

2009 Fall National Meeting
National Harbor, Maryland
Property and Casualty Insurance (C) Committee
Wednesday, September 23, 2009
3:00 p.m.—5:00 p.m.

Roll Call

Michael McRaith, Chair	Illinois		
Scott H. Richardson, Vice Chair	South Carolina	Mila Kofman	Maine
Linda Hall	Alaska	Joseph Murphy	Massachusetts
Thomas R. Sullivan	Connecticut	Mike Chaney	Mississippi
Kevin McCarty	Florida	Morris J. Chavez	New Mexico
J.P. Schmidt	Hawaii	James J. Wrynn	New York
James J. Donelon	Louisiana	Merle D. Scheiber	South Dakota

AGENDA

1. Presentation on Cost Saving Auto Safety Devices—*Randy Anderson (Legislative Strategies) & Peter Goelz (Former Managing Director of the National Transportation Safety Board—NTSB) representing Demetrius Thompson (Global Mobile Alert Corp.)* Attachment One
2. Presentation on Nationwide Enhanced Homeowner Insurance Policy—*Larry Mirel, Craig Barrington and Craig Zimpher* Attachment Two
3. Update on Catastrophe Model Feasibility Study— *Commissioner Donelon (LA)* Attachment Three
4. Consider Recommendation to Change Title Insurance Issues Working Group to Title Insurance Issues Task Force – *Superintendent Chavez (NM)*
5. Update on Credit-Based Insurance Scoring Activity – *Director McRaith (IL)*
6. Consider Motion to Adopt A Consumer’s Guide to Homeowners Insurance – *Alan Seeley (NM)* Attachment Four
7. Information on Exposure to Chinese Drywall – *Eric Nordman (NAIC)* Attachment Five
8. Consider Proposed 2010 Committee Charges – *Director McRaith (IL)* Attachment Six
9. Consider Motion to Adopt Reports of the Property and Casualty Insurance (C) Committee Task Forces, and Working Groups – *Director McRaith (IL)* Attachment Seven
 - Casualty Actuarial and Statistical Task Force – *Commissioner Sullivan (CT)*
 - Surplus Lines Task Force – *Commissioner Donelon (LA)*
 - Workers’ Compensation Task Force – *Director Scheiber (SD)*
 - Advisory Organization Exam. Oversight Working Group – *Jim Bennett (FL)*
 - Catastrophe Insurance Working Group – *Commissioner McCarty (FL)*
 - Catastrophe Reserve Working Group – *Michael Moriarty (NY)*
 - Consumer Guides Working Group – *Alan Seeley (NM)*
 - Crop Insurance Working Group – *Director Scheiber(SD)*
 - Earthquake Study Group – *Director McRaith (IL)*
 - Terrorism Insurance Implementation WG – *Michael Moriarty (NY)*
 - Title Insurance Issues Working Group – *Superintendent Chavez (NM)*
10. Any Other Matters Brought Before the Committee



**Sample Language Regarding Licensing of Advisory Organizations
NAIC Model, IL Statutes, OK Statutes
August 25, 2009**

**NAIC Model
Property & Casualty Model Rating Law (File and Use Version)
Model 775**

Section 2. Definitions

- A. “Advisory organization” means any entity, including its affiliates or subsidiaries, which either has two (2) or more member insurers or is controlled either directly or indirectly by two (2) or more insurers, and which assists insurers in ratemaking related activities such as enumerated in Sections 10 and 11. Two (2) or more insurers having a common ownership or operating in this State under common management or control constitute a single insurer for purposes of this definition.

Section 10. Consumer Information

The commissioner shall utilize, develop or cause to be developed a consumer information system(s) which will provide and disseminate price and other relevant information on a readily available basis to purchasers of homeowners, private passenger nonfleet automobile, or property insurance for personal, family or household needs. The commissioner may utilize, develop or cause to be developed a consumer information system(s) which will provide and disseminate price and other relevant information on a readily available basis to purchasers of insurance for commercial risks and personal risks not otherwise specified herein. Such activity may be conducted internally within the insurance department, in cooperation with other state insurance departments, through outside contractors and/or in any other appropriate manner. To the extent deemed necessary and appropriate by the commissioner, insurers, advisory organizations, statistical agents and other persons or organizations involved in conducting the business of insurance in this State, to which this section applies, shall cooperate in the development and utilization of a consumer information system(s).

Section 11. Licensing Advisory Organizations and Statistical Agents

- A. No advisory organization or statistical agent shall provide any service relating to statistical collection or the rates of any insurance subject to this Act, and no insurer shall utilize the services of such organization for such purposes unless the organization has obtained a license under Subsection C.
- B. No advisory organization or statistical agent shall refuse to supply any services for which it is licensed in this State to any insurer authorized to do business in this State and offering to pay the fair and usual compensation for the services.
- C. Licensing.
- (1) An advisory organization or statistical agent applying for a license shall include with its application:

- (a) A copy of its constitution, charter, articles of organization, agreement, association or incorporation, and a copy of its bylaws, plan of operation and any other rules or regulations governing the conduct of its business;
 - (b) A list of its members and subscribers;
 - (c) The name and address of one or more residents of this State upon whom notices, process affecting it, or orders of the commissioner may be served;
 - (d) A statement showing its technical qualifications for acting in the capacity for which it seeks a license;
 - (e) A biography of the ownership and management of the organization; and
 - (f) Any other relevant information and documents that the commissioner may require.
- (2) Every organization which has applied for a license shall notify the commissioner of every material change in the facts or in the documents on which its application was based. Any amendment to a document filed under this section shall be filed at least thirty (30) days before it becomes effective.
- (3) If the commissioner finds that the applicant and the natural persons through whom it acts are competent, trustworthy and technically qualified to provide the services proposed, and that all requirements of the law are met; he or she shall issue a license specifying the authorized activity of the applicant. The commissioner shall not issue a license if the proposed activity would tend to create a monopoly or to substantially lessen the competition in any market.
- (4) Licenses issued pursuant to this section shall remain in effect for one year unless the license is suspended or revoked. The commissioner may at any time, after hearing, revoke or suspend the license of an advisory organization or statistical agent which does not comply with the requirements and standards of this Act.
- (5) Advisory organizations wishing to operate as statistical agents may be so authorized under their license as an advisory organization. A separate license is not required.

