

September 17, 2010

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Homeowners Enhancement Policy Program  
HE 32 21 – Extended Enhancement Coverage  
Revised Endorsement, Rule and Rate

The Commissioner of Insurance has recently approved revisions to Endorsement HE 32 21 – Extended Enhancement Coverage regarding Water Back-Up and Sump Discharge or Overflow including the rule and rates. This Endorsement is designed for use on an optional basis in North Carolina with the Homeowners Enhancement Policy Program.

The revised endorsement HE 32 21 increases the limit of liability for Water Back Up and Sump Discharge or Overflow to \$50,000 in lieu of \$20,000 when added to the Homeowners Enhancement Policy. Additional language has also been added in order to be consistent with other property forms and endorsements regarding Water Back-Up which have been approved for use with the Homeowners Policy Program.

The Homeowners Manual Supplement has been revised to reflect the rule and rate change in the HE 32 21.

For your convenience, please find attached a copy of Endorsement HE 32 21 08 10 and a copy of the Homeowners Manual Supplement Rule 3.

These changes become effective in accordance with the following Rule of Application:

This revision becomes effective immediately for use on an optional basis but in no event later than February 1, 2011. All new and renewal policies effective on or after February 1, 2011 are required to include this revision.

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

Sincerely,

F. Timothy Lucas

Personal Lines Manager

FTL:dms

Attachments

P-10-11

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

## EXTENDED ENHANCEMENT COVERAGE

### Form HE-7 Only – North Carolina

The following additions or enhancements are added to Form HE 00 07 attached to this policy:

#### SECTION I – PROPERTY COVERAGES

##### B. Coverage B – Other Structures

Paragraph B.3. in the policy form is deleted and replaced by the following:

- 3. The limit of liability for this coverage will not be more than 20% of the limit of liability that applies to Coverage A. Use of this coverage does not reduce the Coverage A limit of liability.

##### C. Coverage C – Personal Property

Paragraph C.2. in the policy form is deleted and replaced by the following:

###### 2. Limit For Property At Other Residences

The limit of liability for personal property usually located at an "insured's" residence, other than the "residence premises", is 10% of the limit of liability for Coverage C, or \$10,000, whichever is greater. However, this limitation does not apply to personal property:

- a. Moved from the "residence premises" because it is being repaired, renovated or rebuilt and is not fit to live in or store property in; or
- b. In a newly acquired principal residence for 60 days from the time you begin to move the property there.

###### 3. Special Limits Of Liability

Categories 3.c., d., h., and i., in the policy form are deleted and replaced by the following:

- c. \$2,500 on watercraft of all types, including their trailers, furnishings, equipment and outboard engines or motors.
- d. \$3,500 on trailers or semitrailers not used with watercraft of all types.
- h. \$5,000 on property, on the "residence premises", used primarily for "business" purposes. This special limit does not apply to such property away from the "residence premises", except computer hardware or software used in "business" and away from the "residence premises" for repair, servicing or temporary use.

- i. \$1,500 on property, away from the "residence premises", used primarily for "business" purposes. However, this limit does not apply to loss to electronic apparatus and other property described in Categories j. and k. below.

Category I. is added:

##### I. Higher Limits For Certain Property In A Safe Deposit Box

- (1) The Special Limits of Liability for property described in categories 3.b., e. and g., are increased to a combined single limit of \$50,000 while such property is in a safe deposit box stored in a vault.
- (2) The vault shall be in a bank, trust, or safe deposit company.
- (3) This higher special limit does not apply if the property is removed, by or at the request of an "insured", from the premises of the bank, trust or safe deposit company.

##### 4. Property Not Covered

Paragraph 4.i. in the policy form is deleted and replaced by the following:

- i. "Business" data, including such data stored in:
  - (1) Books of account, drawings or other paper records; or
  - (2) Computers and related equipment.
 We do cover the cost of:
  - (3) Blank recording or storage media;
  - (4) Prerecorded computer programs available on the retail market;
  - (5) Custom software used in connection with a "business"; and
  - (6) Recreation of "business" records.

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## D. Coverage D – Loss Of Use

Paragraph **D.1.** in the policy form is deleted and replaced by the following:

### 1. Additional Living Expense

If a loss covered under Section **I** makes that part of the "residence premises" where you reside not fit to live in, we cover:

#### a. Increase In Living Expenses

Any necessary increase in living expenses incurred by you so that your household can maintain its normal standard of living.

