period ended December 31, 2021. If an accident occurred on December 29, 2021 and resulted in either a loss being paid or a reserve being established after January 1, 2022, that loss would be a part of the accident year losses for the period ended December 31, 2021. The basis for assigning losses to individual 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 in nature. The objective is to set rates at the level that is 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 for determining an 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 August 1, 2024. Historical loss data are generally used for the purpose of projecting expected losses. 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. For non-catastrophic types of loss, the use of five years of data balances 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.

Traditional homeowners ratemaking has relied on five years of experience with weights of 0.10, 0.15, 0.20, 0.25 and 0.30 being given to each year respectively. Accident year 2021, the most recent year for which data is available, receives a weight of 30%. Accident year 2020 receives a weight of 25%. Accident year 2019 receives a weight of 20%. Accident year 2018 receives a weight of 15%. Accident year 2017 receives a weight of 10%. 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. By giving some weight to each of the five years, we help alleviate some of the stochastic uncertainty associated with the results for any single year. By giving greater weight to the more recent years, we recognize that the more recent years in the experience period may be more reflective of future conditions.

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 business written in the voluntary market and business written by the Beach Plan.

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 "Adjusted 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. Actual hurricane losses have been removed so that they can be replaced with 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.

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 2021 will eventually turn out, we look back and see what has happened in the past. If historically there has been a 5% 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, 2021. Accordingly, we would make an adjustment by increasing the losses as they are initially reported to us by 5%.

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-11 of RB-1 and explain how the loss development factors used in the filing for owners forms were calculated.

A: In calculating loss development factors, we have used the data of companies reporting to ISO and three large writers reporting to other statistical agents. We calculate separate loss development factors for owners, tenants, and condominium owners forms. The illustrations below are based on information from page D-11 and are for the owners forms, but the method applies 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 15-month entry for the accident year ended December 31, 2019 is $1,088,001,981. This is the first evaluation of the losses caused by loss events which occurred during the year which ended December 31, 2019. The evaluation was made as of March 31, 2020, 15 months after the beginning of the accident year. Twelve months later (March 31, 2021), the losses caused by accidents which occurred during the year ended December 31, 2019 had grown to $1,144,370,547. This is the evaluation as of 27 months after the beginning of the accident year. This increase represents a growth in losses, or a positive development, of 5.2% (or 1.052) as shown in the column under link ratios located lower on that page labeled "27:15." As shown on page D-11, we have looked at the development from 15 months to 27 months for all years. The average development for these years was 4.2%. The selected loss development factor for 15 to 27 months is 1.042.

Q: Does page D-11 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 63 month evaluation, the losses for the accident year ended December 31, 2017 had become $924,172,255. This amount is about 0.2% less than the value of the losses for the same accident year evaluated as of 51 months. The average development over the period 51 months to 63 months for the years for which the data are available was 0.999, or -0.1%.

Q: Please explain how the loss development factor used to determine the ultimate payment value of the accident year ended December 31, 2021 losses was determined.

A: For the owner forms, the loss development factors for each of the applicable periods, as shown on page D-11, are:

Development Period	Factor
15 to 27	1.042
27 to 39	1.006
39 to 51	0.999
51 to 63	0.999

If you multiply all of these factors together, you will get a factor of 1.046 to apply to the year ended December 31, 2021 losses.

Q: You referred earlier to a separate procedure for dealing with non-hurricane excess wind losses. Please describe that procedure.

A: At a high-level, the excess wind procedure involves removing actual excess non-hurricane wind losses during the 5-year experience period and replacing these values with a provision that is based on reviewing a much longer 30-year time period.

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 windstorms, 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 based on 30 years of experience. As a result of this procedure, a long-term excess factor of 1.094 was calculated and therefore applied to the losses.

This same procedure was used in the NCRB's previous homeowners rate filing and is customarily employed to smooth out and appropriately 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 1.094 factor. Accident years 2019 and 2020 had unusually high non-hurricane wind losses, which were smoothed out by way of the excess wind procedure.

In my opinion, use of 30 years to measure the impact of excess non-hurricane wind losses is effective at balancing the trade-off between stability and responsiveness in the calculation.

Q: Was it necessary to exclude hurricane losses in calculating the excess wind factor?

A: Yes, it is necessary to exclude hurricane losses when calculating the excess wind factor because the provision for hurricane losses is developed separately by way of hurricane models. Hurricane losses have been excluded in the calculation of the excess factor as derived on page D-32.

Q: How have hurricane losses been identified in order to be excluded from the Derivation of Excess Factor (Excludes Hurricane Losses) exhibit on page D-32?

A: The method to remove hurricane losses from the derivation of the excess factor depends on the detail of the available data during different periods of time.

For the period 1992 to 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 the period October 1995 to 2002, 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 2003-2021, the data described above (for the period from October 1995 to 2002) 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 provide an example of how excess wind losses have been smoothed by applying the excess wind procedure?

A: On page C-2 of Exhibit RB-1, Column (2) shows the excess losses for each of the accident years. Accident year 2020 was impacted by a high level of non-hurricane wind losses. By removing the actual level of excess losses for this year and replacing it with an expected provision (by applying the excess factor of 1.094), the resulting smoothed value of incurred losses shown in Column (3) is lower than the original value shown in Column (1).

Unlike the situation for accident year 2020, accident year 2018 had a very low level of excess wind losses. By applying the excess factor of 1.094 to accident year 2018, the smoothed value of incurred losses shown in Column (3) is higher than the original value shown in Column (1) for 2018.

On page C-2, the sum of the “smoothed” losses in Column (3) is about $601 million less than the sum of the losses in Column (1). This illustrates that more non-hurricane wind losses have been removed from the 5-year experience period than have been added back in by applying the 1.094 excess factor.

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 1,301,543,590 represents.

A: These are the losses and loss adjustment expenses associated with claims or accidents that occurred in the accident year ended December 31, 2021. The losses are the sum of the adjusted incurred losses excluding hurricane losses found in Column (1), minus the adjusted excess losses in Column (2), all multiplied by the non-modeled excess factor of 1.094, adjusted by a trended loss adjustment expense factor of 1.119.

Q: How is the trended loss adjustment expense factor of 1.119 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, 2018, December 31, 2019, December 31, 2020, December 31, 2021 and December 31, 2022, after dropping the high and low values, averaged 12.7% for the period, as shown on page D-26.

This factor of 12.7% 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-27. This adjustment results in a trended loss adjustment factor of 1.119.

The Bureau relied on 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 hurricane loss adjustment expenses are reflected in the trended modeled hurricane base class loss costs that are shown later in the statewide rate level 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 data for this index are shown on pages D-21-22. Based on an analysis of these data, an annual rate of change of 5.0% was selected by the Property Rating Subcommittee of the Bureau.

Q: Please explain the development and application of the expense trend factor in arriving at the loss adjustment expense factor.

A: The loss adjustment expense factor of 12.7% is equal to the five-year average (excluding the high and low values). As such, the factor is representative of the time period corresponding to July 1, 2020.

Since the Loss Adjustment Expense ratio is at the cost level corresponding to July 1, 2020, 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, August 1, 2025 (one year beyond our assumed effective date of August 1, 2024). This calculation is displayed on page D-27.

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 also need to adjust the losses in the denominator by the relevant loss trend. This calculation is performed on page D-27.

Q: Please explain the purpose of trending losses.

A: Since ratemaking is prospective in nature, historical losses need to be adjusted to reflect the cost levels anticipated to prevail during the period that the proposed rates are expected to be in effect. This adjustment to historical losses is made by applying loss trend factors. For the calculations in this filing, the assumed effective date is August 1, 2024. Historical losses are trended to reflect an average accident date of August 1, 2025 (which is one year after the assumed effective date of August 1, 2024). The loss trend factors are shown in Column (5) of page C-2 of Exhibit RB-1.

Q: Please describe how the loss trend factors are calculated for non-hurricane losses.

A: For non-hurricane losses, loss trend factors are calculated on pages D-14 to D-17 of Exhibit RB-1.

Loss trend factors are calculated in a two-step process. The first step is the selection of annual changes in losses. The second step is converting the selected annual change in losses to loss trend factors that can be applied to each of the accident years.

Page D-14 shows historical growth in claim frequencies, loss severities, and pure premiums that occurred during the historical experience period for owners forms. This information is shown separately by cause-of-loss group and for all non-hurricane losses combined. Based on this information, the Bureau's Property Rating Subcommittee selected annual rates of change in frequencies and severities, and these were then combined into annual rates of change in pure premiums. Separate annual rates of change were selected for two different time periods (the historical time period, and the prospective time period). Annual rates of change for the historical time period are used to trend the historical loss experience to the average accident date of the latest year (July 1, 2021). Annual rates of change for the prospective time period are used to trend losses from the latest year to an average accident date of August 1, 2025 (which is one year after the assumed effective date of August 1, 2024).

When selecting the prospective annual trend for loss severities, the Bureau's Property Rating Subcommittee considered the impact of increases in inflation that have occurred after the time period associated with the historical experience period. The historical experience period that reflects accident years 2017 through 2021 wouldn't capture the impact of higher rates of inflation observed during 2022 and 2023.

Page D-17 shows how the selected annual change in losses was converted to loss trend factors that can be applied to each of the accident years. The loss trend factors shown in Column (7) reflect the combined impact of loss trend over the historical and the prospective time periods. These loss trend factors also appear in Column (5) of page C-2.

Q: Please explain the purpose of premium trend factors in Column (7) of page C-2.

A: Since ratemaking is prospective in nature, it is important to adjust historical experience so that it will be reflective of future conditions. Due to the impact of inflation, insureds generally purchase higher policy limits over time. Premium trend factors are used to adjust historical experience to reflect subsequent changes in average policy limits over time.

Q: Please describe the calculation of the premium trend factors in Column (7) of page C-2.

A: The premium trend procedure is based on the annual growth in average policy amount relativities during the experience period. This procedure is displayed on pages D-18 and D-19.

The premium trend factors are calculated in a two-step process. The first step involves calculating Current Amount Factors for each year. The Current Amount Factors trend the average policy amount relativity from a given historical year to the average date of writing for the latest accident year of the review (January 1, 2021).

The Current Amount Factors are calculated by taking the ratio of the average policy size relativity for the most recent year to the average policy size relativity for each of the five years in the experience period. For a given year, the average policy size relativity is calculated by taking a weighted average of the policy size relativity factor for each amount of insurance, using the exposures for each amount of insurance as weights.

The second step involves accounting for the trend in average policy size relativities from January 1, 2021 (which is the average date of writing for accident year 2021) to February 1, 2025 (which is six months beyond the assumed effective date of August 1, 2024). The prospective annual change in policy size relativities was selected by the Bureau's Property Rating Subcommittee after reviewing the fitted annual rate of change in policy size relativities during the historical experience period. As with loss trend, the Bureau's Property Rating Subcommittee selected prospective annual changes in policy size relativities after considering the effect of increases in inflation that have occurred after the time period associated with the historical experience period.

Q: Could you please explain Column (9) on page C-2?

A: Column (9) 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 (8) 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 (10). The derivation of the trended average rating factors is shown on pages D-43 to D-60.

Q: Please explain Line 12 on page C-2.

A: Line 12 is the resulting Weighted Trended Non-hurricane Base Class Loss Cost obtained by applying the accident year weights shown in Column (11) to the Trended Base Class Loss Cost for each year shown in Column (10). 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 August 1, 2024.

Q: Please explain Line 13 on page C-2.

A: Line 13 is 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 14 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 during the prospective time period. Aon provided the average modeled hurricane losses from running two hurricane simulation models -- one developed by AIR Worldwide (AIR) and one developed by Risk Management Solutions (RMS). The average modeled hurricane losses were then loaded with catastrophe loss adjustment expenses (LAE). To obtain an average loss cost value, the modeled loss amounts are divided by earned house years for calendar year 2021. 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 the 2021 average rating factor and the premium trend factor for calendar year 2021. The derivation of the modeled hurricane base class loss cost is shown on pages D-79 to D-81.

Q: How were the modeled hurricane losses calibrated so they would be applicable to the prospective time period that the proposed rates will be in effect?

A: The exposures that were used in the hurricane model runs were trended to six months beyond the assumed effective date of August 1, 2024. Page D-20 shows the calculation of the annual rates of change and selections that were used to trend the exposures that were used as inputs to the hurricane models.

Q: Did the Bureau consider actual hurricane losses?

A: Yes. The actual hurricane losses during the five years of experience were reviewed and considered; however, as has been done in prior Bureau filings, 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 hurricane losses that were excluded are:

Year	**Owners Forms**	**Tenants**	**Condos**	**Total**
2017	$2,404,722	$24,640	$158,188	$2,587,550
2018	1,877,022,997	10,375,361	14,622,226	1,902,020,584
2019	72,662,388	151,246	218,077	73,031,711
2020	175,154,653	526,291	879,094	176,560,038
2021	23,511,449	85,772	144,175	23,741,396
Total	$2,150,756,209	$11,163,310	$16,021,760	$2,177,941,279

The excluded losses by territory are shown on pages D-61 to D-78. The excluded hurricane losses reflect adjustment to base deductible level and application of loss development factors so as to be consistent with the total adjusted incurred losses from which the hurricane losses are being removed.

Q: In addition to excluding actual hurricane losses on Page C-2, have such hurricane 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 ratemaking calculations, it is likely that there will be scenarios ranging from no hurricane losses to 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 level need 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 compared to other causes of loss. The occurrence or non-occurrence of actual hurricane events is not predictive of the range of hurricane events that can occur or the probability of their occurrence. 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 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 represent projections of the long-term average annual hurricane losses. There are several advantages of using models to project hurricane losses over using actual hurricane losses, including 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 markets, and meteorological field 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 2018. In 2018, North Carolina was significantly impacted by Hurricane Florence. If the current rate analysis included the losses due to Hurricane Florence, rather than losses generated by hurricane models, rates would spike. Conversely, if the rates were based on there being no major hurricane strikes during the preceding five-year experience period, it would not be actuarially appropriate to assume that the absence of hurricane losses would be the expectation for a future prospective rating period.

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 nature of historical hurricane loss data.

The Property Rating Subcommittee and ISO Staff 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 2020 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: Does the Filing in any manner require policyholders in North Carolina to pay the losses or subsidize the rates of policyholders in other states, particularly hurricane prone states such as the Gulf Coast states?

A: No, it would be actuarially inappropriate to do so. Each state is evaluated separately, and rates in North Carolina are based only on North Carolina's loss potential. Imposing such a subsidy would not be fair to North Carolina policyholders and would not be permitted by North Carolina regulators. There is a greater risk of hurricane losses in Florida and some other Gulf states than in North Carolina, and it would not be fair or actuarially sound for North Carolina policyholders to pay for those losses or subsidize the insurance costs for persons in those areas. For the same reason, it would not be fair or actuarially sound for the Bureau to attempt to spread the hurricane exposure of the hypothetical one company in North Carolina to persons in other states such as in the Midwest where there is little hurricane exposure. Policyholders and regulators in Iowa, for example, would not be willing to share that risk. To summarize, using other states' losses to determine North Carolina rates is unfair and inequitable, and the Bureau does not do this for these reasons.

Q: As an actuary, how have you determined that it is reasonable to rely on output from the hurricane models for purposes of the Bureau's homeowners rate filing?

A: Hurricane models incorporate specialized knowledge (including meteorology and engineering) that is outside the area of expertise of most actuaries, including myself. Actuarial Standard of Practice ("ASOP") 38 titled "Using Models Outside the Actuary's Area of Expertise (Property Casualty)" provides guidance to actuaries in this situation.

I have reviewed the pre-filed testimony of Minchong Mao, including her statement of compliance with ASOP 38 for both the RMS and AIR hurricane models for purposes of the Bureau's Homeowners rate filing. Ms. Mao is employed by Aon and is an FCAS with extensive experience using catastrophe models. As documented in her testimony, Ms. Mao has conducted an evaluation of the RMS and AIR hurricane models and has concluded that the modeled hurricane losses are reasonable and appropriate projections of expected hurricane losses for use by the Bureau in its Homeowners rate filing.

In addition to relying on the work conducted by Ms. Mao, I have independently evaluated the RMS and AIR hurricane models for purposes of compliance with ASOP 38 with respect to including output from the RMS and AIR hurricane models as part of the Bureau's Homeowners rate filing. Some of the conclusions of my ASOP 38 investigations include the following:

- Both the RMS and AIR models were developed and maintained by experts in a wide range of disciplines. This is illustrated by the numerous employees with expertise in key aspects of the models, including meteorology, vulnerability, actuarial science, statistics, and computer science.

- Both the RMS and AIR models have gone through rigorous external review, including being found acceptable by the Florida Commission on Hurricane Loss Projection Methodology.

- Results from the RMS and AIR models yield projected hurricane frequencies and severities that are reasonable when compared to actual hurricane experience observed in North Carolina.

Q: Who performed the hurricane modeling for the Bureau?

A: Aon.

Q: What did the Bureau furnish to Aon to enable Aon to perform its analysis?

A: At the direction of the Bureau, ISO furnished to Aon the North Carolina homeowners 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. The data provided to Aon are correct to the best of my knowledge, information and belief.

ISO provided both actual (un-trended) and trended coverage limits to Aon. As discussed earlier in my testimony, the trended exposures were used as inputs when Aon ran the hurricane models.

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. In North Carolina, if a hurricane model is used, the statutes require the use of multiple models 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. 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 elected to give each model 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.

Aon accounted for loss adjustment expenses (LAE). Aon's data shows that LAE, as a percentage of hurricane losses, is lower than the LAE percentage for non-hurricane losses. Therefore, after review of Aon’s data, the Property Rating Subcommittee selected a 6% LAE provision to be applied to the modeled hurricane losses.

The modeled hurricane losses (including LAE) are shown on pages D-79 to D-81.

Q: Please explain what Line 15 entitled "trended fixed expense per policy" on page C-2 refers to and what it represents.

A: Line 15 "trended fixed expense per policy" refers to the amount of the prospective premium dollar needed to cover general and other acquisition 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 15, $81.14, 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 $81.14 on Line 15 of page C-2 was derived.

A: The derivation of the figure $81.14 is shown on page D-29. Based on reviewing the 2020 to 2022 experience on page D-24, the Bureau's Property Rating Subcommittee selected an untrended general expense ratio of 0.039 and an untrended other acquisition expense ratio of 0.059.

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 5.0% is applied over the time period from July 1, 2021 (the average date of the experience on which the general expense ratio is based) to February 1, 2025 (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 2021 levels to the level anticipated to be in effect on business written between August 1, 2024 and July 31, 2025. This is done by using the Premium Trend Factor for 2021, which I have previously discussed.

This trended fixed expense ratio is then multiplied by the trended average rate for all forms of $1,359.42 (as calculated on page D-28). The result is a statewide all forms fixed expense loading of $130.50. 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 less than the Owners forms.

A calculation is then performed to ensure that the average fixed expense loadings by form balance to the $130.50. The average dollar loading for owners forms is $145.81, as shown in Column (3) on page D-29. This is adjusted to a base policy level by dividing by the average rating factor of 1.473 and the premium trend factor of 1.220. This results in a fixed expense loading of $81.14.

Q: What does Line 16 show on page C-2?

A: Line 16 is a combination of the Trended Base Class Loss Cost and the Trended General Expense and Other Acquisition Expenses. The figure $660.02 is the dollar amount that is required to cover the portion of the base rate that is needed to cover anticipated losses, loss adjustment expenses, general expenses, and other acquisition expenses.

Q: What does Line 17 on page C-2 show?

A: Line 17 takes into account the variable expenses, which include commission and brokerage, taxes, licenses and fees, profit, contingencies and dividends. From page D-24, we see that the commission and brokerage ratio is 12.0%, and the taxes, licenses and fees ratio is 2.8%. The provision for dividends is 0.5%. The provision for underwriting profit is 9.0%. The contingency provision is 1.0%.

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-24 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 0.5% 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, and doing so is consistent with the Statement of Principles Regarding Property and Casualty Insurance Company Ratemaking, which provides that 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. If dividends were not reflected in the Bureau's rates, the profit level in the filing would not be achieved because of dividends paid to policyholders.

The 9.0% underwriting profit provision was selected by the Bureau's committees based on reviewing the analyses by Dr. George Zanjani. This filing also contains a 1% provision for contingencies. The profit and contingency factors are applied equally across the state.

The items known as variable expenses are reflected in Line 17. They vary in direct proportion with the premium dollar.

Combining variable expenses, profit, contingencies, and dividends results in 25.3 cents of every premium dollar being paid for these expenses. The remaining 74.7 cents pays for losses, loss adjustment expenses, general expenses and other acquisition expenses.

Q: What is the source of the percentages on page D-24 with respect to commissions and brokerage and taxes, licenses, and fees?

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 for use in the rate review and the Filing. The percentages on page D-24 were calculated from the 2018, 2019, 2020, 2021, and 2022 North Carolina expense calls for data undertaken by the Bureau.

The percentages for Commissions and Brokerage, and 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 is influenced by which premium best matches the time at which the expenses are incurred. For commissions & brokerage, the selection was 12.0%. For taxes, licenses and fees, the selection was 2.8%.

General and other acquisition expenses are determined based on a ratio to earned premium at manual level. The North Carolina special calls for 2018, 2019, 2020, 2021, and 2022 were used for these as well. The selected general expense provision was 3.9%., and the selected other acquisition expense provision was 5.9%. These selections are then adjusted by ISO to reflect trend, as previously discussed in my testimony.

Q: What is the source of the percentage on page D-24 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 adequately recognized in normal ratemaking.

In addition, the writing of property insurance in North Carolina is subject to law changes, court interpretations, jury verdicts and judicial decisions that expand losses beyond what was contemplated when the policies were written. In addition, major unexpected losses can and do come from large and infrequent events of a type and magnitude that are not reflected in the experience period. One historical example is the sudden surge of mold claims around the early 2000's that far exceeded the amounts seen in experience periods.

Additional considerations justifying a contingency factor include 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. North Carolina differs from states that rely more on competition to set rates. The system in this state requires that data be collected from many companies writing homeowners insurance and then aggregated and analyzed prior to making a filing for adequate rates on behalf of all companies. As the physical size of this 2024 filing demonstrates, the amount of information required to be submitted is massive, and it takes significant time to compile that information. Mr. Anderson of Milliman (see his pre-filed testimony and exhibits) has concluded that a 1% contingency provision is fully supported by this single issue regarding the delay in obtaining needed rate increases in North Carolina.

Q: Would you explain Line 18 on page C-2 entitled "Base Class Rate Excluding Comp. for Assess. Risk, Net Reins. & Dev."?

A: The net base rate per policy is calculated by dividing the base class loss cost with fixed expenses in Line 16 by the expected loss and fixed expense ratio in Line 17. 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 19 on page C-2 entitled "Compensation for Assessment Risk per Policy"?

A: Compensation for assessment risk is a provision that is calculated by Ms. Mao of Aon (see her 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 surplus, reinsurance, and reserves to pay losses for a catastrophic hurricane event or series of events, then companies writing homeowners, dwelling and other lines of property insurance 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 generate those losses. The compensation for assessment risk factor is the provision that must be included in the rates in order to compensate voluntary market insurers for bearing this risk of assessments from the Beach/FAIR Plans.

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. Aon'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 (which writes business in the beach and coastal areas) and does not apply to assessments to pay for losses in the FAIR Plan (which writes business in all areas of the state except the beach areas). In the recent several years, the FAIR Plan has rapidly increased its writings statewide. As the number of policies and amount of uncapped exposure in the FAIR Plan grows, that growth could impact the compensation for assessment risk. Those policies are vulnerable to losses from catastrophic hurricanes, and companies are subject to unlimited assessments from these losses.

The compensation for assessment risk amount of $15.16 per policy is calculated by first multiplying the 1.4% provision by the current average statewide base rate of $922.47, resulting in a value of $12.91. To be incorporated in the rates, however, this provision must be adjusted to account for the commissions and taxes, licenses, and fees that the companies will need to pay on this additional premium. That is done by dividing the 12.91 by 1 minus the sum of commission and brokerage expense and taxes, licenses, and fees expenses. This calculation results in the $15.16 amount per policy that appears in line 19 on page C-2.

Q: What is the source of the $415.20 for net cost of reinsurance in Line 20?

A: The source of the $415.20 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. Companies 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 one of the largest reinsurance brokers in the world.

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 2021 times the 2021 trended average rating factor. This quantity is then divided by the expected loss and fixed expense ratio. For owners, the actual calculation is:

$$\frac{1{,}146{,}362{,}083}{2{,}056{,}820 * 1.797 * 0.747} = 415.20$$

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 specifically to homeowners insurance written in North Carolina. There are several reasons why this is the case. The first reason is that companies often do not enter reinsurance treaties exclusive to only one line of insurance. The large number of individual insurance companies writing homeowners insurance in North Carolina 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 residential 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, much less 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 homeowners 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'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's database and expertise are a great source of information as to actual reinsurance practices and costs for the hypothetical one company writing residential homeowners insurance in North Carolina.

Q: Returning to page C-2, what is the source of the percentages used on Line 22 for anticipated deviations?

A: As in past homeowners filings, the Bureau committees reviewed deviations. 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 deviations, the industry would not achieve the profit provision included in the rates. The Bureau reviewed deviations in conjunction with consent to rate data and surcharges on homeowners policies written in the Beach Plan and found that the net deviation is very close to zero. 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. The Bureau also recognizes that the reflection of expected deviations has been a contentious issue in previous rate filings. In this filing the Bureau elected to include a provision of zero for deviations.

Q: Would you explain Line 24 on page C-2 entitled "Required Base Class Rate per Policy"?

A: Line 24 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 25 on page C-2 entitled "Current Average Base Class Rate"?

A: Line 25 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 26 on page C-2 entitled "Indicated Rate Level Change"?

A: Line 26 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 24 and dividing it by the current base rate from Line 25. This results in an indicated rate level change for the owners forms of 42.4%.

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 indicated statewide change. This is shown in Column 5 of page C-9.

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.

General and other acquisition expenses are treated as fixed expenses. The trended fixed expense per policy by territory is calculated by first distributing the statewide trended fixed expense ratio to each territory. This is accomplished by multiplying the statewide trended fixed expense ratio by the ratio of the statewide latest-year average rate to the territory latest-year average rate. Finally, the trended fixed expense per policy by territory is calculated as the product of the territory trended fixed expense ratio and the current territory base class rate. These calculations are shown on pages D-30 and C-8 of the filing.

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?

Yes, they are, with a few exceptions as previously noted or which are apparent from the calculations and exhibits relating to those forms. With respect to Form 4 (tenants) and Form 6 (condominium owners), there is no non-hurricane excess wind procedure used in determining the statewide rate level change.

With respect to Form 6, Territory 170 did not have any exposures during the 5-year experience period used in the rate analysis, and therefore the indicated rate change that was calculated for this territory was impacted by the lack of exposures. Instead of relying on the indicated change for this territory, a filed rate change of 30.1% was selected to achieve 90% of the statewide indicated change (1.301 = 0.9 x 1.446). The 90% scaling factor was selected based on observing the relative changes for Territory 170 for the Owners and Tenants forms.

Other parts of the calculations for Forms 4 and 6 are the same or similar to that of the owners forms.

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-17 and C-18. 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, the Beach Plan applies a 5% statutory surcharge above the Bureau rates. The wind only rates are also being revised in this filing (derivation shown on pages C-22 and C-23). The wind mitigation credits for these territories are also being revised in accordance with the data and methodology shown in 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.

Q: How is the Bureau proposing to implement the indicated rate changes?

A: The Bureau’s Governing Committee has decided to file the indicated territory rate changes. Page A-3 of Exhibit RB-1 shows the indicated and filed rate changes 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.

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 the various statistical agents, 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. Zanjani for the profit analysis. I have relied on Mr. Anderson as to the contingency provision. I have relied on Minchong Mao for her review of the AIR and RMS hurricane models, the blended output of those models (including the modeled hurricane losses), the net cost of reinsurance component of the rates, and for the compensation for assessment risk component of the rates. 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 also reviewed, approved, and relied on the work conducted by ISO staff with regards to the preparation of the ISO portions of the rate filing. I have applied appropriate actuarial standards when reviewing these various data sources.

Q: Does that conclude your testimony?

A: Yes, it does.

PAUL ERICKSEN, FCAS, MAAA
PRINCIPAL, ACTUARIAL CONSULTING
INSURANCE SERVICES OFFICE

CURRENT RESPONSIBILITIES

Leads actuarial consulting at Insurance Services Office, Inc. Responsible for providing actuarial consulting services to a wide array of clients including property/casualty insurers, residual market insurers, captives, managing general agents, law firms, and insurance departments. He has 31 years of actuarial experience in the insurance industry.

Responsible for a wide array of customized actuarial analyses prepared for individual clients, including ratemaking, reserving, program development, and other miscellaneous studies. Testified at several venues on behalf of his clients.

PROFESSIONAL EXPERIENCE

2007 to 2023:	Principal of Actuarial Consulting at ISO
1999 to 2006:	Consulting Actuary in the Actuarial Consulting unit of ISO
1994 to 1998:	Senior Actuarial Associate in the Financial Analysis unit of ISO
1993:	Consulting Actuary in the New York office of Milliman
1992:	Actuarial Assistant in the Increased Limits unit of ISO

PROFESSIONAL DESIGNATIONS AND ACTIVITIES

Became a Fellow of the Casualty Actuarial Society in 1995, and is a Member of the American Academy of Actuaries.

Member of the CAS Examination Committee from 1996 through 2009.

Gave multiple presentations at CAS Meetings, including a presentation titled "The Actuary as an Expert Witness" at the following venues:

- CAS Ratemaking and Project Management Seminar in March of 2013
- Casualty Actuaries of New England in September of 2011
- CAS Ratemaking and Project Management Seminar in March of 2011

EDUCATION

Graduated from Princeton University in 1992 with a B.A. in mathematics.

Expert Witness Testifying

Cases involving expert witness testimony regarding property insurance ratemaking:

- Prepared written testimony in support of the NCRB's 2018 and 2020 Homeowners rate filings and the 2019, 2020, 2022, and 2023 Dwelling rate filings.

- In 2008, provided expert witness testimony to the insurance subcommittee of the Florida House of Representatives regarding the adequacy of rates charged by Citizens Property Insurance Corporation. Citizens is the residual market insurer in Florida for property insurance and has been the largest writer of Homeowners insurance in the state.

- Testified at several rate hearings in support of filings submitted by Citizens Property Insurance Corporation.

- From 2005 through the present, provided extensive expert witness testimony on behalf of the Massachusetts Fair Plan regarding their Homeowners, Dwelling and Commercial Property rate filings. The Massachusetts Fair Plan is the insurer of last resort for property insurance in Massachusetts with a large coastal exposure.

- In 2007, provided expert witness testimony during a wind-only voluntary insurer's successful rate arbitration case where they were awarded a 75.4% rate increase to their hurricane rates.

- Provided expert witness testimony involving a civil litigation case.

Select Work Experiences

Preparation of Homeowners, Dwelling, and Personal Auto Rate Analyses:
- Developed comprehensive actuarial rate analyses that his clients have filed with regulatory authorities.
- Experience with using output from multiple hurricane models (including AIR, RMS, and other models).
- Developed actuarial support for the provision for the cost of catastrophe reinsurance.
- Developed indicated underwriting profit provisions.

Preparation of New Homeowners and Personal Auto Programs:
- Developed the rating structure and actuarial support for new Homeowners and Personal Auto programs. This work involved companies expanding into new states, along with established insurers that wanted to replace their existing program.

Reserve Analyses:
- Prepared loss reserve analyses for both Property/Casualty insurers and self-insured entities, with an emphasis in property insurance.
- Appointed Actuary for Citizens for four years (2004, 2005, 2007, 2009)
- Appointed Actuary for Heritage Property & Casualty Insurance Company (a large publicly traded Homeowners insurer that concentrates in the Florida market) from 2012 through 2019.
- Responsible for annual reserve analysis for a large national Commercial Auto trucking company.

PRE-FILED DIRECT TESTIMONY OF MINCHONG MAO

2024 HOMEOWNER INSURANCE RATE FILING
by the
NORTH CAROLINA RATE BUREAU

Q. Please state your full name and business address for the record.

A. My name is Minchong Mao. My business address is Aon, 200 East Randolph Street, 11th Floor, Chicago, Illinois 60601.

Q. What is your involvement in this matter?

A. My employer, Aon, has been retained by the North Carolina Rate Bureau (NCRB) to provide catastrophe modeling and reinsurance analytics with respect to the expected hurricane losses utilized in the NCRB 2024 Homeowner Insurance rate filing. I am part of the catastrophe analytics team at Aon that performed these services.

Q. What is Aon?

A. Aon is a leading global professional services firm that provides advice and solutions to clients focused on risk, retirement, and health. Aon is one of the world's largest reinsurance brokers and has extensive experience in catastrophe modeling.

Q. What are your primary responsibilities for Aon?

A. I am a Senior Managing Director and a Catastrophe Actuary at Aon's Reinsurance Solutions - Catastrophe Risk Analytics group. I manage an analytics group within the Catastrophe Management area which focuses on catastrophe actuarial and predictive analytics as it relates to ratemaking and underwriting. I advise clients on catastrophe actuarial services, such as rate indications, rate filing strategy, underwriting strategy, and use of catastrophe models in risk management. I am responsible for Aon's compliance with ASOP 38 regarding use of catastrophe models. I am a consulting actuary for Aon's in-house model, Impact Forecasting, LLC. I work with a group of catastrophe modelers to provide catastrophe modeling support for reinsurance placements. Our client services include but are not limited to support for multi-model analytics, customized view of risks, catastrophe pricing, catastrophe risk selections, data augmentation, model evaluation, real-time event response, portfolio optimization, actuarial support, reinsurance cost allocations, and rating agency questionnaire support.

Q. Describe your professional and educational background.

A. I have been with Aon since September 2018. Prior to joining Aon, I worked at State Farm Insurance Companies for over 17 years from 2001 to 2018 where I led the catastrophe modeling functions since 2005. During my tenure at State Farm, I was responsible for State Farm's use of catastrophe models in pricing, underwriting, claims, reinsurance, securitization, enterprise risk management, and rating agency reporting.

I had 2 years of ratemaking experience as a pricing actuary for Homeowner lines at State Farm. I am familiar with the development and implementation of property insurance rates and rules. I understand the challenges for an insurer to balance rate adequacy and competitiveness and to meet financial objectives at the same time.

I have a Bachelor's degree in Biochemical Engineering from Beijing University of Chemical Technology, a Master's degree in Chemistry from Eastern Illinois University, and a Master's degree in Computer Science from the University of Missouri - Columbia.

Q. Are you a member of any professional actuarial organizations?

A. Yes. I am a Fellow of the Casualty Actuarial Society (FCAS) and a Member of the American Academy of Actuaries (MAAA). I am a Certified Catastrophe Risk Management Professional (CCRMP), a new designation created by the CAS Institute (iCAS) and International Society of Catastrophe Managers (ISCM). I am currently serving on the Casualty Actuarial Society's Climate Change Committee and on the advisory board for CCRMP designation. I served on the American Academy of Actuaries' Extreme Event Risk Committee from 2016 to 2023. I am in good standing with the requirements of all of these organizations.