Illinois Statutes

215 ILCS 5/123A-2

Definitions. As used in this Article, unless the context requires otherwise:

- (a) "Advisory Organization " means every person, other than an insurance company who as its primary functions (i) compiles insurance statistics, or (ii) prepares insurance policies, bond forms, and underwriting rules, and (iii) furnishes that which it compiles and prepares to insurance companies who are its only members and subscribers.

215 ILCS 5/123A-4

- (1) An advisory organization must be licensed by the Director before it is authorized to conduct activities in this State.
- (2) Any advisory organization shall make application for a license as an advisory organization by providing with the application satisfactory evidence to the Director that it has complied with Sections 123A-6 and 123A-7 of this Article.

- (3) The fee for filing an application as an advisory organization is \$50 payable to the Director.

215 ILCS 5/123A-6

Documents prerequisite to engaging in activities. No advisory organization and no group, association or other organization authorized in 123A-10 of this Code may engage in activities in this State unless it has filed with the Director

- (a) a copy of its constitution, of its articles of incorporation, agreement or association, and of its by-laws, rules and regulations governing its activities, all duly certified by the custodian of the originals thereof;
- (b) a list of its members and subscribers; and
- (c) the name and address of a resident of this State upon whom notices or orders of the Director or process may be served.

Every such organization shall notify the Director promptly of every change in its constitution, in its article of incorporation, agreement or association, and its by-laws, rules and regulations governing the conduct of its business; in its list of members and subscribers; and in the name and address of the resident of this State designated by it upon whom notices or orders of the Director or process affecting such organization may be served.

215 ILCS 5/123A-7

Eligibility for membership — activities of advisory organization. Subject to the approval of the Director, every advisory organization must make reasonable rules governing eligibility for membership and must make rules governing their activities. These rules must provide that the advisory organization will

- (a) permit any admitted company to become a member of or a subscriber to such organization at a reasonable cost and without discrimination, or to withdraw therefrom;
- (b) refrain from adopting any policy, the effect of which would be to require any member or subscriber as a condition to membership or subscribership, to adhere to its insurance statistics, insurance policies, bond forms, or underwriting rules;
- (c) neither practice nor sanction any plan or act of boycott or intimidation tending to result in the unreasonable restraint of or monopoly in the business of insurance; and
- (d) allow admitted companies who are not members or subscribers to the organization to purchase the same services of such organization as are made available to members and subscribers without discrimination as respects costs to members and subscribers.

Oklahoma Statute
Title 36, Chapter 1, Article 11B, Section 1140
Defining Advisory Organizations

- A. "Advisory organization" means a corporation, an unincorporated association, a partnership or an individual, whether located inside or outside of this state, organized and licensed for the purpose of making rates, loss costs, rating plans, statistical collection, furnishing statistical data, policy forms and endorsements or rating systems.
- B. The term "advisory organization" shall be synonymous with the terms "bureau", "statistical agent" and "rating organization".
- C. No advisory organization shall provide any service relating to the loss costs, rates, rating plans, manual rules, rating systems or policy forms of any property and casualty insurance products subject to the provisions of the Oklahoma Insurance Code and no insurer shall utilize the services of such organization unless the organization has obtained a license.
- D. No advisory organization shall refuse to supply any services for which it is licensed in this state to any insurer authorized to do business in this state and offering to pay the usual compensation for the services.
- E.
 - 1. An advisory organization applying for a license shall include with its application:
 - a. a copy of its constitution, charter, articles of organization, agreement, association or incorporation, and a copy of its bylaws, plan of operation and any other rules or regulations governing the conduct of its business,
 - b. a list of its members and subscribers,
 - c. the name and address of one or more residents of this state upon whom notices, process affecting it, or orders of the Insurance Commissioner may be served,
 - d. a statement showing its technical qualifications for acting in the capacity for which it seeks a license,
 - e. a biography of the ownership and management of the organization, and
 - f. any other relevant information and documents that the Commissioner may require.
 - 2. Every organization which has applied for a license shall notify the Commissioner of every material change in the facts or in the documents on which its application was based. Any amendment to a document filed under this section shall be filed at least thirty (30) days before it becomes effective.
 - 3. If the Commissioner finds that the applicant and the natural persons through whom it acts are competent, trustworthy and technically qualified to provide the services proposed, and that all requirements of the law are met, the Commissioner shall issue a license specifying the authorized activity of the applicant. The Commissioner shall not issue a license if the proposed activity would tend to create a monopoly or to substantially lessen the competition in the market.
 - 4. Licenses issued pursuant to this section shall remain in force for one (1) year unless suspended or revoked. The Commissioner may at any time, after a hearing, revoke or suspend the license of any advisory organization that does not comply with the requirements and standards of the applicable provisions of the Insurance Code.