#### b. Primary Mortgage Expense

The monthly payment necessary to maintain an existing primary mortgage with the mortgagee named in this policy while that part of the "residence premises" where you reside is not fit to live in.

We will not pay:

- (1) more than the monthly payment at the time of loss; and
- (2) for more than a period of twelve months.

Payment under **a.** and **b.** above will be made for the shortest time required to repair or replace the damage or, if you permanently relocate, the shortest time required for your household to settle elsewhere.

## E. Additional Coverages

Paragraph **E.5.** in the policy form is deleted and replaced by the following:

### 5. Property Removed

We insure covered property against direct loss from any cause while being removed from a premises endangered by a Peril Insured Against and for no more than 90 days while removed.

This coverage does not change the limit of liability that applies to the property being removed.

### 6. Credit Card, Electronic Fund Transfer Card Or Access Device, Forgery And Counterfeit Money

Under paragraph **6.a.** in the policy form, the limit of \$500 is increased to \$5,000.

### 7. Loss Assessment

Under paragraph **7.a.** in the policy form, the limit of \$1,000 is increased to \$5,000.

The following Additional Coverages are added:

### 15. Lock Replacement.

We will pay, up to \$500, for the replacement of locks or cylinders which are:

- a. Used to lock the dwelling or other structure on the "residence premises"; and
- b. Replaced due to the theft of keys.

This limit is the most we will pay in any one loss, regardless of the number of locks or cylinders.

This is additional insurance.

No deductible applies to this coverage.

## 16. Reward Payment.

### a. Coverage

We will pay, to an eligible person described in **b.** below, a reward of:

- (1) \$2,500 for information leading to the arrest and conviction of the person(s) committing a crime resulting in loss to covered property by a Peril Insured Against; and
- (2) Up to \$5,000 for the return of stolen covered property when the loss is caused by theft, but no more than the least of the following amounts:
  - (a) The actual cash value based upon the condition of the property at the time it is returned, but not more than the amount required to repair or replace; or
  - (b) The amount determined by the loss settlement procedure that applies to the property returned.

### b. Eligible Person

The eligible person noted in **a.** above is:

- (1) A person designated by a law enforcement agency as being the first to:
  - (a) Voluntarily provide the necessary information; or
  - (b) Return the stolen property;
- (2) A person who did not have custody of the property at the time the theft was committed; or
- (3) A person who is not:
  - (a) Involved in the crime;
  - (b) An "insured" or a relative of an "insured";
  - (c) An employee of a law enforcement agency; or
  - (d) An employee of a "business" engaged in property protection.

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**c. Conditions**

- (1) No reward will be paid unless and until the person(s) committing the crime is (are) convicted or the property returned.
- (2) The amounts of the reward stated in a. above is the most we will pay for any one loss.

This coverage is additional insurance.

**17. Witness Reimbursement.**

- a. Subject to the limits stated in b. below, we will pay for an "insured's" actual loss of earnings and expenses incurred, unless otherwise reimbursed, arising out of appearance as a witness for the prosecution at hearings or trials. The hearings or trials must be called to prosecute any person(s) charged with committing a crime against an "insured's" property covered by this policy.
- b. We will pay up to \$250 per day for loss of earnings and \$50 per day for expenses, subject to an aggregate limit of \$3,000. This limit is the most we will pay regardless of the number of hearings or trials arising from a crime.

This coverage is additional insurance. No deductible applies to this coverage.

**18. Land**

If there is a covered loss to the "residence premises", we will pay up to \$10,000 for the cost to replace, stabilize or rebuild the land necessary to support the dwelling or other structure.

This coverage is additional insurance.

**19. Water Back-Up And Sump Discharge Or Overflow**

**a. Coverage**

We will pay up to ~~\$20,000~~ \$50,000 for direct physical loss, not caused by the negligence of an "insured", caused by water or waterborne material, which:

- (1) Backs up through sewers or drains; or
- (2) Overflows or is discharged from a sump, sump pump or related equipment; even if such overflow or discharge results from mechanical breakdown. This coverage does not apply to direct physical loss of the sump pump, or related equipment, which is caused by mechanical breakdown.