I was part of a working group that authored the following monographs for the American Academy of Actuaries:

- The National Flood Insurance Program: Challenges and Solutions (2017)
- Uses of Catastrophe Model Output (2018)
- Wildfire: An Issue Paper - Lessons Learned from the 2017–2018 California Events (2019)

I am one of the recipients of the Casualty Actuarial Society's Above and Beyond Achievement Award in 2019 to recognize my leadership and contributions in establishing the CCRMP designation for the insurance industry.

Q. Please describe your relevant experience and qualifications for this proceeding.

A. My CV is included with the filing as Exhibit RB-8. I started practicing in the catastrophe risk management field in 2005. During my tenure at State Farm, I managed State Farm's catastrophe modeling function from 2005 to 2018. I managed vendor relationships with AIR, EQECAT, ARA, and RMS. I provided filing support and helped my employer through many regulatory challenges related to the use of models in insurance operations. I provided actuarial opinions on State Farm's use of catastrophe models. I established the due diligence and model validation framework to ensure catastrophe modeling practices at State Farm met the actuarial standards and complied with laws and regulatory requirements. My team provided various catastrophe risk measures and analytics for State Farm Fire and affiliates for ratemaking, exposure management, claims, ERM, rating agency reporting, reinsurance and securitization purposes.

From 2010 to 2013, I was a member of an advisory group to the Insurance Bureau of Canada (IBC) and the Office of the Superintendent of Financial Institutions (OSFI) to provide expert opinions on insurance and the economic impact of major earthquakes in Canada. From 2011 to 2013, I was a member of an advisory group for IBC and OSFI to revise OSFI Guideline B-9 (Earthquake Exposure Management Sound Practice Guideline for insurance companies). I led a State Farm team to establish the compliance framework to meet OSFI B-9 regulation requirements.

In January 2015, I was appointed by Florida CFO Jeff Atwater to serve on the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM) as the industry actuary. From January 2015 to September 2018, I represented the property insurance industry on the FCHLPM to review and accept hurricane models for use in ratemaking in the State of Florida. My term on the FCHLPM ended in September 2018 due to my job change.

The hurricane models used for this rate filing, Verisk (also known as and hereinafter referred to as “AIR”) Touchstone V9 (a.k.a Touchstone 2021) and RMS RiskLink V21, are both certified by FCHLPM.

Q. What does the FCHLPM do?

A. FCHLPM scrutinizes hurricane models and authorizes their use in Florida rate filings and has done so over many years. FCHLPM 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, FCHLPM has recognized advancements in various scientific disciplines related to hurricane modeling and has required modelers to incorporate such advancements. FCHLPM approves only those models that meet its rigorous standards.

Q. Please describe how ASOP 38 is applicable in this rate filing?

A. The Actuarial Standard of Practice Number 38 (ASOP 38) has been in effect since December 2000. ASOP 38 was created, to some extent, to address the use of stochastic computer hurricane simulation models in the insurance ratemaking process. ASOP 38 established certain requirements for actuaries who use output from a model that is outside of that actuary’s area of expertise.

Hurricane models are developed by a group of experts including meteorologists, structural engineers, actuaries, statisticians, and computer scientists. Some model components are outside of the area of expertise of actuaries. Due to the models' complexity and reliance on different science disciplines, as well as their relative novelty in establishing property insurance rates at the time, many actuaries are not as knowledgeable about these models as they are about the traditional ratemaking methodologies.

Hurricane models are utilized to establish the hurricane loss costs and reinsurance cost allocation for this NCRB filing. Therefore, compliance with ASOP 38 is relevant to the filing.

Q. Is Aon's use of catastrophe models in compliance with ASOP 38?

A. Yes, Aon's catastrophe modeling practice in general and as it relates to this NCRB filing is in compliance with ASOP 38. ASOP 38 provides guidance to the actuary in using models that incorporate specialized knowledge outside the actuary's own areas of expertise when developing an actuarial work product and has been included as Exhibit RB-10. When using such a model, the standard requires that the actuary perform five specific tasks:

a. Determine the appropriate level of reliance on experts;

b. Have a basic understanding of the catastrophe model;

c. Evaluate whether the catastrophe model is appropriate for the intended purpose;

d. Determine that appropriate validation of the catastrophe model and output has occurred; and

e. Determine the appropriate use of the catastrophe model and output.

In addition to relying on vendors' experts, Aon has an in-house model evaluation team. This team consists of members with advanced degrees in meteorology, structural engineering, and statistics. Soon after models are released, the model evaluation team performs sensitivity testing to identify key drivers of model changes and potential anomalies. I work closely with the model evaluation team at Aon to ensure the sensitivity testing covers all aspects of ASOP 38 requirements. I review the testing results through an analytics dashboard. I document my reviews for each peril model. Upon completion of the review, I sign an ASOP 38 attestation. Copies of the current ASOP 38 attestations for the AIR and RMS models are included in the filing as Exhibits RB-11 and RB-12, respectively.

Q. Describe the role of Aon Reinsurance Solutions Analytics and Catastrophe Risk Analytics.

A. Aon Reinsurance Solutions Analytics (a.k.a Reinsurance Analytics) provides consultative services to Aon's clients who place catastrophe reinsurance through

Aon. These clients are primary insurers selling property insurance products in catastrophe prone areas. Aon Reinsurance Analytics provides value added service that is above and beyond reinsurance brokering transactions. Our client services include but are not limited to support for multi-model analytics, customized view of risks, catastrophe pricing, catastrophe risk selections, data augmentation, model evaluation, real-time event response, portfolio optimization, reinsurance cost allocations, actuarial support, and rating agency questionnaire support.

Within the Reinsurance Analytics division, there is a team specialized in catastrophe risk analytics. I am part of the catastrophe risk analytics team that provides clients with catastrophe risk management information and assists clients with their reinsurance purchasing decisions.

Q. Describe your experience with catastrophe models.

A. From 2005 to 2006, I performed the catastrophe modeling analyst's role, which includes hands-on experience with multiple models - from data preparation to running the models to post model aggregation. My daily work involved data preparation and converting exposure data into model input files. I gained knowledge about how different models handle building characteristics and insurance terms. I used RMS RiskLink, AIR, and EQECAT models on a daily basis. I developed an understanding of the models' back-end database and output. I performed post-model analysis and wrote computer programs to develop risk metrics such as probable maximum loss (PMLs), average annual losses (AALs), and total value at risk (TVaR) to help State Farm assess and manage catastrophe risks. Later in my career, I assembled a team and supervised many modeling tasks delegated to my colleagues. I continued to provide guidance and managed the day-to-day work of the catastrophe modeling unit.

Q. Describe your experience with catastrophe reinsurance.

A. My experience with reinsurance started in 2005 at State Farm. State Farm is a reinsurance buyer, and I was a part of the company's reinsurance buying team. I supported the reinsurance function at multiple levels. My work included using catastrophe model output and financial information to help my employer in structuring reinsurance, conducting technical pricing, drafting and reviewing reinsurance contracts, and participating in reinsurance buying trips. I evaluated catastrophe risks and cost of capital from both ceding and assuming parties. I worked closely with our reinsurance broker to validate our view of risks using external benchmarks. At Aon, I work directly with our clients who are seeking to purchase catastrophe reinsurance. Output from models is used by our brokers, clients, and capital markets to determine the reinsurance structure and pricing. We customize reinsurance solutions based on clients' risk appetite and risk profile.

Q. Do you speak on topics pertaining to catastrophe modeling?

A. Yes. I have presented at CAS Ratemaking, Product and Modeling Conferences. I am a frequent speaker at the Reinsurance Association of America's annual catastrophe modeling conference. My topics have included model blending, model regulation, and wildfire modeling, among others. From 2012 to present, I have been a visiting instructor at the Illinois State University Math Department Actuarial Science program where I present catastrophe modeling and regulatory topics to actuarial students. From 2016 to 2018, I was a member of the planning committee for the Reinsurance Association of America's annual catastrophe modeling conference. I organized and moderated panels and engaged speakers to cover a variety of catastrophe topics.

Q. Would you please explain why you are providing this testimony?

A. I manage Aon's Catastrophe Actuarial and Predictive Analytics group that developed the provisions for the modeled hurricane losses, the net cost of reinsurance, and the compensation for assessment risk used in this filing. I am responsible for the work products provided to NCRB on those items for this filing.

Q. What was Aon's role in this filing with respect to expected hurricane losses?

A. Aon performed data validation and shared control totals with NCRB; Aon's catastrophe modelers ran AIR Touchstone V9 (a.k.a Touchstone V2021) and RMS RiskLink V21 models based on exposure data provided by NCRB; Aon blended the model results for NCRB based on well-established methodology and provided the modeled average annual loss to NCRB; Aon conducted industry research, recommended, and applied catastrophe loss adjustment factors for NCRB.

Q. Are catastrophe simulation models commonly used by insurers for ratemaking in catastrophe-exposed lines and jurisdictions?

A. Yes, catastrophe models have become the standard method of estimating catastrophe risk in rate filings and reinsurance. Hurricane losses are so extreme and volatile that, for many years now, the accepted actuarial procedure for estimating catastrophe risk in rate filings and in the reinsurance market has been through the use of catastrophe models rather than actual hurricane losses. Such volatility is greatly compounded in hurricane prone states such as North Carolina. In North Carolina and other hurricane prone states, a significant percentage of the prospective long-term average annual losses in certain territories of the state are caused by intense hurricanes, which are relatively infrequent but are devastating when they do occur. It would be actuarially unsound to rely on a few years of actual hurricane losses to estimate prospective hurricane losses because of the volatility of these losses, which are driven by low frequency and high severity. We have provided data and analysis from the use of catastrophe models for Aon clients to use in their rate filings in multiple states.

Q. Did the NCRB ask Aon to run the AIR and RMS models?

A. Yes. Aon ran AIR Touchstone and RMS RiskLink for the NCRB under the NCRB's direction. AIR and RMS are the most commonly used catastrophe models in the insurance and reinsurance industries. Aon runs these two models on all of Aon clients' exposure data pertinent to reinsurance transactions. The majority of Aon's clients use either one or both models when evaluating their catastrophe risk.

Q. Why did the NCRB ask Aon to run two models?

A. My understanding is that the NCRB has been using two models since 2016. Running two models also complies with N.C.G.S. 58-36-10(3), which became effective in 2017 and requires the NCRB to present data from more than one model if modeled hurricane losses are based upon a commercial hurricane simulation model.

Q. How are losses from the two models blended?

A. We run the individual models independently and determine the appropriate loss costs and reinsurance cost allocation for each model. The blended results from the two models are derived by taking the straight average, thus weighting the models equally.

Q. Is it common that modeled losses will differ between the various model vendors?

A. Yes. Catastrophe models are complex. When modeling vendors develop a hurricane model, they start with similar underlying information, such as the National Hurricane Center's historical hurricane dataset, land use/land cover database, similar wind engineering principles and statistical theories. However, there are differences between modeling vendors in their approaches to interpreting and supplementing the data to build a robust model. Different assumptions and judgments are made by model developers. Vendors may also use claims data from different data sources to calibrate their model. These varying assumptions, judgments, and methodologies will result in different model results. Model results deviate more at location level than at the state level. When models generate different results, it does not necessarily mean any model is wrong. The spread among different views of the same risk reflects the inherent uncertainties of catastrophe modeling.

Given the number of variables involved in the development of a catastrophe model and the degree of uncertainty associated with each variable, we would not expect that two independently developed models would result in the same output or conclusions on a given set of data.

Q. Does the use of catastrophe models produce artificially high rate levels?

A. No. Models help stabilize rate levels. Without modeling, rate levels would fluctuate wildly following the occurrence or non-occurrence of significant hurricanes. Modeling is relied upon by all stakeholders in 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 they all rely on models in their negotiations with each other.

Q. How do the models change over time?

A. Catastrophe models are built based on state-of-the-art science and technology. As science continues to evolve and computing powers continue to advance, modeling technology is updated and improved. In addition, research into historical and recent events, updates to building practices and building codes, and data from engineering experiments also provide insights to enable model developers to enhance their models. Each modeling vendor takes a different approach on how frequently it updates its models and which perils and regions will be updated. As noted above, because different assumptions and judgements are made when information is applied, the impact of an update could vary greatly between models. Changes due to model updates are to be expected.

Q. Is using multiple models to determine catastrophe risk actuarially sound?

A. Yes. Using multiple models allows users to incorporate different views of risk into their exposure management. Using multiple models can effectively mitigate modeling volatility and smooth out significant model changes. Using multiple models is a practice endorsed by major rating agencies such as AM Best and S&P.

Q. How does the NCRB exposure data impact model output?

A. The following data factors would impact model output:

- Changes in coverage and/or policy conditions such as deductible and limits, and the underlying policies-in-force
- Changes in an insurer's portfolio composition, such as geographic concentration
- Changes in building characteristics, such as loss mitigation features and age of roof
- Changes in data quality, such as replacing unknown building characteristics with known building characteristics

Q. Please describe the client data that was employed as input for the model runs?

A. The underlying exposure data was provided to Aon by the NCRB. To the best of my knowledge, the data was compiled on behalf of the NCRB by Insurance Services Office (ISO). NCRB's exposure data sent to Aon consisted of the trended aggregate exposure information for all residential Homeowner risks in North Carolina, including those written voluntarily by insurance companies and those written by the residual market (NCIUA and NCJUA). NCRB instructed Aon to run the models using the aggregate data at zip code level and territory level for the entire North Carolina portfolio in a single model run.

Q. Please describe what Aon Reinsurance Solutions then did with the data provided by the NCRB.

A. We reviewed the data received from the NCRB for completeness and reasonableness before we input it into the AIR and RMS models. Since the two models have different formats for inputting data, we worked with the NCRB to assure that the exposure data was properly and consistently mapped in the required format for each model. NCRB provided earned insurance years (EIY), which is the sum of primary coverage amount expressed in thousands, and earned house years (EHY), which is the number of risks. Limit by coverage is calculated from EIY and EHY as instructed by the NCRB. A comparison of this year's data with last year's data was conducted. Any anomalies were investigated.

The next step was to input the data and run the models. We ran the AIR Standard model using the 100K event catalogue and the RMS Historical model (both are long-term views of the hurricane risk) to determine the modeled hurricane loss cost. We also ran the AIR Warm Sea Surface Temperature (WSST) model using the 10K event catalogue and the RMS Medium Term Rate model (both are near-term views of hurricane risk) to analyze the cost of reinsurance. It is a standard practice throughout the reinsurance industry to rely upon the models we used to determine modeled hurricane loss cost and reinsurance placements, and this has been true since the 1990s.

After the models were run, we reviewed each model's output separately to ensure data integrity. We then blended the results of the two models by taking a straight average of the results. Additional reviews were conducted of the blended results to ensure that the blending procedures were correctly performed and that the blended results were reasonable. Model results were aggregated by territory, policy form, and coverage. The blended modeled hurricane loss results were provided to the NCRB for use in its Homeowner rate review. Exhibit RB-9 sets forth the blended modeled hurricane losses resulting from the work I have described. Based on my knowledge and experience, and the input data provided by the NCRB, these modeled hurricane losses are reasonable and appropriate projections of expected hurricane losses for use by the NCRB in its Homeowner rate review and rate filing.

Also, we employed the modeled hurricane losses as part of our work in determining and allocating the cost of reinsurance.

Q. What are the differences and similarities between using the AIR Touchstone's 10K event set and the 100K event set?

AIR Touchstone's 10K hurricane event set is a subset of the 100K event set. These two event sets are designed to have the same theoretical frequency and intensity distributions in coastal segments, and to produce similar results with minimal variabilities. Using the 10K event set provides benefits in performance and storage. AIR Touchstone's 10K event set is standard for use in a majority of catastrophe modeling exercises – including reinsurance renewal data distribution for quoting and placement purposes. The 100K event set is used to determine hurricane loss costs for ratemaking purposes.

Q. Did Aon make adjustments to the modeled results?

Yes. A 6% loss adjustment expense (LAE) factor was applied to modeled losses. This factor was recommended by Aon based on a broad industry study at the state level. The results of that study are shown in Exhibit RB-15. The application of the LAE factor was reviewed and approved by the NCRB, and the 6% catastrophe LAE factor was selected by the NCRB.

Q. What is demand surge?

A. Demand surge is a social economic phenomenon defined by the Actuarial Standards Board as “a sudden and usually temporary increase in the cost of materials, services and labor due to the increased demand for them following a catastrophe.” Demand surge usually occurs after large-scale disasters such as earthquakes, tsunamis, cyclones, or flooding. The models incorporate demand surge into their loss estimates.

Q. Should model output include demand surge?

A. All applications of catastrophe model output should reflect demand surge. Demand surge is a real social economic phenomenon. Insurance companies’ claims experience includes the effect of demand surge. Excluding demand surge would underestimate catastrophe losses.

Q. Does the model output used in this filing include demand surge?

A. Yes. 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 FCHLPM has approved the use of aggregate demand surge and loss amplification for the AIR and RMS 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. The high demand for specialized labor often requires contractors to come in from out of state. Fundamental economic principles dictate that such a spike in demand increases prices, and consequently results in larger than normal claims payments in the aggregate. Additionally, there are delays in repairing properties, which can directly lead to longer stays in hotels, and there are other increased costs beyond those that occur after smaller hurricanes. 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. Does any state prohibit the inclusion of demand surge in modeled losses for rate filings?

A. I am not aware of any prohibitions against the use of demand surge in rate filings in any jurisdiction. The South Carolina Department of Insurance Bulletin 2014-03 states “Demand surge may be included in the modeled results as long as the company provides the impact it has on the modeled losses.” The Florida Commission on Hurricane Loss Projection Methodologies’ actuarial standards require hurricane models to incorporate demand surge based on relevant data and actuarially sound methods and assumptions.

Q. North Carolina has laws prohibiting "price gouging" following a hurricane. Does that eliminate demand surge?

A. No. Florida has a similar law (Title XXXIII 501.160). Demand surge can and does occur due to supply and demand economics in situations that would not be considered price gouging and/or that would not be prevented by statutes prohibiting price gouging.

Q. Does it make sense for North Carolina hurricane losses to include demand surge for very large events impacting other states even if those events were less significant in North Carolina?

A. Yes, the intent of the model is to reflect economic conditions that will influence construction prices and other aspects of insured loss (such as, for example, the increased period of time a carrier has to pay for hotel rooms for insureds while their damaged homes are repaired) in the time period shortly after a catastrophe event occurs. Since labor and materials resources are exchanged by people across state lines, we believe the demand surge effect on prices in other states will have an effect in North Carolina.

Q. You noted earlier that you and your team developed the provision in the filing for the net cost of reinsurance. First, what is reinsurance?

A**.** Simply, reinsurance is insurance for insurers. When insurers are aware of scenarios in which the potential losses are greater than the company is willing or able to tolerate, they will frequently purchase reinsurance to mitigate the risk in those situations. For similar reasons, insurers may issue catastrophe bonds to protect themselves in those situations. Essentially the insurers will use a portion of the premium to purchase reinsurance. This is common across the industry.

Q. What is catastrophe reinsurance, who buys it, and why do they buy it?

A. Catastrophe reinsurance is a contract purchased by a primary insurance company and sold by a reinsurer, or a group of reinsurers, to transfer risk from loss due to large catastrophic events. Large catastrophe losses present a very real risk to the long-term viability of Homeowner insurers and their ability to follow through on their promise to policyholders to pay losses when they occur. 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 help cover this risk.

The most common type of contract used for catastrophe risk is called “Portfolio Excess of Loss”, a.k.a. “Portfolio XOL”, or just “XOL”. A single XOL contract has an “attachment” and a “limit”. An XOL covers the amount of portfolio loss caused by a single event in the amount which exceeds the XOL attachment with a maximum equal to the XOL limit. In some instances, there is co-participation, which means that only a percentage of the amount of loss in the XOL layer is covered. Portfolio XOL contracts (a.k.a. “treaties” since there are typically multiple reinsurers involved) cover the first event within a year of coverage. It is standard practice to write into the treaty a provision for the primary carrier to automatically purchase a “reinstatement” if they have a loss which triggers a reinsurance payment. The reinstatement premium allows for the full limit to be reinstated after the first event uses up the limit provided. There are cases where a limit is provided and if an event exhausts that limit, then there is no coverage available for the remainder of the contract period. It is typical of primary carriers to buy multiple treaties that stack on top of each other. In other words, a treaty will have an attachment equal to the attachment plus limit of another treaty. Primary carriers buy reinsurance to ensure the company is financially viable after very large and uncommon to rare events.

The costs associated with this catastrophe reinsurance are costs of doing business in the state. To reflect the portion of those costs that is not already covered in the filing, a provision for the net cost or reinsurance is included in the filing.

Q. What was your role in this filing with respect to net cost of reinsurance?

A. I worked with my colleagues within the Aon Catastrophe Actuarial team to determine a suitable provision for the net cost of reinsurance for the state overall and an allocation of that cost by territory and policy form. The provision used exposure data from all the Homeowner risks in the state so that a cost provision would be appropriate to use in a uniform rate schedule applicable to all insurers in the state.

Q. Please describe how the reinsurance program was designed and priced for purposes of NCRB rate filings? Do you think it is reasonable?

A. Yes, the Aon Catastrophe Actuarial team designed the reinsurance program for this rate filing. I manage this team and I am responsible for its work product. The basis of the reinsurance program structure and pricing is determined by an analysis of reinsurance programs placed by Aon for its reinsurance clients. Three components of the analysis are described here.

Program attachment and total limit describes the total amount of reinsurance coverage. Since companies vary substantially in size, so do their limit purchase and attachment for their bottom layers. To normalize for company size, we looked at the frequency with which a single event would trigger a recovery and the frequency with which a single event would exhaust the limit of the entire program for each company. This was calculated separately for the AIR and the RMS models. We then calculated the median attachment and exhaustion

(exhaustion = bottom layer attachment + total program limit) frequencies by model and by region (Southeast and Nationwide). The frequencies for attachment and exhaustion were averaged across the regions, which resulted in attachment and exhaustion frequency by model. Using portfolio loss distributions by model for the portfolio in the filing, we calculated the dollar amount of attachment and exhaustion (and therefore limit) by model. The attachment of the reinsurance program in the filing is the average of the AIR indicated attachment and RMS indicated attachment. The exhaustion of the reinsurance program in the filing is the average of the AIR indicated exhaustion and the RMS indicated exhaustion.

Reinsurance Market Pricing Model For AIR and RMS, a log-linear regression model was built to calculate fitted reinsurance price based on modeled expected ceded loss. Using these regression models, an indicated price for any layer can be calculated based on each catastrophe model (AIR and RMS). The selected prices by layer used in this rate filing are the averages of the AIR indicated prices and the RMS indicated prices.

Note: Because insight into reinsurance market pricing is an important proprietary asset for Aon, the log-linear models are considered a trade secret and therefore not disclosed in this public filing.

Program Structure. After the market pricing model is determined along with the program's attachment and limit, the program is then broken into layers. We run an optimization analysis to find the five-layer catastrophe program that has the lowest deposit premium. The method is designed to calculate an indicated reinsurance premium that is as low as possible, subject to the market pricing model and program attachment and limit specifications.

The reinsurance structure determined by the method described above is shown in Exhibit RB-13. The pricing with loss analysis is shown in Exhibit RB-14.

Q. Have you seen reinsurance costs going up in recent years?

A. The global reinsurance market has experienced some extraordinary volatilities since 2019. Reinsurance prices have increased significantly in the U.S. for the past three years. This increase was initially driven by Florida in the Southeast region, but the significant increase has now been seen countrywide since 2021.

Q. How was the net cost of reinsurance calculated?

Net cost of reinsurance is Deposit Premium + Expected Reinstatement Premium - Expected Ceded Loss & LAE. The reinsurance program, the loss distribution from the portfolio as determined by event loss tables (ELTs) from cat models, and the LAE assumptions are input into a DFA (Dynamic Financial Analysis) program to calculate the average ceded loss and LAE and average reinstatement premium over a specified number of simulated years. The loss distribution which is produced by the AIR model is already in the form of simulated loss experience for 100,000 years. The DFA program calculates for each year the total reinsurance recoveries and reinstatement premium paid. The program then calculates the average annual ceded loss & LAE and the average reinstatement premium. The loss distribution from RMS models is a list of possible catastrophic events. Instead of providing specific year and amount of loss from each event, each event has a parametric distribution for frequency and severity. The DFA program creates a simulation of 1,000,000 years of loss experience to make a table containing year, event ID, and specific amount of loss. From that point the calculation works the same as for the AIR model.

For the NCRB filing, our analysis shows that the expected reinsurance premium is $1,441,145,541, expected ceded loss & LAE is $281,154,841, and the net cost of reinsurance is $1,159,990,688, as shown on Exhibit RB-17 and the summary on Exhibit RB-14. Allocation by territory is done using the method described above.

Q. How was the reinsurance premium allocated?

A. Reinsurance premium by layer is allocated to a territory based on that territory's share of expected ceded loss and loss adjustment expense (LAE) by layer. Exhibit RB-14 shows the total expected ceded loss and LAE by layer and Exhibit RB-16 shows the proportion of hurricane peril reinsurance premium, ceded average annual loss, and reinsurance margin (a.k.a. "net cost of reinsurance") allocated to each territory segment for each layer. Other perils were used in the calculation, but because they contributed such a small amount of expected ceded loss they were not shown on the exhibits. Exhibit RB-17 shows the dollar amount of reinsurance margin allocated by territory and policy form.

Q. Given your experience in catastrophe reinsurance, do you find this approach to be reasonable?

A. Yes. Aon's approach is based on detailed information on current reinsurance market rates and underlying model output.

Q. Do you know whether the Rate Bureau has used in its 2024 Homeowner filing the Aon net cost of reinsurance results you provided?

A. Yes, I am advised that the Rate Bureau has used in the filing both our statewide net cost of reinsurance results and those results allocated to the territory level.

Q. Are you aware of the following provisions in the North Carolina statutes, in N.C.G.S. 58-36-10(7):

Property insurance rates established under this Article may include a provision to reflect the cost of reinsurance to protect against catastrophic exposure within this State. Amounts to be paid to reinsurers, ceding commissions paid or to be paid to insurers by reinsurers, expected reinsurance recoveries, North Carolina exposure to catastrophic events relative to other states' exposure, and any other *relevant information may be considered when determining the provision to reflect the cost of reinsurance.*

A. Yes, I am. This NC statute provision is consistent with ASOP 53, Estimating Future Costs of Prospective Property/Casualty Risk Transfer and Risk Retention, which "applies to actuaries when performing actuarial services with respect to developing or reviewing future cost estimates (commonly known as actuarial indications) for prospective property/casualty risk transfer and risk retention. For example, this standard applies when actuaries are developing future cost estimates underlying product prices, estimating funding requirements for self-insured programs and captives, and developing reinsurance prices."

Q. Do you have an opinion whether the analysis you and Aon have performed on behalf of the Rate Bureau on the net cost of reinsurance for this filing has taken into consideration the provisions of that statute?

A. Yes. Based on my experience with hurricane models and using modeled hurricane losses along with my experience with catastrophe reinsurance and determining catastrophe reinsurance costs for rate filings, it is my opinion that the net cost of reinsurance analysis for this filing properly considers all of the items set forth by the statute. Further, based on my experience in the actual marketplace, it is my opinion that a reasonable and appropriate provision for the net cost of reinsurance must be incorporated into Homeowner insurance rates in North Carolina for those rates to properly reflect and protect against the catastrophe exposure in this state.

Q. Do you have an opinion regarding the appropriateness of the net cost of reinsurance provision incorporated into this Homeowner filing?

A. Yes. Based on my experience with hurricane models and using modeled hurricane losses, along with my experience with catastrophe reinsurance and determining catastrophe reinsurance costs for rate filings, it is my opinion that the provision for the net cost of reinsurance in the filing, at the statewide and territory levels, is reasonable and appropriate.

Q. Earlier, you stated that you and your team developed the compensation for assessment risk provision in the filing. Why did Aon develop that provision instead of Milliman?

A. Due to new restrictions imposed by one of the catastrophe modeling companies, Milliman was unable to obtain the data they typically used in the compensation for assessment risk analysis. Mr. Anderson has addressed these challenges in his testimony in recent filings. Aon is very familiar with the questions related to compensation for assessment risk, and we routinely perform a very similar analysis for our clients. After consultation with Rate Bureau staff, Milliman, and the Rate Bureau’s Property Rating Subcommittee, we all agreed that Aon would perform the compensation for assessment risk analysis for this rate review and filing.

Q. Can you please describe the issues related to the compensation for assessment risk?

A. Property insurance written in the residual market in North Carolina presents considerable risk for primary insurers that write property insurance. The North Carolina Insurance Underwriting Association (i.e., the Coastal Property Insurance Pool, or “Beach Plan”) and the North Carolina Joint Underwriting Association (i.e., the FAIR Plan) together serve as that residual market. The Beach Plan and FAIR Plan provide property insurance when policyholders are unable to purchase insurance coverage from companies in the voluntary market. In states like North Carolina with significant exposure to catastrophic events and/or where the availability of insurance is limited in the voluntary market, property insurance residual markets may grow to represent a sizable portion of the total insured risk. In North Carolina, the Beach Plan has become the predominant writer of homeowners insurance in the 18 coastal counties.

Similar to insurance companies writing voluntary business, the Beach and FAIR Plans use the premiums collected from policies they issue to fund the losses and expenses attributable to the coverages they insure. When premiums are greater than losses and expenses during a given year, the Beach Plan and the FAIR Plan accumulate surplus. That surplus is available to pay future losses and expenses in the event that they exceed collected premiums plus investment income. However, if the surplus of either the Beach Plan or FAIR Plan is exhausted, the additional costs of that entity are then, by statute, passed on to property insurers in North Carolina in the form of an assessment. The potential overall industry assessment from the Beach Plan for any single year is capped at $1 billion, but the potential assessment from the FAIR Plan is unlimited. If losses in the Beach Plan exceed the retained surplus, the $1 billion industry assessment, and any other resources of the Beach Plan (such as reinsurance), any additional losses are passed through directly to residential property insurance policyholders in North Carolina.

This risk of potential assessment by the Beach Plan and/or FAIR Plan on property insurers in North Carolina requires that those companies be compensated for the additional risk to their capital. To quantify this risk, Aon has applied a procedure previously developed by Milliman and adopted by NCRB to incorporate a provision in property insurance rates (homeowners insurance, dwelling insurance, and mobile home insurance) that compensates insurers for that risk.

Q. Can you please explain the procedure you used to determine the needed compensation for assessment risk?

A. Yes. There are two steps in the methodology to quantify the compensation for assessment risk. The first step is to calculate the magnitude of the exposure itself, and the second step is to determine the fair compensation to be paid to insurers for being required to bear that risk.

To quantify the magnitude of the exposure, it is necessary to estimate the expected value of the assessments on insurers arising from catastrophic losses incurred by the Beach Plan and/or FAIR Plan. Because an assessment on insurers results only after either the Beach Plan or FAIR Plan has exhausted other resources available to pay losses, we needed to determine the likelihood of that occurring as well as the amount by which the losses exceed those other resources.

Aon quantified the risk of assessment by the Beach Plan and FAIR Plan using a methodology similar to that developed by Milliman and presented in previous filings. First, Aon collected the Beach Plan's and FAIR Plan's exposures at the county level from the Beach Plan's and FAIR Plan's websites for the 2023-2024 storm season. Then we reviewed the Beach Plan's and FAIR Plan's reinsurance programs in place for the 2023-2024 storm season, along with assumptions of the Beach Plan's and FAIR Plan's accumulated surplus available for the season. The accumulated surplus and available reinsurance are the "other resources" that are available to pay for hurricane losses during the 2023-2024 storm season. Aon then ran the AIR and RMS hurricane models on the Beach Plan's and FAIR Plan's exposures for the 2023-2024 storm season, calibrated modeled event losses based on the published PML information available on the Beach Plan's and FAIR Plan's websites, and evaluated the impact of reinsurance on each modeled event. Aon utilized its in-house dynamic simulation model ReMetrica to calculate the Beach Plan and FAIR Plan deficits after applying their reinsurance and surplus. For each adjusted modeled loss, ReMetrica determined the amount of loss that would be covered by reinsurance and the remaining losses that would be funded either from the Beach Plan's or FAIR Plan's accumulated surplus, through assessments on property insurers in the state, or ultimately through assessments on North Carolina property insurance policyholders. We subtracted the accumulated surplus of the Beach Plan and FAIR Plan from the losses remaining after reinsurance, limited the assessable losses due to the Beach Plan exposures to $1 billion, and calculated the average assessment on property insurers across all events simulated by the models. This average assessment on property insurers is equal to the expected value of the losses that would be funded through assessments on North Carolina property insurers.

As I mentioned earlier, this calculation produces a measure of the magnitude of the assessment exposure. That is, it represents the risk to insurers' capital that is associated with the exposure to Beach Plan or FAIR Plan assessments. The next step is to use the method previously developed by Milliman to measure the fair compensation to insurers for bearing this risk.

Q. Can you please explain how you measured the compensation needed for bearing this risk?

A. Yes. To measure the fair compensation for bearing this risk of assessment, we relied on publicly available data that quantifies the market price of catastrophe risk, taken from recently-issued insurance linked securities. Insurance linked securities (ILS) are securities such as catastrophe bonds which have conditional payoffs that are very similar to reinsurance. Investors purchase these securities at significant yield premiums compared to risk-free bonds because the investors are exposed to loss of principal and interest if certain "insured events" occur.

Q. What kind of ILS data are available and how is this information used to determine the compensation for assessment risk?

A. We relied on insurance linked security yield information to price the compensation for assessment risk. Lane Financial, LLC is a firm that has specialized in the analysis of insurance linked securities. In the past, Lane published a table of data each year that summarized a variety of information that can be used to evaluate the fair compensation for bearing catastrophe risk. For each ILS in the table, Lane published the following data: the yield on the security; the excess return over the risk-free rate; the probability that the security will suffer a loss; and the expected value of loss anticipated on the security. These data elements provide the foundation for the analysis of the proper compensation for bearing the risk of Beach Plan or FAIR Plan assessments. However, Lane has not published the insurance linked securities table since March 2022.

Aon also collects and aggregates insurance linked securities information similar to the information published by Lane. For each insurance linked security in Aon's table, the following data are available: the peril and region the insurance linked security covers; the yield on the security; the excess return over the risk-free rate; the probability that the security will be attaching; and the expected value of loss anticipated on the security. For the 2023 CAR study, the 2013 – 2021 information utilized was from Lane Financial and the 2022 data utilized was from Aon.

There are a number of defined terms that are useful in describing the mechanics of the compensation for assessment risk analysis.

- The "*yield spread*" is the difference between the yield on a particular ILS and the risk-free rate. If a $100 million bond is issued with a yield spread of 10%, this implies that the insurer issuing the bond would pay $10 million in interest in excess of the interest at the risk-free rate to encourage investors to purchase such a security.
- Continuing with the example of the $100 million bond above, now assume that the distribution of hurricane losses is such that, based on the probability and amount of potential hurricane losses, an investor would anticipate having

an average loss of $2 million per year. This amount is identified as the "expected loss."