2010 PROPOSED CHARGES

Draft: 9/18/09

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

The mission of the Property and Casualty Insurance (C) Committee is to monitor and respond to problems associated with the products, delivery and cost in the property/casualty insurance market and the surplus lines market as they operate with respect to individual persons. The committee also is to monitor and respond to problems associated with financial reporting matters for property/casualty insurers that are of interest to regulatory actuaries and analysts and to monitor and respond to problems associated with the financial aspects of the surplus lines market.

New Objectives and Goals (*representing new NAIC programs, services or initiatives*):

1. Appoint a Catastrophe Insurance Working Group to provide a forum for discussing various issues related to catastrophe modeling, make recommendations for the appropriate regulatory framework for catastrophe modelers and monitor issues that will result in changes to the *Catastrophe Computer Simulation Modeling Handbook—Essential*
2. Work collaboratively with the Market Regulation and Consumer Affairs (D) Committee to continue public discourse on credit-based insurance scores to *Essential*:
 - Define what constitutes a credit-based insurance score.
 - Evaluate how insurers use credit-based insurance scores.
 - Determine how current economic conditions have affected policyholder premiums related to credit-based insurance scores.
 - Provide a report documenting findings and including recommendations for regulatory or legislative action, if warranted. Complete the report by the 2010 Fall National Meeting.

Ongoing Support of NAIC Programs, Products or Services:

1. Discuss issues arising and make recommendations with respect to advisory organization and insurer filings for personal and commercial lines, as needed. Report yearly.—*Ongoing*
2. Appoint a Catastrophe Insurance Working Group to report progress on the following catastrophe insurance issues on a quarterly basis.—*Ongoing*
 - Monitor and recommend measures to improve the availability and affordability of insurance and reinsurance related to catastrophe perils for personal and commercial lines.
 - Evaluate potential state, regional and national programs to increase capacity for insurance and reinsurance related to catastrophe perils.
 - Monitor and assess proposals that address disaster insurance issues at the federal and state levels; assess concentration-of-risk issues and whether a regulatory solution is needed.
 - Provide a forum for discussing issues and recommending solutions related to insuring for catastrophic risk, including terrorism, war and natural disasters.
 - Update the *State Disaster Response Plan*, as needed, so that it provides a blueprint for action by the states to respond to catastrophic events.
 - Investigate the regulatory, financial and economic impacts of defects reported in Chinese drywall imported between 2004 and 2007. Examine property damage and bodily-injury claims.
3. Appoint a Risk Retention Working Group.—*Ongoing*
 - Review developments in case law and rehabilitation proceedings and the findings contained in the U.S. Government Accountability Office's report on risk-retention groups; if warranted, make appropriate changes to the *Risk Retention and Purchasing Group Handbook*.
 - Review the recommendation from the Risk Retention Group (E) Task Force related to corporate governance standards and advise whether to pursue a model law to implement the corporate governance standards. Report quarterly.
4. Appoint a Crop Insurance Working Group.—*Ongoing*
 - Monitor the activities of the Federal Crop Insurance Corporation (FCIC) that affect state insurance regulators;
 - Serve as a forum for discussing issues related to the interaction of federal crop insurance programs with state regulation;

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- Review law changes and court decisions and, if warranted, make appropriate changes to the *Crop Insurance Handbook: A Guide for Insurance Regulators*.
 - Monitor the regulatory information exchanges between the FCIC and state regulators, as well as the FCIC and the NAIC, and make recommendations for improvement or revisions, as needed. Report quarterly.
 - Facilitate regulators' concerns and assist the states, as necessary, in enacting regulatory changes to avoid the preemption given the inevitable preemption of crop insurance adjuster licensing by the U.S. Congress, through the federal Risk Management Agency (RMA), on a state-by-state basis, beginning as early as July 1, 2011.
5. Coordinate with the Federal Insurance Administrator on the regulation of flood insurance.—*Important*
- Continue developing a handbook or white paper to assist state insurance regulators in understanding the federal flood insurance program and how it interacts with state insurance regulation;
 - Complete work on a handbook or white paper by the 2010 Fall National Meeting. Report progress on the handbook or white paper, and any other activities, on a quarterly basis.
6. Monitor the activities of the Workers' Compensation Task Force.—*Essential*
7. Monitor the activities of the Casualty Actuarial and Statistical Task Force.—*Essential*
8. Monitor the activities of the Surplus Lines Task Force.—*Essential*
9. Appoint an Advisory Organizations Examination Oversight Working Group.—*Essential*
- Revise the protocols, as necessary, for the examination of national or multi-state rating organizations to be more comprehensive, efficient and possibly less frequent than the current system of single-state exams. Solicit input and collaboration from other interested and affected task forces and committees.
 - Monitor data reporting of rating and/or advisory organization data-collection processes to determine if rating and/or advisory organizations implement appropriate measures to ensure data quality. Report the results of this ongoing charge as needed.
 - Actively assist with and coordinate multi-state examinations of advisory organizations and statistical agents.
10. Appoint a Title Insurance Issues Working Group to study issues related to title insurers and title insurance producers, including the impact of current real estate settlement practices on policyholders, recognizing that typically, settlement providers, not policyholders, are the title entity's customers. The Working Group should:
- Complete a study on the ability to undertake a uniform data-collection system to capture title insurance premium and expense data that would allow for cross-jurisdiction premium comparisons. Report the results by the 2010 Spring National Meeting and make a recommendation to develop a nationwide title statistical plan.—*Essential*
 - Study ways to improve consumers' ability to comparison shop for title insurance. Report the results by the 2010 Summer National Meeting.—*Essential*
 - Consider issues raised by consumer representatives and the April 2007 GAO study.—*Essential*
 - Consider ways to improve the solvency regulation of title insurers. Coordinate with the Financial Condition (E) Committee to determine the attributes of recent title company financial failures and to identify property/casualty solvency requirements (e.g., risk-based capital) and early warning tools (e.g., IRIS ratios) not currently applied to title insurers and consider whether they should be introduced. Report the results by the 2010 Fall National Meeting.—*Essential*
 - Investigate ways to mitigate the impact of insolvencies on policyholders, including whether to revive work on the 1992 draft of the Title Insurance Guaranty Fund Model Act. Consider the merits of promoting the use of blanket lenders' policies and individual owners' policies to replace policies issued by now-insolvent insurers. Report the results by the 2010 Fall National Meeting.—*Essential*
 - Investigate ways to maintain and improve competitive title markets, including examining and evaluating the original purposes and current effectiveness of monoline title insurance laws. Report the results by the 2010 Fall National Meeting.—*Essential*
 - Determine an appropriate format for communicating the various findings of the Working Group, such as writing a white paper, crafting best practice guidelines, or revising the Title Insurers Model Act (#628) and Title Insurance Agent Model Act (#230), by the 2010 Fall National Meeting. Produce a draft document in the chosen format by the 2010 Fall National Meeting.—*Essential*

