



November 28, 2007

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Dwelling 2002 Policy Program -
Notice to Policyholders

Attached is a sample advisory Notice To Policyholders prepared by Insurance Services Office (ISO) for the DP 2002 Policy Program. The information in this sample Notice is listed in three broad categories: I) Broadenings of Coverage; II) Reductions in Coverage; and III) Other Changes. Within each category, the changes are listed in the order that the provisions appear in the policy forms.

This sample Notice is being provided to assist member companies with their disclosure practices. The North Carolina Rate Bureau (Rate Bureau) has not and does not file sample notices on behalf of member companies. The sample notice is provided only as a guide. Each company is responsible for its own assessments and notice. ISO's general explanations of policy intent may not necessarily reflect every insurer's view and do not control any company's determination of coverage for a specific claim. The Rate Bureau does not intercede in coverage disputes arising from insurance policies. If there is any conflict between the policy and this sample Notice, the provisions of the policy apply.

G.S. § 58-36-45 provides in part that whenever an insurer changes the coverage in a policy, it shall give the policyholder notice of such coverage change at least 15 days in advance of the effective date and provide a copy of such notice to the agent. Further, case law in North Carolina has held that when an insurer renews a policy, the policyholder may assume that the renewal policy will be the same as the earlier policy unless reductions in coverage are clearly, conspicuously and unambiguously called to the policyholder's attention. *North River Insurance v. Young*, 117 N.C. App. 663, 453 S.E. 2d 205 (1995). The necessity and manner of

notifying policyholders of coverage revisions is an individual company responsibility. In addition to notifying policyholders of policy changes, companies may want to consider the advisability of notifying the policyholder that the DP 2002 is a new contract/policy program rather than a renewal of the prior contract. It is suggested that companies consult with their attorney as to the necessity, method, detail and language of your policyholder notification.

Please see to it that this information is brought to the attention of all interested personnel in your company.

Very truly yours,

F. Timothy Lucas

Personal Lines Manager

Attachment

FTL:dms

P-07-15

**NORTH CAROLINA
DWELLING POLICY PROGRAM (2002 EDITION)
NOTICE TO POLICYHOLDERS**

CAUTION: NO COVERAGE IS PROVIDED BY THIS NOTICE; NOR CAN IT BE CONSTRUED TO REPLACE ANY PROVISION OF YOUR POLICY. YOU SHOULD READ YOUR POLICY AND REVIEW YOUR DECLARATION PAGE FOR COMPLETE INFORMATION ON THE COVERAGES THAT YOU ARE PROVIDED. IF THERE IS A CONFLICT BETWEEN THE POLICY AND THIS SUMMARY, THE POLICY SHALL PREVAIL.

Dear Policyholder,

The form and endorsements made part of this new contract/policy program that you have received differs from those in your former policy. Some changes give you more coverage and some reduce coverage. There are other changes that do not affect the level of coverage provided in your former policy. They were made to help you better understand your policy. This Policyholders Notice summarizes the main changes we made to your policy.

I. BROADENINGS OF COVERAGE

A. Coverages

Coverage B - Other Structures Used For Business

Coverage now applies to an other structure on the Described Location that contains commercial, manufacturing or farming property solely owned by an insured or a tenant of the dwelling. However, there is no coverage for the structure if any of the stored commercial, manufacturing or farming property includes gaseous or liquid fuel other than fuel in a vehicle or craft parked in the structure.

B. Perils Insured Against

1. Vandalism or Malicious Mischief

The vacancy period provision in this peril is extended from 30 to 60 days. That means if your dwelling is vacant for up to 60 consecutive days and it is vandalized during that time, you are covered for that damage. (*See Part III, Other Changes, Item C.1. for more changes to this peril.*)

2. Accidental Discharge or Overflow of Water or Steam

We will now pay to tear out and replace any part of a non-building structure covered under the policy to access a break in a plumbing system on the Described Location if the water or steam that is leaking from the system is causing damage to an insured building. **For example:** if water is leaking from a break in a water line that is on the Described Location and under a paved driveway or cement walk (a non-building structure), and that water is causing damage to the dwelling, we'll pay to: a) tear up the driveway or walk to access the break and stop the leak; and b) repair or replace that part of the driveway or walk that was disturbed.

3. Smoke

Coverage has been broadened to pay for damage caused by the emission or puffback of smoke, soot, fumes or vapors from a boiler, furnace or related equipment.

II. REDUCTIONS IN COVERAGE

A. Coverages

Coverage C - Property Not Covered

1. *Accounts, Bank Notes, etc.,*

Certain instruments that serve as a substitute for cash, such as: scrip and stored value and smart cards, are included within the items in the Property Not Covered provision for accounts and bank notes.

2. *Grave Markers*

In your former policy, a grave marker you own was covered either under Coverage B – Other Structures, if located on the Described Location and considered real estate, or under Coverage C – Personal Property, if not considered real estate and located on or away from the Described Location. We have revised both Coverage B and C to indicate that there is no coverage for gravemarkers.

We have introduced a new optional endorsement, DP 04 58, that pays up to \$5,000 for a covered loss to grave markers, including mausoleums, only while on the Described Location.

3. *Fund Transfer Card*

This term is now referred to as “*electronic fund transfer cards and access devices*” because other types of devices (for example, a personal computer) are increasingly being used to electronically transfer funds or to buy and sell goods and services.