- Since the investor in this example receives compensation of $10 million in excess of the risk-free rate for bearing the risk of loss, the "expected profit" to the investor is $8 million (i.e., $10 million in interest in excess of the interest at the risk-free rate minus $2 million of expected losses).
- Finally, the "profit multiple" is the ratio of expected profit to expected loss. In the above example, the profit multiple would be $8 million of expected profit divided by $2 million of expected loss, or a profit multiple of 4.0.

The profit multiples derived from insurance linked securities provide an estimate of the compensation that investors require to bear catastrophe risk. This information tells us what investment returns are required by capital providers to take on the risk of loss from a catastrophic event. One particularly important feature of this metric is that it is a measure of compensation per dollar of expected loss. As a result, because the first step of our analysis determines the expected value of losses that would be funded through assessments, the profit multiple can be applied to those expected values to develop an estimate of the fair compensation for bearing such risk. This is the measure of risk we relied upon in evaluating the fair compensation for property insurers whose capital is exposed to Beach Plan and/or FAIR Plan assessments.

Q. Generally speaking, which insurance linked securities have larger risk premiums and higher profit multiples?

A. For exposures such as catastrophic events, securities that have a lower probability of incurring a loss have greater volatility and, as a result, have larger risk premiums. Securities with larger risk premiums have a larger ratio of expected profit to expected loss and, as such, have higher profit multiples.

Q. Have you developed any exhibits that summarize the calculations used to develop the fair compensation to insurers for bearing the risk of Beach Plan and/or FAIR Plan assessments?

A. Yes. Exhibit RB-18 contains ten pages of information required to develop the fair compensation for bearing Beach Plan and FAIR Plan assessment risk.

- Page 1 of Exhibit RB-18 shows the curve fit to the ILS profit multiples based on all catastrophe-related securities issued in the last ten years. As I explained earlier, nine years of ILS data came from Lane and one year of ILS data came from Aon. This exhibit also includes the equation of the fitted curve, which can be used to determine the profit multiple for any layer to which insurer capital is exposed.
- Page 2 of Exhibit RB-18 shows a summary of the Beach Plan’s reinsurance program, and Page 6 shows a similar summary of the FAIR Plan’s reinsurance program, both for 2023-2024 season. These

summaries include the various layers of reinsurance purchased and the coverage levels within those layers.

- Pages 3 and 7 display the profit multiples calculated for each layer of the Beach Plan's and FAIR Plan's loss distributions, based on the equation shown on Page 1. In order to determine the fair compensation to voluntary insurers for bearing the risk of assessments, we need to determine which layers contain losses that will be funded by assessments, as well as the corresponding expected losses within those layers. The profit multiples can then be applied to the expected losses to determine the appropriate compensation per dollar of expected loss in each layer.
- Pages 4 and 8 illustrate how potential losses for the Beach Plan Residential Account and FAIR Plan are funded. (The Beach Plan determines losses and assesses voluntary insurers separately for each account, while the FAIR Plan has only one account.) Because of the $1 billion annual cap on Beach Plan assessments, any amounts needed to pay claims in excess of the assessable amounts are to be collected through surcharges on property insurance policyholders statewide. For each event simulated by the hurricane models, losses are separated by account (Beach Plan Residential, Beach Plan Commercial, FAIR Plan Residential, and FAIR Plan Commercial). The losses for each account are then divided into layers based on the source of funding for those losses – Beach Plan or FAIR Plan surplus, assessments on voluntary insurers, private reinsurance, and ultimately any additional amounts in the

Beach Plan to be covered by policyholder surcharges. Finally, the losses associated with each event are accumulated in each of the loss layers to determine expected values.

- Pages 4 and 8 illustrate the funding of potential losses within each layer. Since the purpose of this analysis is to determine the fair compensation for the risk of assessments on private insurers, the analysis must take into account the probability of losses occurring within each layer and the expected value of the losses that will be borne by private insurers. Pages 5 and 9 of Exhibit RB-18 provide that analysis. Those pages show the expected value of the losses that would be covered by the Beach Plan Residential and FAIR Plan accounts, and the average annual amount of those losses that would be assessed to private insurers. Pages 5 and 9 also display the average profit multiples associated with each layer of the loss distribution, and the product of the indicated profit multiples times the expected losses within each layer. The sum of those values is the indicated compensation for assessment risk for each account.
- The final step in the calculation is to determine the appropriate provision to be included in the homeowner insurance rates to compensate insurers for the risk of Beach Plan and/or FAIR Plan assessments. This provision is expressed as a percent of premium and is developed on Page 10 of Exhibit RB-18. Since assessments for Beach Plan and/or FAIR Plan losses are applied to all property insurance lines in the state, the table on Exhibit RB-18, Page 10 shows the development of a provision that will

produce an amount of revenue equal to the total required compensation of $130.62 million when incorporated into the rates for homeowners, dwelling and mobile home insurance in North Carolina. As shown on this exhibit, that provision is 2.8% of total property insurance premium in the state.

Q. Did you make any adjustments to the 2.8% compensation for assessment risk provision for North Carolina property insurance?

A. Yes. Based on discussions during the rate review process, the Rate Bureau was made aware that some reinsurance contracts provide coverage for residual market assessments, including the potential non-recoupable assessments from the Beach Plan and FAIR Plan. As a result, it is possible that the reinsurance contracts purchased by North Carolina property insurance companies may include some coverage for assessments such that the exposure to Beach Plan and/or FAIR Plan assessments is no longer fully retained by the primary carrier. Given this information and the information that not all companies buy reinsurance that includes coverage for residual market assessments, the Rate Bureau made the assumption that 50% of the North Carolina property insurance companies' exposure to assessments from the Beach Plan and/or FAIR Plan is retained by the companies.

As a result, we multiplied this expected 50% market share by the 2.8% full compensation for assessment risk provision to determine an overall compensation for assessment risk provision of 1.4%.

Q. In your opinion, is it appropriate to include a 1.4% provision for the compensation for assessment risk in homeowner insurance rates in North Carolina?

A. Yes. Insurance companies writing homeowner policies in North Carolina are exposed to the risk of Beach Plan and FAIR Plan assessments as a result of writing voluntary market property insurance in the state. Those insurance companies are entitled to receive fair compensation for bearing that risk, and it is appropriate to include that compensation in the homeowner rates. The compensation for assessment risk methodology we used here relies on a widely accepted measure of compensation to determine a provision that will fairly compensate insurers for bearing this additional risk to their capital. Moreover, the North Carolina statutes provide that prospective exposure to non-recoupable assessments shall be considered as an appropriate factor in the making of rates by the Rate Bureau.

Q. Are you aware of North Carolina Senate Bill 452's provision that increased the Beach Plan's coverage limits?

A. Yes, SB 452 was enacted into law as Session Law 2023-133 in October 2023. SB 452 increased the Beach Plan's coverage limits from $750,000 to $1 million on habitational property. SB 452 also increased the Beach Plan's coverage limits from $3 million to $4 million on commercial property, and from $6 million to $10 million on structures with multiple firewall divisions.

Q. Do you have an opinion on how SB 452's new coverage limits on Beach Plan policies would impact the NCRB Homeowner filing's hurricane, net cost of reinsurance, and compensation for assessment risks provisions?

A. The new coverage limits on Beach Plan policies could potentially increase the exposure in the Beach Plan and increase the compensation for assessment risk provision. This stems from two potential exposure changes: 1) more policies will be eligible for coverage in the Beach Plan, and these policies may move from the voluntary market to the Beach Plan; and 2) some Beach Plan existing policies that were capped at the previous limits are now eligible for a higher coverage limit. The magnitude of the increases of the NCRB Homeowner filing's hurricane provision and net cost of reinsurance provision depend on how policies shift from the voluntary markets to the Beach Plan and the number of limit policies in the Beach Plan.

Q. Do you have an opinion on whether or not NCRB should make any adjustments to this filing to account for the passage of SB 452?

A. It is unclear how many policies in the Beach Plan will be subject to the new limits, and it is likewise unclear whether and how many additional policies would be written by the Beach Plan due to SB 452. It is also unclear how the Beach Plan's PML and reinsurance program will be impacted by SB 452. Therefore, the impact of SB 452 is not quantifiable at this time. Currently, I don't recommend any adjustments to account for SB 452 in this 2024 NCRB Homeowner filing.

Q. Does that conclude your testimony?

A. Yes.

Minchong Mao, FCAS, CCRMP, MAAA, Actuary

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Summary

- Over twenty years of experience with insurance, reinsurance, catastrophe risk management , actuarial pricing and management at State Farm Insurance Companies and Aon plc
- Commission Member, actuary representing the property insurance industry on the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM) 2015-2018
- Strong leadership, work ethic, communication and teamwork skills
- Deep knowledge and experience in Insurance operations, including Actuary, Underwriting, and Claims.
- Extensive experience and understanding with catastrophe models, underlying science and methodologies

Experience

Senior Managing Director, Actuary
Aon Reinsurance Solutions
April 2021– Present

Managing Director, Actuary
Aon Reinsurance Solutions
September 2018– April 2021

Major Responsibilities include:

- Manage the catastrophe actuarial and predictive analytics group within Aon Reinsurance Solutions which focuses on supporting Aon clients' ratemaking and underwriting needs.
- Implement and sign off Aon's ASOP 38 compliance framework.
- Provide rate filing support for Aon's clients through regulatory challenges.
- Serve on Impact Forecasting leadership steering committee to oversee Impact Forecasting's product strategies and priorities.
- Serve as Aon Impact Forecasting's signatory actuary during Florida Commission on Hurricane Loss Projection Methodology submissions.
- Manage Homeowner Return on Equity (ROE) Outlook study. Aon's Homeowners ROE Outlook calculates risk-adjusted returns for the US homeowners industry, provides the insurance industry with market reality diagnostics and profitability insights.
- Manage Residual Market Industry study. This product provides a holistic view of the residual market's impact on the property insurance industry and the individual company's risk profile.
- Serve as Aon's key corporate contact for China business development and expansion.

Catastrophe Modeling Manager, Actuary
State Farm Insurance Companies
Feb. 2005– Sept. 2018
Major Responsibilities included:

- Manage State Farm's catastrophe modeling unit. State Farm's catastrophe modeling practice grew into the industry's leading practice with high quality and productivity under my leadership.
- Manage vendor relationships with AIR, EQECAT, ARA, and RMS. Negotiate contract terms and conditions, engage vendors' support through regulatory challenges.
- Provide Actuarial opinions on State Farm's use of catastrophe models. Oversee the due diligence and model validation work to ensure catastrophe modeling practices at State Farm meet the Actuarial Standards and comply with laws and regulatory requirements.
- Serve as a resource to the Corporate Law department for litigation and legislative issues.
- Provide various catastrophe risk measures and analytics (PML, TVaR, Standard Deviations, etc.) for State Farm Fire and Affiliates for exposure management and reinsurance purposes.
- Provide catastrophe information to rating agencies such as AM Best, S&P and Moody's.
- Develop and deploy hazard analysis tools across the Enterprise for exposure underwriting and management.
- Utilize catastrophe data in Dynamic Financial Analysis projects to analyze capital adequacy and capital allocation; develop simulation tools to incorporate catastrophe risk into Enterprise Risk Management.
- Provide exposure information, technical support, risk analysis and documentation reviews for all State Farm's issuances of catastrophe bonds.
- Lead State Farm's compliance work to meet Office of the Superintendent of Financial Institutions (OSFI) B-9 - Earthquake Sound Practice requirements.
- Monitor modeling regulations in several jurisdictions (FL, LA, SC, HI, MD, etc.). Work with State Farm counsel to provide revisions to bills related to coastal issues and catastrophe risk management during legislative sessions.
- Represent the Actuarial department on State Farm Enterprise Catastrophe Response Team. Provide real time analysis for actual catastrophe events to assist Catastrophe Claims' resources deployment, Catastrophe Reserving and communicate with Senior Management about the potential impact.
- Serve as a homeowner pricing manager for Mississippi for two years, with major responsibilities including:
    - Manage the development and implementation of rates and rules for several personal lines which satisfy the financial objectives of the enterprise.
    - Coordinate the analyses of actuarial ratemaking process
    - Review rate proposals.
    - Serve as a key Actuarial resource for Market Areas and regulators.

Actuarial/Statistics/Modeling Analyst
Jan 2001– Feb. 2005

- Conducted homeowner rate revisions for Maine, Kansas, and Mississippi.
- Developed and maintained State Farm's rate revision tool for property lines.

Other Professional Activities

- 2015 – 2018, Commission Member, Industry Actuary, Florida Commission on

Hurricane Loss Projection Methodology (FCHLPM). I was appointed by Florida CFO Jeff Atwater to this position in Jan. 2015.

- 2010 – 2013, advisory group member to the Insurance Bureau of Canada (IBC) and Office of the Superintendent of Financial Institutions (OSFI) to provide expert opinions on a study for insurance and economic impact of major earthquakes in Canada.
- 2011- 2013, advisory group member for the Insurance Bureau of Canada (IBC) and Office of the Superintendent of Financial Institutions (OSFI) to revise OSFI Guideline B-9 (Earthquake Exposure Management Sound Practice Guideline for insurance companies).
- 2012-2016, organized nine State Farm senior executives delegation (including State Farm's CEO, COO, CFO, CMO, General Counsel, CTO, CSO) visits to China. Established relationship and set up meetings with Chinese regulators and senior executives of top Chinese insurance companies. Participated in discussions, served as advisor and interpreter for State Farm delegations.
- 2012-2018, visiting instructor for Illinois State University Math Department Actuarial Science program. Present catastrophe modeling and regularity topics to actuarial graduate students.
- 2014- 2018, board member of the International Society of Catastrophe Managers (ISCM). Promote education and career development for Catastrophe Modeling professionals.
- 2016- Present, co-chair of a taskforce to create a credential and certificate program for catastrophe risk management professionals on behalf of Institute of Casualty Actuarial Society (iCAS) and International Society of Catastrophe Managers (ISCM).
- 2016- 2023, Member of Property /Casualty Extreme Events Committee, American Academy of Actuaries. This committee identifies issues relevant to the treatment of extreme catastrophe risks including sizing, insurability, pricing, funding, reserving, capital management, and loss mitigation. The committee also monitors federal and state catastrophe legislation and interacts with NAIC on these issues.
- 2016 – 2018, member of planning committee for the Reinsurance Association of America's annual catastrophe modeling conference.
- 2016 – Present, member of CAS Climate Change Committee. This committee recommends, supports and performs research on climate change and assesses the potential risk management implications for the insurance industry.
- 2023, I was invited to participate in the Insurance, Climate and AI forum at the Kennedy School of Government, Harvard University. The forum was initiated by President Obama's advisor on Science and Technology, Dr. Daniel Schrag. I provided key insights from insurance perspectives during the forum.

Designations

- Fellow of Casualty Actuarial Society (FCAS, 2007)
- Certified Catastrophe Risk Management Professional (CCRMP, 2019)
- Associate of Society of Actuaries (ASA, 2010) Currently, I am not an active member at SOA.
- Member of American Academy of Actuaries (MAAA,2005)
- Microsoft Certified Solution Developer (MCSD)
- Microsoft Certified Professional (MCP)

Education

- Master's degree in Computer Science, University of Missouri-Columbia, 2000
- Master's degree in Chemistry, Eastern Illinois University, 1997

- Bachelor's degree in Chemical Engineering, Beijing University of Chemical Technology, 1993

Award

- Special Achievement awards for excellent performance and exceptional business achievements, Property and Casualty Actuarial Department, State Farm Insurance in 2002, 2009, 2011, 2012, 2014, 2015, and 2016.
- Casualty Actuarial Society (CAS) Above and Beyond Achievement Award in 2019 to recognize my leadership role to establish Certified Catastrophe Risk Management Professional (CCRMP) designation for CAS Institute. The "Above & Beyond Achievement Award" is made annually, to one or more members of the CAS, who have made extraordinary contributions to the society.

Publications

- As a member of the American Academy of Actuaries Flood Working Group, I am one of the authors for the Monograph on Issues Surrounding National Flood Insurance Program - The National Flood Insurance Program: Challenges and Solutions. *American Academy of Actuaries*, April, 2017
- Akram Hazeen, Yan Zhang, **Minchong Mao**, Kraig A. Wheeler,a and Mark E. McGuire, 6-[(4-Hy-droxy-phen-yl)diazenyl]-1,10-phenanthrolin-1-ium chloride monohydrate, *US National Library of Medicine, National Institutes of Health (NIH)*, Dec. 1, 2011.
- As a member of the American Academy of Actuaries Flood Working Group, I am one of the authors of the following Monographs:

The National Flood Insurance Program: Challenges and Solutions (2017) American Academy of Actuaries, April, 2017

Uses of Catastrophe Model Output (2018). American Academy of Actuaries, July, 2018

Wildfire: An Issue Paper - Lessons Learned from the 2017–2018 California Events (2019), American Academy of Actuaries, June, 2019

Reference

- Available upon request.

North Carolina Rate Bureau
Gross Modeled Hurricane Expected Losses including Cat LAE

Territory	Owners	Tenants	Condo Unit Owners	Sum of Gross AAL Include LAE
110	52,225,221	37,819	47,735	52,310,775
120	57,714,025	116,583	452,828	58,283,436
130	11,623,886	31,153	27,156	11,682,195
140	135,835,758	916,281	792,290	137,544,329
150	24,231,723	132,229	35,638	24,399,590
160	21,695,534	223,470	112,802	22,031,806
170	690,742	4,719	-	695,461
180	15,734,708	204,594	21,727	15,961,029
190	4,952,953	36,624	414	4,989,991
200	2,689,451	12,199	27	2,701,677
210	4,339,728	46,096	1,447	4,387,271
220	12,431,562	114,576	18,470	12,564,608
230	3,901,566	29,216	1,191	3,931,973
240	13,350,695	89,748	6,100	13,446,543
250	5,770,329	39,468	1,394	5,811,191
260	2,463,909	15,032	122	2,479,063
270	42,632,090	548,648	133,118	43,313,856
280	5,600,127	60,063	24,761	5,684,951
290	5,329,535	31,947	12,757	5,374,239
300	1,338,497	6,286	234	1,345,017
310	15,823,094	179,075	51,369	16,053,538
320	8,358,898	61,049	10,907	8,430,854
330	289,951	1,339	135	291,425
340	23,861,186	273,400	165,509	24,300,095
350	4,272,103	29,678	7,145	4,308,926
360	5,608,219	40,400	19,645	5,668,264
370	248,198	606	2,558	251,362
380	699,139	2,822	1,531	703,492
390	737,044	2,670	1,536	741,250
Grand Total	**484,449,871**	**3,287,790**	**1,950,546**	**489,688,207**

Modeled hurricane expected losses for North Carolina Rate Bureau, net of limits and deductibles. Results include demand surge and exclude storm surge. Losses represent 50/50 blend of AIRv9 100k Standard event set and RMSv21Historical event set. Results also include provisions for LAE.

EXHIBIT RB-10

ACTUARIAL STANDARDS BOARD

Actuarial Standard of Practice No. 38

Revised Edition

Catastrophe Modeling (for All Practice Areas)

Developed by the Catastrophe Modeling Task Force of the General Committee of the Actuarial Standards Board

Adopted by the Actuarial Standards Board July 2021

Doc. No. 201

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APPENDIXES

July 2021

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Catastrophe Modeling (for All Practice Areas)

FROM: Actuarial Standards Board (ASB)

SUBJ: Actuarial Standard of Practice (ASOP) No. 38

This document contains the revision of ASOP No. 38, *Catastrophe Modeling (for All Practice Areas)*.

History of the Standard

The ASB first began work on a standard for modeling in the late 1990s. Motivated primarily to address the role catastrophe modeling of earthquakes and hurricanes played in casualty ratemaking, this work was focused on the use of specialized models where the actuary would have to rely on a model that was developed by professionals other than actuaries. As a result of this work, the ASB approved ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise*, in June 2000 with the scope of the standard limited to the Property/Casualty area of practice. At the time, this was the only ASOP that specifically addresses modeling.

Over the ensuing years, the number and importance of modeling applications in actuarial science has increased, with the results of actuarial models often entering financial statements directly. Recognizing this trend, the ASB asked the Life Committee in 2010 to begin work on an ASOP focused on modeling. The Life Committee formed a task force to address this issue and, in February 2012, a discussion draft titled *Modeling in Life Insurance and Annuities* was released. Nineteen comment letters were received.

Based upon this feedback and numerous other discussions on the topic of modeling, in December 2012 the ASB created two multidisciplinary task forces under the direction of the General Committee: i) a general Modeling Task Force, charged with developing an ASOP to address modeling applications in all practice areas, and ii) a Task Force to consider expanding ASOP No. 38 to all practice areas while focusing exclusively on using catastrophe models.

An exposure draft titled *Modeling* was released in June 2013 with a scope that provides guidance to actuaries when selecting, designing, building, modifying, developing, or using models when performing actuarial services. ASOP No. 56, *Modeling*, was adopted by the ASB in December 2019. Changes have been made to this exposure draft of ASOP No. 38 to be consistent with ASOP No. 56 and other recent ASOPs.

The exposure draft of this revision of ASOP No. 38 was the work of the Catastrophe Modeling Task Force, whose membership has experience in life insurance, health insurance, property/casualty insurance, and enterprise risk management.

At the direction of the ASB, this standard was developed to apply to all practice areas and all forms of catastrophe models, including natural catastrophes such as hurricanes, earthquakes, and severe convective storms, and other catastrophes such as terrorist acts and pandemics.

Exposure Draft

The exposure draft was approved in September 2020 with a comment deadline of January 15, 2021. Four comment letters were received and considered in making changes that were reflected in the final ASOP.

Notable Changes from the Exposure Draft

Notable changes made to the exposure draft are summarized below. Additional changes were made to improve readability, clarity, or consistency.

1. Section 1.2, Scope, was revised to provide additional guidance to actuaries whose actuarial services involve reviewing or evaluating models.

2. In section 2, Definitions, the definition of "catastrophe model" was expanded to include a definition of model.

3. Section 3.2, Appropriate Reliance on Experts (now titled Catastrophe Models Developed by Experts), was revised to adopt language from ASOP No. 56, section 3.5(b).

4. An existing ASOP No. 38 example regarding validation to evaluate results derived from other models was reinserted into section 3.5.

5. A disclosure requirement for the extent of reliance on experts was added to section 4.1(b) and (c).

Notable Changes from the Existing ASOP

A cumulative summary of the notable changes from the existing ASOP are summarized below. Notable changes do not include additional changes made to improve readability, clarity, or consistency.

1. The ASOP was revised to apply to catastrophe models only and to all practice areas.

2. The scope was expanded to include the activities "selecting, reviewing, and evaluating" models in addition to the existing activity of "using" a model when performing actuarial services.

3. The scope was expanded to clarify that if the actuary determines that the guidance in the ASOP conflicts with the guidance in ASOP No. 56, the guidance of this ASOP will govern.

4. A new section specifically addressing reliance on data or other information supplied by others (section 3.8) was added.

5. The guidance on documentation (section 3.9) was updated and expanded to be consistent with current ASOPs.

The ASB thanks everyone who took the time to contribute comments and suggestions on the exposure draft.

The ASB would like to posthumously thank Martin M. Simons for his contribution to the ASOP No. 38 task force.

The ASB voted in July 2021 to adopt this standard.

The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

ACTUARIAL STANDARD OF PRACTICE NO. 38

CATASTROPHE MODELING
(FOR ALL PRACTICE AREAS)

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to selecting, using, reviewing, or evaluating **catastrophe models**.

1.2 Scope—This ASOP applies to actuaries in any practice area when performing actuarial services with respect to selecting, using, reviewing, or evaluating **catastrophe models** to assess risk, including but not limited to **models** of hurricanes, earthquakes, severe convective storms, terrorist acts, and pandemics. This standard applies to the selection, use, review, or evaluation of **catastrophe models**, whether or not they are proprietary in nature.

If the actuary's actuarial services involve reviewing or evaluating **catastrophe models**, the reviewing or evaluating actuary should apply the guidance in this standard to the extent practicable within the scope of the actuary's assignment.

In addition to this standard, the actuary should follow the guidance in ASOP No. 56, *Modeling*, when selecting, using, reviewing, or evaluating **catastrophe models**. If the actuary determines that the guidance in this ASOP conflicts with the guidance in ASOP No. 56, the guidance of this ASOP will govern.

This standard does not apply to **models** of operational risks. This standard also does not apply to **models** of economic risks that deal with instances of extreme events such as hyper-inflation or a stock market collapse.

This standard also does not apply when the actuary is only designing, developing, or modifying a **catastrophe model** (or a portion of a **catastrophe model**).

If the actuary departs from the guidance set forth in this ASOP in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason, the actuary should refer to section 4. If a conflict exists between this standard and applicable law, the actuary should comply with applicable law.

1.3 Cross References—When this ASOP refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this ASOP to the extent it is applicable and appropriate.

1.4 Effective Date—This standard is effective for work performed on or after December 1, 2021.

Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice and appear in bold throughout the ASOP.

2.1 Assumption—A type of explicit **input** to a **catastrophe model** that is derived from **data**, represents possibilities based on professional judgment, or may be prescribed by law or others. When derived from **data**, an **assumption** may be statistical, financial, economic, mathematical, or scientific in nature, and may be described as a **parameter**.

2.2 Catastrophe Model—A **model** of low-frequency events with high-severity or widespread potential effects. **Catastrophe models** may be used to explain a system, to study effects of different components, or to derive estimates.

2.3 Data—Facts or information that are either direct **input** to a **catastrophe model** or inform the selection of **input. Data** may be collected from sources such as records, experience, experiments, surveys, observations, benefit plan or policy provisions, or **output** from other **models**.

2.4 Expert—One who is qualified by knowledge, skill, experience, training, or education to render an opinion concerning the matter at hand.

2.5 Input—**Data** or **assumptions** used in a **catastrophe model** to produce **output**.

2.6 Intended Purpose—The goal or question, whether generalized or specific, addressed by the **catastrophe model** within the context of the assignment.

2.7 Model—A simplified representation of relationships among real world variables, entities, or events using statistical, financial, economic, mathematical, non-quantitative, or scientific concepts and equations. A **model** consists of three components: an information **input** component, which delivers **data** and **assumptions** to the **model**; a processing component, which transforms **input** into **output**; and a results component, which translates the **output** into useful business information.

2.8 Output—The results of the **catastrophe model** including, but not limited to, point estimates, likely or possible ranges, and **data** or **assumptions** (as **input** for other **models**), behavioral expectations, or qualitative criteria on which decisions could be based.

2.9 Parameter—A type of statistical, financial, economic, mathematical, or scientific value that is used as **input** to **catastrophe models**. Examples of **parameters** include expected values in probability distributions and coefficients of formula variables.

Section 3. Analysis of Issues and Recommended Practices

3.1 Introduction—In performing actuarial services, the actuary may find it appropriate to select, use, review, or evaluate **catastrophe models**. When selecting, using, reviewing or evaluating a **catastrophe model**, the actuary should do the following:

a. determine the appropriate level of reliance on **experts**;

b. have a basic understanding of the **catastrophe model**;

c. evaluate whether the **catastrophe model** is appropriate for the **intended purpose**;

d. determine that appropriate validation of the **catastrophe model** and **output** has occurred; and

e. determine the appropriate use of the **catastrophe model** and **output**.

The actuary's level of effort in understanding and evaluating a **catastrophe model** should be consistent with the **intended purpose** and the **catastrophe model output's** materiality to the results of the actuarial analysis.

3.2 Catastrophe Models Developed by Experts—When selecting, using, reviewing, or evaluating a **catastrophe model** developed by **experts**, the actuary should take into account the following:

a. whether the individual or individuals who developed the **catastrophe model** are **experts** in the applicable field;

b. the extent to which the **catastrophe model** has been reviewed or validated by **experts** in the applicable field, including known differences of opinion among

experts concerning aspects of the **catastrophe model** that could be material to the actuary's use of the **catastrophe model**; and

c. whether there are industry or regulatory standards that apply to the **catastrophe model** or to the testing or validation of the **catastrophe model**, and whether the **catastrophe model** has been certified as having met such standards.

The actuary may rely on **experts** in the applicable field in the evaluation of items in section 3.2(a)-(c) and should disclose the extent of such reliance.

3.3 Understanding of the Catastrophe Model—The actuary should be familiar with the basic components of the **catastrophe model** and understand both the user **input** and the **catastrophe model output**, as discussed below.

3.3.1 Catastrophe Model Components—The actuary should be familiar with the basic components of the **catastrophe model** and have an understanding of how such components interrelate within the **catastrophe model**. In addition, the actuary should identify which fields of expertise were used in developing or updating the **catastrophe model** and should make a reasonable effort to determine if the **catastrophe model** is based on generally accepted practices within the applicable fields of expertise. The actuary should also be familiar with how the **catastrophe model** was tested or validated and the level of independent **expert** review and testing.

3.3.2 User Input—The actuary should take reasonable steps to confirm that the precision and accuracy of the user **input** are consistent with the **intended purpose** and should refer, as applicable, to ASOP No. 23, *Data Quality*, when selecting, using, or evaluating **data** used in the **catastrophe model**. Certain user **input** may be required to produce **catastrophe model output** for the specific application. User **input** can include **assumptions** or **data**. If the **catastrophe model** requires user **input**, the actuary should evaluate the reasonableness of the user **input** and should have an understanding of the relationship between the user **input** and **catastrophe model output**.

3.3.3 Catastrophe Model Output—The actuary should determine that the **catastrophe model output** is consistent with the **intended purpose**.

3.4 Appropriateness of the Catastrophe Model for the Intended Purpose—The actuary should evaluate whether the **catastrophe model** is appropriate for the **intended purpose** and take into account the following:

3.4.1. Applicability of Historical Data—To the extent historical **data** are used in the development of the **catastrophe model** or the establishment of **catastrophe model parameters**, the actuary should take into account the adequacy of the historical **data** in representing the range of reasonably expected outcomes consistent with current knowledge about the phenomena being analyzed.

3.4.2. Developments in Relevant Fields—The actuary should make a reasonable effort to be aware of significant developments in relevant fields of expertise that are likely to materially affect the **catastrophe model**.

3.5 Output Validation— The actuary should validate that the **output** reasonably represents that which is being modeled. Depending on the **intended purpose**, **output** validation may include the following:

a. comparing **output** to those of an alternative **model(s)**, where appropriate;

b. comparing the **output** produced by the **catastrophe model** with historical observations, if applicable;

c. comparing the consistency and reasonableness of relationships within the **output**; and

d. evaluating the reasonableness of changes in the **output** due to variations in the user **input**.

3.6 Appropriate Use of the Catastrophe Model and Output—The actuary should evaluate the reasonableness of the **catastrophe model output**, considering the **input** and the **intended purpose**. The actuary should take into account the limitations of the **catastrophe model** and use professional judgment to determine whether it is appropriate to use the **catastrophe model output**. The actuary should also use professional judgment to determine whether any adjustments to the **catastrophe model output** are needed to meet the **intended purpose**. The actuary should disclose any such adjustments in accordance with section 4.1.

3.7 Reliance on Another Actuary—The actuary may rely on another actuary who has selected, used, reviewed, or evaluated the **catastrophe model**. However, the relying actuary should be reasonably satisfied that the other actuary is qualified to select, use, review, or evaluate the **catastrophe model** in accordance with applicable ASOPs, and the **catastrophe model** is appropriate for the **intended purpose**. The actuary should disclose the extent of any such reliance.

3.8 Reliance on Data or Other Information Supplied by Others—When relying on **data** or other information supplied by others, the actuary should refer to ASOP No. 23 and ASOP No. 41, *Actuarial Communications*, for guidance.

3.9 Documentation—The actuary should consider preparing and retaining documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. If preparing documentation, the actuary should prepare such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work and should document the steps taken to comply with this standard in light of proprietary aspects of the **catastrophe model**, if any. The degree of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

Section 4. Communications and Disclosures

4.1 Required Disclosures in an Actuarial Report—When issuing an actuarial report to which this standard applies, the actuary should refer to ASOP Nos. 23, 41, and 56. In addition, the actuary should disclose the following in such actuarial reports, as appropriate:

a. the **catastrophe model** used and the **intended purpose**;

b. the methodology used to validate the **catastrophe model** developed by **experts** (see section 3.2);

c. the extent of reliance on **experts** (see section 3.2);

d. a description of the user **input** that was incorporated into the **catastrophe model** (see section 3.3.2);

e. a description of adjustments made to the **catastrophe model output** (see section 3.6); and

f. the extent of any reliance placed upon the work of another actuary (see section 3.7).

4.2 Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in accordance with ASOP No. 41 in an actuarial report for the following circumstances:

a. if any material **assumption** or method was prescribed by applicable law;

b. if the actuary states reliance on other sources and thereby disclaims responsibility for any material **assumption** or method selected by a party other than the actuary; and

c. if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this ASOP.

4.3 Confidential Information—Nothing in this ASOP is intended to require the actuary to disclose confidential information.

Appendix 8

Background and Current Practices

Note: This appendix is provided for informational purposes and is not part of the standard of practice.

Background

Hurricane Andrew in 1992 and the Northridge Earthquake in 1994 led actuaries involved in evaluating hurricane and earthquake exposures to recognize the severe inadequacy of the traditional, empirical actuarial methods used for ratemaking for these exposures. Recognizing the need to replace these methods, many actuaries began using stochastic computer simulation models for their actuarial analysis of hurricane and earthquake exposure. Computer simulation models had been commonly used for some time by actuaries and others for the purpose of evaluating probable maximum loss but had not been widely used for ratemaking.

Over time, the output from catastrophe models became commonly used by property/casualty actuaries in developing rates for catastrophic perils as well as many other risk management purposes.

Current Practices

Catastrophe models are now widely used by actuaries in all practice areas for risk management analyses and calculating expected losses due to hurricanes, earthquakes, and terrorist acts. More recently, catastrophe models have also been developed to simulate wildfires, severe convective storms, tsunamis, and pandemics.

In addition, due to changes in regulations and financial reporting requirements, the number and importance of modeling applications in actuarial science has increased, with the results of actuarial models often entering financial statements directly.

Lastly, due to the evolution of enterprise risk management (ERM) practices and regulations, there has been increased use of catastrophe modeling as part of insurer stress testing and risk management across all practice areas. This trend is likely to continue to evolve and heighten in light of the emergence of the novel coronavirus and the COVID-19 pandemic.

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of the proposed revision of ASOP No. 38, *Catastrophe Modeling (for All Practice Areas)*, was issued in September 2020 with a comment deadline of January 15, 2021. Four comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term "commentator" may refer to more than one person associated with a particular comment letter. The ASOP No. 38 Task Force carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the ASOP No. 38 Task Force and the ASB General Committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Minor wording or punctuation changes that were suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term "reviewers" in appendix 2 includes the ASOP No. 38 Task Force, the ASB General Committee, and the ASB. Also, the section numbers and titles used in appendix 2 refer to those in the exposure draft, which are then cross referenced with those in the final ASOP.

SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	One commentator requested a clearer definition of what is excluded from the scope of ASOP No. 38, noting that catastrophe models can be used to infer economic impacts beyond direct claims and that novel catastrophic perils may fall into a gray area in which ASOP No. 38 may or may not apply.
Response	The reviewers believe the guidance is appropriate and made no change in response to this comment. The reviewers note that section 1.2 does not limit the reason why a catastrophe model is used to perform actuarial services or whether the catastrophe model is a mature or novel catastrophe model.
Comment	One commentator suggested that section 1.2 should state that the guidance in the standard applies to the extent practicable within the scope of the actuary's assignment when the actuary is reviewing or evaluating a catastrophe model.
Response	The reviewers agree and made the change.
Comment	One commentator suggested that "review or evaluation" be removed from the scope of the standard or alternatively that the scope be changed to exclude an actuary performing a regulatory review.
Response	The reviewers believe the revised guidance is appropriate and made no change in response to this comment.

Comment Response	One commentator recommended that section 1.2 should state that the application of the standard be based on the actuary's professional judgement as to the materiality of the model output for the intended user. The reviewers believe the guidance is appropriate and made no change in response to this comment. The reviewers note that section 3.1 addresses materiality.
Comment Response	One commentator recommended that section 1.2 should state that the guidance in the standard applies only to the extent of the actuary's responsibilities and adopt the language from ASOP No. 56 section 1.2. The reviewers believe the guidance is appropriate and made no change in response to this comment.
Comment Response	One commentator suggested that the scope of the standard be expanded to include elements similar to ASOP No. 56. The reviewers believe the revised guidance is appropriate and made no change in response to this comment.
Comment Response	Several commentators questioned what constituted a conflict between ASOP No. 38 and ASOP No. 56 versus what constituted a difference and asked how potential conflicts are meant to be resolved. The reviewers believe the revised guidance is appropriate and made no change in response to this comment. The reviewers note that ASOP No. 1, *Introductory Standard of Practice*, section 4.4, states, "When an actuary believes that multiple ASOPs have conflicting provisions when applied to a specific situation and none provide explicit guidance concerning which governs, the actuary should apply professional judgment and may wish to contact the ABCD for confidential guidance on appropriate practice."
SECTION 2. DEFINITIONS	
Section 2.2, Catastrophe Model	
Comment Response	Two commentators suggested clarifying the definition of catastrophe model. The reviewers agree and made changes similar to those suggested by the commentators to improve clarity.
Comment Response	One commentator suggested a definition for "model" be added to ASOP No. 38. The reviewers agree and made the change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Introduction	
Comment Response	One commentator suggested that the use of the term "validation" used in sections 3.1(d) and 3.5 be clarified to distinguish if the terms are being used differently. The reviewers believe the guidance is appropriate and made no change in response to this comment. The reviewers note section 3.1 introduces validation and section 3.5 provides details on the validation of catastrophe model output.

Section 3.2, Appropriate Reliance on Experts (now titled Catastrophe Models Developed by Experts)	
Comment Response	One commentator recommended changing "should consider" to "may consider" regarding the appropriate level of reliance on experts to be consistent with the corresponding language in ASOP No. 56, section 3.5. The reviewers believe the guidance is appropriate and made no change in response to this comment.
Comment Response	One commentator recommended changing the language in section 3.2(b) to mirror ASOP No. 56, section 3.5(b). The reviewers agree and made the change.
Comment Response	One commentator noted that this section, does not include the language of ASOP No. 56, section 3.5(d), which considers whether the science underlying the expertise is likely to produce useful models for the intended purpose. The reviewers believe the guidance is appropriate and made no change in response to this comment.
Comment Response	One commentator recommended that ASOP No. 38 be expanded to require disclosure of reliance on experts. The reviewers agree and made the change.
Comment Response	One commentator suggested that the ASOP be expanded to explicitly allow reliance on an expert to select, use, review, or evaluate the catastrophe model. The reviewers believe the guidance is appropriate and consistent with the suggestion, and made no change in response to this comment.
Section 3.5, Appropriate Validation (now titled Output Validation)	
Comment Response	One commentator requested that results derived from alternate models or methods, where available and appropriate, which is part of current ASOP No. 38, be added. The reviewers partially agree and modified the language.
Section 3.7, Reliance on Another Actuary	
Comment Response	One commentator suggested that ASOP No. 56 be added to the requirements for reliance on another actuary. The reviewers believe the revised guidance is appropriate and made no change in response to this comment.

EXHIBIT RB-11

Empower Results®

Statement of Compliance with Actuarial Standard of Practice 38
Minchong Mao, FCAS, MAAA

Background

Actuarial Standard of Practice 38 provides guidance to the actuary in using models that incorporate specialized knowledge outside the actuary's own area of expertise when developing an actuarial work product. When using such a model, the standard requires that the actuary perform five specific tasks, as described below using the numbering system of the standard. This document certifies that Minchong Mao, FCAS, MAAA, has performed these tasks for the catastrophe loss model(s) relied upon in the actuarial work product to which it is attached. It is intended that actuaries utilizing the actuarial work product in their insurance ratemaking efforts can rely on my model evaluation in accordance with Section 3.7 of the standard of practice. In July 2021, Actuarial Standards Board(ASB) adopted revision of ASOP No. 38. This document reflected the most current requirements in the 2021 revision.

Model Versions Covered by this document

- AIR Hurricane model for the United States v17.0.0 utilized in Touchstone versions 2020, 2021 and later, released in 2021
- AIR Severe Thunderstorm Model for the United States v7.0 implemented in Touchstone version 5, 6, 7, 8, 2020, 2021 and later
- AIR Winter Storm Model for the United States v1.5 implemented in Touchstone version 5, 6, 7, 8, 2020, 2021 and later
- AIR Wildfire Model for the United States v2 implemented in Touchstone version 6, 7, 8, 2020, 2021 and later
- AIR Earthquake and Fire Following Model for the United States v10.1 implemented in Touchstone version 6, 7, 8, 2020, 2021 and later. This version included Time Dependent Earthquake Hazard Adjustment.

3.2 Appropriate Reliance on Experts

Catastrophe Models Developed by Experts—When selecting, using, reviewing, or evaluating a catastrophe model developed by experts, the actuary should take into account the following:

a. whether the individual or individuals who developed the catastrophe model are experts in the applicable field;

b. the extent to which the catastrophe model has been reviewed or validated by experts concerning aspects of the catastrophe model that could be material to the actuary's use of the catastrophe model; and

c. whether there are industry or regulatory standards that apply to the catastrophe model or to the testing or validation of the catastrophe model, and whether the catastrophe model has been certified as having met such standards.

For those aspects of the model that are outside my area of expertise, I have relied on the list of experts provided by the modeler. Please see the modeler's ASOP 38 document and supporting documentation for additional information.

a. The individuals listed as employees of the modeler appear to be experts in their respective fields.

b. The modeler has provided documentation of reviews by outside experts. Many of these reviewers are well-recognized experts in their fields. I have reviewed the findings of the outside experts and found no significant differences of opinion with respect to the validity of the model.

c. Standards for catastrophe loss models have been promulgated by a few states. Most notably, the Florida Commission on Hurricane Loss Projection Methodology was created to review catastrophe loss models. The model(s) used in this work product, or derivatives thereof, have been certified by the Florida Commission on Hurricane Loss Projection Methodology.

3.3 Understanding of the Model

The actuary should be familiar with the basic components of the catastrophe model and understand both the user input and the catastrophe model output, as discussed below.

I have reviewed the modeler's ASOP 38 document and supporting documentation describing the model's components, input, and output, as well as other documentation, to comply with this requirement. In addition, I have specialized in actuarial applications of catastrophe model output since 2005.

3.3.1 Catastrophe Model Components—The actuary should be familiar with the basic components of the catastrophe model and have an understanding of how such components interrelate within the catastrophe model. In addition, the actuary should identify which fields of expertise were used in developing or updating the catastrophe model and should make a reasonable effort to determine if the catastrophe model is based on generally accepted practices within the applicable fields of expertise. The actuary should also be familiar with how the catastrophe model was tested or validated and the level of independent expert review and testing.

I am reasonably familiar with the basic components of the model and have a basic understanding of how such components interrelate with in the model. I have identified the fields of expertise used in developing and updating the model and have determined that the model is based on generally accepted practices within the applicable fields of expertise. I am reasonably familiar with how the model was validated and have reviewed the documentation of reviews by outside experts.

3.3.2 User Input—The actuary should take reasonable steps to confirm that the precision and accuracy of the user input are consistent with the intended purpose and should refer, as applicable, to ASOP No. 23, Data Quality, when selecting, using, or evaluating data used in the catastrophe model. Certain user input may be required to produce catastrophe model output for the specific application. User input can include assumptions or data. If the catastrophe model requires user input, the actuary should evaluate the reasonableness of the user input and should have an understanding of the relationship between the user input and catastrophe model output.

I understand the user input required to produce model output, including the level of detail required to produce results that are consistent with insurance ratemaking and risk management applications.

3.3.3 Catastrophe Model Output—The actuary should determine that the catastrophe model output is consistent with the intended purpose.

I have determined that the model output is consistent with the insurance ratemaking applications for which it was used. We most often use event loss detail in our work, so we are always careful that our results balance to the model's prepared exhibits.

3.4 Appropriateness of the Model for the Intended Application

The actuary should evaluate whether the catastrophe model is appropriate for the intended purpose and take into account the following:

3.4.1. Applicability of Historical Data—To the extent historical data are used in the development of the catastrophe model or the establishment of catastrophe model parameters, the actuary should take into account the adequacy of the historical data in representing the range of reasonably expected outcomes consistent with current knowledge about the phenomena being analyzed.

3.4.2. Developments in Relevant Fields—The actuary should make a reasonable effort to be aware of significant developments in relevant fields of expertise that are likely to materially affect the catastrophe model.

The catastrophe model(s) we have relied upon were developed for purposes related to the management of risk. I have evaluated the model(s) in light of available alternatives and determined that the catastrophe loss model is the most appropriate method of estimating expected catastrophe loss distributions for insurance ratemaking.

Some additional considerations include the following:

3.4.1. Applicability of Historical Data: Historical data is relied upon extensively in the development and validation of catastrophe loss models. Smoothing procedures are applied in cases where reasonably foreseeable events are underrepresented in the historical data.

3.4.2. Developments in Relevant Fields: Catastrophe loss models are typically updated on an annual basis in order to incorporate the most current scientific research and information from recent catastrophe events.

I have made a reasonable effort to be aware of significant developments in the relevant fields of expertise. In particular, meteorological studies related to the current period of elevated hurricane activity are important in determining which of a model's frequency assumptions should be utilized in insurance ratemaking applications involving hurricane-exposed risk portfolios. Aon maintains a documentation library containing current research in the science of catastrophe perils.

3.5 Output Validation

The actuary should validate that the output reasonably represents that which is being modeled. Depending on the intended purpose, output validation may include the following:

a. comparing output to those of an alternative model(s), where appropriate;

b. comparing the output produced by the catastrophe model with historical observations, if applicable;

c. comparing the consistency and reasonableness of relationships within the output; and

d. evaluating the reasonableness of changes in the output due to variations in the user input.

a. Aon conducts extensive testing of each model that we license whenever a new model is released. Output from Model output is checked for reasonability against other models and for consistency with the modeler's representations as to changes incorporated in the current version. I have reviewed the results of these tests and found the model used in this analysis to provide reasonable output.

b. Catastrophes, by their nature, involve significant uncertainty in the amount of insured losses they produce. In light of this uncertainty, the model has been shown to produce reasonable estimates of losses incurred from historical events.

I have reviewed the modeler's ASOP 38 document and supporting documentation describing comparisons of model output to historical observations and found that the model produces reasonable estimates.

c. I have reviewed the relationships among output results and found them to be consistent and reasonable.

d. Aon conducts extensive testing of each model that we license with respect to the sensitivity of model output to variations in the user input and model assumptions. I have reviewed the results of these tests and obtained an understanding of the model's sensitivity.

3.6 Appropriate Use of the Model

The actuary should evaluate the reasonableness of the catastrophe model output, considering the input and the intended purpose. The actuary should take into account the limitations of the catastrophe model and use professional judgment to determine whether it is appropriate to use the catastrophe model output. The actuary should also use professional judgment to determine whether any adjustments to the catastrophe model output are needed to meet the intended purpose. The actuary should disclose any such adjustments in accordance with section 4.1.

In my professional judgment, it is appropriate to use the model results, without adjustment, for the purposes of the actuarial work product to which this document is attached.

Empower Results®

3.7 Reliance on Another Actuary

The actuary may rely on another actuary who has selected, used, reviewed, or evaluated the catastrophe model. However, the relying actuary should be reasonably satisfied that the other actuary is qualified to select, use, review, or evaluate the catastrophe model in accordance with applicable ASOPs, and the catastrophe model is appropriate for the intended purpose. The actuary should disclose the extent of any such reliance.

Actuaries utilizing the actuarial work product to which this document is attached can rely on my complete evaluation of the model(s) used as described above. In doing so, they should document the extent of such reliance in their work.

Minchong Mao FCAS, MAAA

Nov. 1 2021

EXHIBIT RB-12

Empower Results®

Statement of Compliance with Actuarial Standard of Practice 38
Minchong Mao, FCAS, MAAA

Background

Actuarial Standard of Practice 38 provides guidance to the actuary in using models that incorporate specialized knowledge outside the actuary's own area of expertise when developing an actuarial work product. When using such a model, the standard requires that the actuary perform five specific tasks, as described below using the numbering system of the standard. This document certifies that Minchong Mao, FCAS, MAAA, has performed these tasks for the catastrophe loss model(s) relied upon in the actuarial work product to which it is attached. It is intended that actuaries utilizing the actuarial work product in their insurance ratemaking efforts can rely on my model evaluation in accordance with Section 3.7 of the standard of practice. In July 2021, Actuarial Standards Board(ASB) adopted revision of ASOP No. 38. This document reflected the most current requirements in the 2021 revision.

Model Versions Covered by this document

- RMS North Atlantic Hurricane Model v21, released in 2021, implemented in RiskLink V21
- RMS North America Earthquake Model v17.0, released in 2017, implemented in RiskLink V17, 18, 18.1 and 21
- RMS Sever Convective Strom Model for the United States, released in 2014, implemented in RiskLink V17,18, 18.1 and 21
- RMS Winter Storm Model for the United States, release in 2013, implemented in RiskLink V17,18, 18.1 and 21

3.2 Appropriate Reliance on Experts

Catastrophe Models Developed by Experts—When selecting, using, reviewing, or evaluating a catastrophe model developed by experts, the actuary should take into account the following:

a. whether the individual or individuals who developed the catastrophe model are experts in the applicable field;

b. the extent to which the catastrophe model has been reviewed or validated by experts concerning aspects of the catastrophe model that could be material to the actuary's use of the catastrophe model; and

c. whether there are industry or regulatory standards that apply to the catastrophe model or to the testing or validation of the catastrophe model, and whether the catastrophe model has been certified as having met such standards.

For those aspects of the model that are outside my area of expertise, I have relied on the list of experts provided by the modeler. Please see the modeler's ASOP 38 document and supporting documentation for additional information.

a. The individuals listed as employees of the modeler appear to be experts in their respective fields.

b. The modeler has provided documentation of reviews by outside experts. Many of these reviewers are well-recognized experts in their fields. I have reviewed the findings of the outside experts and found no significant differences of opinion with respect to the validity of the model.

c. Standards for catastrophe loss models have been promulgated by a few states. Most notably, the Florida Commission on Hurricane Loss Projection Methodology was created to review catastrophe loss models. The model(s) used in this work product, or derivatives thereof, have been certified by the Florida Commission on Hurricane Loss Projection Methodology.

3.3 Understanding of the Model

The actuary should be familiar with the basic components of the catastrophe model and understand both the user input and the catastrophe model output, as discussed below.

I have reviewed the modeler's ASOP 38 document and supporting documentation describing the model's components, input, and output, as well as other documentation, to comply with this requirement. In addition, I have specialized in actuarial applications of catastrophe model output since 2005.

3.3.1 Catastrophe Model Components—The actuary should be familiar with the basic components of the catastrophe model and have an understanding of how such components interrelate within the catastrophe model. In addition, the actuary should identify which fields of expertise were used in developing or updating the catastrophe model and should make a reasonable effort to determine if the catastrophe model is based on generally accepted practices within the applicable fields of expertise. The actuary should also be familiar with how the catastrophe model was tested or validated and the level of independent expert review and testing.

I am reasonably familiar with the basic components of the model and have a basic understanding of how such components interrelate with in the model. I have identified the fields of expertise used in developing and updating the model and have determined that the model is based on generally accepted practices within the applicable fields of expertise. I am reasonably familiar with how the model was validated and have reviewed the documentation of reviews by outside experts.

3.3.2 User Input—The actuary should take reasonable steps to confirm that the precision and accuracy of the user input are consistent with the intended purpose and should refer, as applicable, to ASOP No. 23, Data Quality, when selecting, using, or evaluating data used in the catastrophe model. Certain user input may be required to produce catastrophe model output for the specific application. User input can include assumptions or data. If the catastrophe model requires user input, the actuary should evaluate the reasonableness of the user input and should have an understanding of the relationship between the user input and catastrophe model output.

I understand the user input required to produce model output, including the level of detail required to produce results that are consistent with insurance ratemaking and risk management applications.

3.3.3 Catastrophe Model Output—The actuary should determine that the catastrophe model output is consistent with the intended purpose.

I have determined that the model output is consistent with the insurance ratemaking applications for which it was used. We most often use event loss detail in our work, so we are always careful that our results balance to the model's prepared exhibits.

3.4 Appropriateness of the Model for the Intended Application

The actuary should evaluate whether the catastrophe model is appropriate for the intended purpose and take into account the following:

3.4.1. Applicability of Historical Data—To the extent historical data are used in the development of the catastrophe model or the establishment of catastrophe model parameters, the actuary should take into account the adequacy of the historical data in representing the range of reasonably expected outcomes consistent with current knowledge about the phenomena being analyzed.

3.4.2. Developments in Relevant Fields—The actuary should make a reasonable effort to be aware of significant developments in relevant fields of expertise that are likely to materially affect the catastrophe model.

The catastrophe model(s) we have relied upon were developed for purposes related to the management of risk. I have evaluated the model(s) in light of available alternatives and determined that the catastrophe loss model is the most appropriate method of estimating expected catastrophe loss distributions for insurance ratemaking.

Some additional considerations include the following:

3.4.1. Applicability of Historical Data: Historical data is relied upon extensively in the development and validation of catastrophe loss models. Smoothing procedures are applied in cases where reasonably foreseeable events are underrepresented in the historical data.

3.4.2. Developments in Relevant Fields: Catastrophe loss models are typically updated on an annual basis in order to incorporate the most current scientific research and information from recent catastrophe events.

I have made a reasonable effort to be aware of significant developments in the relevant fields of expertise. In particular, meteorological studies related to the current period of elevated hurricane activity are important in determining which of a model's frequency assumptions should be utilized in insurance ratemaking applications involving hurricane-exposed risk portfolios. Aon maintains a documentation library containing current research in the science of catastrophe perils.

3.5 Output Validation

The actuary should validate that the output reasonably represents that which is being modeled. Depending on the intended purpose, output validation may include the following:

a. comparing output to those of an alternative model(s), where appropriate;

b. comparing the output produced by the catastrophe model with historical observations, if applicable;

c. comparing the consistency and reasonableness of relationships within the output; and

d. evaluating the reasonableness of changes in the output due to variations in the user input.

a. Aon conducts extensive testing of each model that we license whenever a new model is released. Output from Model output is checked for reasonability against other models and for consistency with the modeler's representations as to changes incorporated in the current version. I have reviewed the results of these tests and found the model used in this analysis to provide reasonable output.

b. Catastrophes, by their nature, involve significant uncertainty in the amount of insured losses they produce. In light of this uncertainty, the model has been shown to produce reasonable estimates of losses incurred from historical events.

I have reviewed the modeler's ASOP 38 document and supporting documentation describing comparisons of model output to historical observations and found that the model produces reasonable estimates.

c. I have reviewed the relationships among output results and found them to be consistent and reasonable.

d. Aon conducts extensive testing of each model that we license with respect to the sensitivity of model output to variations in the user input and model assumptions. I have reviewed the results of these tests and obtained an understanding of the model's sensitivity.

3.6 Appropriate Use of the Model

The actuary should evaluate the reasonableness of the catastrophe model output, considering the input and the intended purpose. The actuary should take into account the limitations of the catastrophe model and use professional judgment to determine whether it is appropriate to use the catastrophe model output. The actuary should also use professional judgment to determine whether any adjustments to the catastrophe model output are needed to meet the intended purpose. The actuary should disclose any such adjustments in accordance with section 4.1.

In my professional judgment, it is appropriate to use the model results, without adjustment, for the purposes of the actuarial work product to which this document is attached.

3.7 Reliance on Another Actuary

The actuary may rely on another actuary who has selected, used, reviewed, or evaluated the catastrophe model. However, the relying actuary should be reasonably satisfied that the other actuary is qualified to select, use, review, or evaluate the catastrophe model in accordance with applicable ASOPs, and the *catastrophe model is appropriate for the intended purpose. The actuary should disclose the extent of any such reliance.*

Actuaries utilizing the actuarial work product to which this document is attached can rely on my complete evaluation of the model(s) used as described above. In doing so, they should document the extent of such reliance in their work.

Minchong Mao FCAS, MAAA

Nov. 1 2021

North Carolina Rate Bureau
Homeowners Insurance Rate Filing
Support for Selected Reinsurance Structure

	Return Periods	
Layer	Attachment	Exhaustion
4740M XS 10953M	149	279
3500M XS 7453M	81	149
2500M XS 4953M	45	81
2000M XS 2953M	23	45
1500M XS 1453M	11	23

The table above shows the All Peril 50/50 RMSv21/TSv9 blend attachment and exhaustion points which combine modeled loss with Catastrophe LAE for the North Carolina Rate Bureau portfolio, along with the selected reinsurance program.

EXHIBIT RB-14

North Carolina Rate Bureau
Homeowners Insurance Rate Filing
Reinsurance Program Summary

Reinsurance Layer	Rate-On-Line	Deposit Premium	Reinstatement Premium	Expected Total Premium	Expected Ceded Loss	Net Cost of Reinsurance
4740M XS 10953M	5.50%	260,226	1,477	261,703	27,085	234,618
3500M XS 7453M	7.70%	270,200	2,775	272,975	36,332	236,643
2500M XS 4953M	10.60%	263,750	4,843	268,593	46,608	221,985
2000M XS 2953M	14.60%	291,200	9,772	300,972	68,687	232,285
1500M XS 1453M	21.10%	316,200	20,702	336,902	102,443	234,459
Total		**1,401,576**	**39,569**	**1,441,145**	**281,155**	**1,159,990**

Dollar amounts are in thousands

The table above shows indicated rates-on-line for the filing's reinsurance structure along with analysis of modeled catastrophe losses. Rate-on-Line values have been selected using the current Loss-On-Line approach, which is a benchmarking analysis done using reinsurance treaties placed by Aon.

Deposit Premium is Rate-On-Line * Layer Limit

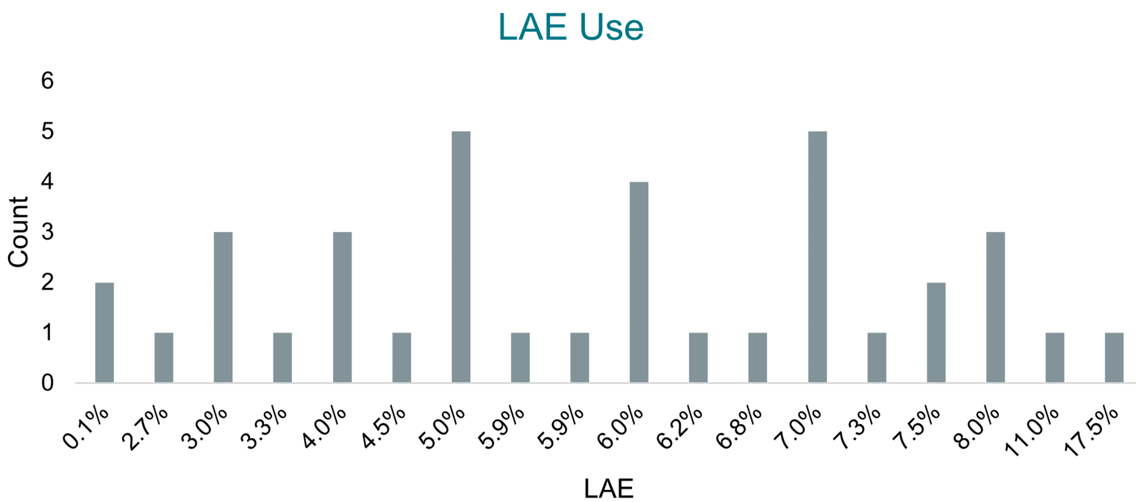
Expected Ceded Loss and Expected Reinstatement premium are the average annual amounts of each based on a simulation of catastrophe losses subject to the reinsurance program.

Expected Total Premium = Deposit Premium + Expected Reinstatement Premium

Net Cost of Reinsurance = Expected Total Premium - Expected Ceded Loss

EXHIBIT RB-15

North Carolina Rate Bureau
Homeowners Insurance Rate Filing
Support for Selected Catastrophe LAE Factor



This chart shows Catastrophe LAE factors applied to modeled catastrophe event losses in AM Best SRQ Submissions by Aon clients in 2022

- A weighted average was used where factors varied by peril
- Multiple factors were counted where factors varied by company within a group
- Reflects all clients that included a provision for LAE

The mean factor is 6.00%, the median is 6.00%, and the mode is 5.00%.

North Carolina Rate Bureau
Reinsurance Cost Allocation
CY 2021
RMSv21/TSv9

Layer 1: 1500M XS 1453M

Peril/Territory	Premium	Ceded AAL	Reins Margin
HU	**79.14%**	**78.39%**	**79.47%**
110	7.65%	7.36%	7.78%
120	9.40%	9.35%	9.43%
130	1.90%	1.81%	1.94%
140	21.86%	21.96%	21.81%
150	4.25%	4.15%	4.29%
160	3.80%	3.68%	3.85%
170	0.12%	0.12%	0.12%
180	2.82%	2.75%	2.85%
190	0.88%	0.85%	0.89%
200	0.46%	0.44%	0.47%
210	0.77%	0.75%	0.78%
220	2.12%	2.06%	2.15%
230	0.66%	0.64%	0.67%
240	2.33%	2.29%	2.34%
250	0.98%	0.95%	0.99%
260	0.43%	0.42%	0.43%
270	7.24%	7.26%	7.23%
280	0.92%	0.93%	0.91%
290	0.89%	0.87%	0.90%
300	0.22%	0.22%	0.23%
310	2.53%	2.56%	2.51%
320	1.33%	1.34%	1.33%
330	0.05%	0.05%	0.05%
340	3.90%	3.90%	3.90%
350	0.67%	0.68%	0.67%
360	0.80%	0.82%	0.79%
370	0.04%	0.04%	0.03%
380	0.08%	0.08%	0.08%
390	0.07%	0.07%	0.07%
FF	0.00%	0.00%	0.00%
OW	**16.02%**	**16.85%**	**15.65%**
WT	**4.84%**	**4.76%**	**4.88%**
Grand Total	**100.00%**	**100.00%**	**100.00%**

North Carolina Rate Bureau
Reinsurance Cost Allocation
CY 2021
RMSv21/TSv9

Layer 2: 2000M XS 2953M

Peril/Territory	Premium	Ceded AAL	Reins Margin
HU	**86.35%**	**84.99%**	**86.75%**
110	6.46%	5.99%	6.60%
120	10.32%	10.31%	10.32%
130	1.72%	1.59%	1.76%
140	24.17%	24.49%	24.08%
150	4.20%	4.02%	4.25%
160	4.21%	4.05%	4.26%
170	0.12%	0.11%	0.12%
180	3.03%	2.91%	3.06%
190	0.97%	0.93%	0.98%
200	0.52%	0.50%	0.53%
210	0.86%	0.83%	0.87%
220	2.49%	2.38%	2.52%
230	0.77%	0.73%	0.78%
240	2.67%	2.59%	2.69%
250	1.16%	1.11%	1.17%
260	0.50%	0.49%	0.50%
270	8.69%	8.62%	8.71%
280	1.13%	1.13%	1.13%
290	1.07%	1.02%	1.08%
300	0.26%	0.25%	0.27%
310	3.15%	3.14%	3.15%
320	1.62%	1.60%	1.63%
330	0.06%	0.06%	0.06%
340	4.49%	4.41%	4.51%
350	0.74%	0.73%	0.74%
360	0.83%	0.84%	0.83%
370	0.04%	0.04%	0.04%
380	0.07%	0.07%	0.07%
390	0.05%	0.05%	0.06%
FF	0.00%	0.00%	0.00%
OW	**11.86%**	**13.70%**	**11.32%**
WT	**1.79%**	**1.31%**	**1.93%**
Grand Total	**100.00%**	**100.00%**	**100.00%**

North Carolina Rate Bureau
Reinsurance Cost Allocation
CY 2021
RMSv21/TSv9

Layer 3: 2500M XS 4953M

Peril/Territory	Premium	Ceded AAL	Reins Margin
HU	**90.85%**	**89.38%**	**91.15%**
110	5.49%	4.85%	5.63%
120	10.96%	11.02%	10.95%
130	1.57%	1.41%	1.61%
140	25.92%	26.48%	25.80%
150	4.04%	3.82%	4.08%
160	4.49%	4.32%	4.53%
170	0.11%	0.10%	0.11%
180	3.10%	2.98%	3.13%
190	1.02%	0.98%	1.03%
200	0.56%	0.53%	0.56%
210	0.89%	0.86%	0.90%
220	2.74%	2.63%	2.76%
230	0.84%	0.80%	0.84%
240	2.86%	2.78%	2.88%
250	1.28%	1.23%	1.29%
260	0.54%	0.53%	0.54%
270	9.68%	9.62%	9.70%
280	1.28%	1.29%	1.28%
290	1.20%	1.14%	1.21%
300	0.29%	0.27%	0.29%
310	3.59%	3.55%	3.60%
320	1.80%	1.76%	1.80%
330	0.06%	0.06%	0.06%
340	4.75%	4.62%	4.78%
350	0.77%	0.76%	0.78%
360	0.86%	0.86%	0.86%
370	0.04%	0.04%	0.04%
380	0.06%	0.06%	0.06%
390	0.05%	0.05%	0.05%
OW	**7.97%**	**9.81%**	**7.58%**
WT	**1.18%**	**0.81%**	**1.26%**
Grand Total	**100.00%**	**100.00%**	**100.00%**

North Carolina Rate Bureau
Reinsurance Cost Allocation
CY 2021
RMSv21/TSv9

Layer 4: 3500M XS 7453M

Peril/Territory	Premium	Ceded AAL	Reins Margin
HU	**94.39%**	**93.26%**	**94.57%**
110	4.89%	4.07%	5.02%
120	11.53%	11.65%	11.51%
130	1.47%	1.27%	1.50%
140	27.57%	28.47%	27.44%
150	3.85%	3.60%	3.89%
160	4.71%	4.56%	4.73%
170	0.10%	0.09%	0.10%
180	3.11%	2.99%	3.13%
190	1.06%	1.03%	1.07%
200	0.59%	0.57%	0.59%
210	0.91%	0.88%	0.92%
220	2.94%	2.85%	2.95%
230	0.89%	0.86%	0.90%
240	2.97%	2.90%	2.98%
250	1.37%	1.33%	1.38%
260	0.56%	0.55%	0.56%
270	10.27%	10.27%	10.27%
280	1.39%	1.40%	1.38%
290	1.30%	1.25%	1.31%
300	0.31%	0.29%	0.31%
310	3.91%	3.88%	3.92%
320	1.93%	1.89%	1.93%
330	0.07%	0.07%	0.07%
340	4.89%	4.76%	4.91%
350	0.78%	0.77%	0.79%
360	0.86%	0.87%	0.86%
370	0.04%	0.04%	0.04%
380	0.06%	0.06%	0.06%
390	0.04%	0.04%	0.04%
OW	**4.84%**	**6.22%**	**4.63%**
WT	**0.77%**	**0.52%**	**0.81%**
Grand Total	**100.00%**	**100.00%**	**100.00%**

North Carolina Rate Bureau
Reinsurance Cost Allocation
CY 2021
RMSv21/TSv9

Layer 5: 4740M XS 10953M

Peril/Territory	Premium	Ceded AAL	Reins Margin
HU	**96.93%**	**96.28%**	**97.00%**
110	4.47%	3.56%	4.58%
120	11.91%	12.10%	11.89%
130	1.37%	1.15%	1.39%
140	29.07%	30.47%	28.91%
150	3.65%	3.36%	3.68%
160	4.85%	4.73%	4.86%
170	0.10%	0.08%	0.10%
180	3.10%	2.94%	3.11%
190	1.09%	1.05%	1.09%
200	0.60%	0.59%	0.60%
210	0.92%	0.88%	0.93%
220	3.08%	3.02%	3.09%
230	0.93%	0.90%	0.93%
240	3.05%	2.96%	3.06%
250	1.44%	1.40%	1.44%
260	0.57%	0.56%	0.58%
270	10.79%	10.85%	10.78%
280	1.47%	1.50%	1.47%
290	1.37%	1.32%	1.38%
300	0.32%	0.30%	0.32%
310	4.15%	4.14%	4.16%
320	2.01%	1.96%	2.01%
330	0.07%	0.07%	0.07%
340	4.82%	4.65%	4.84%
350	0.75%	0.73%	0.75%
360	0.85%	0.86%	0.85%
370	0.04%	0.04%	0.04%
380	0.06%	0.06%	0.06%
390	0.04%	0.04%	0.04%
OW	**2.52%**	**3.36%**	**2.43%**
WT	**0.55%**	**0.36%**	**0.57%**
Grand Total	**100.00%**	**100.00%**	**100.00%**

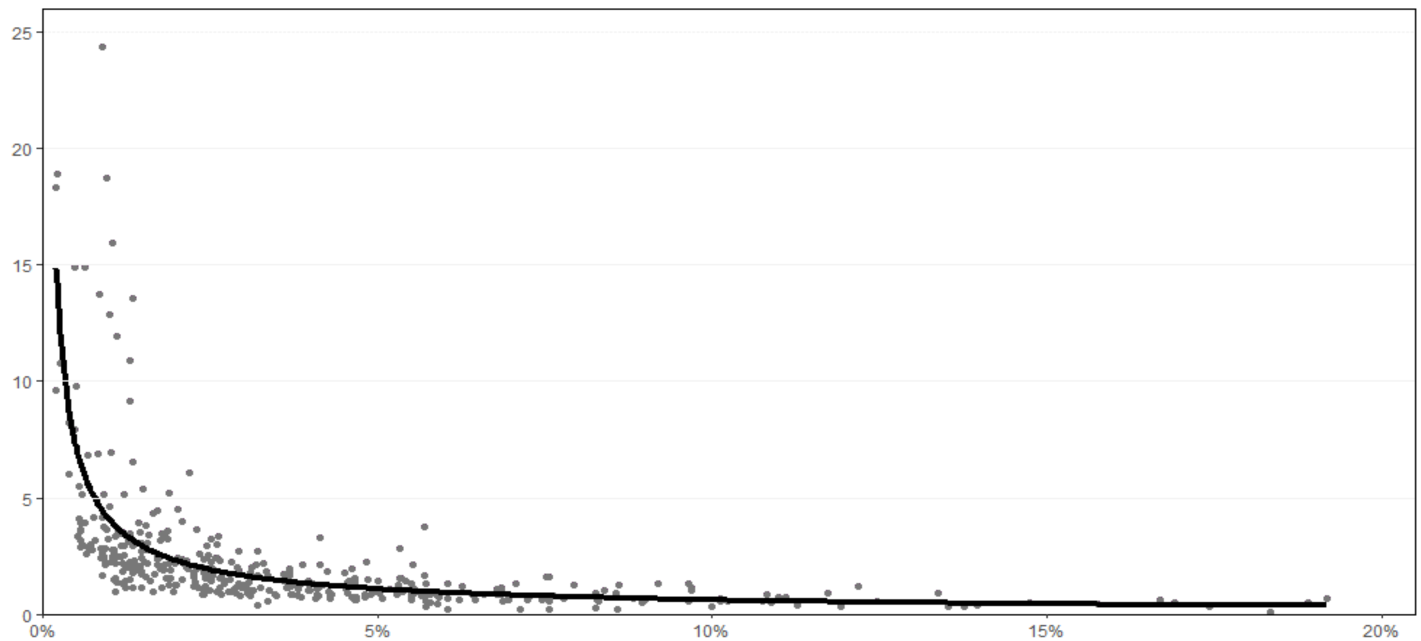
North Carolina Rate Bureau
Reinsurance Margin Allocation
CY 2021
RMSv21/TSv9

Territory	Owners	Tenant	Condo	Total
110	69,041,637	52,684	75,477	69,169,798
120	124,480,366	268,475	1,096,146	125,844,987
130	19,031,262	54,150	50,104	19,135,515
140	295,131,724	2,148,623	1,876,114	299,156,461
150	47,668,083	263,058	73,254	48,004,395
160	51,433,945	542,491	282,777	52,259,213
170	1,292,061	7,732	0	1,299,793
180	36,080,258	440,041	46,098	36,566,396
190	11,770,021	82,284	943	11,853,249
200	6,415,378	28,339	66	6,443,783
210	10,549,462	103,238	3,382	10,656,083
220	32,685,302	280,886	47,264	33,013,452
230	9,671,468	67,595	2,776	9,741,838
240	34,540,085	209,263	14,935	34,764,282
250	15,401,428	95,158	3,311	15,499,896
260	6,653,215	35,365	266	6,688,845
270	129,729,713	1,542,796	385,920	131,658,430
280	18,253,904	181,749	80,006	18,515,658
290	15,079,263	81,590	32,521	15,193,374
300	3,605,051	14,873	569	3,620,494
310	53,471,147	573,403	176,565	54,221,115
320	27,282,152	188,788	37,743	27,508,683
330	889,178	3,904	384	893,466
340	86,055,296	985,432	668,505	87,709,234
350	13,558,237	95,412	24,700	13,678,348
360	20,755,871	166,418	88,021	21,010,309
370	893,457	1,936	11,194	906,587
380	2,367,558	11,281	6,445	2,385,285
390	2,575,560	8,282	7,877	2,591,719
Total	**1,146,362,082**	**8,535,246**	**5,093,363**	**1,159,990,688**

North Carolina Insurance Underwriting Association (NCIUA) -- Beach Plan
North Carolina Joint Underwriting Association (NCJUA) -- FAIR Plan

Catastrophe Bond Profit Multiples

Profit Multiples by Probability of Loss



Source: Lane Financial LLC, Annual Securitization Reviews (http://lanefinancialllc.com) and Aon ILS Cat bond data.
Notes: Based on near-term cat bonds issued from January 2013 to March 2022.
Includes all U.S. bonds with a probability of first loss between 0.05% and 20.0%; excludes bonds with no stated profit multiples.

