

February 17, 2014

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: Homeowners and Dwelling Policy Programs  
Inflation Cost Index

The Commissioner of Insurance has recently approved Xactware as an additional Inflation Cost Index to be used with the Homeowners and Dwelling Policy Programs in North Carolina.

For your convenience, attached is a revised copy of the Optional Inflation Guard Index Rule A6. for use with the Homeowners Policy Program and Rule 407 for use with the Dwelling Policy Program.

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

This change becomes effective immediately.

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

Very truly yours,

F. Timothy Lucas

Personal Lines Manager

FTL:dms

Attachments

P-14-4

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**RULE A6.**  
**OPTIONAL INFLATION GUARD ENDORSEMENTS**

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Subject to the provisions noted in Paragraphs **B.** and **C.**, the inflation guard endorsements referenced in this rule may be used instead of the endorsement noted in General Rule **405**.

**A. Eligible Forms**

The limits of liability for the following forms and coverages may be adjusted, automatically, to respond to inflation as recognized by the indexes named in Paragraph **B.**:

1. Forms **HO 00 02**, **HO 00 03** and **HO 00 05** – Coverages **A**, **B**, **C** and **D**; and
2. Forms **HO 00 04** and **HO 00 06** – Coverages **C** and **D**.

These limits will be adjusted at the same rate as the change in the Index shown on the Declarations, billing notice or named on the form.

**B. Approved Inflation Cost Indexes**

The following Indexes have been approved by the Department of Insurance and may be used with the Inflation Guard Endorsements listed in Paragraph **C**.

A Company that elects to use one of these indexes must use it exclusively and notify the Rate Bureau of its election.

1. Marshall and Swift Boeckh Residential Cost Index published by the American Appraisal Company, Inc.
2. Composite Construction Cost Index published by the U.S. Department of Commerce.
3. Consumer Price Index published by the U.S. Department of Labor.
4. Marshall and Swift Boeckh Construction Cost Index published by Marshall and Swift Boeckh.
5. RSMMeans CostWorks Valuator Published by RSMMeans.
6. Xactware Inflation Index published by Xactware Solutions, Inc.

**C. Endorsements**

A Company that elects to use one or both of the following endorsements must use it exclusively and notify the Rate Bureau of its election.

1. **Inflation Guard Endorsement HO 32 18**  
Use this endorsement with Forms **HO 00 02**, **HO 00 03** and **HO 00 05**.
2. **Inflation Guard Endorsement HO 32 19**  
Use this endorsement with Forms **HO 00 04** and **HO 00 06**.

**D. Premium**

There is **no** additional charge for these optional endorsements.

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**RULE 407.**  
**AUTOMATIC INCREASE IN INSURANCE**

Rule 407. is replaced by the following:

**A. Automatic Increase In Insurance Endorsement – DP 32 11**

1. The policy may be endorsed to provide automatic annual increases in the Coverage **A**, **B** and **C** limits of liability. Apply a factor to the Base Premium as follows:

Amount Of Annual Increase	Factor
4%	1.02
6%	1.03
8%	1.04
Each Additional 4% over 8% add:	.02

**Table 407.A.1. Factors**

2. The premium for a 3 year policy is 3.2 times the annual policy premium.
3. Use Automatic Increase In Insurance Endorsement **DP 32 11**.

**B. Inflation Guard Endorsement – DP 32 70**

1. The policy may be extended to automatically adjust the limit of liability applicable to Coverage **A** under the Dwelling Policy. This limit will be adjusted at the same rate as the change in the Index shown on the Declarations, billing notice or named on the form.
2. There is no additional charge for this endorsement. Companies electing to use this endorsement must use it exclusively and are required to notify the North Carolina Rate Bureau of their election.
3. The following Indexes have been approved by the Department of Insurance and may be used with the approved Inflation Guard Endorsement:
  - (a) Marshall & Swift Boeckh (MS/B) Residential Cost Index published by the American Appraisal Company, Inc.;
  - (b) Composite Construction Cost Index published by the U.S. Department of Commerce;
  - (c) Consumer Price Index published by the U.S. Department of Labor;
  - (d) Marshall & Swift Boeckh (MS/B) Construction Cost Index published Marshall & Swift Boeckh (MS/B);
  - (e) RSMeans CostWorks Valuator published by RSMeans.
  - (f) Xactware Inflation Index published by Xactware Solutions, Inc.
4. Use Inflation Guard Endorsement **DP 32 70**.