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- Monitor the developments of the U.S. Department of Housing and Urban Development (HUD) proposed changes to its Real Estate Settlement Procedures Act (RESPA) and provide comments to HUD or to the U.S. Congress, if necessary. Respond to RESPA or HUD proposals by the due dates established by HUD. Monitor, facilitate and report on the HUD Collaborative Enforcement Group, which involves monthly conference calls between state insurance regulators and HUD on investigations.—*Important*
 - Consider whether or how to assist in combating mortgage fraud. Report the results by the 2010 Fall National Meeting.—*Important*
 - Study whether the title insurance industry is undertaking additional financial risks at the request of institutional lenders and owners.—*Deferrable*
 - Study the issuance of mortgage impairment products by non-title insurers to determine whether they should be classified as title insurance.—*Deferrable*
 - Study captive reinsurance arrangements that title insurers maintain and determine if they are legitimate reinsurance transactions or simply gimmicks to avoid the application of laws that would prohibit rebating and, if necessary, make recommendations for needed reform.—*Deferrable*
 - Study affiliated business arrangements (ownership arrangements between and among settlement providers and title entities) to determine which types of arrangements are legitimate and which types of arrangements are “shams”; i.e., those structured mainly to capture referral business and provide kickbacks to settlement providers, and that do not perform essential core title services.—*Deferrable*
 - Study the appropriateness of title insurance rates in light of the current competitive environment and, in particular, determine what constitutes appropriate justification for rates, determine the affect affiliated business arrangements should have on rates, and determine the feasibility of interactive rate comparisons among title entities to enhance competition.—*Deferrable*
11. Appoint a Terrorism Insurance Implementation Working Group to coordinate the NAIC efforts to address insurance coverage for acts of terrorism. Work with the U.S. Department of the Treasury’s Terrorism Risk Insurance Program Office on matters of mutual concern. Discuss long-term solutions to address the risk of loss from acts of terrorism.—*Essential*
12. Appoint a Consumer Guides Working Group to review and make modifications to the NAIC *Consumer’s Guide to Auto Insurance* and recommend revisions by the 2010 Summer National Meeting. Develop best practices for the design and implementation of consumer premium comparison guides for personal auto and homeowners insurance by the 2010 Fall National Meeting.—*Essential*
13. Appoint a Catastrophe Reserve Working Group to review the current NAIC catastrophe reserve proposal and make a recommendation whether to move the proposal forward, even if the IRS tax code is not amended to allow insurers to establish a tax-deferred catastrophe reserve. The Working Group will make a formal recommendation on whether to proceed with a catastrophe reserve requirement regardless of its tax-deferred status prior to the 2010 Spring National Meeting.—*Essential*
14. Appoint an Earthquake Study Group to study, in coordination with other NAIC working groups and task forces, on earthquake matters of concern to insurance regulators on a quarterly basis. Report on a tri-annual basis.
- Review and update *The Final Report of the Earthquake Study Group (February 2000)*, so that it provides a basis for understanding and outline for action to be taken by states to respond to earthquake events and risks.
 - Work with seismic and actuarial experts to develop recommendations for measures designed to mitigate losses caused by earthquakes.
 - Study earthquake modeling assumptions and meet with catastrophe modeling vendors to determine if models adequately handle regional differences in loss exposure.
 - Explore multi-state risk-sharing, mitigation and coordination strategies. This includes meeting, as needed, with officials from the Central United States Earthquake Consortium (CUSEC), Western States Seismic Policy Council (WSSPC) and the California Earthquake Authority (CEA).
 - Assist state insurance regulators in determining the availability and affordability of earthquake coverage in their states and assist in dealing with market dislocations and effects on rate level caused by exposure to the earthquake peril. This includes developing, distributing and evaluating a survey to all NAIC members designed to access availability and affordability.