Equation of the fitted curve: $y = 0.09154\ x^{-0.82495}$

Equation to determine average Profit Multiple over specific interval: $\text{Avg PM} = \int_a^b 0.09154^{-0.82495}\ dx/(b-a)$

North Carolina Insurance Underwriting Association (NCIUA) -- Beach Plan

Summary of 2023 Reinsurance Structure

Risk Finance Structure (1)	Attachment Point ($ Millions)	Exhaustion Point ($ Millions)	Coverage
Reinsurance Layer 1	$1,875	$2,100	85.5%
Reinsurance Layer 2	$2,100	$2,430	100.0%
Reinsurance Layer 3	$2,430	$2,630	100.0%
Reinsurance Layer 4	$2,630	$2,880	100.0%
Reinsurance Layer 5	$2,880	$3,380	100.0%
Reinsurance Layer 6	$3,380	$3,630	100.0%
Reinsurance Layer 7	$3,630	$3,805	100.0%

Source: https://www.ncjua-nciua.org/html/mbr_co.htm

Note: The above reinsurance covers aggregate losses for all Beach Plan accounts combined (Residential & Commercial).

(1) Each layer of reinsurance provides Annual Aggregate coverage, which implies that a reinstatement provision is not applicable.

North Carolina Insurance Underwriting Association (NCIUA) -- Beach Plan

Determination of Average Profit Multiple by Layer of Loss
($ in Millions)

		Total Beach Plan				
Annual Aggregate Layer	Source of Funding	Layer Attachment	Layer Exhaustion (1)	Attachment Probability	Exhaustion Probability	Indicated Profit Multiple
$0 to 908	Surplus	$0	$908	47.87%	6.84%	0.32
$908 to 1,875	Company Assessments	$908	$1,875	6.84%	3.17%	1.12
$1,875 to 2,100	Reinsurance Layer 1 + Company Assessments	$1,875	$2,100	3.17%	2.78%	1.66
$2,100 to 2,430	Reinsurance Layer 2	$2,100	$2,430	2.78%	2.29%	1.90
$2,430 to 2,630	Reinsurance Layer 3	$2,430	$2,630	2.29%	2.08%	2.15
$2,630 to 2,880	Reinsurance Layer 4	$2,630	$2,880	2.08%	1.83%	2.35
$2,880 to 3,380	Reinsurance Layer 5	$2,880	$3,380	1.83%	1.47%	2.71
$3,380 to 3,630	Reinsurance Layer 6	$3,380	$3,630	1.47%	1.32%	3.11
$3,630 to 3,805	Reinsurance Layer 7	$3,630	$3,805	1.32%	1.21%	3.37
$3,805 & Higher	Policyholder Surcharges	$3,805	$47,504	1.21%	0.0010%	14.21

(1) The Layer Exhaustion for the highest layer assumes 100K year return period and is consistent with prior year's analysis.

North Carolina Insurance Underwriting Association (NCIUA) -- Beach Plan
Residential Accounts Only

Illustration of How Hurricane Losses are Funded

Voluntary Market Assessments Limited to $1 Billion on All Beach Plan Accounts Combined

($ in Millions)

	Total Beach Plan			Beach Plan:	Hurricane Losses Funded by:			
Annual Aggregate Layer	Layer Attachment	Layer Exhaustion	Total Losses in Layer	Residential Share of Layer	Beach Plan Surplus	Private Reinsurance	Assessment on Member Companies (1)	Policyholder Surcharges
$0 to 908	$0	$908	$908	$811.9	$811.9	-	-	-
$908 to 1,875	$908	$1,875	$967	$865.3	-	-	$865.3	-
$1,875 to 2,100	$1,875	$2,100	$225	$201.3	-	$172.1	$29.2	-
$2,100 to 2,430	$2,100	$2,430	$330	$295.2	-	$295.2	-	-
$2,430 to 2,630	$2,430	$2,630	$200	$178.9	-	$178.9	-	-
$2,630 to 2,880	$2,630	$2,880	$250	$223.6	-	$223.6	-	-
$2,880 to 3,380	$2,880	$3,380	$500	$447.3	-	$447.3	-	-
$3,380 to 3,630	$3,380	$3,630	$250	$223.6	-	$223.6	-	-
$3,630 to 3,805	$3,630	$3,805	$175	$156.5	-	$156.5	-	-
$3,805 & Higher	$3,805	$47,504	$43,699	$39,089.9	-	-	-	$39,089.9
Total					$811.9	$1697.3	$894.5	$39,089.9

(1) Total losses paid by Member Companies ($894.5 M) reflects the Residential portion of the $1 Billion Beach Plan assessment on the total Voluntary Market.

North Carolina Insurance Underwriting Association (NCIUA) -- Beach Plan
Residential Accounts Only

Determination of the Cost of Reinsurance Provided to the NCIUA by the Voluntary Market

Voluntary Market Assessments Limited to $1 Billion on All Beach Plan Accounts Combined

($ in Millions)

Annual Aggregate Layer	Beach Plan: Residential Share of Layer	Potential Assessment Paid by Member Companies (1)	Expected Losses (2) Total	Expected Losses (2) Exposed (3)	Indicated Profit Multiple (4)	Cost of Funding Assessments (5)
$0 to 908	$811.9	-	$113.06	-	0.32	-
$908 to 1,875	$865.3	$865.3	$39.98	$39.98	1.12	$44.87
$1,875 to 2,100	$201.3	$29.2	$6.00	$0.87	1.66	$1.45
$2,100 to 2,430	$295.2	-	$7.46	-	1.90	-
$2,430 to 2,630	$178.9	-	$3.90	-	2.15	-
$2,630 to 2,880	$223.6	-	$4.34	-	2.35	-
$2,880 to 3,380	$447.3	-	$7.45	-	2.71	-
$3,380 to 3,630	$223.6	-	$3.12	-	3.11	-
$3,630 to 3,805	$156.5	-	$1.98	-	3.37	-
$3,805 & Higher	$39,089.9	-	$33.19	-	14.21	-
Total		$894.5	$220.48	$40.85		$46.32

(1) Page 4.
(2) From AIR & RMS hurricane models.
(3) Expected loss subject to Beach Plan assessments of Voluntary Market.
(4) See Page 3.
(5) = Exposed Expected Losses x Profit Multiple (based on Cat Bond data).

North Carolina Joint Underwriting Association (NCJUA) -- FAIR Plan

Summary of 2023 Reinsurance Structure

Risk Structure (1)	Attachment Point (in million)	Exhaustion Point (in million)	Coverage
Reinsurance Layer 1	$132	$216	100.0%

Source: https://www.ncjua-nciua.org/html/mbr_co.htm

Notes: The above reinsurance covers aggregate losses for all FAIR Plan accounts combined (Residential & Commercial).

(1) Each layer of reinsurance provides Annual Aggregate coverage, which implies that a reinstatement provision is not applicable.

North Carolina Joint Underwriting Association (NCJUA) -- FAIR Plan

Determination of Average Profit Multiple by Layer of Loss

($ in Millions)

		Total FAIR Plan				
Annual Aggregate Layer	Source of Funding	Layer Attachment	Layer Exhaustion (1)	Attachment Probability	Exhaustion Probability	Indicated Profit Multiple
$0 to 17	Surplus	$0	$17	54.33%	22.20%	0.21
$17 to 132	Company Assessments	$17	$132	22.20%	7.98%	0.46
$132 to 216	Reinsurance	$132	$216	7.98%	5.17%	0.87
$216 & Higher	Company Assessments	$216	$6,425	5.17%	0.0010%	4.68

(1) The Layer Exhaustion for the highest layer assumes 100K year return period and is consistent with prior year's analysis.

North Carolina Joint Underwriting Association (NCJUA) -- FAIR Plan
Residential Accounts Only

Illustration of How Hurricane Losses are Funded
Reflecting Unlimited Industry Exposure to FAIR Plan Assessments
($ in Millions)

	Total FAIR Plan			FAIR Plan:	Hurricane Losses Funded by:		
Annual Aggregate Layer	Layer Attachment	Layer Exhaustion	Total Losses in Layer	Residential Share of Layer	FAIR Plan Surplus	Private Reinsurance	Assessment on Member Companies
$0 to 17	$0	$17	$17	$15.7	$15.7	-	-
$17 to 132	$17	$132	$115	$106.2	-	-	$106.2
$132 to 216	$132	$216	$84	$77.5	-	$77.5	-
$216 & Higher	$216	$6,425	$6,209	$5731.5	-	-	$5,731.5
Total					$15.7	$77.5	$5,837.7

North Carolina Joint Underwriting Association (NCJUA) -- FAIR Plan
Residential Accounts Only

Determination of the Cost of Reinsurance Provided to the NCJUA by the Voluntary Market
Reflecting Unlimited Industry Exposure to FAIR Plan Assessments
($ in Millions)

Annual Aggregate Layer	FAIR Plan: Residential Share of Layer	Potential Assessment Paid by Member Companies (1)	Expected Losses (2) Total	Expected Losses (2) Exposed (3)	Indicated Profit Multiple (4)	Cost of Funding Assessments (5)
$0 to 17	$15.7	-	$4.35	-	0.21	-
$17 to 132	$106.2	$106.2	13.59	$13.59	0.46	$6.30
$132 to 216	$77.5	-	4.97	-	0.87	-
$216 & Higher	$5731.5	$5731.5	16.68	16.68	4.68	$78.00
Total		$5837.7	$39.60	$30.28		$84.30

(1) See Page 8.
(2) From AIR & RMS hurricane models.
(3) Expected loss subject to FAIR Plan assessments of Voluntary Market.
(4) See Page 7.
(5) = Exposed Expected Losses x Profit Multiple (based on Cat Bond data).

North Carolina Insurance Underwriting Association (NCIUA) -- Beach Plan
North Carolina Joint Underwriting Association (NCJUA) -- FAIR Plan
Residential Accounts Only

Determination of the Compensation for Bearing the Risk of Beach Plan & FAIR Plan Assessments
($ in Millions)

(1) Cost of Reinsurance Provided by the Voluntary Market to the Residential Accounts in the NCIUA (Beach Plan):	$46.32
(2) Cost of Reinsurance Provided by the Voluntary Market to the Residential Accounts in the NCJUA (FAIR Plan):	$84.30
(3) Total Cost of Reinsurance Provided by the Voluntary Market to the Residential Accounts in the NCIUA & NCJUA:	$130.62

Policy Form	(4) Estimated 2023 Industry Written Premium @ Manual Rates	(5) = (4) / Total (4) % of Total Industry Premium	(6) = (3) x (5) Allocated Compensation for Risk of Assessment	(7) = (6) / (4) Compensation for Assessment Risk as % of 2023 Manual Premium
Homeowners	$4,022.1	86.9%	$113.49	2.8%
Dwelling Fire & EC	$401.9	8.7%	$11.34	2.8%
MobileHome	$205.2	4.4%	$5.79	2.8%
Total	$4,629.1	100.0%	$130.62	2.8%

(8) Estimated Market Share of Companies that Retain Assessment Risk	50%
(9) Retained Compensation for Assessment Risk Provision:	1.4%

(1) From Page 5.
(2) From Page 9.
(3) = (1) + (2)
(4) Industry Written Premium includes NCIUA and NCJUA.
(8) NCRB Property Rating Sub-Committee selection
(9) = (7) * (8)

PREFILED TESTIMONY
OF
PAUL D. ANDERSON

2024 HOMEOWNERS INSURANCE RATE FILING BY THE NORTH CAROLINA RATE BUREAU

Q. Please state your name and business address.

A. My name is Paul D. Anderson. My business address is 17335 Golf Parkway, Brookfield, WI 53045.

Q. By whom are you employed?

A. I am employed by Milliman, Inc. (Milliman) and have been employed by Milliman since February 1, 2007.

Q. What is your educational background?

A. I received a Bachelor of Science in Actuarial Science from Drake University in Des Moines, Iowa in 1993.

Q. Do you have any additional certifications or qualifications?

A. Yes. I have been a Fellow of the Casualty Actuarial Society (CAS) since 2002 and a Certified Specialist in Predictive Analytics of the CAS Institute (iCAS) since 2018. Since 2002, I have served on several committees of the Casualty Actuarial Society, including the following:

- Syllabus & Examination Committee: April 2004 to July 2006;
- Volunteer Support Task Force: February 2012 to April 2013;
- Volunteer Resources Committee: April 2013 to March 2020;
- Vehicle Technology & Impact on Loss Trends Planning Committee: October 2017 to August 2018;
- Participation Survey Task Force: January 2018 to January 2019;
- Crash Course in Vehicle Technology & Driverless Cars Committee (chairperson): February 2020 to Present; and
- Volunteer Resources Advisory Committee: June 2020 to Present.

I have also been a member of the American Academy of Actuaries since 2002 and meet all of the continuing education requirements of that organization as well as those of the Casualty Actuarial Society.

Q. What is your employment background?

A. I was employed by Allstate Insurance Company from June 1993 until January 2007. While at Allstate, I held various actuarial roles. I began my career as an Auto Pricing Analyst and, over time, I assumed increasing responsibility in various departments that included Property Pricing, Auto Pricing, Property Research, and Auto Research. On the pricing teams, I assisted in developing rates for property and auto insurance products in most states across the country. On the research teams, I assisted in developing new property and auto risk classification plans to be implemented by Allstate's pricing teams. From 2006 until January 2007, I served as a Senior Manager for Allstate's Eastern region, which included assisting in the oversight of the pricing strategies for approximately half the country, including North Carolina.

In February 2007 I began my career at Milliman. Since 2007, I have completed, managed, or overseen numerous property and auto pricing analyses for a variety of clients. My clients have included small single-state insurance companies, industry-leading national insurance companies, start-up insurtech insurance companies, government entities, the North Carolina Rate Bureau, and other entities with similar coastal property exposure in states such as Florida, Hawaii, and Texas. These client assignments have included such projects as pricing analyses to evaluate overall rate adequacy, predictive modeling assignments to develop new risk classification plans, and analyses of catastrophe losses to evaluate the adequacy and allocation of property premiums corresponding to catastrophe risk.

Q. What is Milliman?

A. Milliman is among the world's largest providers of actuarial, risk management, and related technology and data solutions. Milliman was founded in Seattle in 1947 as Milliman & Robertson and today has offices in principal cities worldwide, covering markets in North America, Latin America, Europe, Asia and the Pacific, the Middle East, and Africa. Milliman employs more than 4,800 people, including actuaries and specialists ranging from clinicians to economists. The firm has consulting practices in employee benefits, financial services, healthcare, life insurance, and property and casualty insurance. Milliman serves the full spectrum of business, education, financial, governmental, union, and nonprofit organizations.

Q. What are your current responsibilities at Milliman?

A. I am responsible for managing and overseeing the personal lines and insurance-related predictive analytics portion of Milliman's Milwaukee Casualty practice. The personal lines and predictive analytics team conducts a variety of property and auto pricing, product development, and predictive modeling assignments, primarily for insurance companies. Over the last five years, we have completed property analyses for nearly every state in the country, including North Carolina.

Q. Were you engaged to provide actuarial services to the North Carolina Rate Bureau (the Rate Bureau) in relation to its 2024 homeowners rate filing?

A. Yes, I was.

Q. What was the scope of that engagement?

A. Milliman was engaged for several aspects of the 2024 homeowners rate filing. My role was to review the contingency provision in this filing. I was also engaged to conduct an independent review and provide feedback on the actuarial analyses underlying the filing. In this role, I participated in many of the discussions in which ISO presented preliminary data and analyses to the Rate Bureau. In addition, my role also included participating in the Rate Bureau's Property Rating Subcommittee meetings in which the 2024 homeowners filing was discussed. During these discussions, I offered feedback and insights to assist in the Subcommittee's selections and decisions related to this filing.

Q. Is your firm being compensated for this engagement?

A. Yes, it is.

Q. Is that compensation in any way contingent on the provision of favorable testimony in support of the proposed filing?

A. No, it is not.

Q. Have you completed your review of the 2024 homeowners rate filing?

A. Yes, I have.

Q. Were there any constraints placed on your review, such as limited or delayed access to data or limited time that may have hindered your complete review?

A. No, I was provided all the data and information that were necessary, and I had adequate time for a complete review. My review was not limited in any way.

Q. What is the overall indicated change in homeowners rates in this filing?

A. This filing shows the need for an overall 42.2% statewide average rate increase. This includes a 42.4% change to owners rates, a 34.3% change to tenants rates, and a 44.6% change to condominium unit owners rates.

Q. Please describe the overall ratemaking methodology that underlies the filing.

A. The approach in this filing is generally consistent with prior homeowners filings submitted by the Rate Bureau. Consistent with the *Statement of Principles*

Regarding Property and Casualty Insurance Ratemaking as published by the Casualty Actuarial Society, the indicated rates reflect the expected value of future costs associated with insuring homeowners policies. These expected costs include claims, claim settlement expenses, operational and administrative expenses, and the cost of capital.

The statewide rate-level indications for homeowners insurance are developed based on a loss cost methodology (instead of a loss ratio methodology). The indicated rate-level change is calculated for each segment (i.e., owners, tenants, and condominium unit owners) by comparing the required base class rate per policy to the current average base class rate. The required base class rate per policy is calculated by first projecting the losses and loss adjustment expenses for the policy period for which the filed rates are expected to be in effect. For the owners, tenants, and condominium unit owners forms, losses are projected excluding historical hurricane losses. In addition to the exclusion of historical hurricane losses, the projected losses for owners forms are adjusted to remove excess wind losses and an excess factor is applied based on an average of the excess wind losses over 30 years of historical experience. Base class loss costs are calculated by dividing the trended and adjusted incurred losses and loss adjustment expenses for each historical accident year by the corresponding earned house years and average rating factors. The base class loss costs by year are weighted together to develop a weighted trended non-hurricane base class loss cost. For each homeowners segment (owners, tenants, and condominium unit owners), a trended modeled hurricane base class loss cost and a provision for the trended fixed expense per policy are also developed and added to the weighted trended non-hurricane base class loss cost to determine the total base class loss cost with fixed expense.

Following the development of the base class loss cost with fixed expense, other expected underwriting expenses associated with issuing homeowners insurance policies are incorporated to determine the required base class rate per policy. These expected underwriting expenses include provisions for underwriting profit, contingencies, dividends, compensation for assessment risk, net cost of reinsurance, and deviations. As mentioned above, the required base class rate per policy is compared to the current average base class rate to develop the overall statewide indicated rate-level change. This comparison of the required and current base class rates is consistent with the *Statement of Principles* referenced above, is commonly used throughout the industry, and as such, is an actuarially sound method of developing an indicated rate-level change.

Q. Are there any changes in the ratemaking methodology or presentation in the filing as compared to prior filings?

A. The 2024 homeowners filing is generally consistent with prior filings, but there is one component of this filing that relies on a different approach as compared to the 2020 homeowners filing.

In this filing, the Rate Bureau determined the compensation for assessment risk provision in a different manner than in the 2020 homeowners filing. In prior filings, the Rate Bureau retained Milliman to develop the compensation for assessment risk provision. Due to the lack of availability of the detailed data required for the 2020 homeowners filing, Milliman relied on data from the prior year and trended that data forward to determine the provision for the 2020 filing. With this filing, Aon confirmed that they had access to the necessary detailed data and, as such, the Rate Bureau retained Aon to develop the compensation for assessment risk provision. Aon used simulated event-level hurricane losses based on the most recent exposure year and replicated the methodology used by Milliman in the 2018 homeowners filing. To reflect that some insurance companies no longer retain exposure to assessments from the Beach and FAIR Plans pursuant to the companies' respective reinsurance agreements, Aon then modified the calculated compensation for assessment risk provision by multiplying it by 50%.

This approach, though a change from the 2020 homeowners filing, was used by the Rate Bureau in its Dwelling Insurance rate filing submitted in July, 2023, and the change is reasonable, actuarially sound, and has minimal impact on the rate-level indications.

Q. How are the expected losses determined?

A. This filing uses the latest available five years of historical loss experience to determine expected losses other than hurricane losses. These five years include accident years ending December 31, 2017, through December 31, 2021. Using five years of experience is consistent with North Carolina statutes and prior homeowners rate filings. It is also consistent with generally accepted ratemaking practices because the use of five years of historical experience balances stability of the overall rate level with responsiveness to the most recent conditions. Because severe weather-related events can cause volatility in the loss experience, hurricane losses and excess wind losses (for owners forms only) have been removed from the historical loss experience. Each of the five years of losses has been developed to ultimate amounts and has been adjusted to a common $1,000 deductible level for owners forms and a $500 deductible level for tenants and condominium unit owners forms. Losses are developed to ultimate because the final incurred losses for an accident year are often different from initial loss estimates due to the late reporting of claims or as yet unknown settlement amounts on known claims.

After these initial adjustments, a provision for excess wind losses is applied to each accident year for the owners forms, and a provision for loss adjustment expenses is applied to each accident year for all homeowners forms. The excess factor of 1.094 for the owners forms in the filing is determined using ISO's standard excess loss procedure, using a 30-year experience period as noted earlier. This procedure evaluates historical non-hurricane loss experience back to 1992 to develop a ratio of the long-term average excess loss ratio to the long-term average normal loss ratio.

Following these additional adjustments, in order to reflect the expected change in costs, the losses are trended from the midpoint of each experience period to the policy period for which the filed rates are assumed to be in effect. Similar to prior homeowners filings, historical claim frequency, loss severity, and pure premium experience were considered in the evaluation of loss trends. The historical experience is adjusted to the prospective period using selected loss trends that are based on the data described above.

In addition to reflecting a loss trend, a premium trend is also determined by combining current amount factors with premium projection factors for each accident year. The current amount factors are developed by comparing the average policy amount relativity for each accident year to the comparable relativity for the most recent year in the experience period. The premium projection factors are calculated based on the fitted annual change in the average policy amount relativity for each policy form.

In my opinion, the selections and methodologies referenced above, including the excess factor, the loss adjustment expense factors, the loss trend factors, and the premium trend factors, are reasonable and actuarially sound.

After adjusting the losses for each of the items mentioned above, each year's trended losses and loss adjustment expenses are divided by the earned house years to determine the average trended loss cost. The average trended loss costs are converted to trended base class loss costs by dividing by the average rating factor applicable to each accident year. Finally, these base class loss costs are weighted together to develop a Weighted Trended Non-Hurricane Base Class Loss Cost. The weights applied to each accident year are consistent among all of the policy forms and assign more weight to the more recent years in order to be more responsive to the most recent loss experience.

In my opinion, the methodology used to develop average loss costs and the weights assigned to each of the homeowners policy forms are reasonable and are consistent with widely used actuarial ratemaking practices.

Q. In the previous response, you mentioned a loss adjustment expense provision. How are the homeowners provisions for loss adjustment expense determined?

A. The allocated and unallocated loss adjustment expenses are included with non-hurricane losses by applying a trended loss adjustment expense factor. Using information received from the Rate Bureau's data call for expense experience, loss adjustment expenses are summarized for calendar years 2018 through 2022. Consistent with prior homeowners filings, a three-year average is calculated after removing the highest and lowest ratio of expenses to losses from the five years of historical expense experience referenced above. By excluding the highest and lowest ratios observed in the historical experience period, this methodology reduces the volatility in the average loss adjustment expense ratio that may result from variation in the underlying incurred losses from year to year. After the average loss adjustment expense ratio is calculated, it is adjusted to reflect the difference in the loss adjustment expense trend and the loss trend.

A separate provision for hurricane-related loss adjustment expenses is included in the modeled hurricane losses based on data and a recommendation provided by Aon.

Q. In your opinion, are the provisions for loss adjustment expenses reasonable?

A. Yes, the loss adjustment expense provisions are reasonable. It is common practice in the industry to use an average of historical experience to determine a loss adjustment expense provision, and it is reasonable to adjust that provision for expected differences in the loss adjustment expense trend and the loss trend, as we have done here.

Q. Is credibility considered in the rate-level indication?

A. Yes, credibility is considered. At the statewide level, based on the volume of data supporting the statewide rate-level indications, all three homeowners segments (owners, tenants, and condominium unit owners) are considered fully credible. The full credibility standards are 240,000 house years for owners, 285,000 house years for tenants, and 190,000 house years for condominium unit owners. When the territorial rate-level indications are calculated, partial credibility is determined using the square root rule and full credibility standards of 60,000 house years for owners, 75,000 house years for tenants, and 50,000 house years for condominium unit owners. The application of the square root rule is a long-standing actuarial methodology used throughout the industry.

Q. How is hurricane exposure reflected in each policy form's rate-level indication?

A. Similar to the Rate Bureau's 2020 homeowners filing, this filing reflects hurricane exposure in each of the owners, tenants, and condominium unit owners sections of the rate-level indication by using modeled hurricane losses rather than actual hurricane loss experience. Although there are actual hurricane losses in the experience period, the hurricane and excess wind losses have been removed from the historical loss experience, as noted in my testimony above. Actual hurricane losses have a significant amount of variability even when evaluating twenty or more years of historical loss experience in a state. As such, it is universally accepted by the property and casualty insurance industry that hurricane models provide the most reliable approach to determining anticipated average annual hurricane losses over an extended time period. Hurricane models can be used to simulate 100,000 or more years of events, which provides a broader perspective on potential insured losses as compared to only evaluating the last several decades of losses. This broader perspective provides a more reliable estimate of the average frequency and severity of insured hurricane losses. Similarly, it provides a more reliable estimate of the frequency and severity of rare, but very severe events that may not have occurred within the last 100 years of recorded history, but have the potential to occur next year.

Q. How is the provision for expected hurricane losses determined?

A. The provision for average annual hurricane losses in this filing is consistent with prior homeowners filings in that expected hurricane losses are developed through the use of hurricane models of two independent catastrophe modelers. To facilitate the use of two hurricane models, the Rate Bureau retained Aon to run both models and to develop modeled hurricane losses using the blended results of these two models. I reviewed the exposure data provided as input to each model, and it is my opinion that the data were reasonable and consistent with other sections of this filing. I am also familiar with the assumptions selected as inputs to each model, and it is my opinion that the assumptions were applied consistently in both the AIR and RMS models such that the resulting output of both models is comparable. However, because Aon ran both models, I am relying on the work and opinion of Minchong Mao of Aon as they relate to specific details about the modeling process. The reliance on Aon to run both models and to develop modeled hurricane losses using the blended results of these two models is consistent with prior homeowners filings.

The Rate Bureau requested that Aon combine the results of the two hurricane models by averaging the results from each model. This approach of giving equal weight to each model is intuitive, easy to understand, and the most reasonable method of blending two hurricane models. This blending approach (i.e., averaging) is also a common practice among insurance companies that consider multiple hurricane models. Based on my review of the blended model results, it is my opinion that the resulting hurricane losses reflected in this filing are reasonable and can be relied upon for the various purposes for which modeled hurricane losses are used in this filing. Additionally, since both models are equally credible, it is also my opinion that assigning equal weight to each model is the most reliable blending method and the most actuarially sound approach to consider two hurricane models.

Q. What model versions and modeling assumptions were used to develop estimated hurricane losses?

A. The current AIR model is Touchstone v9 and the current RMS model is RiskLink v21. To develop the expected hurricane losses, Aon relied on AIR's Standard event set and on RMS' Historical event set. These event sets were used instead of AIR's Warm Sea-Surface Temperature (WSST) event set and RMS' Medium-Term Rate event set. Although many primary insurance companies consider the WSST and Medium-Term Rate event sets when developing expected hurricane losses for indicated rates in states other than North Carolina, the event sets selected for this filing are reasonable and actuarially sound.

Both the AIR and RMS models were run with aggregate demand surge included, which was identified as loss amplification in the RMS model. This standard procedure accounts for the expected additional cost for labor and materials after a very large hurricane occurs. Historical experience shows that, when major catastrophic events occur, the increased demand for building materials, labor, temporary housing, and other basic necessities can exceed the supply of these same items, which consequently increases their cost. Running models with demand surge is consistent with the Rate Bureau's prior homeowners filings and is the common practice by insurance companies when developing rates based on modeled hurricane losses. Although the demand surge component of each model was used in this filing, the storm surge component of each model was not used to develop hurricane losses.

Q. Were any other calculations applied to the hurricane losses derived from the models?

A. Yes. Before providing the blended hurricane losses, Aon applied a hurricane-specific provision for loss adjustment expense. After Aon provided the modeled hurricane losses (including LAE), ISO calculated a Trended Modeled Hurricane Base Class Loss Cost for each segment. The trended modeled hurricane base class loss costs have been adjusted for LAE and trended such that the resulting amounts are evaluated at a point in time consistent with the amounts developed for the weighted trended non-hurricane base class loss costs.

Q. How is the provision for commission and brokerage determined?

A. The provision for commission and brokerage is determined based on the latest three-year average of the ratio of homeowners commission and brokerage expense relative to homeowners actual written premium (i.e., written premium including deviations). Deviations are included in the premium amounts underlying this calculation in order to be consistent with the actual calculation of commission and brokerage amounts paid by individual companies within the industry.

Q. In your opinion, is the provision for commission and brokerage reasonable?

A. Yes, the commission and brokerage provision is reasonable. It is common practice in the industry to use a three-year average to determine a commission and brokerage provision.

Q. How is the provision for taxes, licenses, and fees determined?

A. The provision for taxes, licenses, and fees is determined based on the latest three-year average of the ratio of homeowners taxes, licenses, and fees expense relative to homeowners actual written premium (i.e., written premium including deviations). Deviations are included in the premium amounts underlying this calculation in order to be consistent with the actual calculation of taxes, licenses, and fees paid by individual companies within the industry.

Q. In your opinion, is the provision for taxes, licenses, and fees reasonable?

A. Yes, the taxes, licenses, and fees provision is reasonable. As with the commission and brokerage provision, it is common practice in the industry to use a three-year average to determine a taxes, licenses, and fees provision.

Q. How is the provision for other acquisition expense determined?

A. The provision for other acquisition expense is based on the latest three-year average of the ratio of homeowners other acquisition expense relative to homeowners earned premium at current manual level (i.e., earned premium excluding deviations).

The three-year average provision is added to the general expense provision to determine a total fixed expense provision. The fixed expense provision is then trended from the midpoint of the experience period to the midpoint of the trend period based on an expense trend derived from cost indices. Following this, the trended fixed expense provision is applied to the statewide average homeowners premium (adjusted for premium trend) to develop an average all-forms fixed expense load. This all-forms fixed expense load is allocated to each policy form based on a relativity of 1.00 for owners and a relativity of 0.50 for tenants and condominium unit owners. The average fixed expense load for each policy form is then adjusted to the base class level by dividing by each policy form's average rating factor and premium projection factor. The resulting amounts are the fixed expense amounts per policy for each policy form.

Q. In your opinion, is the provision for other acquisition expense reasonable?

A. Yes, the other acquisition expense provision is reasonable. It is common practice in the industry to use a three-year average to determine an other acquisition expense provision, and to trend fixed expense provisions to account for inflation.

Q. How is the provision for general expense determined?

A. The provision for general expense is determined based on the latest three-year average of the ratio of homeowners general expense relative to homeowners earned premium at current manual level (i.e., earned premium excluding deviations).

The three-year average provision is added to the other acquisition expense provision to determine a total fixed expense provision. The fixed expense provision is then trended from the midpoint of the experience period to the midpoint of the trend period based on an expense trend derived from cost indices. As noted above, this trended fixed expense provision is applied to the statewide average trended homeowners premium, allocated to each policy form, and adjusted to the base class level to develop the fixed expense amounts per policy for each policy form.

