

November 30, 2009

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Homeowners Policy Program  
Personal Property Replacement Cost Coverage  
Revised Manual Rule

The Commissioner of Insurance has recently approved a revision to the Homeowners Manual Rule 403 – Personal Property (Coverage C) Replacement Cost Loss Settlement. This revision modifies the relationship of Coverage C to Coverage A to obtain replacement cost coverage on contents. This revision has been approved on an optional basis.

Currently, it is required that Coverage C be at least 70% of Coverage A in order to purchase replacement cost coverage on contents. With this revision the insured must now have Coverage C in an amount at least 40% of Coverage A in order to obtain replacement cost on contents.

For your convenience, please find attached a copy of the filing memorandum as well as a revised copy of Rule 403.

This revision becomes effective in accordance with the following Rule of Application:

This revision becomes effective immediately.

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-09-27

# North Carolina Personal Property Replacement Cost Rule Revised

## About This Filing

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This filing revises Rule **403**. Personal Property (Coverage C) Replacement Cost Loss Settlement in the Homeowners Policy Program Manual - North Carolina Exception Pages in response to 2009 N.C. Sess. Laws\_\_\_ (Former H.B. 1305).

## Revised Rule

We are revising Rule **403**. Personal Property (Coverage C) Replacement Cost Loss Settlement. We have used a format of ~~striking through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes.

## Background

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2009 N.C. Sess. Laws\_\_\_ (Former H.B. 1305) states in part, with respect to the North Carolina Insurance Underwriting Association, that:

*Contents of habitational property can be insured up to forty percent (40%) of the building value. The Association shall ensure that rates accurately reflect the maximum limits for contents coverage and any reduction in contents coverage limits for habitational property.*

The current exception to Rule **403**. Personal Property (Coverage C) Replacement Cost Loss Settlement in the Homeowners Policy Program Manual - North Carolina Exception Pages states under Paragraph **B**. Loss Settlement that:

*The policy may be endorsed to provide loss settlement on a Replacement Cost basis for such property whether insured on a blanket or scheduled basis. If endorsed, the Coverage C limit must be increased:*

- 1. To 70% of Coverage A for all forms except HO 00 04 and HO 00 06.*
- 2. To \$12,000 (if policy limit is less than \$12,000 for Forms HO 00 04 or HO 00 06).*

## Explanation of Changes

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In order to provide more options to participating insurers, and to facilitate the North Carolina Insurance Underwriting Association's ability to provide loss settlement on a Replacement Cost basis for Coverage C, we are revising Rule **403. Personal Property (Coverage C) Replacement Cost Loss Settlement** in the Homeowners Policy Program Manual - North Carolina Exception Pages. This revision removes the requirement under Paragraph **B. Loss Settlement** of Rule **403.** that, in order to provide loss settlement on a Replacement Cost basis for Coverage C., the Coverage C. limit must be increased to 70% of Coverage A for all forms except HO 00 04 and HO 00 06. Coverage C must now be at least 40% of Coverage A. for all forms except HO 00 04 and HO 00 06.

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**RULE 403.  
PERSONAL PROPERTY (COVERAGE C) REPLACEMENT COST LOSS SETTLEMENT**

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Rule **403.** is replaced by the following:

**A. Introduction**

The policy provides loss settlement on an Actual Cash Value basis for certain types of property.

**B. Loss Settlement Option**

The policy may be endorsed to provide loss settlement on a Replacement Cost basis for such property whether insured on a blanket or scheduled basis. If endorsed, the Coverage **C** limit must be ~~at least~~ **increased**:

1. ~~To 740%~~ of Coverage **A** for all forms except **HO 00 04** and **HO 00 06**.
2. ~~To~~ \$12,000 (if policy limit is less than \$12,000 for Forms **HO 00 04** or **HO 00 06**).

**C. Endorsement**

Use Personal Property Replacement Cost Endorsement **HO 04 90**.

**D. Scheduled Personal Property**

1. When the Scheduled Personal Property Endorsement **HO 04 61** is attached to a policy with Endorsement **HO 04 90**, the following property, if scheduled, will also be subject to repair or replacement cost loss settlement up to the scheduled limit of liability:
  - a. Jewelry;
  - b. Furs and garments trimmed with fur or consisting principally of fur;
  - c. Cameras, projection machines, films and related articles of equipment;
  - d. Musical equipment and related articles of equipment;
  - e. Silverware, silver-plated ware, goldware, gold-plated ware and pewterware, but excluding pens, pencils, flasks, smoking implements or jewelry; and
  - f. Golfer's equipment meaning golf clubs, golf clothing and golf equipment.
2. Since the loss settlement condition in Endorsement **HO 04 61** will pay the insured the least of the:
  - a. Actual cash value of the property sustaining loss;
  - b. The amount for which the property could be repaired or replaced; or
  - c. The amount of insurance of the property sustaining loss;the limit of liability that applies to each scheduled item should be carefully evaluated to ensure that the limit selected by the insured represents the cost to replace the item if lost or damaged beyond repair.

**E. Scheduled Personal Property (With Agreed Value Loss Settlement)**

When Scheduled Personal Property (With Agreed Value Loss Settlement) Endorsement **HO 04 60** is attached to a policy with Endorsement **HO 04 90**, the property subject to agreed value loss settlement will **not** be subject to repair or replacement cost loss settlement.

**F. Premium Determination**

Multiply the Base Premium including any premium adjustment for Coverage **C** limits by a factor of:

1. 1.05 for all forms except **HO 00 04** and **HO 00 06**.
2. 1.40 for Forms **HO 00 04** or **HO 00 06**.
3. The charge for Replacement Cost Coverage should be applied before the credit or charge for optional deductibles.
4. Refer to the state rate pages for the minimum additional premium, including the cost to increase the Coverage **C** limits.