B. Perils Insured Against

Freezing of Plumbing Systems and Household Appliances

Your former policy covered loss by this peril if you maintained heat in the dwelling or shut off the water supply and drained the water from all pipes and appliances when the dwelling was vacant, unoccupied or under construction. This policy continues to cover loss by this peril. However, we revised it to state that: a) it now applies to the dwelling whether it is under construction, vacant, unoccupied *or occupied* and b) the option to shut off the water supply and drain the pipes does not apply to a building on the residence premises that contains an automatic fire protective sprinkler system and c) exclude from the definition of sump pump or household appliance sump pump or related equipment, roof drain, gutter, downspout or similar fixture of equipment.

C. Exclusions

Governmental Action

We now exclude the destruction, confiscation, or seizure of covered property by order of any governmental or public authority. However, this exclusion does not apply to action taken by the authority at the time of a fire to prevent its spread.

D. Conditions/Other Insurance and Service Agreement

We added ‘Service Agreement’ to the Other Insurance Condition because of the proliferation of home warranties and appliance service and maintenance agreements that

II. REDUCTIONS IN COVERAGE (Cont'd)

could result in payment by this policy and the warranty or maintenance contract when both cover the same property involved in a loss. Therefore, this insurance will be excess over any compensation you receive as a result of the service or maintenance agreement.

Suit Against Us

We also revised this condition to state that such action cannot be brought until there is full compliance with all of the terms of the policy.

III. OTHER CHANGES

The following changes were made to more explicitly express the level of coverage provided for the policy provisions noted below. However, they could result in a change in coverage depending on the circumstances of a given claim and our prior claims handling practices.

A. Property Coverages

Coverage C – Personal Property

1. *Covered Property (Property Of Others)*

We revised this provision to emphasize that you can apply your Coverage C limit to personal property of a guest or servant **after a loss** to such property occurs.

2. *Property Not Covered*

a. *Platinumware*

This provision is revised to apply only to platinum, not platinumware.

b. *Hovercraft*

We are now explicitly stating that no coverage exists for hovercrafts.

c. *Motor Vehicles*

Your former policy and this policy do not cover motor vehicles, their accessories and equipment except for vehicles **not** registered and not required to be registered for use on public roads or property and: 1) designed to assist the handicapped; or 2) used to service the Described Location (for example, a motorized lawn tractor, snowplow or garden cart). This provision has been revised to state that **'parts'** are included with accessories and equipment.

b. *Water or Steam*

Water or steam transported through mains or in bulk to the Described Location is considered a utility, much like electricity and natural gas. Therefore, it is not real or personal property and as a consequence, not covered under this or your former policy. To eliminate any questions on this point, we added water and steam to the list of property not covered.

B. Other Coverages

1. *Collapse*

We revised this coverage to define collapse and to state that: a) a building or part of a building in danger of falling down or caving in is not considered collapse; and b)

III. OTHER CHANGES (Cont'd)

the terms 'hidden decay' and 'hidden insect or vermin damage' do not include decay or damage which an insured is aware of before the building collapses.

2. *Ordinance or Law*

Your former policy and this policy provide a limited amount of coverage for increased construction costs you incur to upgrade damaged property to comply with federal, state or local building codes. However, we do not cover the costs incurred to comply with codes that deal with the effects of pollutants *on* an insured structure. We modified this exception to coverage to point out that the costs to deal with the effects of pollutants *'in or on'* an insured structure are not covered.

C. Perils Insured Against

1. *Vandalism or Malicious Mischief*

This peril now explicitly expresses that any ensuing loss caused by any intentional and wrongful act committed by vandals in the course of the vandalism or malicious mischief is not covered when the premises has been vacant for a period of more than 60 consecutive days. *For example*, assume during the third month of a dwelling's vacancy, vandals entered the house and spray-painted the walls and destroyed the furnace. Assume too that two weeks later, long after the vandals have left, the water in the pipes in the house froze, because of the lack of heat and extremely cold weather, and break in a number of places. Shortly thereafter, warm weather thaws the frozen pipes and water leaks from the breaks causing damage to the floors and walls of the dwelling. Because the dwelling was vacant for more than 60 consecutive days, there is NO coverage for: a) the damage to the walls and furnace caused by the vandals and b) the ensuing loss to the floors and walls caused by the water that leaked from the broken pipes due to lack of heat.

2. *Mechanical Breakdown, Latent Defect and Inherent Vice (Form 3 and Endorsement DP 04 65)*

In addition to the perils named above, we added the phrase *'any quality in property that causes it to damage or destroy itself'* to emphasize the meaning of the terms *'latent defect'* and *'inherent vice'*.

3. *Sudden and Accidental Damage From Artificially Generated Electrical Current*

To reflect changes in terminology and technology that have occurred over the past 20 years, we added the phrase *'electronic components or circuitry that are part of appliances, fixtures, computers, home entertainment units or other types of electronic apparatus'* to the existing term, *'tubes and transistors'*.

D. Exclusions

1. *Introductory Paragraph*

To emphasize that the exclusions named in the policy apply to both catastrophic and non-catastrophic loss situations, this paragraph is revised to state that the exclusions apply *whether or not* the excluded event causes widespread damage or affects a substantial area.

III. OTHER CHANGES (Cont'd)

2. *Water Damage*

We revised the 'water back-up' and 'subsurface water' exclusions to state that they also apply to damage caused by *water-borne material*. In addition, we revised the 'sump overflow' exclusion to state that it applies to water and water-borne material that overflows *or is discharged* from a sump, sump pump or related equipment.

3. *Earth Movement and Water Damage*

To point out that coverage is excluded not only for naturally occurring events, we added language to these exclusions to indicate that they apply even if the excluded event is *caused by or results from human or animal forces*.

4. *Intentional Loss*

The Intentional Loss Exclusion specifies there is no coverage for the person insured who commits or conspires to commit an act with the intent to cause a loss.

-----*End of Policy Forms Policyholders Notice*-----