Q. In your opinion, is the provision for general expense reasonable?

A. Yes, the general expense provision is reasonable. It is common practice in the industry to use a three-year average to determine a general expense provision, and to trend fixed expense provisions to account for inflation.

Q. Is a provision for policyholder dividends included in the filing?

A. Yes, the Rate Bureau reviewed historical homeowners data and developed a provision for expected policyholder dividends. The Rate Bureau evaluated five years of historical experience and selected a provision for policyholder dividends of 0.5%. This was based on a five-year average ratio of the total policyholder dividends issued by homeowners insurers in North Carolina to the total direct written premium of those same companies.

The Actuarial Standard of Practice (ASOP) No. 29 regarding *Expense Provisions in Property/Casualty Insurance Ratemaking* states:

> The *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* of the Casualty Actuarial Society (CAS) classifies policyholder dividends as an expense to operations. When the actuary determines that policyholder dividends are a reasonably expected expense and are associated with the risk transfer, the actuary may include a provision in the rate for the expected amount of policyholder dividends. In making this determination, the actuary should consider the following: the company's dividend payment history, its current dividend policy or practice, whether dividends are related to loss experience, the capitalization of the company, and other considerations affecting the payment of dividends.

As stated in ASOP NO. 29, policyholder dividends are classified as an operating expense. In addition to the above excerpt from the *Statement of Principles Regarding Property and Casualty Insurance Ratemaking*, the Statement also provides that indicated rates should reflect the expected costs associated with insuring homeowners policies, including all operating expenses. As such, since policyholder dividends are classified as an operating expense, it is consistent with the *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* and ASOP No. 29 to include a provision for policyholder dividends in the proposed rates reflected in this filing.

Q. In your opinion, is the provision for dividends reasonable?

A. Yes, the provision for dividends is reasonable. It is reasonable and actuarially sound to calculate a five-year average ratio to determine a provision for dividends, and to treat this provision in a similar manner as a variable underwriting expense.

By reviewing five years of historical experience to determine a provision for dividends, the Rate Bureau is complying with the *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* by considering the dividend payment history and ensuring that the selected provision is a reasonably expected expense.

Q. Is a contingency provision included in the filing?

A. Yes, the Rate Bureau is including a 1% contingency provision in this filing. This is consistent with prior homeowners rate filings submitted by the Rate Bureau.

In addition to being consistent with prior Rate Bureau filings, the use of a contingency provision is common within the property and casualty insurance industry. According to the *Actuarial Standard of Practice No. 30: Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking,* "the actuary should include a contingency provision if the assumptions used in the ratemaking process produce cost estimates that are not expected to equal average actual costs, and if this difference cannot be eliminated by changes in other components of the ratemaking process." There are several reasons why expected cost estimates may not be equal to actual costs. Some of these reasons include adverse court decisions, extension of coverage for unforeseen or unintended exposures, regulatory delay or reduction in filed rate changes, and unexpected large losses not sufficiently recognized in the normal ratemaking process. For these reasons, among others, a contingency provision is appropriate and necessary in my opinion.

Included with this filing as Exhibit RB-21 is an exhibit I prepared that summarizes the estimated impact of delays in the filing process within the State of North Carolina. The delay in obtaining rate changes, whether caused by the regulatory review process or other delays inherent in the filing process, is merely one of several items listed above that supports the use of a contingency provision in a rate-level indication. Exhibit RB-21 lists the 21 property rate filings submitted by the Rate Bureau between 2008 and 2022. For each filing, I compared the effective date assumed in the rate filing to the actual effective date. This difference, which reflects the delay due to the filing process, ranges from 0 months in the 2019 dwelling filing, to 22 months in the 2011 dwelling filing. After determining the length of delay for each filing, I applied the net trend (i.e., the loss trend offset by the premium trend) in that filing for the number of months of delay to determine the estimated impact of the delay in the filing process on the overall rate level. The estimated impact of delay varies across the 21 filings, ranging from -1.9% in the 2021 MH(C) mobile homeowners filing to +5.9% in the 2008 MH(C) mobile homeowners filing, with an average impact of +1.0%.

Based on prior filings submitted by the Rate Bureau, my experience with property filings submitted by insurance companies in other states, and the 1.0% estimated impact of delays in the North Carolina filing process, it is my opinion that a 1% contingency provision is reasonable, consistent with common actuarial practice, and appropriate based on fundamental actuarial principles. Again, the impact of delays in the filing process is only one of many reasons that justifies a contingency provision.

Q. Are you providing expert testimony concerning the underwriting profit provision?

A. No, I am relying on the work and opinion of Dr. Zanjani as to the underwriting profit provision. The scope of my analysis and testimony relates to other aspects of the proposed rate filing.

Q. Are you providing expert testimony concerning the development of the compensation for assessment risk provision?

A. No, as noted earlier in my testimony, the Rate Bureau retained Aon to develop the compensation for assessment risk provision. Because Milliman developed this provision in property rate filings submitted by the Rate Bureau prior to the 2023 Dwelling Insurance rate filing, I reviewed Aon's methodology and results to ensure that the compensation for assessment risk provision in this filing is consistent with those previous filings. However, because Aon completed the analysis to determine this provision, I am relying on the work and opinion of Minchong Mao of Aon as to the underlying details and development of the compensation for assessment risk provision. The scope of my analysis and testimony relates to other aspects of the proposed rate filing.

Q. In your opinion, is it appropriate to include a 1.4% provision for the compensation for assessment risk in homeowners rates in North Carolina?

A. Yes. Insurance companies writing homeowners policies in North Carolina are exposed to the risk of Beach Plan or FAIR Plan assessments as a result of writing voluntary market property insurance in the state. As such, for those insurance companies that retain this exposure, they are entitled to receive fair compensation for bearing that risk and it is appropriate to include that compensation in the homeowners rates. The current provision is based on an analysis completed by Aon that relies on a widely accepted measure of compensation that will fairly compensate insurers for bearing this additional risk to their capital. Moreover, the North Carolina statutes provide that prospective exposure to non-recoupable assessments shall be considered as an appropriate factor in the making of rates by the Rate Bureau.

Q. Earlier, when describing the overall ratemaking methodology that underlies this filing, you said that the expected underwriting expenses include a provision for the net cost of reinsurance. Can you please explain this issue?

A. Yes. Homeowners insurance is one of several types of coverages that has exposure to potential catastrophic events. In such coverages (homeowners, mobile homeowners, and other property coverages), individual catastrophic events can result in significant losses that exceed the amount of liability the typical insurer can reasonably assume for solvency and financial stability considerations and that can jeopardize the insurer's ability to pay claims. As a result, in these lines of business, insurers routinely purchase reinsurance to mitigate their exposure to extreme events. In order to accurately reflect the expected costs associated with insuring property policies, as discussed in the *Statement of Principles Regarding Property and Casualty Insurance Ratemaking*, it is appropriate to include the cost of this reinsurance in the ratemaking process for these lines of insurance.

Q. Please elaborate on why it is appropriate to include a provision for the net cost of reinsurance in homeowners rates in North Carolina.

A. Insurance companies writing homeowners policies in North Carolina incur a significant cost for bearing the risk of properties exposed to catastrophic events. Regardless of whether the risk of catastrophic losses is retained by the primary insurer or transferred to a reinsurer, the market cost of bearing that risk is a legitimate cost of the risk transfer inherent in the purchase of property insurance and must be included in the rates. As I mentioned, this is a foundational actuarial principle included in the *Statement of Principles Regarding Property and Casualty Insurance Ratemaking.* As such, the net cost of reinsurance should be included in the North Carolina homeowners rates and the North Carolina statutes specifically authorize the inclusion of this provision.

Q. How does this filing reflect the net cost of reinsurance?

A. For many years, the Rate Bureau has included a provision for the net cost of reinsurance. For this filing, the Rate Bureau engaged Aon, one of the world's largest reinsurance brokers, to develop the provision for the net cost of reinsurance. It is my understanding that Aon was retained by the Rate Bureau based on their ability to access relevant data and experience from the reinsurance market, their expertise with catastrophe-related issues, and their prominence in the reinsurance industry. This is consistent with prior homeowners rate filings submitted by the Rate Bureau.

Q. In your opinion, is it appropriate to allocate reinsurance costs within North Carolina in a way that is proportional to risk?

A. Yes. The risk associated with insuring properties exposed to catastrophic events varies geographically within North Carolina. As such, the cost for bearing that risk should be allocated proportionally to the measurement of risk. In its analysis of reinsurance costs for this filing, Aon provides the statewide provision for the net reinsurance cost and allocates the reinsurance costs to each policy form and each territory. This allocation is appropriate and consistent with the objective of producing rates that are not inadequate, not excessive, and not unfairly discriminatory across policyholders.

Q. Are you providing expert testimony concerning the development of the net cost of reinsurance provision?

A. No, I am relying on the work and opinion of Minchong Mao of Aon as to the development of the net cost of reinsurance provision.

Q. Is a provision for deviations included in the filing?

A. No, the Rate Bureau reviewed historical data and considered whether to apply a provision for deviations but elected not to include one in this filing.

Q. Does the filing review the rate-level adequacy by territory?

A. Yes. With this filing, the Rate Bureau developed indicated rate-level changes by territory using a similar methodology as the statewide indication. A base class loss cost is calculated for each territory using the historical loss experience. In addition, a credibility value is assigned to each territory for each policy form based on the number of house years underlying each loss cost. As mentioned above, for territorial ratemaking, the full credibility standards are 60,000 house years for the owners forms, 75,000 house years for the tenants form, and 50,000 house years for the condominium unit owners form. Using the credibility for each territory, a credibility-weighted loss cost is determined by territory. Additional calculations are applied to each territory to reflect modeled hurricane losses, expenses, dividends, and reinsurance in a similar manner as applied at a statewide level. The result of these calculations is an indicated rate-level change by territory.

In my opinion, the methodology used to develop the indicated rate-level change by territory and by policy form is reasonable and is consistent with widely used actuarial ratemaking practices.

Q. Does the filing review the wind exclusion credits and wind mitigation credits?

A. Yes. Based on the indicated rates by territory (for Territories 110 to 160) and by policy form that are being proposed with this filing, the wind exclusion credits and wind mitigation credits are being updated in a corresponding manner. Using the underlying formula for the statewide rate-level indication, an adjustment is made to the appropriate components of the indication formula to reflect the non-wind losses as a percent of the total losses. The indicated non-wind rate is subtracted from the indicated overall rate to determine the indicated wind exclusion credit for each territory. The wind mitigation credits for Territories 110 to 160 are being revised in a manner proportional to the wind exclusion credits.

In my opinion, the methodology used to develop the revised wind exclusion credits and wind mitigation credits is reasonable and is consistent with widely used actuarial ratemaking practices.

Q. Does the filing review the wind-only rates?

A. Yes. Based on the indicated wind exclusion credits by territory (for Territories 110 to 160) and by policy form that are being proposed with this filing, the wind-only rates are also being updated in a corresponding manner. Using the proposed wind exclusion credits by territory, a fixed expense component is added to each credit to develop the proposed wind-only rates.

In my opinion, the methodology used to develop the revised wind-only rates is reasonable and is consistent with widely used actuarial ratemaking practices.

Q. Does the filing review any other rating factors used in the premium calculation process?

A. No. The only changes reflected in this filing are to base rates, wind exclusion credits, and wind mitigation credits as discussed above.

Q. What are the indicated rate levels for this filing?

A. The indicated rate level is the actuarially sound and correct rate level for each policy form and each territory. It is the indicated rate change by territory that is needed to cover the expected losses and expenses while still providing a fair and reasonable profit. The indicated rate level is also the rate level that complies with the statutory requirement that rates not be excessive, inadequate, or unfairly discriminatory.

For owners forms, the statewide indicated rate-level change is 42.4%. Due to differences by territory in historical loss experience, modeled hurricane losses, and other expenses, the indicated change by territory varies throughout the state. For many of the western territories, the indicated change is less than 42.4%, but for several of the territories closer to the coast, the indicated change is greater than 42.4%. By contrast, the statewide indicated rate-level changes for tenants and condominium unit owners are 34.3% and 44.6%, respectively, and similar to the owners forms, the indicated changes by territory vary across the state.

In my opinion, the Rate Bureau's indicated rate-level changes for owners, tenants, and condominium unit owners are reasonable, actuarially sound, and appropriately reflect the expected costs for homeowners insurance in North Carolina.

Q. What are the filed rate levels for this filing?

A. In this filing, the filed rate levels are equal to the indicated rate levels for each policy form and each territory.

Q. I understand that you are not providing an opinion concerning the underwriting profit (profit) provision, the compensation for assessment risk (CAR) provision, or the net cost of reinsurance (NCOR) provision. If I ask you to assume that the provisions for profit, CAR, and NCOR are reasonable and actuarially sound, then, in your opinion, is the overall rate-level indication shown in the homeowners filing by the North Carolina Rate Bureau reasonable and actuarially sound?

A. Yes, if I assume that the provisions for profit, CAR, and NCOR are reasonable, then, in my opinion, the overall homeowners rate-level indication shown by the Rate Bureau, and the rate-level indications for each policy form and each territory, are reasonable and actuarially sound.

Q. Assuming that the provisions for profit, CAR, and NCOR are reasonable, do you have an opinion whether the proposed rates reasonably provide for the expected costs for homeowners insurance in North Carolina?

A. Yes, if I assume that the provisions for profit, CAR, and NCOR are reasonable, then, in my opinion, the proposed rates in this filing reasonably reflect the expected costs for homeowners insurance in North Carolina.

Q. Assuming that the provisions for profit, CAR, and NCOR are reasonable, what is your opinion on whether the proposed homeowners rates are not excessive, not inadequate, and not unfairly discriminatory?

A. If I assume that the provisions for profit, CAR, and NCOR are reasonable, then, in my opinion, the proposed homeowners rates in this filing are not excessive, not inadequate, and not unfairly discriminatory.

Q. Does this conclude your testimony?

A. Yes, it does.

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SUMMARY

Property & Casualty (P&C) actuary with more than 30 years of experience in actuarial applications and related fields including ratemaking, product development, predictive modeling, state pricing, field proposals, rate filings, actuarial and statistical research, classification analysis, data analytics, and economic modeling. Experienced in Private Passenger Automobile (including preferred, standard, and non-standard), Personal Property (including homeowners, renters, condominium owners, mobile home, and dwelling), other miscellaneous Personal Lines (including boats, motorcycles, recreational vehicles, and personal umbrella), and various Commercial Lines of Business. Has sound knowledge of product development, product pricing, product implementation, and project management for Personal Lines products. Has working knowledge of other key insurance functions including claims, corporate finance, marketing, reinsurance, sales, and underwriting. Has demonstrated the ability to lead and manage teams of employees to achieve desired business results in various capacities. Has unique combination of analytic ability, business intuition, project management, leadership, and communication skills.

EMPLOYMENT HISTORY

Milliman, Inc. 2007 - Present
Brookfield, Wisconsin

Principal and Consulting Actuary
Specialize in personal lines insurance company clients and predictive analytics of both personal and commercial lines of insurance. Experience has included ratemaking and pricing analyses for insurance companies, product development and implementation, classification analysis using multivariate statistical techniques, catastrophe reinsurance analysis, loss reserving, segmentation analysis to support sales and marketing initiatives, impact analysis of proposed state and federal legislation, and merger and acquisition analysis. Has also provided expert testimony to support Auto and Property regulatory issues.

Allstate Insurance Company 1993 - 2007
Northbrook, Illinois

Senior Manager – Auto & Property Pricing (2006-2007)
Oversaw and directed all personal lines Auto and Property pricing, rate filings, and other actuarial work related to the pricing function for 10 states accounting for over $4 billion of premium. Assisted in the oversight of all personal lines actuarial work related to the pricing function for an additional 12 states. Served as the primary department expert on all Property pricing initiatives. Directly managed a staff of 10 to 12 employees and participated in the leadership team that oversaw the management of a department with more than 130 employees.

Team Leader – Property & Specialty Lines Research (2005-2006)
Managed all research projects for personal lines Property and for Specialty Lines, all of which were completed using multivariate statistical analyses. Measured the impact of rating algorithm changes as they were implemented in various states. Oversaw the enhancement and improvement of analysis techniques used within the team. Led a team of 8 to 10 staff.

Research Manager (1999-2001, 2003-2005)
At different times, managed research teams for personal lines Auto, Economics & Modeling, and personal lines Property. Oversaw the development of countrywide pricing models based on multivariate statistical techniques, the evaluation of risk characteristics to be used as new rating elements, and the development of implementation tools to be used by pricing teams. Oversaw the development of Auto and Property economic models that measured the lifetime profitability of personal lines insurance customers. Led teams of staff ranging in size from 3 to 6 analysts.

Pricing Manager (1997-1999, 2001-2003)
Managed all personal lines Auto and Property pricing, rate filings, and other actuarial work related to the pricing function for California. Managed all personal lines Property pricing, rate filings, and other actuarial work related to the pricing function for 14 states including Alabama, Florida, Louisiana, and Mississippi. Led teams of staff ranging in size from 3 to 6 analysts.

Pricing Analyst, Research Analyst (1993-1997)
Produced rate proposals, rate filings, and quarterly rate-level indications for various states. Retrieved, manipulated, and analyzed large volumes of data to evaluate countrywide rating plans using multivariate statistical analyses.

EXPERT WITNESS EXPERIENCE

Pre-filed Expert Testimony – Various Private Passenger Automobile and Residential Property Insurance Rate Filings submitted by the North Carolina Rate Bureau

- *2023 Dwelling Insurance Filing*
- *2023 Private Passenger Automobile Insurance Filing*
- *2022 Mobile Homeowners MH(C) Insurance Filing*
- *2022 Mobile Homeowners MH(F) Insurance Filing*
- *2022 Dwelling Insurance Filing*
- *2021 Mobile Homeowners MH(C) Insurance Filing*
- *2021 Mobile Homeowners MH(F) Insurance Filing*
- *2020 Dwelling Insurance Filing*
- *2020 Homeowners Insurance Filing*
- *2019 Dwelling Insurance Filing*
- *2019 Mobile Homeowners MH(C) Insurance Filing*
- *2019 Mobile Homeowners MH(F) Insurance Filing*
- *2019 Private Passenger Automobile Insurance Filing*
- *2018 Homeowners Insurance Filing*
- *2018 Dwelling Insurance Filing*
- *2017 Homeowners Insurance Filing*
- *2016 Dwelling Insurance Filing*

EDUCATION

BS in Actuarial Science from Drake University, Des Moines, Iowa

PROFESSIONAL QUALIFICATIONS

Certified Specialist in Predictive Analytics (CSPA), 2018
Fellow of the Casualty Actuarial Society (FCAS), 2002
Member of the American Academy of Actuaries (MAAA), 2002
Associate of the Casualty Actuarial Society (ACAS), 1998
Member of the Midwest Actuarial Forum, 1998

PROFESSIONAL ACTIVITIES

Volunteer Chairperson, CAS Crash Course Seminar Task Force, 2021 - Present
Member, CAS Volunteer Resources Task Force, 2021 - Present
Chairperson, CAS Crash Course in Vehicle Technology & Driverless Cars Committee, 2020 - 2021
Member, CAS Volunteer Resources Advisory Committee, 2020 - 2021
Member, CAS Participation Survey Task Force, 2018 - 2019
Member, Vehicle Technology & Impact on Loss Trends Planning Committee, 2017 - 2018
Member, iCAS Predictive Analytics Syllabus Committee, 2017 - 2018
Member, CAS Volunteer Resources Committee, 2013 - 2020
Member, CAS Volunteer Support Task Force, 2012 - 2013
Member, CAS Examination Committee, 2004 - 2006

PUBLICATIONS

"*Keep on trucking: COVID-19 and its impact on commercial auto*", Milliman Insight, April 2020.
"*PIP PIP hooray! The changing Michigan auto market*", Milliman Insight, April 2020.
"*Nowhere to drive: The impact of COVID-19 on the auto insurance industry*", Milliman Insight, March 2020.
"*Better Visibility: Predictive modeling helps to steady medical malpractice underwriting*", Best's Review, February 2008.

PRESENTATIONS

Numerous presentations at Casualty Actuarial Society (CAS) and other Property & Casualty insurance industry meetings and seminars from 2007 through the present with a focus on personal lines Auto and Property issues, as well as predictive analytics topics.

NORTH CAROLINA
HOMEOWNERS INSURANCE

Estimated Impact of Delays in Rate Filing Process

NCRB Rate Filing	Policy Type / Coverage	Premium Weight	(1) Assumed Effective Date	(2) Actual Effective Date	(3) # of Months of Delay	(4) Selected Loss Trend	(5) Selected Premium Trend	(6) Estimated Impact of Delay in Filing Process
2022 MH(C)	Mobile Home Structures	$64,510,959	7/1/23	10/1/23	3	12.0%	3.2%	2.1%
	Adjacent Structures	5,337,948	7/1/23	10/1/23	3	6.0%	5.0%	0.2%
	Personal Effects	11,872,318	7/1/23	10/1/23	3	2.8%	4.8%	-0.5%
	Liability	2,467,108	7/1/23	10/1/23	3	8.0%	1.0%	1.7%
	Total	$84,188,333						1.6%
2022 MH(F)	Owners	$47,454,596	7/1/23	10/1/23	3	9.0%	3.8%	1.2%
	Tenants	114,906	7/1/23	10/1/23	3	2.8%	1.2%	0.4%
	Total	$47,569,502						1.2%
2022 Dwelling	Fire	$71,710,360	2/1/23	6/1/23	4	6.5%	5.0%	0.5%
	EC	246,871,993	2/1/23	6/1/23	4	7.0%	5.0%	0.6%
	Total	$318,582,353						0.6%
2020 HO	Owners	$2,161,073,789	8/1/21	6/1/22	10	6.0%	1.1%	4.0%
	Tenants	76,318,464	8/1/21	6/1/22	10	0.5%	-2.0%	2.1%
	Condos	31,251,398	8/1/21	6/1/22	10	5.0%	0.0%	4.1%
	Total	$2,268,643,651						4.0%
2021 MH(C)	Mobile Home Structures	$55,402,780	11/1/21	5/1/22	6	-2.0%	2.7%	-2.3%
	Adjacent Structures	4,435,898	11/1/21	5/1/22	6	10.2%	4.4%	2.7%
	Personal Effects	10,600,963	11/1/21	5/1/22	6	-2.0%	4.4%	-3.1%
	Liability	2,198,331	11/1/21	5/1/22	6	8.0%	0.7%	3.5%
	Total	$72,637,972						-1.9%
2021 MH(F)	Owners	$41,984,133	11/1/21	5/1/22	6	1.0%	2.7%	-0.8%
	Tenants	95,516	11/1/21	5/1/22	6	-2.0%	1.0%	-1.5%
	Total	$42,079,649						-0.8%
2020 Dwelling	Fire	$71,555,474	9/1/21	11/1/21	2	0.0%	1.2%	-0.2%
	EC	229,061,439	9/1/21	11/1/21	2	9.0%	1.5%	1.2%
	Total	$300,616,913						0.9%
2019 Dwelling	Fire	$83,923,771	7/1/20	7/1/20	0	2.0%	1.1%	0.0%
	EC	241,506,295	7/1/20	7/1/20	0	3.2%	0.8%	0.0%
	Total	$325,430,066						0.0%
2019 MH(C)	Mobile Home Structures	$52,069,226	2/1/20	6/1/20	4	3.5%	1.6%	0.6%
	Adjacent Structures	4,212,665	2/1/20	6/1/20	4	4.0%	2.8%	0.4%
	Personal Effects	10,255,303	2/1/20	6/1/20	4	2.0%	4.1%	-0.7%
	Liability	2,410,058	2/1/20	6/1/20	4	5.0%	n/a	1.6%
	Total	$68,947,252						0.5%
2019 MH(F)	Owners	$51,661,941	2/1/20	6/1/20	4	0.7%	-0.5%	0.4%
	Tenants	66,881	2/1/20	6/1/20	4	2.0%	2.1%	0.0%
	Total	$51,728,822						0.4%
2018 HO	Owners	$2,017,285,314	10/1/19	5/1/20	7	4.6%	1.0%	2.0%
	Tenants	72,370,871	10/1/19	5/1/20	7	-3.1%	-1.4%	-1.0%
	Condos	29,047,171	10/1/19	5/1/20	7	1.9%	0.2%	1.0%
	Total	$2,118,703,356						1.9%
2018 Dwelling	Fire	$102,088,428	6/1/18	2/1/19	8	0.2%	2.3%	-1.3%
	EC	187,663,877	6/1/18	2/1/19	8	0.4%	2.1%	-1.1%
	Total	$289,752,305						-1.2%
2017 HO	Owners	$2,010,516,565	6/1/18	10/1/18	4	3.1%	1.1%	0.7%
	Tenants	62,551,401	6/1/18	10/1/18	4	-3.1%	-1.0%	-0.7%
	Condos	24,591,783	6/1/18	10/1/18	4	1.9%	0.5%	0.5%
	Total	$2,097,659,749						0.6%
2014 HO	Owners	$2,257,970,589	7/1/14	6/1/15	11	5.3%	2.3%	2.7%
	Tenants	45,065,871	7/1/14	6/1/15	11	2.9%	-1.0%	3.6%
	Condos	22,629,842	7/1/14	6/1/15	11	5.4%	0.0%	5.0%
	Total	$2,325,666,302						2.7%

NORTH CAROLINA
HOMEOWNERS INSURANCE

Estimated Impact of Delays in Rate Filing Process

NCRB Rate Filing	Policy Type / Coverage	Premium Weight	(1) Assumed Effective Date	(2) Actual Effective Date	(3) # of Months of Delay	(4) Selected Loss Trend	(5) Selected Premium Trend	(6) Estimated Impact of Delay in Filing Process
2014 MH(C)	Property	$77,349,418	6/1/15	10/1/15	4	3.0%	2.8%	0.1%
	Liability	1,546,804	6/1/15	10/1/15	4	2.8%	n/a	0.9%
	Total	$78,896,222						0.1%
2014 MH(F)	Owners	$44,750,216	6/1/15	10/1/15	4	4.6%	2.2%	0.8%
	Tenants	100,658	6/1/15	10/1/15	4	2.5%	-0.2%	0.9%
	Total	$44,850,874						0.8%
2012 HO	Owners	$2,168,814,729	6/1/13	7/1/13	1	5.4%	3.0%	0.2%
	Tenants	32,405,190	6/1/13	7/1/13	1	4.0%	0.0%	0.3%
	Condos	18,252,996	6/1/13	7/1/13	1	4.0%	2.0%	0.2%
	Total	$2,219,472,915						0.2%
2011 Dwelling	Fire	$84,664,174	6/1/11	4/1/13	22	3.6%	2.9%	1.3%
	EC	150,823,062	6/1/11	4/1/13	22	4.1%	2.8%	2.3%
	Total	$235,487,236						2.0%
2008 HO	Owners	$1,498,766,325	1/1/09	5/1/09	4	4.4%	3.9%	0.2%
	Tenants	24,074,875	1/1/09	5/1/09	4	0.2%	2.7%	-0.8%
	Condos	13,213,524	1/1/09	5/1/09	4	0.2%	2.9%	-0.9%
	Total	$1,536,054,724						0.1%
2008 MH(C)	Property	$76,284,985	10/1/07	12/1/08	14	7.5%	2.4%	5.9%
	Liability	1,161,840	10/1/07	12/1/08	14	4.0%	n/a	4.7%
	Total	$77,446,825						5.9%
2008 MH(F)	Owners	$43,659,180	10/1/07	12/1/08	14	6.6%	5.8%	0.9%
	Tenants	158,638	10/1/07	12/1/08	14	0.4%	-4.1%	5.5%
	Total	$43,817,818						0.9%
							Average Estimated Impact of Delays in Filing Process:	**1.0%**

(1), (4), (5) From historical NCRB rate filings
(2) From historical NCRB settlement agreements or circulars
(6) = {[1 + (4)] / [1 + (5)]} ^ {[(2) - (1)]/365} - 1

PREFILED TESTIMONY
OF
GEORGE ZANJANI

HOMEOWNERS INSURANCE RATE FILING
NORTH CAROLINA RATE BUREAU
JANUARY, 2024

I. Qualifications and Summary

Q: What is your name, occupation, and business address?

A: My name is George Zanjani. I am Professor of Finance and the holder of the Frank Park Samford Chair of Insurance at the University of Alabama. My business address is 1074 Alderwood Lane NE, Marietta, Georgia 30068.

Q: Please describe your educational and employment background.

A: A complete curriculum vitae is attached as Exhibit RB-23 with this testimony. To summarize, my undergraduate studies were at Stanford University from 1987-1990, where I earned an A.B./B.S in Economics and Biology. I joined the commercial lines actuarial department of Fireman's Fund Insurance Companies in 1990 as an Assistant Actuarial Analyst. Upon leaving in 1994, I was a Senior Actuarial Analyst, an Associate of the Casualty Actuarial Society, and the head of the company's Workers Compensation actuarial unit. I did my graduate studies in Economics at the University of Chicago, earning a Ph.D. in 2000. I joined the Research Department of the Federal Reserve Bank of New York in the Capital Markets Function as a Research Economist in 2000, leaving as a Senior Economist in 2008. I joined the Robinson College of Business of Georgia State University in 2008 as an Associate Professor of Risk Management and Insurance and was honored as the inaugural holder of the AAMGA Distinguished Chair in Risk Management and Insurance in 2011. I started my current position in 2017.

Q: Please elaborate on some of your professional activities.

A: My professional career has been focused on insurance. After four years of actuarial work in commercial lines insurance, my dissertation addressed the economics of insurance pricing. I specialized on insurance issues while at the Federal Reserve Bank of New York. In particular, I served for the Bank on the Presidential Working Group on Financial Markets during its review of the renewal of the Terrorism Risk Insurance Act in 2006 and on the Committee on the Global Financial System Task Force on Institutional Investors, Global Savings, and Asset Allocation.

My academic service activities include 1) service as referee for various academic journals, 2) service as an associate editor of the *Journal of Insurance Issues*, and 3) (current) service as a senior editor for the *Journal of Risk and Insurance* and as an associate editor for *Insurance: Mathematics and Economics*. In addition, I have served on the Board of the American Risk and Insurance Association and served as President of that association. I have also served as President of the Risk Theory Society.

As an academic, I continue to write on insurance pricing, participate in academic conferences on insurance, and engage in various sponsored research and consulting activities related to insurance. The latter activities include three research projects on capital allocation sponsored by the Casualty Actuarial Society during the last decade and a project on the financial crisis and the insurance industry sponsored by the Society of Actuaries in 2009. In addition, I have taught various courses at the undergraduate and graduate levels over the past decade, including classes on financial risk management, risk modeling, and property-casualty insurance.

Q: Have you published any papers or books?

A: Yes. I have published various articles, book chapters, reviews, and white papers on insurance pricing and other aspects of insurance markets. Published or forthcoming work includes articles on insurance topics in the *American Economic Review*, *Insurance: Mathematics and Economics*, the *Journal of Banking and Finance*, the *Journal of Financial Economics*, the *Journal of Public Economics*, the *Journal of Risk and Insurance*, *Management Science, North American Actuarial Journal,* and *Variance.* My co-authors and I have two chapters in the 2013 edition of the Handbook of Insurance, one on capital allocation for insurance companies, and the other on the financial pricing of insurance. Two papers have won awards for their contributions to the field of actuarial science: I received the 2010 ARIA award from the Casualty Actuarial Society and shared the 2015 Charles A. Hachemeister Prize (also from the Casualty Actuarial Society) with a co-author.

Q: Are you a member of any professional organizations?

A: I am a member of the American Economic Association, the American Finance Association, the American Risk and Insurance Association, the European Group of Risk and Insurance Economists, and the Risk Theory Society. I am also an Associate of the Casualty Actuarial Society. I served on the Board of Directors of the American Risk and Insurance Association from 2007 to 2014 and served as President in 2012-2013. I served as President of the Risk Theory Society in 2012.

Q: Have you ever testified in insurance rate regulatory proceedings?

A: Yes. I have offered testimony in Workers Compensation insurance rate filings in Florida (2015 and 2017), Massachusetts (2020, 2022, and 2023), and Virginia (2016). In addition, I have supplied testimony for various rate filings in North Carolina starting in 2019, including Workers Compensation, Private Passenger Auto, Homeowners, Mobile Homeowners, Flood, and Dwelling.

Q: What was the nature of your testimony in those previous cases?

A: In the Florida, Massachusetts, and Virginia cases, I offered testimony on the underwriting profit factors used in the rates. Specifically, I evaluated the suitability of the methods and assumptions used to develop those factors, as well as whether the rate of return on capital implied by those factors was reasonable. For the North Carolina filings, I estimated the rate of return on capital implied by the selected underwriting profit factors and assessed whether that rate of return was reasonable.

Q: What is the purpose of your testimony in this proceeding?

A: I was asked by the North Carolina Rate Bureau, as a financial economist with expertise in insurance, 1) to assist the Bureau with the underwriting profit factor selection, 2) to determine the expected return on insurance net worth implicit in the filing, and 3) to assess whether the expected return on net worth constitutes a reasonable rate of return and thus whether the selected underwriting profit factor satisfies North Carolina's statutory requirements.

Q; Please summarize the main findings of your testimony.

A: The first task was to determine the range for a reasonable rate of return on capital. I started by creating a set of estimates of the cost of insurance equity relevant for the North Carolina Homeowners insurance market. I consulted various third-party estimates of the cost of equity for the property-casualty insurance industry. I also generated my own estimates using a single-factor risk premium approach, where the cost of equity was determined by 1) the historical excess return of the overall stock market over bonds, 2) the historical correlation of the equity prices of the firms serving the North Carolina Homeowners market with the overall stock market, and 3) the current level of bond yields. Finally, I adjusted the cost of equity to account for the significant presence of private companies in the North Carolina market. The cost of equity estimates resulting from this exercise ranged from about 9.9% to 21.6%.

Next, I calculated a weighted average cost of capital (WACC) by estimating the percentage of debt in the typical insurance holding company capital structure and weighting together the cost of equity with cost of debt based on this fraction. The resulting range for the WACC was about 8.7% to 17.9%.

The next task was to determine the projected rate of return on capital associated with the selected underwriting profit provision. Using a pro forma return model similar to that used in previous filings, I analyzed how the selected underwriting profit provision used in the filing translates into an expected return on net worth. Consistent with previous filings, and with North Carolina law stipulating that the investment income earned on capital and surplus is not to be considered in determining the appropriate rate of return for the insurance industry, I refer to the expected return on net worth without including investment income on capital and surplus as the *statutory return*. When calculating the expected return on net worth including investment income earned on capital and surplus, I refer to the figure as the *total return.* My calculations for Homeowners are detailed in Exhibit RB-24 and are summarized below:

Return Definition	Homeowners
Statutory Return	7.43%
Total Return	11.62%

I next considered two adjustments to the model that I believe produce a more accurate representation of the rate of return produced by the selected underwriting profit factor. First, I adjusted the asset portfolio allocations (across bonds, stocks, and various other investments) to reflect the allocations actually supporting North Carolina Homeowners business, rather than the overall average North Carolina industry allocations. Second, I adjusted the prospective portfolio yields to reflect current market conditions, as opposed to the average of current market yields and embedded yields. The combined effect of these changes is to increase the statutory return to 7.72% and the total return to 12.99%.