**b. Perils Insured Against**

With respect to the coverage described in a. above, paragraph A.2.e.(2) under Section I – Perils Insured Against in the policy form is deleted and replaced by the following:

- (2) Latent defect, inherent vice, or any quality in property that causes it to damage or destroy itself.

**c. Exclusion**

With respect to this coverage, paragraph A.2. under Section I – Exclusions in the policy form is deleted and replaced by the following:

**Water**

This means:

- (1) Flood, including but not limited to flash flood, surface water, waves, including tidal wave and tsunami, seiche, tides, tidal water, overflow of any body of water, or spray from any of these, all whether or not driven by wind, including storm surge;
- (2) Water which:
  - (a) Backs up through sewers or drains; or
  - (b) Overflows or is otherwise discharged from a sump, sump pump or related equipment; as a direct or indirect result of flood;
- (3) Water below the surface of the ground, including water which exerts pressure on, or seeps, leaks or flows through a building, sidewalk, driveway, patio, foundation, swimming pool or other structure; or
- (4) Waterborne material carried or otherwise moved by any of the water referred to in c.(1) through c.(3) of this Exclusion.

This Exclusion applies regardless of whether any of the above, in c.(1) through c.(4), is caused by an act of nature, an act of man or is otherwise caused.

This Exclusion applies to, but is not limited to, escape, overflow or discharge, for any reason, of water or waterborne material from a dam, levee, seawall or any other boundary or containment system whether natural, man-made or is otherwise made.

However, direct loss by fire, explosion or theft resulting from any of the above, in c.(1) through c.(4), is covered.

This coverage is additional insurance.

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## SECTION II – EXCLUSIONS

### B. "Watercraft Liability"

Under paragraphs 2.c.(2) (a), (b), (c) and (d) in the policy form, the power rating of 25 horsepower is increased to 50 horsepower.

## SECTION II – ADDITIONAL COVERAGES

### C. Damage To Property Of Others

Under paragraph 1. in the policy form, the limit of \$1,000 is increased to \$1,500.

### D. Loss Assessment

Paragraph D. in the policy form is deleted and replaced by the following:

1. We will pay up to \$5,000 for your share of loss assessment charged against you, as owner or tenant of the "residence premises", during the policy period by a corporation or association of property owners, when the assessment is made as a result of:
  - a. "Bodily injury" or "property damage" not excluded from coverage under Section II – Exclusions; or
  - b. Liability for an act of a director, officer or trustee in the capacity as a director, officer or trustee, provided such person:
    - (1) Is elected by the members of a corporation or association of property owners; and
    - (2) Serves without deriving any income from the exercise of duties which are solely on behalf of a corporation or association of property owners.
2. Paragraph I. Policy Period under Section II – Conditions does not apply to this Loss Assessment Coverage.
3. Regardless of the number of assessments, the limit of \$5,000 is the most we will pay for loss arising out of:
  - a. One accident, including continuous or repeated exposure to substantially the same general harmful condition; or
  - b. A covered act of a director, officer or trustee. An act involving more than one director, officer or trustee is considered to be a single act.
4. We do not cover assessments charged against you or a corporation or association of property owners by any governmental body.

All other provisions of this policy apply.

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**RULE 3.**

**HOMEOWNERS ENHANCEMENT PROGRAM**

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

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

**A. Introduction**

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

**B. Eligibility**

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

**C. Available Form and Endorsements**

**1. Enhancement Coverage Form HE 00 07**

Attach this form to all enhancement policies.

This form is based on the October 2000 edition of Homeowners Comprehensive Form **HO 00 05** of the Insurance Services Office, Inc. The enhancements made to Form **HO 00 05** are described in Rule **F.**

**2. Expanded Enhancement Coverage Endorsements HE 32 20**

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

**3. Extended Enhancement Coverage Endorsements HE 32 21**

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

**4. Optional Coverages**

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

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

**Table 3. C.4. Other Coverage Endorsements**

**D. Deductibles**

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

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

**1. \$250 Deductible**

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

**2. Higher Deductibles**

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

**E. Limits Of Liability And Coverage Relationships**

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

**1. Section I – Property Damage**

**a. Coverage A – Dwelling**

Refer to Company.