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- Identify strategies to communicate earthquake risk awareness, preparation, loss mitigation and recovery measures to insurers, producers and consumers. This includes developing a consumer brochure to be finalized in December 2010 and exploring the feasibility of developing a consumer-awareness video.—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

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_____	_____	_____

Staff Support:

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Chinese Drywall

- The facts:
 - Over 500,000,000 pounds of Chinese drywall imported between 2004 and 2007
 - Installed in over 100,000 homes in the USA
 - The Consumer Product Safety Commission has recorded over 600 reports of defective drywall in 21 states
- The problem:
 - Most common is the smell of rotten eggs
 - Property damage claims:
 - Failure of air conditioning equipment
 - Corrosion of pipes, coils and wiring
 - Damage to furniture, fixtures and jewelry
 - Bodily injury claims:
 - Respiratory problems and sinus infections
 - Headaches, persistent cough and bloody noses
 - Asthma attacks and fatigue
- What's being claimed?
 - Cost to repair the house
 - Cost of health effects
 - Legal fees for the plaintiffs' lawyers
 - Defense costs
 - Indirect costs
 - Loss of use
 - Diminished value
- So how much?
 - Cost to repair the house (\$8 to \$10 Billion)
 - Cost of health effects (Anybody's guess)
 - Legal fees (\$5 to \$10 Billion)
 - Indirect costs
 - Loss of use (\$2 to \$5 Billion)
 - Diminished value (Not much)
 - TOTAL COSTS (\$15 to \$25 Billion)

A Consumer’s Guide to Homeowners Insurance

Final draft for Vote by the NAIC Consumer Guides (C) Working Group

This guide provides information on how to make decisions when you buy homeowners insurance. You have a choice in coverages and prices will differ between insurance companies.

<u>Table of Contents</u>	<u>Page</u>
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Why You Need Insurance

Homeowners insurance is an important purchase for many people. There are two major reasons to buy homeowners insurance.

- To protect your assets.
 - Homeowners insurance covers the structure of your home and your personal property, as well as your personal legal responsibility (or liability) for injuries to others or their property while they're on your property.
- To satisfy your mortgage lender.
 - Most mortgage lenders require you to have insurance as long as you have a mortgage and to list them as the mortgagee on the policy. If you let your insurance lapse, your mortgage lender will likely decide to have your home insured on your behalf. Compared to a policy you would buy on your own, the premium might be much higher and the coverage will be limited to damage to the structure of your home. The lender can require you to pay this higher premium until you get your own homeowners insurance again.

Coverages in a Homeowners Policy

Most homeowners insurance policies provide a package of coverages. The main types of coverage are described below. Keep in mind that you are covered only if the loss is caused by a peril your policy covers. For example, if your home becomes unlivable due to an earthquake and your homeowners policy doesn't cover earthquakes, your policy won't pay for loss of use of your home. Review your policy for the limits of your coverage.

- **Dwelling.** Pays for damage to your house and to structures attached to your house. This includes damage to fixtures, such as plumbing, electrical wiring, heating and permanently installed air-conditioning systems.
- **Other Structures.** Pays for damage to fences, tools sheds, freestanding garages, guest cottages and other structures not attached to your house.
- **Personal Property.** Reimburses you for the value of your possessions, including furniture, electronics, appliances and clothing, damaged or lost even when they aren't on your property, such as those at an off-site storage locker or with your child at college.
- **Loss of Use.** Pays some of your additional living expenses while your home is being repaired.
- **Personal Liability.** Covers your financial loss if you are sued and found legally responsible for injuries or damages to someone else.
- **Medical Payments.** Pays medical bills for people hurt on your property or hurt by your pets.

Peril is an insurance term for a specific risk or reason for a loss. Some policies cover all perils except ones specifically excluded. At the other extreme are policies that cover only the perils named in the policy.

Types of Homeowners Policies

To be reimbursed for damage to your property, a covered peril (such as fire, theft or windstorm) must have caused your loss. Which perils your policy covers depends on the type of policy you buy. The most common types of homeowners policies are listed below. All of the policy types **except** the dwelling fire form cover your dwelling and its contents, as well as personal liability and medical payments. Read Table 1 to learn the specific perils each type of policy covers.

A type of homeowners policy is called a **Form**

- The **Dwelling Fire Form** covers only your dwelling. It does **not** cover your personal property, personal liability or medical payments. It also covers only a few perils. It's the type of policy your mortgage lender will buy for you if you let your homeowners policy lapse. It's also used for vacation homes and when you can't find other coverage.
- The **Basic Form** insures your property against only the list of perils shown in Table 1.
- The **Modified Coverage Form** is for older homes, where the cost to rebuild is greater than the market value. It covers the same set of perils as the Basic Form.
- The **Broad Form** insures your property against the perils shown on Table 1.
- The **Special Form** is the most popular of all homeowners forms. It insures your property against all perils, except those the policy specifically names as **not** covered. Perils commonly excluded are flood and earthquake.
- The **Tenants Form** is for renters. It insures your personal property against all of the perils in the Broad Form.
- The **Condominium Unit Owners Form** is for owner-occupants of condominium units. It insures your personal property and your walls, floors and ceiling against all of the perils in the Broad Form.

There are other types of insurance for other types of residences. If you own a **townhouse**, you may insure it through either an individual homeowners policy or an association master policy. If you live in a **mobile home** that has wheels and doesn't rest on blocks or a permanent foundation, in most states you'll buy a form of automobile insurance. This insurance offers far less coverage than homeowners policies. If your home is on land used for farming or raising livestock, ask about a **farmowners** policy.