I then compared the projected returns on capital associated with the selected underwriting factor with the cost of equity and WACC ranges described above. The projected statutory return was below the range of estimates in both cases, while the projected total return fell comfortably within the range of cost of equity estimates and the range of WACC estimates. These findings hold after adjusting the portfolio allocations and prospective yields as described above. I therefore conclude that the expected return implied by the underwriting profit provision used in the filing is not excessive on a statutory return basis, and is reasonable and not excessive on a total return basis.

II. Expected Return on Net Worth

Q: In general terms, how did you determine the expected return on net worth implied by the underwriting profit provision used in the filing?

A: I used a *pro forma* return model similar to that used in previous filings in North Carolina. The model accounts for underwriting income, installment payment income, investment income on unearned premium and loss/loss adjustment expense (LAE) reserves, and taxes as a percentage of premium. Total after-tax income from these sources (as a percentage of premium) is then related to net worth (as a percentage of premium) to obtain an expected return on net worth.

Q: What do you mean by *pro forma*?

A: The model is *pro forma* in the sense that it assumes 1) that the indicated rate change will be implemented and 2) that all loss, expense, and investment return realizations will coincide with their projected expected values.

The results of the model and supporting information are presented in Exhibit RB-24.

Q: Could you state what you mean by “net worth”?

A: Net worth is the book value of equity of a company under Generally Accepted Accounting Principles (GAAP) rather than Statutory Accounting Principles (SAP).

Q: Did you account for investment income on capital and surplus in calculating the expected return?

A: It is my understanding that North Carolina law provides that insurance rates are to be set such that those rates are expected to provide a return to insurers that is equal to the returns of industries of comparable risk and that, in calculating that expected return, the investment income on capital and surplus is to be excluded from consideration. Therefore, I present the expected return projected to result from the selected underwriting profit provision excluding investment income on capital and surplus. However, for informational purposes, I also present the expected return projected to result from the selected underwriting profit provision including investment income on capital and surplus. I am also aware that a revision to the ratemaking statutes will become effective after this filing is proposed to become effective providing that investment income on capital and surplus is to be considered. The information I present in my exhibits demonstrates that the selected underwriting profit provision complies with North Carolina law even when that change in the law becomes effective.

Q: Would you please elaborate on the elements of the return and how they are calculated?

A: The return is composed of underwriting profit (Line 2 of Exhibit RB-24, Pages 1 and 1A), installment fee income (Line 3 of Exhibit RB-24, Pages 1 and 1A) and investment gain on insurance transaction (Line 7 of Exhibit RB-24, Pages 1 and 1A). In the calculation that includes investment income on surplus for informational purposes, I additionally include investment gain on surplus (Line 8 of Exhibit RB-24, Page 1A). (Please note that, in my exhibits and sometimes in my testimony, I refer to investment income on surplus as a shorthand reference to investment income on capital and surplus.) All of the foregoing income components are adjusted for taxes. The components are discussed in greater detail below:

Underwriting profit and installment fee income - As a matter of arithmetic and definition, the underwriting profit as a percentage of premium matches the underwriting profit provision selected by the NCRB. It is the percentage of premium left over after accounting for the loss and expense provisions, with the projected loss and LAE ratio and fixed expense ratios being adjusted to reflect the indicated rate change. Installment fee income is based on the average installment charges as a percentage of premium over the past five years (Exhibit RB-24, Page 3). The underwriting profit income and installment fee income are both assumed to be taxed at the current corporate rate of 21% (Line 4 of Exhibit RB-24, Pages 1 and 1A), as revised in the Tax Cut and Jobs Act of 2017. I also account for additional tax liabilities relating to IRS rules regarding the treatment of unearned premium reserves and of loss reserves (Line 5 of Exhibit RB-24, Pages 1 and 1A). Details of the calculation of these additional tax liabilities are found on Pages 4 to 6 of Exhibit RB-24.

Net Investment Gain on Insurance Transaction – This portion of the return reflects investment income on investible funds generated by the insurance transaction. Specifically, this quantity is calculated as the product of an investment yield and the average loss/LAE and unearned premium reserves that are actually held at the insurance company. An adjustment is made for investment income on agents balances (specifically, to account for the fact that agents balances, which are premiums held by agents and not yet remitted to the company, are not available for investment by the insurance company). I also adjust for investment income on reinsurance balances in the case of Homeowners insurance, accounting for the additional income that the company receives on funds that have not yet been remitted to the reinsurer, as well as the investment income that it is not able to collect on funds that have not yet been recovered from the reinsurer. The details of the estimation of investible reserves and the investment income generated from those reserves are found on Pages 7 to 9 of Exhibit RB-24, with the adjustments for balances shown on Pages 1 and 1A. The tax liability is based on a weighted average of estimated tax rates on the different sources of investment income, with the weights based on the composition of the overall property-casualty industry portfolio.

Investment Gain on Surplus – This portion of the return would reflect investment income generated from surplus. The investment yield is applied to investible surplus, the amount of which is based on the ten-year average premium-to-surplus ratio for groups writing Homeowners insurance in North Carolina from Page 14 of Exhibit RB-24. The tax liability is again based on a weighted average of estimated tax rates on the different sources of investment income, with the weights based on the composition of the overall North Carolina industry portfolio.

These components of after-tax return, all denominated as a percent of premium, are then summed and related to net worth. This is accomplished by multiplying the returns as a percent of premium by the product of the premium-to-surplus ratio from Page 14 of Exhibit RB-24 and the inverse of the industry-wide net worth-to-surplus ratio from Page 15 of Exhibit RB-24.

Q: Please explain how the investment yield is calculated.

A: My understanding is that the accepted approach in North Carolina, based on a decision by the Commissioner in the 1990's, is to estimate the investment yield as an average of the "embedded yield" based on the industry statutory annual statement reports and a "current yield" based on current market rates. I have followed this convention in the analysis presented in Exhibit RB-24, though I contemplate the consequences of this convention in more detail later in my testimony.

For the current yield, I start with the overall weighted average invested asset portfolio for the North Carolina insurance market (using total North Carolina Direct Premiums Written (DPW) for weights) and use various sources to estimate the current market yields for those assets. Sources for current market rates, and a summary of the overall calculation, are provided on Page 11 of Exhibit RB-24. For each of the bond subcategories, I obtain a maturity distribution for the North Carolina industry portfolio in that subcategory from the Schedule D summary exhibits and match each maturity level from the exhibits to a corresponding bond yield of similar maturity, so that the average yield shown on Page 11 is a weighted average across maturities according to the North Carolina industry portfolio. The overall pre-tax current yield on the industry portfolio as thus determined is 6.52%. The embedded yield calculations, based on the actual investment income reported by the industry, are shown on Pages 12 and 13 of Exhibit RB-24; the pre-tax embedded yield is 3.86%. For the pro forma calculations, I average these two figures to obtain 5.19% (shown on Page 10 of Exhibit RB-24).

The tax liability for investment income is determined for each asset class, reflecting tax advantages as appropriate on municipal bond interest, preferred and common stock dividends, and capital gains on stock. The expected return on equity is split into a capital gain and dividend component, for tax purposes, based on the experience of the S&P 500 over the 1998-2022 period.

Q: What is the expected return on net worth?

A: To calculate the implied return on insurance company equity, components of after-tax return are summed and related to net worth, which, as a percentage of premium, is calculated based on the product of the premium-to-surplus ratio from Page 14 of Exhibit RB-24 and the inverse of the industry-wide net worth-to-surplus ratio from Page 15 of Exhibit RB-24. This approach indicates that the selected underwriting profit factor of 9.0% for Homeowners insurance, if achieved, would yield an expected statutory return on net worth of 7.43% (without including investment income on surplus) and a total return on net worth of 11.62% (when including investment income on surplus).

Q: Have you considered the impact of any other alternative assumptions on your estimates?

A: Yes, I have considered the impact of an alternative investment yield calculation.

Specifically, I considered the combined impact of two changes.

First, I based the asset distribution on a premium-weighted average of the portfolio allocations used by the companies writing Homeowners in North Carolina. The pro forma model relied on the weighted average invested asset distribution for the North Carolina insurance industry. While I have followed this convention in Exhibit RB-24, the asset allocation for the North Carolina Homeowners market could be different. Basing the allocation assumption on the portfolios of the companies actually writing Homeowners business in North Carolina, in my opinion, offers a much closer approximation to the average investment portfolio supporting North Carolina Homeowners underwriting.

Second, I based the investment yield solely on the current yield. The practice of averaging embedded yields with current yields makes little difference when the yields are relatively close together. But there is a significant divergence between the current yields on investments and embedded yields, with the pre-tax current yield being more than 260 basis points higher than the embedded yield. The current yield, in my opinion, is the better indicator of investment yields for a prospective ratemaking exercise, where the relevant questions concern the terms on which money will be invested today and in the future.

The combined effect of these two changes is to raise the projected statutory return to 7.72% and the projected total return to 12.99%.

Q: How was the underwriting profit factor determined?

A: The Bureau selected the 9.0% provision. I participated in the Bureau's Property Rating Subcommittee meeting for the discussion of the profit portion of the rate review. I described for the committee my pro forma profit analysis and provided arrays of underwriting profit provisions and their associated returns on net worth, both without including investment income on surplus and including investment income on surplus. The returns shown in those arrays spanned the range for the cost of capital that I had provided. Following my presentation and the committee discussion, the committee selected the underwriting profit factor.

III. Rate of Return on Capital

Q: What steps did you take in the course of assessing whether the returns described above would produce a reasonable rate of return on capital?

A: I first established ranges for reasonable estimates of the cost of capital. I then compared the estimated statutory and total returns on net worth determined in Section II above to these cost of capital ranges.

Q: How did you establish ranges for reasonable estimates of the cost of capital?

A: The cost of capital for an industry is a difficult figure to pin down, and part of my approach is based on a belief in the wisdom of considering estimates from a variety of sources. I started by gathering various third-party estimates of the cost of capital for property-casualty firms associated with publicly traded holding companies. I also made an independent set of estimates of the same tailored specifically for the North Carolina Homeowners market. I then made adjustments to all of these estimates to account for the presence of private companies in the North Carolina market.

Q: Please describe the third-party estimate sources and methodologies.

A: Kroll (formerly Duff & Phelps) and Damodaran Online (an open-access website maintained by Aswath Damodaran, a valuation expert affiliated with New York University) both publish estimates for the property-casualty industry. Kroll updates the estimates quarterly (the estimates reported below are from 6/30/2023), while Damodaran Online updates the estimates annually (1/1/2023).

Kroll reports estimates from a variety of methodologies. Some estimates are produced using factor models, where the industry's sensitivity to a pricing factor (or sensitivities to a set of factors) are measured and used to generate a cost of capital. For example, single factor models (such as the Capital Asset Pricing Model, or CAPM) typically mark the overall stock market return in excess of a "base" fixed income return as the pricing factor. The cost of capital is generated in this case by estimating a risk premium for each factor, adjusting that risk premium to account for the sensitivity of the industry in question to that factor, and then adding the adjusted risk premium to the current yield of the "base" fixed income instrument to produce a cost of capital. In addition to CAPM estimates, Kroll also reports a "CAPM + size premium" estimate to recognize the higher cost of capital endured by smaller firms and thus correct for the average size of firms within an industry. The "Buildup Method" employs a related approach, adding a size premium and an industry premium to the standard market risk premium. The Fama-French-5-factor model extends the single risk factor framework of the CAPM to a five factor risk framework, thus pricing an industry's equity on the basis of its sensitivity to four additional factors in addition to overall market returns. Kroll also utilizes discounted cash flow (DCF) models, where free cash flow or dividends are forecasted into the future, with the cost of capital estimate being the implied discount rate on the future cash flows that explains the current equity valuation. In general, the two classes of methods---factor models and DCF models---are perhaps the two most widely accepted and widely deployed methods for estimating the cost of equity.

Damodaran reports estimates from a single-factor CAPM model. However, rather than estimating the risk premium associated with the stock market based on simple averages of historical excess returns (as is typically done), he attempts to modify the premium to account for the current level of stock market valuation. This distinction is one example of the substantial variation in implementation of factor models, which can have significant effects on the estimates. There is also substantial methodological variation in implementation of the DCF model, which is estimated with different time period stages, with time-varying growth rates. All of this underscores the importance of consulting multiple sources of estimates and testing sensitivities where possible. Damodaran uses a 10-year Treasury yield as the risk-free rate in his model, and I updated the rate for the 10-year Treasury yield to 4.58% (the three month average up to 10/25/2023) to be consistent with the other parts of the analysis.

The approaches described above all produce estimates of the cost of equity. This cost of equity is then weighted together with an estimated cost of debt for the industry to produce a WACC for publicly traded firms. The weights are based on the composition of the capital structure (equity versus debt) for the industry.

Q: Please describe how you derived your independent estimates of the cost of equity capital for publicly traded firms.

A: I used a single factor model, also referred to as a "risk premium" approach in previous filings in North Carolina. This approach estimates the cost of equity as

$$r + \beta * (ERP)$$

where r is the current yield on a reference fixed income instrument, ERP is the estimated expected excess return of the stock market over that fixed income yield, and β is the estimated covariation between the equity of the property-casualty industry and the overall stock market (more precisely, the covariance of property-casualty equities with the S&P 500, divided by the variance of the S&P 500).

For the reference interest rate, I tried four different fixed income assets---the 3-month Treasury Bill, the 10-year Treasury Note, the Moody's Seasoned Aaa Corporate Bond Index, and the Moody's Seasoned Baa Corporate Bond Index. In each case, I estimated the equity risk premium as the average excess return of the S&P 500 over the return on the reference fixed income asset over the 1928-2022 period. To calculate the average returns, I used the formula from Blume (1974)[1] by weighting together the arithmetic average and the geometric average, as in:

$$\left[\frac{N-T}{N-1}(1+\pi_A) + \frac{T-1}{N-1}(1+\pi_G)\right]^{\frac{1}{T}}$$

where N is the sample size, T is the return horizon (corresponding to the maturity of the fixed income asset), π_A is the arithmetic average return in the sample, and π_G is the geometric average return in the sample.

For β (beta), I estimated a weighted average beta for the North Carolina Homeowners market. For each publicly traded holding company associated with an operating subsidiary underwriting Homeowners insurance in North Carolina in 2022, I pulled the beta provided by S&P Global

[1] Blume, M.E. (1974), "Unbiased Estimates of Long-Run Expected Rates of Return," *Journal of the American Statistical Association* (September), pp. 634-8.

(based on 1-year and 3-year daily returns). I then calculated a weighted average based on 2022 North Carolina Homeowners DPW.

Given current yields for the reference fixed income assets and estimates for the equity risk premium and beta, I then calculated a cost of equity according to the formula given above.

Next, I estimated a WACC for the North Carolina market. For the capital structure, I estimated a weighted average debt percentage for the North Carolina Homeowners market. For each publicly traded holding company, I calculated the percentage of debt in the capital structure based on the latest fiscal year report. For the cost of debt, I used the figure from Damodaran Online, based on a 4.58% 10-year Treasury rate.

Q: What were the results?

A: The following table lists the cost of equity and the WACC for publicly traded companies, including the estimates I produced and those reported by Kroll and Damodaran Online for the property-casualty industry.

Cost of Capital for Publicly Traded Companies

Source	Method	Current Yield (10/25/2023)	Equity Risk Premium	Cost of Equity		WACC	
Kroll	CAPM			8.0%		7.2%	
Kroll	CAPM + Size Premium			8.4%		7.5%	
Kroll	Build-Up			8.9%		7.9%	
Kroll	Fama-French 5-factor			8.7%		7.8%	
Kroll	DCF (1-stage)			14.7%		12.5%	
Kroll	DCF (3-stage)			17.5%		14.7%	
Damodaran Online	Implied Premium			9.35%		8.52%	
				Low	**High**	**Low**	**High**
Zanjani	Risk Premium over T-Bill	5.59%	8.19%	10.46%	10.84%	9.61%	9.93%
Zanjani	Risk Premium over T-Note	4.58%	6.50%	8.45%	8.75%	7.89%	8.15%
Zanjani	Risk Premium over Aaa Bond	5.34%	5.62%	8.68%	8.94%	8.09%	8.31%
Zanjani	Risk Premium over Baa Bond	6.36%	4.41%	8.98%	9.19%	8.35%	8.52%

I have also shown the current yield and equity risk premium elements for each of my own estimates to facilitate replication. Other parameters I used were calculated as described above: 1) the weighted average beta for the North Carolina industry (0.5948 to 0.6407), 2) the cost of debt (4.65%), and 3) the percentage of debt in the capital structure (14.66%).

To illustrate, the higher cost of equity for my "Risk Premium over T-Bill" method is:

$$5.59\% + 0.6407 \times 8.19\% = 10.84\%,$$

and the WACC is:

$$(1 - .1466) \times 10.84\% + .1466 \times 4.65\% = 9.93\%.$$

Note that the estimates for capital structure and the cost of debt differ across sources, so the relationship between the cost of equity and the WACC for Kroll and Damodaran Online will not follow the exact formula listed above.

Q: Do you believe any adjustments are necessary to the estimated cost of equity in the context of this filing?

A: Yes. All of the foregoing estimates are based on the data of publicly traded companies, which have the easiest access to financing and thus the lowest costs of capital. However, I found that operating companies affiliated with publicly traded holding companies wrote only 29.6% of the 2022 Homeowners DPW for North Carolina. The remainder was underwritten by companies associated with private, often mutual, ownership---a segment well known to have more difficulty in accessing the capital markets. The industry average cost of equity needs to be adjusted upward to account for this non-public ownership.

Q: How much higher is the cost of equity for non-public firms?

A: Research dating back at least as far as the 1960's has demonstrated that private equity trades at a substantial discount to public equity. The discount is thought to derive from a variety of factors, including the illiquid nature of private equity stakes (also known as a "lack of marketability") as well as information, monitoring, and control issues. The discount translates into a higher cost of equity. For example, if a public firm's cost of equity is estimated at 10% and the equity of a comparable private firm is selling at a 20% discount to that of the public firm, the private firm's cost of equity would be estimated as:

$$12.5\% = 10\% \ / \ (1 - 20\%)$$

The discount is difficult to estimate. Exhibit RB-25 summarizes some of the academic research on the private firm discount. Studies have taken a variety of approaches to measurement. "IPO" studies compare the prices of pre-IPO share transactions in a private company with post-IPO share prices after the company is public. "Acquisition" studies compare the valuations of acquired private companies versus the valuations of acquired public companies. "Restricted stock" and "private placement" studies compare the prices of restricted stock issued by public companies with the prices of their traded shares.

All the approaches have their flaws. IPO studies, for example, are thought to have a bias toward overstating the discount because of the differences in timing of transactions. Restricted stock and private placement studies tend to understate the discount: Since they confine their attention to public companies, they do not account for factors other than the discount for lack of marketability (DLOM), and, moreover, the actual restrictions on marketability for private placements have been loosened significantly over the years by the Securities and Exchange Commission.

On balance, however, the studies point to a substantial discount. For purposes of this testimony, I use a discount of 25%, which is somewhat below the average of the averages of the three groups in Exhibit RB-25 (when taking the midpoint of the ranges for the studies with ranges of estimates).

Q: How would this affect the estimated cost of equity for the industry?

A: Assuming a 25% private company discount and a 29.6% market share for public companies, I calculated adjusted estimates of the private cost of equity and the public cost of equity:

$$70.4\% * \left(\frac{COE}{(1-0.25)}\right) + (29.6\%) * (COE),$$

where COE is the estimated cost of equity for public companies. The adjusted estimates are as follows:

Cost of Capital, Adjusted for Non-Public Ownership

Source	Method	Cost of Equity		WACC	
Kroll	CAPM	9.9%		8.7%	
Kroll	CAPM + Size Premium	10.4%		9.1%	
Kroll	Build-Up	11.0%		9.5%	
Kroll	Fama-French 5-factor	10.7%		9.4%	
Kroll	DCF (1-stage)	18.2%		15.2%	
Kroll	DCF (3-stage)	21.6%		17.9%	
Damodaran Online	Implied Premium	11.55%		10.33%	
		Low	**High**	**Low**	**High**
Zanjani	Risk Premium over T-Bill	12.92%	13.38%	11.71%	12.10%
Zanjani	Risk Premium over T-Note	10.43%	10.80%	9.58%	9.90%
Zanjani	Risk Premium over Aaa Bond	10.72%	11.04%	9.83%	10.10%
Zanjani	Risk Premium over Baa Bond	11.09%	11.34%	10.15%	10.36%

Q: How do these figures speak to the issue of whether or not the pro forma expected return on net worth is reasonable?

A: There are at least two schools of thought on this issue.

The first is that the "net worth" in the pro forma return exhibit should be interpreted as an equity investment akin to the equity considered in the cost of equity analysis. Thus, it should be entitled to a similar rate of return. Under this school of thought, the return on net worth calculated in the previous section should be compared directly with the cost of equity figures in the table above. If one does this, the projected returns are, in my opinion, clearly not excessive, even when including investment income on surplus in the calculation of the return. The projected total return of 11.62% is within the span of estimates, which range from 9.9% to 21.6%. If one instead focuses on the statutory return by excluding investment income on surplus, the projected return of 7.43% is below the range of estimates. Similar conclusions apply when testing robustness by 1) adjusting the investment portfolio to the allocations matched to the North Carolina Homeowners market and 2) substituting current yields for embedded yields.

A second school of thought is that, although the capital of the operating subsidiaries may be fully financed by equity, the holding companies are the source of that equity. Thus, one should "look through" the operating subsidiaries to the level of the holding companies to determine a cost of capital, which is important because the holding companies---unlike the insurance subsidiaries---typically hold significant debt in the capital structure. Holding companies that are typically classified as property-casualty companies have, in recent history and on average, had in the neighborhood of 20% debt. Thus, the cost of capital for the holding company is, under this school of thought, calculated as a weighted average of the cost of equity and the cost of debt, with the weights based on each component's share of the capital structure. The result is the WACC discussed above, which, as can be seen above, is typically lower than the cost of equity due to the lower cost of debt.

On the other hand, the market value of the capital of the holding company will be different from the book value of the capital invested in the insurance subsidiaries. Thus, a particular return on net worth at the level of the operating subsidiary will translate into a lower (higher) return on holding company capital if the market value of the holding company capital exceeds (is less than) the net worth of the insurance subsidiaries.

Stock market valuations at current levels put the market-to-net worth ratio of the public companies that own the major underwriters of Homeowners insurance in North Carolina, on average, well above one. However, even if one assumes that the market value of holding company capital is equal to the net worth of the operating subsidiaries, the table demonstrates that a total return on net worth of 11.62% for the North Carolina Homeowners market is reasonable and not excessive; it falls well within the span of estimates (8.7% to 17.9%). The statutory return on net worth of 7.43% falls below the span of estimates and so is clearly not excessive. Similar conclusions hold after adjusting projected returns to account for the investment portfolio of companies serving the North Carolina Homeowners market and the current level of investment yields.

In summary, the expected returns on net worth calculated in Section II are, in my opinion, consistent with a reasonable and not excessive return on invested capital when viewed on a total return basis and not excessive when viewed on a statutory return basis.

IV. Conclusion

Q: Based on your knowledge and experience and on the studies and analyses you have performed, have you come to any conclusions regarding the underwriting profit factor selected by the Bureau and used in its indicated rate level calculations in this filing?

A: Yes. Based on my pro forma return analysis detailed in Exhibit RB-24, I found that the expected statutory return on net worth implied by the selected 9.0% underwriting profit factor for Homeowners insurance was 7.43% (not including investment income on surplus). The expected total return on net worth was 11.62% (including investment income on surplus). When making adjustments that I regard as appropriate to account for the asset distribution relevant for this line of business and the yields currently in the marketplace, the expected statutory and total returns rose to 7.72% and 12.99%, respectively. After reviewing the cost of capital estimates for the industry produced by third parties and producing my own estimates tailored to the North

Carolina market, I found the expected total return on net worth resulting from the selected underwriting profit factor to be consistent with a reasonable and not excessive return on invested capital. The expected statutory return on net worth is consistent with a return on invested capital that is not excessive.

An important caveat to this analysis, however, is that all conclusions are predicated on the assumption that the indicated rate level is achieved. In the event that a lower rate level is implemented, the expected rate of return could be inadequate.

Q: Does that conclude your testimony?

A: Yes.

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Education

Ph.D., Economics, University of Chicago, 2000
ACAS, Casualty Actuarial Society, 1994
A.B. / B.S., Economics and Biology, Stanford University, 1990

Work Experience

University of Alabama (Tuscaloosa, Alabama)
Professor of Finance and Frank Park Samford Chair of Insurance, 2017-

University of Cologne
Gen Re Visiting Professor, 2023

Georgia State University (Atlanta, Georgia)
AAMGA Distinguished Chair in Risk Management & Insurance, 2011-2017
Associate Professor, 2008-2017

Nanyang Technological University (Singapore)
Visiting Senior Research Fellow, 2011-12, 2013-2014

Federal Reserve Bank of New York (New York, New York)
Senior Economist, 2006-2008
Economist, 2000-2006

Fireman's Fund Insurance Companies (Novato, California)
Senior Actuarial Analyst, 1993-94
Actuarial Analyst, 1991-1993
Assistant Actuarial Analyst, 1990-1991

Publications: Refereed Scholarly

"Economic Capital and RAROC in a Dynamic Model," (with Daniel Bauer), ***Journal of Banking and Finance***, 125: Article 106071, (2021) [Winner of Casualty Actuarial Society Hachemeister Prize, 2015]

"Capital Allocation Techniques: Review and Comparison," (with Daniel Bauer and Qiheng Guo), ***Variance***, 14(2), (2021)

"Dynamic Capital Allocation with Irreversible Investments," (with Daniel Bauer, Shinichi Kamiya, and Xiaohu Ping), ***Insurance: Mathematics and Economics*** 85: 138-52, (2019)

"What Drives Tort Reform Legislation? Economics and Politics of the State Decisions to Restrict Liability Torts," (with Yiling Deng), ***Journal of Risk & Insurance*** 85: 959-991, (2018)

"Egalitarian Equivalent Capital Allocation," (with Shinichi Kamiya), ***North American Actuarial Journal*** 21: 382-96, (2017)

"The Marginal Cost of Risk, Risk Measures, and Capital Allocation," (with Daniel Bauer), ***Management Science*** 62: 1431-1457 (2016)

"Economic Analysis of Risk and Uncertainty Induced by Health Shocks: A Review and Extension," (with Tomas J. Philipson), in *Handbook of the Economics of Risk and Uncertainty*, Volume 1, Mark J. Machina and W. Kip Viscusi (eds.), North Holland: Elsevier (2014)

"Capital Allocation and Its Discontents," (with Daniel Bauer), in *Handbook of Insurance* (2nd edition), Georges Dionne (ed.), New York: Springer (2013)

"Financial Pricing of Insurance," (with Daniel Bauer and Richard D. Phillips), in *Handbook of Insurance* (2nd edition), Georges Dionne (ed.), New York: Springer (2013)

"Insurance Risk, Risk Measures, and Capital Allocation: Navigating a Copernican Shift," (with Michael R. Powers), ***Annual Review of Financial Economics*** 5: 201-223 (2013)

"Catastrophe Bonds, Reinsurance, and the Optimal Collateralization of Risk Transfer," (with Darius Lakdawalla), ***Journal of Risk & Insurance*** 79**,** pp. 449-76 (2012)

"An Economic Approach to Capital Allocation," ***Journal of Risk and Insurance*** 77, pp. 523-549 (2010) [Winner of Casualty Actuarial Society ARIA Award, 2010]

"Federal Financial Exposure to Catastrophic Risk," (with J. David Cummins and Michael Suher), in *Measuring and Managing Federal Financial Risk,* Deborah Lucas (ed.), Chicago: University of Chicago Press (2010)

"Public versus Private Underwriting of Catastrophe Risk: Lessons from the California Earthquake Authority," in *Risking House and Home: Disasters, Cities, Public Policy,* John M. Quigley and Larry A. Rosenthal (eds.), Berkeley: Berkeley Public Policy Press (2008)

"Regulation, Capital, and the Evolution of Organizational Form in U.S. Life Insurance," ***American Economic Review*** 97, pp. 973-983 (2007)

"Insurance, Self Protection, and the Economics of Terrorism," (with Darius Lakdawalla), ***Journal of Public Economics*** 89, pp. 1891-1905 (2005)

"Terrorism Insurance Policy and the Public Good," (with Darius Lakdawalla), ***St. John's Journal of Legal Commentary*** 18, pp. 463-469 (2004)

"The Production and Regulation of Health Insurance: Limiting Opportunism in Proprietary and Non-Proprietary Organizations," (with Tomas Philipson) in *Individual Decisions for Health*, Bjorn Lindgren (ed.), pp. 194-206, Routledge International Studies in Health Economics, Routledge: London (2003)

"Pricing and Capital Allocation in Catastrophe Insurance," ***Journal of Financial Economics*** 65, pp. 283-305 (2002) [reprinted in *Insurance and Risk Management Volume I: Economics of Insurance Markets*, Gregory Niehaus (ed.), Northampton: Edward Elgar Publishing, (2008)]

Publications: Professional/Practitioner

Book review of "Moral Hazard in Health Insurance," *Journal of Economic Literature* 53, pp. 682-3 (2015)

"Microinsurance Lessons from History," (with Rick Koven), *Microinsurance Learning and Knowledge (MILK)* (2013)

"Institutional Investors and Asset Allocations: Accounting and Regulation of Private Defined Benefit Pension Plans and Other Institutional Investors in the United States, Mexico, and Australia," (with John Broadbent, Michael Palumbo, and Julio Santaella), *CGFS Publication No. 27*, *Working Group on Institutional Investors, Global Savings, and Asset Allocation* (2006)

"An Overview of Political Risk Insurance" (with Kausar Hamdani and Elise Liebers), *CGFS Publication No. 22, Working Group on Foreign Direct Investment in the Financial Sector of Emerging Market Economies* (2005)

Work in Progress

"Life Insurance and Annuity Pricing During the Financial Crisis, Revisited," (with Daniel Bauer, Lars Powell, and Boheng Su), working paper, 2023

"Dynamic Capital Allocation in General Insurance," (with Daniel Bauer and Qiheng Guo), working paper, 2023

"The Ignorance of Crowds: Understanding Reserving Errors in the Liability Crisis of 1997-2001," (with Eren Cifci, Qianlong Liu, Steve Mildenhall, Lars Powell, and Kenny Wunder), working paper, 2023

"Market Discipline and Guaranty Funds in Life Insurance," (with Martin Grace, Shinichi Kamiya, and Robert W. Klein), working paper, 2023

"The Effect of Government Guarantees on Market Discipline in the Property-Casualty Insurance Industry," (with Yiling Deng, Ty Leverty, and Kenny Wunder), working paper, 2023

"An Integrated Approach to Measuring Asset and Liability Risks in Financial Institutions," (with Daniel Bauer), working paper, 2023

"Optimal Insurance Contracts with Insurer Background Risk," (with Xiaohu Ping), working paper, 2015

"The Effect of Banking Crises: Evidence from Non-Life Insurance Consumption," (with Shinichi Kamiya and Jackie Li), working paper, 2015

"Bankruptcy in the Core and Periphery of Financial Groups: The Case of the Property-Casualty Insurance Industry" working paper, 2010

"The Rise and Fall of the Fraternal Life Insurer: Law and Organizational Form in U.S. Life Insurance, 1870-1920," working paper, (*revise and resubmit, Journal of Law & Economics),* 2007

"Organizational Form and the Underwriting Cycle: Theory with Evidence from the Pennsylvania Fire Insurance Market, 1873-1909," working paper, 2004

"Consumption versus Production of Insurance," (with Tomas Philipson), *NBER Working Paper #6225*, 1997

External Research Projects and Consulting

2023	Using Industry Level Experience to Improve Company Loss Reserving, sponsored by CAS
2023	Expert Witness, Insurance Rate Filings, North Carolina
2023	Expert Witness, Workers' Compensation Rate Filings, Massachusetts
2022	Expert Witness, Insurance Rate Filings, North Carolina
2021	Expert Witness, Golson v. Provident Life, Alabama
2021	Expert Witness, Workers' Compensation Rate Filings, Massachusetts
2021	Expert Witness, Insurance Rate Filings, North Carolina
2020	Expert Witness, Insurance Rate Filings, North Carolina
2019	NCCI Review of Cost of Capital Methodology
2019	Expert Witness, Workers' Compensation Rate Filings, Massachusetts
2019	Expert Witness, Insurance Rate Filings, North Carolina

2018 NCCI Review of TCJA
2017 Expert Witness, Workers' Compensation Rate Hearing, Florida
2016 Expert Witness, Assigned Risk Workers' Compensation Rate Hearing, Virginia
2015 Expert Witness, Workers' Compensation Rate Hearing, Florida
2015 NCCI Revision of Underwriting Profit and Contingency Internal Rate of Return Model
2015 An Extension of the Project on the Costs of Holding Capital, sponsored by the CAS
2013 Microinsurance Centre Lessons from History Project
2012 Allocation of the Costs of Holding Capital, sponsored by the CAS,
2011 CRO Risk Index Project, co-sponsored by SOA and Bloomberg, co-founder
2009 "The Financial Crisis and Lessons for Insurers," $50,000 SOA grant, role: report co-author

Papers Presented at Professional Meetings

2023 "Life Insurance and Annuity Pricing During the Financial Crisis, Revisited" EGRIE Annual Seminar, Malaga, Spain
2023 "Life Insurance and Annuity Pricing During the Financial Crisis, Revisited" IME Annual Conference, Edinburgh, UK
2023 "Understanding Loss Reserving Errors in the Liability Catastrophe of 1997-2001," IME Annual Conference, Edinburgh, UK
2023 "Understanding Loss Reserving Errors in the Liability Catastrophe of 1997-2001," Gen Re Seminar, Cologne, Germany
2022 "Understanding Loss Reserving Errors in the Liability Catastrophe of 1997-2001," Conference in Honor of J.David Cummins and Mary Weiss, Temple University**,** Philadelphia
2020 "Life Insurance and Annuity Pricing During the Financial Crisis, Revisited" WRIEC, virtual meeting
2019 "An Integrated Approach to Measuring Asset and Liability Risks in Financial Institutions," EGRIE Annual Meeting, Rome, Italy
2019 "An Integrated Approach to Measuring Asset and Liability Risks in Financial Institutions," ARIA Annual Meeting, San Francisco, CA
2019 "An Integrated Approach to Measuring Asset and Liability Risks in Financial Institutions," RTS Annual Seminar, Tuscaloosa, AL
2017 "The Effect of Government Guarantees on Market Discipline in the Property-Casualty Insurance Industry," NBER Insurance Project Workshop, Boston, MA
2015 "The Marginal Cost of Risk in a Multi-Period Model," NBER Insurance Project Workshop, Stanford, CA
2015 "The Marginal Cost of Risk in a Multi-Period Model," CAS Annual Meeting, Philadelphia, PA
2015 "Dynamic Capital Allocation," IME Annual Conference, Liverpool UK
2015 "What Drives Tort Reform Legislation? Economics and Politics of the State Decisions to Restrict Liability Torts," ASSA Annual Meeting, Boston, MA
2014 "The Marginal Cost of Risk in a Multi-Period Model," CAS Centennial, New York, NY
2014 "Market Discipline and Guaranty Funds in Life Insurance," EGRIE Annual Seminar, St. Gallen, CH
2014 "Dynamic Capital Allocation with Irreversible Investments," EGRIE Annual Seminar, St. Gallen, CH
2014 "What Drives Tort Reform Legislation? Economics and Politics of the State Decisions to Restrict Liability Torts," ARIA Annual Meeting, Seattle, WA
2014 "The Marginal Cost of Risk in a Multi-Period Model," ARIA Annual Meeting, Seattle, WA
2014 "Market Discipline and Guaranty Funds in Life Insurance," ARIA Annual Meeting, Seattle, WA
2014 "The Marginal Cost of Risk in a Multi-Period Model," IME Conference, Shanghai, CN
2014 "The Effect of Banking Crises: Evidence from Non-Life Insurance Consumption," Risk Theory Seminar, Munich, Germany
2013 "The Effect of Banking Crises: Evidence from Non-Life Insurance Consumption," ASSA Annual Meeting, Philadelphia, PA
2013 "Optimal Insurance Contracts with Insurer Background Risk," EGRIE Annual Meeting, Paris, FR
2013 "The Effect of Banking Crises: Evidence from Non-Life Insurance Consumption," ARIA Annual Meeting, Washington D.C.

