



November 4, 2004

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Homeowners 2000 -
Notice to Policyholders

Attached is a sample advisory Notice To Policyholders prepared by Insurance Services Office (ISO) for the HO 2000 policy program. The information in this sample Notice is listed in three broad categories: I) Broadenings; II) Reductions; and III) Other Changes. Within each category, the changes are listed in the order that the provisions appear in the policy forms. Also highlighted are optional endorsements to which changes have been made.

This sample Notice is being provided to assist member companies with their disclosure practices. The NCRB 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 NCRB 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 HO 2000 is a new contract 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:dp

P-04-17

**NORTH CAROLINA
HOMEOWNERS POLICY PROGRAM (2000 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 the renewal policy 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. Section I - Property Coverages

1. Coverage B - Other Structures Used For Business

Coverage now applies to an other structure on the residence premises that is used to store business property owned by an insured or a tenant of the dwelling. However, there is no coverage for the structure if any of the stored business property includes gaseous or liquid fuel other than fuel in a vehicle or craft parked in the structure.

2. Coverage C - Personal Property - Special Limits of Liability

The limits applying to the following categories of personal property are increased from:

- \$1,000 to \$1,500 for securities, accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, personal records, passports, tickets and stamps;
- \$1,000 to \$1,500 for watercraft of all types, including their trailers, furnishings, equipment and outboard engines or motors;
- \$1,000 to \$1,500 for trailers or semi-trailers not used with watercraft;
- \$1,000 to \$1,500 for theft of jewelry, watches, furs, precious and semiprecious stones;
- \$1,000 to \$1,500 for electronic apparatus and accessories in or upon a motor vehicle;
- \$1,000 to \$1,500 for electronic apparatus and accessories used for business while away from the residence premises and not in a motor vehicle; and
- \$250 to \$500 for business property away from the residence premises.

I. BROADENINGS OF COVERAGE (CONT'D)

A. Section I - Property Coverages (Cont'd)

3. Coverage C - Personal Property

Special Limits of Liability – Business Property and Electronic Apparatus

Your former policy provided limited coverage for property on or away from the residence premises "*used at any time or in any manner for any business purpose*". We revised this terminology (under Special Limit Categories **h.**, **i.** and **k.**) so that these special limits apply to property "*used primarily for business purposes*". Now, any such property you own that was used in a former trade, profession or occupation, or that is occasionally used in business, will be subject to the Coverage C limit instead of the special limit that applies to business property.

B. Section I - Additional Coverages

1. Debris Removal

We also broadened coverage to apply to the removal of fallen tree(s) that do not damage an insured structure if the tree:

- Blocks your driveway and prevents a motor vehicle licensed for road use from entering or leaving the residence premises; or
- Blocks and prevents use of a ramp or other type of access fixture designed to assist a handicapped person to enter or leave the dwelling.

2. 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. We also made this change to item **j.** under Coverage C – Property Not Covered.

3. Loss Assessment

This coverage is revised in three ways: a) to point out that the deductible applies on a *per event* rather than a *per assessment* basis; b) to note that the property sustaining loss - for which the assessment is made - must be of the type insured under your policy; and c) to state that this coverage is additional insurance, meaning that it doesn't reduce the Coverage A, B or C limits shown in the Declarations.

4. Grave Markers

In your former policy, a grave marker you own was covered either under Coverage B – Other Structures, if located on the residence premises and considered real estate, or under Coverage C – Personal Property, if not considered real estate and located on or away from the residence premises.

To better enable you to determine which coverage, if any, applies, we introduced a new Additional Coverage that pays up to \$5,000 for a covered loss to grave markers, including mausoleums, regardless of where they are located and whether or not they are considered real estate. We believe that in most situations, this new coverage is broader than what was provided in your former policy.

I. BROADENINGS OF COVERAGE (CONT'D)

C. Section I - 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 residence premises 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 residence premises 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.

D. Section II - Liability Exclusions

Coverages E and F - Motor Vehicle and Watercraft Liability,

We substantially broadened coverage for claims involving motorized golf carts you may own. However, before discussing this broadening, we want you to know that your former policy and this policy provide limited coverage for claims made against an insured that involves certain motor vehicles and watercraft. Generally speaking:

- a. If a motor vehicle is registered, or is required to be registered for use on public roads or property, there is **NO** coverage whether the injury or damage to others happens *on or away* from an insured location.
- b. There is also no coverage if a motor vehicle or watercraft is, at the time of an accident: rented to others; being used to carry persons or cargo for a fee or for any other business purpose; or involved in or practicing for a race, speed contest or other competition.