Table 1. Perils Covered by Different Types of Homeowners Policies

<i>Peril</i>	Dwelling Fire	Basic Form and Modified Coverage Form	<i>Type of Policy</i>			Condominium Unit Owners Form
			Broad Form	Special Form	Tenants Form	
	<i>Dwelling</i>		<i>Contents</i>			
Fire, smoke, windstorm, hail, lightning, explosion, vehicles, civil unrest	■	■	■	■	■	■
Theft, vandalism		■	■	■	■	■
Trees and other falling objects		■	■	■	■	■
Weight of ice, snow, sleet		■	■	■	■	■
Freezing, rupturing or sudden and accidental overflow of a plumbing, heating, air-conditioning or fire-sprinkler system or a household appliance		■	■	■	■	■
All perils except flood, earthquake, war, nuclear accident and other perils specifically excluded in your policy		■	■	■	■	■

Flood Insurance

Homeowners policies **don't** cover flood damage. Depending on where your home is, you may qualify for flood insurance through the National Flood Insurance Program or through a private insurer. Contact an insurance agent for more information. If your home is in a flood plain, your mortgage lender will usually require you to buy flood insurance.

Limits of Coverage

Your insurance agent usually will help you decide how much dwelling coverage to buy when you first get homeowners insurance. Your coverage should equal the full replacement cost of your home. Note that replacement cost and market value are **not** the same. The market value, which includes the price of your land, depends on the real estate market.

You should review your dwelling coverage from time to time to be sure it doesn't drop below the cost to replace your home. If it drops below 80% of the full replacement cost of your home, your insurance company may reduce the amount that it will pay on a claim.

The limits of your coverage for other structures, for personal property and for loss of use of your home are expressed as percentages of your dwelling limit. The coverage is usually a set percentage (see Table 2). For example, if your dwelling coverage limit is \$150,000 and your coverage for personal property is limited to 50% of your dwelling coverage, your coverage for personal property would be \$75,000. Check your policy, as coverage limits might be based on percentages different from those in Table 2. You choose your coverage limits for your personal liability and for medical payments.

Table 2. Policy Limits

Coverage Component	Typical Limit of Coverage
Dwelling	You Choose
Other Structures	10% of Dwelling Coverage Limit
Personal Property	50% of Dwelling Coverage Limit
Loss of Use	20% of Dwelling Coverage Limit
Personal Liability	You Choose
Medical Payments	You Choose

Deductibles

A deductible is the money you have to pay out-of-pocket on a claim before the policy pays the loss. The deductible applies to coverage for your home and personal property and is paid on each claim. Higher policy deductibles mean lower policy premiums. A policy with a \$1,000 deductible will have a lower premium than the same policy with a \$500 deductible. In some locations, there are also catastrophe deductibles, which are expressed as a percentage instead of a dollar amount.

Having a higher deductible can be a good way to save money on your homeowners insurance premium and to submit fewer claims. However, be sure you can afford the deductible in case you have a loss.

Replacement Cost and Actual Cash Value

You can choose to insure your home and its contents for either replacement cost or actual cash value. **Replacement cost** is the cost to rebuild your home or repair damages using materials of similar kind and quality. **Actual cash value** is the value of your home considering its age and wear and tear. Actual cash value coverage pays you for your loss, but often doesn't pay enough to fully repair or replace the damage.

Optional Coverages

You can add other coverages. Sometimes, you can add coverage by buying an endorsement; other times, you must buy another policy to cover a specific peril or a specific item of property. Some reasons you might want to add coverages are:

- **To cover perils most homeowners policies don't cover.** The National Flood Insurance Program writes most *flood insurance policies*, although some insurance companies also sell it. Many insurance companies sell *earthquake insurance* as a separate policy or as an endorsement to your homeowners policy. While homeowners policies in most states cover damage caused by *windstorm and hail*, policies in coastal areas often exclude this coverage, in which case you would need to buy a separate policy to protect from this risk. You might be able to buy endorsements to cover damage caused by *mold* or by *sewer or drain backups* and *sump pump overflow*, because most homeowners policies offer limited or no coverage for these types of occurrences.
- **To increase your current coverage.** *Guaranteed replacement cost coverage* pays to completely rebuild your home, while a *personal property replacement cost endorsement* pays to replace your personal property. An *inflation guard endorsement* raises your dwelling coverage limit annually in line with inflation. *Personal umbrella liability insurance* increases your liability coverage above the level available in a homeowners policy. A *scheduled personal property endorsement* (or “personal article floater”) covers jewelry, furs, stamps, coins, guns, computers, antiques and other items whose value might be greater than the normal limits in your homeowners policy. An *ordinance or law endorsement* pays for the extra expense to rebuild your home in compliance with building codes and other ordinances or laws that didn't exist when your home was originally built.

Business Use of Your Home

While homeowners insurance isn't designed to cover most business uses of your home, some policies might cover some business uses, at least partially. For example:

- **Computers and laptops.** If you use your home computer or laptop for business purposes, it's often covered, but you should check your policy limits. Your laptop might be covered, even if it's lost, damaged or stolen away from your home.
- **Daycare coverage.** Most homeowners policies provide a limited amount of liability coverage if you care for a friend's children and aren't paid. But if you're paid to provide daycare in your home, you must buy more insurance to cover your related liability.

Other Types of Home-Related Insurance

You might hear about other types of insurance, especially when you buy your home. Lenders usually require **private mortgage insurance (PMI)** if your down payment is less than 20% of the home's purchase price. PMI protects the lender if you default on your mortgage. The PMI premium is often included in your monthly mortgage payment.

Title insurance protects you and the lender against any monetary loss due to errors in the title. You usually pay for title insurance as a one-time fee when you buy a home.

A **home warranty** covers the mechanical breakdown of individual parts of a home, such as the electrical and plumbing systems. A warranty doesn't cover the home's structure, may or may not cover appliances, ends at a specific point in time (for example, one year) and has exclusions and limitations that you should review. Home warranties might not be regulated as insurance in your state.