2013 "The Marginal Cost of Risk, Risk Measures, and Capital Allocation," IRFRC Catastrophe Risk Conference, Singapore
2013 "Optimal Insurance Contracts with Insurer Background Risk," ARIA Annual Meeting, Washington D.C.
2013 "The Marginal Cost of Risk, Risk Measures, and Capital Allocation," CEAR/ETH Indices of Risk and New Risk Measures Conference, Zurich, CH
2012 "The Marginal Cost of Risk, Risk Measures, and Capital Allocation," CAS Spring Meeting, Phoenix, AZ
2012 "The Marginal Cost of Risk, Risk Measures, and Capital Allocation," Symposium: Risk and Catastrophic Events, State College, PA
2012 "The Marginal Cost of Risk, Risk Measures, and Capital Allocation," ASSA Annual Meeting, Chicago, IL
2011 "The Marginal Cost of Risk, Risk Measures, and Capital Allocation," NBER Insurance Project Workshop, Cambridge, MA
2010 "Bankruptcy in the Core and Periphery of Financial Groups: The Case of the Property-Casualty Insurance Industry," ASSA Annual Meeting, Atlanta, GA
2009 "Bankruptcy in the Core and Periphery of Financial Groups: The Case of the Property-Casualty Insurance Industry," Risk Management and Corporate Governance Conference, Loyola University of Chicago
2009 "Bankruptcy in the Core and Periphery of Financial Groups: The Case of the Property-Casualty Insurance Industry," ARIA Annual Meeting, Providence, RI
2008 "An Economic Approach to Capital Allocation," Risk Theory Society, Annual Meeting, Fort Collins, CO
2007 "Federal Financial Exposure to Catastrophic Risk," ARIA Annual Meeting, Quebec City, CA
2007 "Catastrophe Bonds, Reinsurance, and the Optimal Collateralization of Risk Transfer," EFMA Annual Meeting, Vienna, AT
2007 "Catastrophe Bonds, Reinsurance, and the Optimal Collateralization of Risk Transfer," 5th Infiniti Conference on International Financial Integration, Dublin, IE
2007 "Federal Financial Exposure to Catastrophic Risk," NBER Conference on Measuring and Managing Federal Financial Risk, Evanston, IL
2006 Insuring Catastrophic Losses: The Status of TRIA and Proposed Natural Disaster Backstops, Wash., D.C.
2006 "Catastrophe Bonds, Reinsurance, and the Optimal Collateralization of Risk Transfer," Risk Theory Society, Annual Meeting, Richmond,VA
2006 "Public versus Private Underwriting of Catastrophe Risk: Lessons from the California Earthquake Authority," Berkeley Symposium on Real Estate, Catastrophic Risk, and Public Policy
2006 "Catastrophe Bonds, Reinsurance, and the Optimal Collateralization of Risk Transfer," NBER Insurance Project Workshop, Cambridge, MA
2005 "Regulation, Capital, and the Evolution of Organizational Form in U.S. Life Insurance," NBER Insurance Project Workshop, Cambridge, MA
2004 "The Rise and Fall of the Fraternal Life Insurer: Law and Organizational Form in U.S. Life Insurance," NBER Insurance Project Workshop, Cambridge, MA
2004 "Regulation, Capital, and the Evolution of Organizational Form in U.S. Life Insurance," American Finance Association, Annual Meeting, San Diego, CA
2003 "Insurance, Self-Protection, and the Economics of Terrorism," Risk Theory Society, Annual Meeting, Atlanta, GA
2003 "Terrorism Insurance Policy and the Public Good," St. John's Journal of Legal Commentary 10th Annual Legal Symposium: Terrorism and its Impact on Insurance: Legislative Responses and Coverage Issues, Queens, NY
2003 "Insurance, Self-Protection, and the Economics of Terrorism," NBER Insurance Project Workshop, Cambridge, MA
2002 "Pricing and Capital Allocation in Catastrophe Insurance," CAS Risk and Capital Management Seminar, Toronto, CA
2002 "Market Discipline and Government Guarantees in U.S. Life Insurance," Risk Theory Society, Annual Meeting, Urbana-Champaign, IL
2001 "Pricing and Capital Allocation in Catastrophe Insurance," Risk Theory Society, Annual Meeting, Montreal

Other Conferences Talks and Panel Participation

2018 Surplus Lines Automation Conference, Florida
2017 International Conference on Business Sciences, Cairo University, Egypt

2016 IIF Insurance Colloquium, Basel, Switzerland
2016 Surplus Lines Association of California, California (keynote)
2014 Surplus Lines Automation Conference, Florida
2011 PRMIA Annual Risk Leadership Conference, Atlanta, GA
2011 7th International Microinsurance Conference, Rio de Janeiro, Brazil
2010 Property Loss Research Bureau Eastern Adjusters Conference, Atlanta, GA (keynote)
2008 NCOIL Annual Meeting, Duck Key, FL
2007 Capital Markets Symposium on Securitizing Insurance Risk, New York, NY
2006 Insuring Catastrophic Losses: The Status of TRIA and Proposed Natural Disaster Backstops, Wash., D.C.
2006 Catastrophe Bonds and Insurance Linked Securities Summit, New York, NY
2005 12th Annual International Conference Promoting Business Ethics, New York, NY

Service Activities in Academic and Professional Organizations

Senior Editor, *Journal of Risk and Insurance* (2019-)
Associate Editor, *Insurance: Mathematics and Economics* (2022-)
International Research Advisory Board, Risk and Insurance Research Center, NCCU, Taiwan
American Risk & Insurance Association President (2012-13)
Risk Theory Society President (2011-2012)
American Risk & Insurance Association Board Member (2007-2014)
Editorial Board, *Journal of Insurance Issues* (2012-2014)
Huebner Colloquium Panelist (2016-2019)

External Committees
American Risk & Insurance Association Program Committee, various years; ARIA Nominations Committee, 2015, 2016, 2018; Kulp-Wright Book Award Committee, 2005

Discussant: *EGRIE Annual Seminar, Malaga, 2023; ARIA Annual Meeting, Los Angeles, 2022; WRIEC 2020; EGRIE Annual Meeting, Rome, 2019; ARIA Annual Meeting, San Francisco, 2019; ARIA Annual Meeting, Chicago, 2018; ARIA Annual Meeting, Boston, 2016; SIFR Insurance Conference, Stockholm, 2015; EGRIE Annual Seminar, St. Gallen, 2014*; *ARIA Annual Meeting, Seattle, 2014; ARIA Annual Meeting, San Diego, 2011; CEAR Workshop on Insurance for the Poor, Atlanta, 2010*; *CEAR Workshop on Risk Perception and Subjective Beliefs, Atlanta, 2010*; *Midwest Finance Association Annual Meeting, Chicago, 2009; 5th Infiniti Conference, Dublin, 2007; EFMA Annual Meeting, Vienna, 2007; AEA Annual Meeting, San Diego, 2004*

Session Chair: *ARIA Annual Meeting, Chicago, 2018, ARC, Atlanta, 2017; IME, Atlanta, 2017; ARIA Annual Meeting, San Diego, 2011; Midwest Finance Association Annual Meeting, Chicago, 2009; ARIA Annual Meeting, Quebec City, 2007; EFMA Annual Meeting, Vienna, 2007;*

Referee for *Asia-Pacific Journal of Risk and Insurance, Astin Bulletin, Australian Social Monitor*, *Contemporary Economic Policy, Current Issues in Economics and Finance, Defense and Peace Economics, European Economic Review, Financial Review, Geneva Papers: Issues and Practice, Geneva Risk and Insurance Review, Health Affairs, Insurance: Mathematics and Economics, Journal of Banking and Finance, Journal of Business*, *Journal of Finance, Journal of Financial Intermediation*, *Journal of Financial Services Research, Journal of Law and Economics, Journal of Mathematical Economics, Journal of Money, Credit, and Banking, Journal of Political Economy, Journal of Risk and Insurance, Management Science, Mathematical Social Sciences, North American Actuarial Journal, Proceedings of the National Academy of Sciences, Review of Financial Studies, Risk Management and Insurance Review, Scandinavian Actuarial Journal,* and *Science.*

Working Group Participation

Committee on the Global Financial System, Working Group on Institutional Investors, Global Savings, and Asset Allocation (2006); *Presidential Working Group on Financial Markets, Working Group on Terrorism Insurance* (2006)

Continuing Education Activities

2004-2007	Central Banking Seminar, Federal Reserve Bank of New York, Topics: Introduction to U.S. Financial Markets; Introduction to Non-bank Financial Institutions
2009	Texas Farm Bureau Program, Georgia State University, Topic: Securitization, the Insurance Industry, and the Panic of 2007
2009-2012	Horst K. Jannott Visiting Fellows Program, Georgia State University, Topics: Securitization, the Insurance Industry, and the Panic of 2007; Introduction to Statistics

NCRB - Pro Forma Statutory Rate of Return
HOMEOWNERS INSURANCE

		Pre-Tax	Tax Liability	Post-Tax
1	**Premiums**	100.00%		
	Loss & LAE	44.97%		
	Commissions	12.00%		
	Other Acquisition & General	6.88%		
	Taxes, Licenses, & Fees	2.80%		
	Policyholder Dividends	0.50%		
	Net Cost of Reinsurance	22.99%		
	Compensation for Assessment Risk	0.86%		
2	**Pro Forma Underwriting Profit**	9.00%		
3	**Installment Fee Income**	0.29%		
4	**Regular Tax**		1.95%	
5	**Additional Tax Due to IRS Treatment of Reserves**		0.09%	
6	**Total Return from Underwriting Post-Tax**			7.25%
7	**Investment Gain on Insurance Transaction**	2.16%		
	Less Investment Income on Agent and Reinsurance Balances	0.65%		
	Net Investment Gain on Insurance Transaction	1.51%	0.26%	1.26%
8	**Total Return as a Percent of Premium (post-tax)**			8.51%
9	**Premium-to-Net Worth Ratio**			0.87
10	**Total Return as a Percent of Net Worth (post-tax)**			7.43%

Lines (1) to (8) are expressed as a percentage of premium.

Assumptions and Parameters

(a)	Underwriting Income Tax Rate	21.00%
(b)	Investment Income Tax Rate	17.07%
(c)	Pre-tax Investment Yield	5.19%
(d)	Premium-to-Surplus Ratio	0.98
(e)	Net Worth-to-Surplus Ratio	1.122
(f)	Installment Fee Income	0.29%
(g)	Additional Tax Due to IRS Treatment of Loss Reserves and UEPR	0.09%
(h)	Net Cost of Reinsurance	22.99%
(i)	Compensation for Assessment Risk	0.86%

Notes to Exhibit RB-24 Page 1

1 The expense provisions are those used in Exhibit RB-1, adjusted for the proposed rate change.

2 Selected by North Carolina Rate Bureau

3 See Exhibit RB-24, Page 3

4 [(2) + (3)] x (a)

5 See Exhibit RB-24, Pages 4-6

6 (2) + (3) - (4) - (5)

7 Investment income on agents balances is calculated as 0.1517 x 1.021 x (c) , where 0.1517 is a factor for agents balances held for less than 90 days and 1.021 is a factor to correct for overdue balances. From this figure, we deduct investment income on net reinsurance balances, which which we estimate at 0.105 of the total cost of reinsurance times (c). The estimate for net reinsurance balances is based on ceded balances payable plus funds held plus other amounts due reinsurers minus reinsurance recoverables. These amounts are taken from the aggregated Schedule F as reported in the latest available edition of A.M. Best Aggregates & Averages.

8 (6) + (7)

9 (d) / (e)

10 (8) x (9)

Assumptions

(a) Current corporate tax rate, based on the Tax Cut and Jobs Act of 2017.
(b) See Exhibit RB-24 , Pages 11-13. Calculated as 1- average post-tax yield/average pre-tax yield.
(c) See Exhibit RB-24, Page 10
(d) See Exhibit RB-24, Page 14
(e) See Exhibit RB-24, Page 15
(f) See Exhibit RB-24, Page 3
(g) See Exhibit RB-24, Pages 4-6
(h) Net Cost of Reinsurance based on the analysis of Aon incorporated in the filing, adjusted for the indicated rate change.
(i) Compensation for Assessment Risk based on the analysis of Aon incorporated in the filing, adjusted for the indicated rate change.

NCRB - Pro Forma Statutory Rate of Return
(Including Investment Income on Surplus)
HOMEOWNERS INSURANCE

		Pre-Tax	Tax Liability	Post-Tax
1	**Premiums**	100.00%		
	Loss & LAE	44.97%		
	Commissions	12.00%		
	Other Acquisition & General	6.88%		
	Taxes, Licenses, & Fees	2.80%		
	Policyholder Dividends	0.50%		
	Net Cost of Reinsurance	22.99%		
	Compensation for Assessment Risk	0.86%		
2	**Pro Forma Underwriting Profit**	9.00%		
3	**Installment Fee Income**	0.29%		
4	**Regular Tax**		1.95%	
5	**Additional Tax Due to IRS Treatment of Reserves**		0.09%	
6	**Total Return from Underwriting Post-Tax**			7.25%
7	**Investment Gain on Insurance Transaction**	2.16%		
	Less Investment Income on Agent and Reinsurance Balances	0.65%		
	Net Investment Gain on Insurance Transaction	1.51%	0.26%	1.26%
8	**Investment Gain on Surplus**	5.79%	0.99%	4.80%
9	**Total Return as a Percent of Premium (post-tax)**			13.31%
10	**Premium-to-Net Worth Ratio**			0.87
11	**Total Return as a Percent of Net Worth (post-tax)**			11.62%

Lines (1) to (8) are expressed as a percentage of premium.

Assumptions and Parameters

(a)	Underwriting Income Tax Rate	21.00%
(b)	Investment Income Tax Rate	17.07%
(c)	Pre-tax Investment Yield	5.19%
(d)	Premium-to-Surplus Ratio	0.98
(e)	Net Worth-to-Surplus Ratio	1.122
(f)	Installment Fee Income	0.29%
(g)	Additional Tax Due to IRS Treatment of Loss Reserves and UEPR	0.09%
(h)	Net Cost of Reinsurance	22.99%
(i)	Compensation for Assessment Risk	0.86%

Notes to Exhibit RB-24 Page 1A

1 The expense provisions are those used in Exhibit RB-1, adjusted for the proposed rate change.

2 Selected by North Carolina Rate Bureau

3 See Exhibit RB-24, Page 3

4 [(2) + (3)] x (a)

5 See Exhibit RB-24, Pages 4-6

6 (2) + (3) - (4) - (5)

7 Investment income on agents balances is calculated as 0.1517 x 1.021 x (c) , where 0.1517 is a factor for agents balances held for less than 90 days and 1.021 is a factor to correct for overdue balances. From this figure, we deduct investment income on net reinsurance balances, which which we estimate at 0.105 of the total cost of reinsurance times (c). The estimate for net reinsurance balances is based on ceded balances payable plus funds held plus other amounts due reinsurers minus reinsurance recoverables. These amounts are taken from the aggregated Schedule F as reported in the latest available edition of A.M. Best Aggregates & Averages.

8 (c) x [1/ (d) + 0.1777 x 0.5285], where 0.1777 is the prepaid expense ratio minus the total cost of reinsurance from Page 7, and 0.5285 is the UEPR ratio from Page 7.

9 (6) + (7) + (8)

10 (d) / (e)

11 (9) x (10)

Assumptions

(a) Current corporate tax rate, based on the Tax Cut and Jobs Act of 2017.
(b) See Exhibit RB-24 , Pages 11-13. Calculated as 1- average post-tax yield/average pre-tax yield.
(c) See Exhibit RB-24, Page 10
(d) See Exhibit RB-24, Page 14
(e) See Exhibit RB-24, Page 15
(f) See Exhibit RB-24, Page 3
(g) See Exhibit RB-24, Pages 4-6
(h) Net Cost of Reinsurance based on the analysis of Aon incorporated in the filing, adjusted for the indicated rate change.
(i) Compensation for Assessment Risk based on the analysis of Aon incorporated in the filing, adjusted for the indicated rate change.

NORTH CAROLINA
HOMEOWNERS INSURANCE
INSTALLMENT PAYMENT INCOME

Year	Installment Charges	Direct Written Premium	Percentage
2022	8,722,495	3,643,680,035	0.24%
2021	7,260,311	3,255,596,441	0.22%
2020	8,572,708	3,043,529,552	0.28%
2019	9,772,684	2,831,680,169	0.35%
2018	9,491,438	2,660,370,763	0.36%
Selected Value			0.29%

Source: NCRB

North Carolina
HOMEOWNERS INSURANCE
Calculation of Additional Tax Liability

1. Collected Direct Earned Premium for Current Year	100.00%
2. Unearned (Net) Premium Reserve 12/31/Current	39.93%
3. Unearned (Net) Premium Reserve 12/31/Prior	37.84%
4. Increase: (2) - (3)	2.09%
5. 20% of Increase = Taxable Income	0.42%
6. Additional Tax Liability due to Unearned Premium Reserve	0.09%
7. Unpaid Net Loss Current Year	11.82%
8. Discounted Unpaid Net Loss Prior Year	11.27%
9. Unpaid Net Loss Prior Year	11.20%
10. Discounted Unpaid Net Loss Prior Year	10.64%
11. Additional Income	-0.01%
12. Additional Tax Liability due to Loss Reserve Discounting	0.00%
13. Total Additional Tax Liabilities (6) + (12)	0.09%

NORTH CAROLINA
HOMEOWNERS INSURANCE
Calculation of Taxable Income

Calculation of Unpaid Loss for Current Accident Year (AY)					**Calculation of Discounted Unpaid Loss for Current AY**			**Calculation of Discounted Unpaid Loss for Prior AY**			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
AY Avg Acc Date	AY Pay Pattern	Percent Unpaid	Total Losses	Unpaid Losses	AY at 12/31 yr t	Discount Factor	Discounted Unpaid Loss	AY at 12/31/yr t-1	Unpaid Losses	Discount Factor	Discounted Unpaid Loss
0.5	76.64%	23.36%	44.965	10.51	2022	0.957799	10.0620				
1.5	94.54%	5.46%	42.612	2.33	2021	0.938725	2.1834	2021	9.955	0.954554	9.5030
2.5	98.72%	1.28%	40.381	0.51	2020	0.937004	0.4825	2020	2.204	0.933939	2.0585
3.5	99.70%	0.30%	38.268	0.11	2019	0.928864	0.1059	2019	0.488	0.936815	0.4572
4.5	99.93%	0.07%	36.265	0.03	2018	0.914064	0.0231	2018	0.108	0.932041	0.1007
5.5	99.98%	0.02%	34.366	0.01	2017	0.916039	0.0051	2017	0.024	0.914064	0.0219
6.5	100.00%	0.00%	32.568	0.00	2016	0.913154	0.0011	2016	0.005	0.916039	0.0049
7.5	100.00%	0.00%	30.863	0.00	2015	0.910177	0.0000	2015	0.001	0.913154	0.0011
								2014	0.000	0.910177	0.0000
Totals				13.49			12.86		12.79		12.15

Notes to Pages 4 and 5

Page 4

2	[Page 8, line (2) divided by Page 8, line (1)] times one minus the Cost of Reinsurance from Page 7
3	(2) divided by 1 plus the 10 year average growth rate of Homeowners premiums in North Carolina
4	(2) - (3)
5	(4) x 20%
6	(5) x current corporate tax rate
7	Unpaid current-year net losses at year-end as a percent of current year premium. Sum of Page 5, Column (5) x (ratio of the net loss and LAE ratio from Page 7 to the direct loss and LAE ratio from Page 1)
8	Discounted unpaid current-year losses at year-end as a percent of current year premium. Sum of Page 5, Column (8) x (ratio of the net loss and LAE ratio from Page 7 to the direct loss and LAE ratio from Page 1)
9	Unpaid prior-year losses at year-end as a percent of current year premium. Sum of Page 5, Column (10) x (ratio of the net loss and LAE ratio from Page 7 to the direct loss and LAE ratio from Page 1)
10	Discounted unpaid prior-year losses at year-end as a percent of current year premium. Sum of Page 5, Column (12) x (ratio of the net loss and LAE ratio from Page 7 to the direct loss and LAE ratio from Page 1)
11	Change in loss reserve discount: [(7) - (8)] - [(9) - (10)]
12	(11) x current corporate tax rate
13	(6) + (12)

Page 5

1	Midpoint of number of years since end of accident period
2	Homeowners accident year payout pattern developed from North Carolina policy year losses (Source: ISO)
3	1 - (2)
4	Latest period losses are based on projected loss ratio from Page 1. For previous years, losses are detrended at the 10 year average premium growth rate for Homeowners in North Carolina.
5	(3) x (4)
6	Accident Year at current year end
7	IRS discount factors for Multiple Peril Lines from Revenue Procedure 2023-10
8	(5) x (7)
9	Accident Year at prior year end
10	Column (3), previous period x Column (4), current period
11	IRS discount factors for Multiple Peril Lines from Revenue Procedure 2021-54
12	(10) x (11)

NCRB Investment Income Calculation
HOMEOWNERS INSURANCE

Projected Investment Earnings on Loss, Loss Adjustment Expense and Unearned Premium Reserves

A.	**UNEARNED PREMIUM RESERVES**		
	1. Direct Earned Premiums		1,000,000
	2. Mean Unearned Premium Reserve	52.85%	528,538
	3. Deductions for Prepaid Expenses		
	Commissions & Brokerage	12.00%	
	Taxes, Licenses, & Fees (5/6)	2.33%	
	Other Acquisition & General (1/2)	3.44%	
	Cost of Reinsurance	28.57%	
	Total	46.34%	
	4. Deduction for Prepaid Expense: (2) x (3)		244,916
	5. Net Unearned Premium Reserve Subject to Investment (2) - (4)		283,622
B.	**Loss and Loss Expense Reserves**		
	1. Direct Earned Premiums		1,000,000
	2. Expected Net Incurred Loss & LAE-to-Direct Premium Ratio	39.39%	393,926
	3. Expected Mean Loss and LAE Reserve-to-Incurred Ratio	33.74%	132,905
C.	**Net Policyholder Funds Subject to Investment (A5 + B3)**		416,527
D.	**Average Rate of Return**		5.19%
E.	**Investment Earnings from Net Reserves: (C) x (D)**		21,624
F.	**Average Rate of Return as a Percent of Direct Earned Premiums: (E) / (A1)**		2.16%

NORTH CAROLINA
HOMEOWNERS INSURANCE

ESTIMATED INVESTMENT EARNINGS ON UNEARNED PREMIUM RESERVES AND ON LOSS RESERVES

EXPLANATORY NOTES

Line A-1
Calculations displayed are per million of direct earned premiums.

Line A-2
The mean unearned premium reserve (UEPR) is determined by multiplying the direct earned premiums in line (1) by the ratio of the mean unearned premium reserve to the direct earned premium for the current calendar year ended 12/31. The data are for North Carolina Homeowners (NC HO) insurance (from statutory Page 14 of the Annual Statement).

1	NC HO Direct Earned Premium for most recent calendar year	3,418,913,643
2	NC HO UEPR at end of most recent calendar year	1,910,955,876
3	NC HO UEPR at end of previous calendar year	1,703,096,979
4	Mean NC HO UEPR	1,807,026,428
5	Ratio [(4) / (1)]	52.85%

Line A-3
Deduction for prepaid expenses
Certain production expenses, such as commissions and reinsurance, are assumed to be incurred when the policy is written and before the premium is paid. In addition, half of Other Acquisition and General expenses and 5/6 of Taxes, Licenses and Fees are assumed to be prepaid.

NORTH CAROLINA
HOMEOWNERS INSURANCE

ESTIMATED INVESTMENT EARNINGS ON UNEARNED PREMIUM RESERVES AND ON LOSS RESERVES

EXPLANATORY NOTES

Line B-2
Ratio is calculated as the expected direct loss and LAE ratio from Page 1 minus the difference between the total cost of reinsurance from Line A-3 and the net cost of reinsurance from Page 1.

Line B-3
The mean loss reserve is calculated by multiplying the incurred losses in (2) by the ratio for mean loss reserves to incurred losses. The latter figures are based on total statutory Page 14 figures for North Carolina Homeowners direct losses incurred and direct losses unpaid. The adjustment for loss expense reserves is based on nationwide industry aggregates for the Homeowners line.

6	Direct Losses Incurred	2018	2,349,919,704
7	Direct Losses Incurred	2019	1,561,396,362
8	Direct Losses Incurred	2020	1,861,156,269
9	Direct Losses Incurred	2021	1,592,119,157
10	Direct Losses Incurred	2022	2,316,094,568
11	Direct Losses Unpaid	2017	398,416,653
12	Direct Losses Unpaid	2018	732,364,300
13	Direct Losses Unpaid	2019	526,638,529
14	Direct Losses Unpaid	2020	583,782,316
15	Direct Losses Unpaid	2021	560,103,530
16	Direct Losses Unpaid	2022	896,965,689
17	Mean Loss Reserve	2018	565,390,477
18	Mean Loss Reserve	2019	629,501,415
19	Mean Loss Reserve	2020	555,210,423
20	Mean Loss Reserve	2021	571,942,923
21	Mean Loss Reserve	2022	728,534,610
22	Ratio	2018	24.06%
23	Ratio	2019	40.32%
24	Ratio	2020	29.83%
25	Ratio	2021	35.92%
26	Ratio	2022	31.46%
27	Average Loss Reserve		32.32%
28	Ratio of LAE Reserves to Loss Reserves		0.187
29	Ratio of Incurred LAE to Incurred Loss		0.137
30	Loss & LAE Reserve [(27) x (1+(28))/(1+(29))]		0.337

NORTH CAROLINA
HOMEOWNERS INSURANCE

ESTIMATED INVESTMENT EARNINGS ON UNEARNED PREMIUM RESERVES AND ON LOSS RESERVES

EXPLANATORY NOTES

<u>Line E</u>
The average rate of return is the average of the pretax current yield calculated on Page 11 and the pretax embedded yield. The embedded yield (see Page 12) is the sum of the ratio of investment income to invested assets for the most recent year plus the ten year average ratio of capital gains to invested assets (see Page 13). The current yield is the estimated currently available rate of return (including both income and capital gains) on the industry investment portfolio (see Page 11).

Embedded Yield	3.86%
Current Yield	6.52%
Average	5.19%

Portfolio Yield and Tax Rate - Current Yield

Investable Asset	Percent of Assets	Estimated Prospective Pre-Tax Return	Tax Rate	Estimated Prospective Post-Tax Return
Bonds				
US Gov't	9.73%	4.91%	21.00%	3.88%
Municipal	21.05%	3.52%	5.25%	3.33%
Industrial	34.16%	5.44%	21.00%	4.30%
Preferred Stock	0.46%	7.01%	13.13%	6.09%
Common Stock	18.38%	13.78%	19.44%	11.10%
Mortgage Loans	1.32%	7.17%	21.00%	5.67%
Real Estate	0.76%	7.92%	21.00%	6.26%
Cash & Short-term Investments	5.43%	5.59%	21.00%	4.42%
Other Long-Term Investments	8.71%	8.13%	18.67%	6.61%
Rate of Return Before Expenses	100.00%	6.81%	18.43%	5.55%
Investment Expenses		0.29%	21.00%	0.23%
Portfolio Rate of Return		6.52%	18.31%	5.33%

Sources

Preferred Stock	Current yield on iShares Preferred Stock Index ETF, 10/25/23
Real Estate	REIT Sector WACC; source: Damodaran Online, using 4.583 for Treasury bond yield (source: Damodaran Online)
Cash	3 month Treasury rate, averaged over 3 months (source: US Treasury)
Municipal	Maturity weighted avg of 3 month avg MBIS Investment Grade yield curve; linearly interpolated
Industrial	Three month average of HQM par yields (source: FRED); linearly interpolated
Treasury	Three month average of Treasury yields; linearly interpolated (source: US Treasury)
Common Stock	0.0819 ERP (source: Damodaran Online) plus 3 month average T-Bill Rate
Other LTI	Average of yields on bond portfolio, preferred stock, common stock, mortgages, and real estate.
Investment Expenses	Investment Expenses from statutory Page 12 of the Annual Statement (Exhibit of Net Investment Income) divided by the average of the last two years' Cash and Invested Assets from statutory Page 2 of the Annual Statement (Assets), as compiled in A.M. Best's Aggregates and Averages.

Portfolio Yield and Tax Rate
Embedded Yield

		Income	Tax Rate
Bonds			
	Taxable	31,319,900	21.00%
	Non-Taxable	6,002,714	5.25%
Stocks			
	Taxable	10,532,139	13.13%
	Non-Taxable	3,239,275	5.25%
Mortgage Loans		1,409,375	21.00%
Real Estate		1,933,499	21.00%
Contract Loans		202	21.00%
Cash & Short Term Inv		1,967,412	21.00%
All Other		22,850,110	21.00%
Total		79,254,626	18.12%
Inv. Expenses		6,410,961	21.00%
Net Inv. Income		72,843,665	17.87%
Mean Invested Assets		2,251,339,204	
Inv. Inc. Yield Rate		3.24%	17.87%
Capital Gains (10 yr. avg.) (% of Inv. Assets)		0.62%	0.00%
Invest. Yield Rate (pre-tax)		3.86%	14.98%
Invest. Yield Rate (post-tax)		3.28%	

Source: A.M. Best's Aggregates and Averages, 2023 Edition, Page 12 - Exhibit of Net Investment Income (Column 2 - Earned During Year). For capital gains, see Exhibit RB-24, Page 13.

Realized Capital Gains or Losses
As a Percentage of Mean Invested Assets
(Amounts in Thousands of Dollars)

Calendar Year	Mean Invested Assets	Realized Capital Gains Amount	Percent
2013	1,473,600,834	12,163,890	0.83%
2014	1,543,882,375	12,093,078	0.78%
2015	1,567,611,077	9,887,732	0.63%
2016	1,596,937,470	8,086,268	0.51%
2017	1,676,831,258	15,725,303	0.94%
2018	1,733,729,297	10,825,733	0.62%
2019	1,822,857,949	11,238,484	0.62%
2020	1,975,605,647	10,933,304	0.55%
2021	2,156,355,790	18,153,320	0.84%
2022	2,251,339,204	2,090,986	0.09%
Total	17,798,750,898	111,198,098	0.62%

"Mean Invested Assets" is the average of current and prior year values for Total Invested Assets (Page 2). Source for data is 2013-2023 editions of A.M. Best's Aggregates and Averages. Figures are net of capital gains taxes.

North Carolina

HOMEOWNERS INSURANCE

Premium-to-Surplus Ratios

Year	Ratio
2022	1.09
2021	0.90
2020	0.93
2019	0.96
2018	1.02
2017	0.98
2016	0.98
2015	0.98
2014	0.98
2013	0.98
Average	0.98

Data from NAIC Statutory Filings and from A.M. Best's Aggregates and Averages, various years, for all groups writing Homeowners insurance in North Carolina, weighted by North Carolina Homeowners direct premiums written.

North Carolina
HOMEOWNERS INSURANCE
Calculation of Ratio of GAAP Net Worth to Statutory Surplus

	2018	2019	2020	2021	2022
Policyholder Surplus	742,079,084,495	847,278,658,173	910,066,482,410	1,028,834,642,825	958,964,082,808
+ Deferred Acquisition Costs	43,991,738,565	46,002,606,289	48,118,482,109	51,883,319,641	54,714,320,843
+ Non-Admitted DTA Provision	6,314,927,861	6,045,409,090	6,001,020,602	5,674,496,962	6,641,006,360
+ Non-admitted Assets (non-tax part)	46,502,063,197	50,520,441,190	51,971,123,366	62,815,925,708	54,765,183,036
+ Provision for Reinsurance	2,737,598,756	2,944,031,835	3,290,710,172	3,665,749,561	2,962,166,230
+ Provision for FASB 115(after-tax)	912,505,274	32,483,869,271	57,249,505,836	30,528,918,187	(69,664,596,475)
- Surplus Notes	(11,660,367,237)	(11,606,263,627)	(13,225,869,920)	(13,699,558,971)	(15,548,449,729)
GAAP-adjusted Net Worth	830,877,550,911	973,668,752,221	1,063,471,454,574	1,169,703,493,912	992,833,713,073
Ratio of Net Worth to Surplus	1.12	1.15	1.17	1.14	1.04
Five Year Average	1.122				

Source: ISO

Sample of Findings on the Private Company Discount

Study	Years	Discount	Type
Emory (1994)	1992-1993	45%	IPO
Willamette Management Associates (various)	1975-1997	29% to 60%	IPO
Garland and Reilly (2004)	1998-2002	35%	IPO
Larcker et al. (2018)	2017	39% to 47%	IPO
Koeplin et al. (2000)	1984-1998	20% to 30%	Acquisitions
Block (2007)	1999-2006	20% to 25%	Acquisitions
Officer (2007)	1979-2003	15% to 30%	Acquisitions
Paglia and Harjoto (2010)	1993-2008	65% to 70%	Acquisitions
Jaffe et al. (2018)	1985-2014	0%	Acquisitions
Lohrey (2020)	2005-2015	48% to 62%	Acquisitions
Goetz (2021)	1997-2014	13%	Acquisitions
Silber (1991)	1981-1988	34%	Restricted Stock
Johnson (1999)	1991-1995	20%	Restricted Stock
Bajaj et al. (2001)	1990-1995	7%	Private placements
Comment (2012)	2004-2010	5% to 6%	Private placements
Finnerty (2013)	1991-1997	21%	Private placements
Finnerty (2013)	1997-2007	15%	Private placements
Chen et al. (2015)	1999-2012	10%	Private placements

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* The Willamette research studies were unpublished but reported in Business Valuation Discounts and Premiums, Chapter 5, by Shannon Pratt (New York: John Wiley & Sons, Inc., p. 85).