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

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

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

**2. Section II – Liability**

**a. Coverage E – Personal Liability**

\$100,000 Each Occurrence

**b. Coverage F – Medical Payments**

\$1,000 Each Person

**3. Optional Higher Limits**

**a. Coverages C, D, E and F**

The limit of liability for these coverages may be increased.

**b. Coverage B**

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

**RULE 3.**

**HOMEOWNERS ENHANCEMENT PROGRAM (Cont'd)**

**F. Mandatory Coverages**

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

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

**1. Section I Coverages**

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

- (1) Special Coverage;
- (2) Ordinance Or Law Coverage for buildings up to the policy limits;
- (3) Guaranteed Replacement Cost Loss Settlement for buildings;
- (4) Coverage B limit:
  - (a) 10% of Coverage A in form **HE 00 07**; and
  - (b) 20% of Coverage A in endorsements **HE 32 20** and **HE 32 21**.

**b. Coverage C – Personal Property**

- (1) Special Coverage;
- (2) Replacement Cost Loss Settlement;
- (3) Agreed Value Loss Settlement for scheduled personal property up to the limits shown in the schedule;
- (4) Personal Property at a New Residence covered for up to 30 days in form **HE 00 07** and 60 days in endorsements **HE 32 20** and **HE 32 21**; and
- (5) Personal Property At Other Residence covered up to 10% of the Coverage C limit or \$1,000, whichever is greater in form **HE 00 07** and 10% of the limit of liability for Coverage C, or \$10,000 whichever is greater in endorsements **HE 32 20** and **HE 32 21**.

**c. Coverage C – Enhanced Special Limits**

Special Limits	HE 00 07	With Endt HE 32 20	With Endt HE 32 21
Money, bank notes	\$1,000	\$1,000	\$1,000
Securities, accounts	\$5,500	\$5,500	\$5,500
Firearms	\$10,000	\$10,000	\$10,000
Silverware, goldware	\$10,000	\$10,000	\$10,000
Jewelry, watches, furs	\$5,500	\$5,500	\$5,500
Watercraft	\$1,500	\$2,500	\$2,500
Trailers or Semitrailers not used with watercraft of all types	\$1,500	\$3,500	\$3,500
Business property used on the "residence premises"	\$2,500	\$2,500	\$5,000
Business property used away fro the "residence premises"	\$500	\$500	\$1,500
Electronic apparatus			
a. In or upon a motor vehicle or motorized land conveyance.	\$1500	\$1500	\$1500
b. Not in or upon a motor vehicle away from the residence premises and used for business.	\$1,500	\$1,500	\$1,500
Jewelry, securities if lost or stolen from a safe deposit box	N/A	\$50,000	\$50,000

**Table 3.F.1.c. Special Limits**

**RULE 3.****HOMEOWNERS ENHANCEMENT PROGRAM (Cont'd)****d. Coverage D – Loss of Use**

- (1) If a civil authority prohibits use of the residence premises:
  - (a) Because a covered peril damages a neighboring premises, additional living expense and fair rental value coverages are extended for up to 30 days; or
  - (b) Because life or health is endangered from a covered peril, earth movement or contaminants or pollutants, up to \$1,000 is provided for additional living expense and fair rental value loss incurred by an insured.
- (2) Additional Living Expense coverage is extended to pay the monthly payment of an existing primary mortgage, for up to 12 months, while the residence premises is not fit to live in. Use endorsement **HE 32 21**.

**e. Additional Coverages**

- (1) Personal property loss due to temperature change covered if it results from power interruption at the residence premises which is caused by a covered peril;
- (2) Additional Living Expense and Fair Rental Value loss covered if due to power interruption that occurs away from the residence premises and caused by a covered peril;
- (3) Trees, Shrubs & Other Plants subject to a per tree minimum of \$1,000;
- (4) Up to \$2,000 available for removal of fallen tree(s) subject to a per tree maximum of \$1,000;
- (5) Up to \$1,000 available for loss under Fire Department Service Charge coverage;
- (6) Up to \$500 available for loss to Refrigerated Property;
- (7) Property Removed from a premises endangered by a covered peril covered for up to 30 days in form **HE 00 07** and for up to 90 days in endorsement **HE 32 20** and **HE 32 21**;
- (8) Witness Reimbursement Expenses covered up to \$250 a day for wages and \$50 a day for expenses subject to a \$3,000 maximum limit. Use endorsement **HE 32 21**;
- (9) Up to \$5,000 available for loss under Loss Assessment coverage. Use endorsement **HE 32 21**;
- (10) Up to \$500 available for replacement of door lock(s) when house key(s) are stolen. Use endorsement **HE 32 20** or **HE 32 21**;
- (11) Up to \$10,000 for the cost to replace, stabilize or rebuild land necessary to support the dwelling or other structure. Use endorsement **HE 32 21**.