There are a few exceptions, however, and they are listed in the motor vehicle and watercraft liability exclusions in the policy form. ***We urge that you read them and contact (us) (your insurance agent) if you are not sure about the coverage or interested in insuring a vehicle or craft.***

I. BROADENINGS OF COVERAGE (CONT'D)

D. Section II - Liability Exclusions (Cont'd)

Owned Motorized Golf Carts. We broadened coverage for motorized golf carts (MGC) by adding two exceptions to the motor vehicle exclusion in this policy. If an insured **owns** a MGC that is **NOT** registered, nor required to be registered, for use on public roads or property, we now provide coverage for claims alleging bodily injury or property damage involving the MGC if, at the time of the accident, the MGC is within the boundaries of:

- a. Certain types of private residential communities that contain an insured's residence; or
- b. A golfing facility and it is being used to play golf or for any other leisure activity permitted by the facility.

CAUTION: THERE IS NO COVERAGE FOR ANY ACCIDENT WHILE THE MGC IS OUTSIDE THE BOUNDARIES OF THE PRIVATE RESIDENTIAL COMMUNITY OR GOLF FACILITY. CONTACT (US) (YOUR INSURANCE AGENT) IF YOU HAVE THIS EXPOSURE.

E. Section II - Additional Coverages

1. Claims Expenses – Expenses Incurred and Loss of Earnings

The maximum daily payment for the reasonable expenses incurred by an insured, including loss of earnings, for assisting us in the defense of a claim or suit is increased from \$50 to \$250.

2. Damage to Property of Others

The limit of liability for damage to property of others accidentally caused by an insured is increased from \$500 to \$1,000.

II. REDUCTIONS IN COVERAGE

A. Definitions

Student Away From Home (Definition of Insured)

The definition of insured has been expanded to state that a student who lives away from your home is covered as an insured only if he or she attends school on a full time basis and is:

- a. Your relative and 23 years of age or younger; or
- b. Not your relative and 20 years of age or younger if still in the care of an insured.

An older student or a part time student who lives away from home may be added to the policy as an 'Additional Insured' for an additional premium. Contact (us) (your insurance agent) for eligibility.

B. Section I – Property Coverages

Coverage C - Special Limit of Liability - Money, Bullion, Gold, etc.

The special limit of \$200 that applies to a single loss event involving money, bank notes, bullion, gold, etc. has been extended to include certain instruments that serve as a substitute for cash money: scrip, stored value cards, and smart cards.

C. Section I - 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.

D. Section I - Exclusions

1. 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.

2. Earth Movement - Form HO 00 05 and Endorsements HO 05 24 and HO 17 31

The Earth Movement exclusion is extended to apply to Coverage C – Personal Property.

II. REDUCTIONS IN COVERAGE (Cont'd)

E. Section I - 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 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.

F. Section II - Liability Exclusions

Coverage E – Personal Liability and Coverage F – Medical Payments To Others

Motor Vehicle And Watercraft Liability

With the introduction of the definitions for motor vehicle liability and watercraft liability, these exclusions apply to claims alleging bodily injury or property damage that arise out of an insured's negligent supervision of or failure to supervise any person involving any vehicle or craft, including trailers.

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 claims handling practices.

A. Section I – Property Coverages

Coverage C – Personal Property

1. Property At An Insured's Residence Other Than The Residence Premises

Your former policy and this policy cover personal property *usually* located at another residence for up to 10% of the Coverage C limit shown in the Declarations. However, this limited amount does not apply to property in a newly acquired principal residence for 30 days from the time you begin to move property there. We added another exception in this policy to point out that property that has been moved to another residence, because the residence premises is being repaired or rebuilt and is not fit to live in or store property in, is not subject to the 10% limitation.

2. 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, residence employee or others *after a loss* to such property occurs.

3. Special Limits Of Liability

a. Platinumware – The special limit provision that applies to theft of silverware, silver-plated ware, gold ware, gold-plated ware and pewterware is extended to include platinumware and platinum-plated ware. This avoids the possibility of having the lower limit that applies to platinum apply to platinumware.

b. Firearms – This special limit provision is revised to point out that it also applies to theft of firearm-related equipment.