How Insurers Determine Your Premium

Many factors affect the premium you pay, including which insurance company you choose. Different insurance companies charge different premiums for similar coverage. Decisions you make about how much insurance coverage to buy also affect your premium. Some of the other things that are likely to affect your premium are:

➤ The characteristics of your home

- The cost to rebuild your home. This is not the same as the purchase price (which includes the cost of the land). Your insurance agent might help you estimate replacement cost using information about your home and its contents.
- Whether your home is made of brick or wood. The premium usually is lower for homes that are primarily brick or masonry than for wood frame homes.
- The distance from your home to a water source or fire department and the quality of your community's fire protection services.
- The age and condition of your home. The premium often is higher for older homes and homes in poor condition than for newer homes and homes in good condition.
- The claims history of your home and of homes in your area.

➤ Your choices and characteristics

- The coverages you choose, including optional endorsements.
- The deductible you choose.
- Insuring your home and autos with the same insurance company.
- The length of time you've been with your current insurance company.
- Your credit history. To access your credit report, the insurance agent might ask you for your Social Security number. In many states, insurers use your credit history as a factor to decide whether to sell you insurance and what price to charge you.
- Your history of filing claims for water damage, fire, theft or liability on homes you've owned.

➤ Other characteristics

- Having protection devices in your home, such as smoke detectors, a burglar alarm, a sprinkler system, deadbolts on doors, or security devices for windows. Many insurers offer a discount if you have any of these.
- Having a wood furnace or wood stove.
- Having a swimming pool, trampoline or playscape that could cause injuries.
- The types of pets you have. Some insurers won't insure you if you own certain breeds of dogs.
- Operating a business from your home.

Smart Shopping

Different insurance companies charge different rates for the same coverage. Also, not all insurance companies provide the same level of claims service. Therefore, it makes sense to shop around for the best insurance company for your needs.

Insurance companies use one of three methods to sell their products.

- **Independent agents** represent several companies and can give you several quotes.
- **Exclusive agents** only sell the products of one insurance company.
- **Direct market** sales are over the Internet or by mail or telephone.

You can find insurance companies and agents through the phone book, on the Internet and television and/or by asking friends and neighbors. You should also check with your state insurance department to see if it publishes premium comparison guides for homeowners insurance.

Customer service is important to most consumers, particularly when they have a claim. You can get a sense of how well an insurer serves its customers from a complaint index. Many state insurance departments post complaint index information on their Web sites. A complaint index measures how many complaints your state insurance department receives relative to the size of the company.

It's illegal for unlicensed insurers to sell insurance. Business cards aren't proof that an agent is licensed. If you do business with an unlicensed agent or company, it might not pay your claims or refund your premiums if you cancel your policy. If an unlicensed agent or company contacts you, check with your state insurance department immediately, so it can investigate. Your actions may protect someone else from being victimized.

You also want to buy insurance from a company that's financially sound. You can check the financial health of an insurance company by using ratings from independent ratings agencies such as Standard and Poor's, A.M. Best and Moody's.

Getting Premium Quotes

Getting premium quotes is a good way to compare different companies' prices. But, first you should decide what coverages and policy limits you need. It's important that you know how much it would cost to rebuild your home. An insurance agent or a contractor might be able to help you estimate the cost to rebuild your home.

When you get quotes, it's crucial that you ask for the same coverages and limits and give the same information to each agent or company. To give you an accurate quote, the insurance agent or company will usually ask for a description of your house (such as where it's located, its square footage, when it was built and the type of construction). He or she also might ask about items that increase your insurance needs, such as owning pets and expensive possessions. An agent might visit your home to take a photo or ask you for other information (such as the distance from the nearest fire department and the general condition of your home). Be sure to get rate quotes and key information in writing.

Make sure you ask the insurance agent if you qualify for any discounts. Some insurers offer a discount if you also buy your auto insurance from them or if you disaster-proof your home (for example, add storm shutters), update the home's electrical or plumbing systems, get a new roof or add home security devices (for example, a burglar alarm).

Also, be sure to find out how much your premium will change if you choose different deductibles.

While you're getting quotes, you should also ask the agent some of these questions:

- Are the agent and the insurance company licensed by my state insurance department? For how long? (Your state insurance department can confirm the answers to these questions.)
- How can I find out the claims history of the home before I buy it? The claims history of the home might affect your premium.
- If I submit a claim, how will it affect my premium when I renew the policy?
- How will my credit history affect my premium?
- What does the policy cover? What doesn't it cover? What are the limits to the coverages?
- How much coverage do I need for my personal property?
- How much liability coverage should I buy?
- Should I buy flood insurance or earthquake coverage? Your homeowners insurance policy doesn't cover either.
- What types of water damage are **not** covered? Is mold damage covered?

If you're thinking of buying a home, you can ask an agent to estimate the cost of insurance.

Your Responsibilities

A homeowners insurance policy is a legal contract. It's written so that your rights and responsibilities, and those of the insurance company, are clearly stated. You should read your policy and be sure you understand it. If you have questions about your insurance policy, contact your insurance agent or company.

When you buy homeowners insurance, you will receive a policy — not a photocopy. If you don't receive a policy within 30 days, contact the insurance company, not the agent. If you need a company's toll-free number, contact your state insurance department.

Keep your policy in a safe place and know the name of your insurer. If you still have questions, contact your state insurance department.