**F. Mandatory Coverages (Cont'd)**

- (12) The policy provides up to \$500 for loss under Credit Card and Electronic Fund Transfer Card Or Access Device coverage in form **HE 00 07** and increased to \$5,000 in endorsement **HE 32 20** and **HE 32 21**;
- (13) Up to \$2,500 available to reward person(s) for information leading to arrest & conviction of person(s) committing a crime that involved loss to insured property; Use endorsement **HE 32 21**;
- (14) Up to \$5,000 available to reward person(s) for return of stolen covered property; Use endorsement **HE 32 21**; and
- (15) Up to ~~\$20,000~~ **\$50,000** available for loss caused by water or water-borne material that backs up through sewers or drains or discharges or overflows from a sump. This coverage does not apply to direct physical loss of the sump pump, or related equipment, which is caused by mechanical breakdown. Use endorsement **HE 32 21**.

**2. Section II Coverages****a. Coverage E – Personal Liability**

\$ 100,000 per occurrence

**b. Coverage F – Medical Payments**

\$ 1,000 per person

**c. Additional Coverages**

- (1) Prejudgement Interest;
- (2) Water Damage Legal Liability;
- (3) Personal Injury;
- (4) Business Pursuits of Minors;
- (5) Liability Coverage for Directors and Officers of Not-For-Profit Organizations;
- (6) Watercraft Liability – the horsepower threshold for outboard motors is increased from 25 to 50 horsepower or less. Use endorsement **HE 32 20** or **HE 32 21**;
- (7) Damage to Property of Others – Up to \$1,500 is available. Use endorsement **HE 32 20** or **HE 32 21**;
- (8) Loss Assessment Coverage – Up to \$1,000 is available in form **HE 00 07** and up to \$5,000 is available in endorsement **HE 32 21**;
- (9) Reasonable Expenses incurred by insured to assist insurer to investigate or defend a liability claim. The most we will pay for such expense is \$250.



**RULE 3.**

**HOMEOWNERS ENHANCEMENT PROGRAM (Cont'd)**

**G. Optional Coverages**

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

**a. Coverage**

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

**a. Endorsement**

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

**b. Premium**

The premium for this option is computed by multiplying the base premium by the appropriate factor selected from the following table:

Additional Amount of Insurance Options	Factor
125%	.96
150%	.97

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

**2. Debris Removal–Broadened Tree Removal**

**a. Coverage**

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

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

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

**b. Endorsement**

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

**c. Premium – \$30**

**3. Property Coverage Enhancement**

**a. Coverage**

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

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

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

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

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

**b. Endorsement**

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

**c. Premium – \$20.**

**4. Blanket Property Limit Coverage**

**a. Coverage**

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

**b. Endorsement**

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

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

**5. Other Optional Coverages**

Optional Section I and II coverages available for the standard Homeowners policy are available for an enhancement policy.

Compare the desired standard Homeowners options with the coverages and limits in the Homeowners Enhancement form and endorsements to avoid duplication.

**H. Base Premium Computation**

1. Develop the 1, 2, 3 or 4 family Base Premium for Form **HO 00 03** in accordance with Rule **301**. Base Premium Computation in the standard Homeowners manual; and
2. Multiply the **HO 00 03** Base Premium developed above by the factor for the desired level of coverage:

Level Of Enhancement	Factor
<b>HE 00 07</b>	1.25
<b>HE 00 07 with HE 32 20</b>	1.30
<b>HE 00 07 with HE 32 21</b>	<b>1.35 1.37</b>
<b>HE 00 07 with HE 32 20 &amp; HE 32 40</b>	1.35
<b>HE 00 07 with HE 32 21 &amp; HE 32 40</b>	<b>1.40 1.42</b>

**Table 3. H.2. Enhancement Coverage Rating Factors**