4. Property Not Covered

a. 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 an insured's residence (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 residence 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.

III. OTHER CHANGES (Cont'd)

B. Section I – Additional 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) 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. Landlord's Furnishings

This coverage is revised to state that the basic limit of \$2,500 is within the policy limits and that it applies separately to **each** rented unit. This limit may be increased for an additional premium. Contact (us) (your insurance agent) for eligibility.

3. 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 affects 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. Section I - 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 (Forms 3 and 5 and Endorsements HO 04 14, HO 17 31 and HO 17 32)

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 technical terms *'latent defect'* and *'inherent vice'*.

III. OTHER CHANGES (CONT'D)

C. Section I - Perils Insured Against (Cont'd)

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. Section I - 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.

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*

We added text to this exclusion to point out that there is no coverage for ALL insureds if an insured commits or conspires to commit damage that results in an otherwise covered loss.

E. Section II – Liability Exclusions

1. *Coverages E and F – Motor Vehicle and Watercraft Liability*

The policy language for these exclusions has been editorially revised:

- To accommodate the new definition for motor vehicle;
- To emphasize that there is **NO** coverage for any vehicle or watercraft **UNLESS** it is specifically excepted in the form or it is covered by endorsement; and
- To emphasize the extent of coverage that is provided for **non-owned** motorized golf carts.

2. *Coverages E and F – Hovercraft Liability*

A specific exclusion for hovercraft liability is added. Hovercraft are also known as 'ground effect vehicles' or 'air-cushioned vehicles' and were excluded in your former policy as motor vehicles or motorized land conveyances.

III. OTHER CHANGES (CONT'D)

E. Section II – Liability Exclusions (Cont'd)

3. Coverages E and F - Business and Rental Property

We combined the business liability exclusion with the formerly separate rental property exclusion. We also revised policy language for the business exclusion to describe and emphasize its broad application. ***For example***, if one insured conducts an excluded business on the residence premises, there is no coverage for any insured for a claim alleging injury or damage involving that business.

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

-

REVISED OPTIONAL ENDORSEMENTS - BROADENINGS AND REDUCTIONS

While most endorsements have been revised, the following endorsements have undergone changes that affect the level of coverage provided in the former editions:

**A. HO 32 11 – Additional Limits of Liability For Coverages A, B, C, and D; and
HO 32 20 – Specified Additional Amount of Insurance For Coverage A - Dwelling**

The replacement cost loss settlement condition in these endorsements is extended to apply to ALL property insured under Coverage A, not just the dwelling building.

B. HO 04 61 – Scheduled Personal Property

This endorsement is revised to:

- Provide coverage for theft of stamps and coins from an unattended auto;
- Extend coverage for fine arts to *anywhere in the world*; and
- To point out that when the Personal Property Replacement Cost Loss Settlement endorsement is attached to the policy, most property insured under this endorsement, HO 04 61, will also be subject to replacement cost loss settlement.

C. HO 32 90 – Home Business Insurance Coverage Endorsement

This endorsement is editorially revised to include policy language that complements changes made to the Homeowners forms. We also combined and revised the Personal and Advertising Injury definitions, coverage provisions and exclusions which result in some broadenings or reductions in coverage.

D. HO 32 82 – Personal Injury

This endorsement is revised to:

- Treat personal injury separately from bodily injury;
- Provide up to \$1,000 of coverage for loss assessments charged against an insured by a property owners association in which that insured is a member;
- Point out that the offenses relating to defamation ('libel' and 'slander') apply to both oral and written publications; and that the offenses of 'wrongful eviction, 'wrongful entry' and 'invasion of the right of private occupancy' apply to improper occupancy of a room, dwelling or premises;
- Newly exclude Personal Injury:
 1. Caused by an insured with the knowledge that the act would violate the rights of another and would inflict personal injury; and
 2. Arising out of pollution, including clean-up costs associated with pollution claims;

REVISED ENDORSEMENTS - BROADENINGS AND REDUCTIONS (CONT'D)

- Rewrite the exclusion pertaining to Personal Injury arising out of:
 1. Oral or written publication of material by or at the direction of an insured knowing it is false; and
 2. A 'criminal act' committed by or at the direction of an insured (instead of a violation of a penal law or ordinance); and
- Specifically indicate which provisions, definitions, exclusions, additional coverages and conditions in the form apply to "personal injury".

.....*End of Endorsements Policyholders Notice*.....