Other helpful tips:

- Pay the premium on time. Most insurers don't offer a grace period for paying the premium; the due date is the due date.
- Keep a file of all paperwork you completed online or received in the mail and signed — as well as any other documents related to your insurance, including the policy, correspondence, copies of advertisements, premium payment receipts, notes of conversations and any claims submitted.
- Make a household inventory.
 - Go through each room; write down and take pictures or videos of everything in the room.
 - Inventory everything, including valuable items such as antiques, electronics, jewelry, collectibles and guns.
 - Store your home inventory in a secure place at another location, such as your workplace, a safe deposit box, a relative's house or online.
 - Annually review and update your home inventory, including your pictures/videos. Also update your inventory when you buy new items.
 - Keep receipts with your home inventory for all repairs and new items you buy, for proof if you file a claim.
- Maintain your home.
 - A homeowners policy isn't a maintenance contract; it insures against damage from perils such as fire, wind and hail. It doesn't pay to repair items that simply wear out, like rotted porch railings. You're responsible for the upkeep of your home, such as repairing your roof when it begins to leak or cleaning your chimney flue so it doesn't catch fire.

Filing a Claim

Read your policy — it's your guide to the types of losses that may or may not be covered. How often you file a claim and the types of claims you file often affect your premium and whether your insurer will renew your policy. If the cost to repair the damage is not much more than your deductible, you might want to pay for the repairs without filing a claim.

Most insurance companies report your homeowners claims to private nationwide claim databases (such as the Comprehensive Loss Underwriting Exchange, better known as CLUE). Insurance companies use these databases to see the claims you've submitted in the past.

To file a claim, contact your insurance agent or company as soon as possible. Ask about forms or documents you'll need to support your claim. You're also required to protect your home from further damage. For example, you might need to board it up or clean up water from a backed-up drain.

The insurance company will assign a claims adjuster to assess the damages and determine the payment. These adjusters may be employees of the company or independent contractors. You should cooperate with the adjuster's investigation of your claim. The adjuster will probably want to meet with you at your house to inspect the damage. Jot down notes and keep track of the dates of any conversations you have with your insurance agent or adjuster.

If there are disagreements between you, the insurer and the claims adjuster, first try to resolve them with your insurer. Don't feel rushed or pushed to agree with something you aren't comfortable with. It might help to have your contractor meet with you and the insurance adjuster.

If you and the insurer still disagree about the value of the claim, check your policy for an appraisal clause. Another option is to hire an attorney or a public adjuster.

Public adjusters aren't attorneys or government employees — they're freelance adjusters that charge you a fee. Not all states allow public adjusters, but those that do require them to be licensed and to follow certain guidelines. If you have questions about the use of public adjusters, contact your state insurance department.

If you have trouble with or questions about your claim, you also may contact your state insurance department for help. Your state insurance department has consumer services personnel who can help you work with your insurer to resolve disagreements.

Losing Your Insurance

There's a big difference between an insurance company cancelling your policy and not renewing it.

Cancellation means either you or your insurance company stop the coverage before the policy's normal expiration date (which is usually 12 months after the policy starts). You can always cancel your policy for any reason. When you're a new policyholder, there's a limited period of time (typically 60 days) in which your insurance company can cancel your policy for any reason. After that, it can only cancel you if you don't pay your premium, if you've lied on your application or if your risk has changed substantially.

If your insurance company cancels your policy, it must give you notice. The number of days varies by state. If you or the insurer cancels your policy, the company may refund a portion of your premium.

Non-renewal means the company refuses to renew your policy after it expires. Insurance companies generally have the right to not renew your policy. If your company chooses not to renew your policy, it must give you notice; the number of days (typically 30 days before the renewal date) varies by state. You may ask the insurer for the reason. You also may choose not to renew your policy.

What to Do if You Can't Find Insurance

- <Insert state-specific FAIR Plan information>
- <Insert state-specific wind pool or other residual market mechanism information or market assistance program>

For More Information

- Visit your state insurance department's Web site:
 - <Insert state department of insurance Web site information for the long version of the consumer's guide>
 - <If applicable, insert consumer rights information>
 - <If applicable, insert premium comparisons>
 - < If applicable, insert complaint handling information>
- Visit the National Association of Insurance Commissioners (NAIC) Web sites for consumers: www.InsureUonline.org or www.naic.org/consumer_home.htm.
- Visit the National Flood Insurance Program Web site: www.floodsmart.gov.
- Access your free annual credit report: Visit www.annualcreditreport.com or call 877.322.8228.



Update on National Catastrophe Model Feasibility Report September 18, 2009

The pilot states study group examining the feasibility of building a National Catastrophe Model completed its final report in August 2009.

Within the past quarter, the group received a report from two consultants retained to conduct a feasibility study looking at the scope, timeline, steps required, data required and potential costs of building a national catastrophe model for multi-perils for personal lines. The study included the feasibility of building a national hurricane model and a national earthquake model. The consultants' final study estimated costs for assessing losses at both the ZIP code level and geocode level. The study also included a section detailing possible alternatives to building a national model.

The group met via conference call several times to draft a report summarizing the consultants' study and describing the process, benefits and risks involved with building a national catastrophe model. The group did not make a formal recommendation for action in its report. Instead, the pilot states study group's final report included sections regarding: 1) the need, regulator use and benefits of a national catastrophe model; 2) potential ways a model could be housed; 3) issues related to data collection and confidentiality; 4) a description of how a model might be built, including timeline, inputs, outputs and costs; 5) regulatory and political issues; and 6) alternatives to building a model.

The final report is currently being evaluated and considered by the Internal Administration (EX1) Subcommittee.

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