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PIANY supports incentives for insurance companies to provide industry-standard coverage to homeowners who obtain coverage through the state's Coastal Market Assistance Program

Memorandum in support of: S.6266—by Sen. LaValle
A.9280—by M. of A. Sweeney

An act to amend the Insurance Law, in relation to members of the New York Property Insurance Underwriting Association (NYPIUA) who write insurance policies that include coverage for windstorm in coastal areas

PIANY supports the intent of this legislation, which is to upgrade the coverage typically provided to applicants for homeowners insurance through the Coastal Market Assistance Program (C-MAP) and provide greater incentives for more insurers to participate. Created over a decade ago, the C-MAP is a voluntary market solution to match willing insurers with homeowners whose coverage has been terminated through no fault of their own or who need a new policy to protect a newly acquired home.

C-MAP's importance is highlighted by the findings of the Insurance Department, reported at public forums initiated by the Senate Insurance Committee in October 2007 and Assembly Insurance Committee Chairman Joseph Morelle in May 2008, that insurers plan to nonrenew as many as 200,000 policies covering homes in coastal areas. Our members report great difficulty in finding replacement coverage for some of these homeowners.

However, some PIANY members also report a reluctance to direct members to C-MAP because of coverage issues posed by its typical coverage configuration. Members report that C-MAP carriers are not choosing to offer full homeowners policies; nor are they choosing to provide the C-MAP "wrap-around" coverage form that would provide the best coverage when combined with a policy from NYPIUA. Rather, they offer only the "HO-4" wrap-around when participating in C-MAP. This program can result in pairing two policies whose coverage terms are inconsistent: combining basic property insurance coverage available through NYPIUA with an HO-4 "wrap-around" policy provided by a voluntary market insurer. The coverage issues this creates are summarized by PIANY in its QuickSource document No. QS31240, entitled "Wrap-around options for coastal homeowners risks." (attached).

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A quick summary: Some of the most frequent types of property claims may not be covered and there may be gaps between the two policies, leaving insurance agents uneasy about recommending C-MAP.

In a survey of coastal-area members conducted by PIANY in February 2007, most respondents wanted to see improvements in the C-MAP coverage. As one respondent said: “Push for true wrap-around. C-MAP creates gaps.” Another said that C-MAP “could become a viable option” if these issues were addressed.

These members are only stating what has been known about C-MAP for years. As early as the 1996 report of the Temporary Panel on Homeowners Insurance Coverage, the panel recommended that the C-MAP Steering Committee should explore the development of a standard form of wrap-around coverage. Unfortunately, the Committee considered but did not adopt a standard form.

This bill would help address the concerns of insurance agents and brokers by developing an industry-standard wrap-around form and simultaneously creating a NYPIUA coverage form that is designed to be consistent with it. It also would create incentives for insurers to step up and write more C-MAP wrap-around policies because their exposure to assessments for losses experienced by NYPIUA would be decreased. This approach rewards insurers that voluntarily provide their fair share of protection for residents in parts of the state most exposed to catastrophic property destruction.

For these reasons, PIANY supports and recommends favorable action on S.6266.

5/08



Wrap-around options for coastal homeowners risks

Resource kit 31240

By Dan Corbin, CIC, CPCU, LUTC

In its Supplement I to Circular Letter No. 11 (1993), the New York State Insurance Department approved the use of three wrap-around options for coastal homeowners risks located within 2,500 feet of the shore. Each of these options involves purchasing a voluntary homeowners policy to supplement the dwelling policy offered by the New York Property Insurance Underwriting Association (NYPIUA).

The NYPIUA dwelling policy does not provide personal property coverage for the insured because it is solely provided by the wrap-around homeowners policy, regardless of option. The homeowners policy also provides all of the personal liability coverage.

While wrap-around policies usually have been written in the context of the New York Coastal Market Assistance Program (C-MAP), a company may issue a wrap-around policy without participating in C-MAP.

Dwelling policy

Before analyzing the three wrap-around options, we need to understand what is being wrapped around. When homeowners purchase a residual market policy from NYPIUA, they are getting what might be called bare-bones protection—the Dwelling Property 1—Basic Form (DP 00 01 12 02) policy filed by the Insurance Services Office Inc. (ISO).

The ISO DP-1 policy written to include Extended Coverage perils insures a dwelling for the following eight perils:

1. fire and lightning;
2. windstorm and hail (not interior damage, unless the wind creates an opening);
3. explosion;
4. riot and civil commotion (NYPIUA policies reference looting and pillaging);
5. aircraft and spacecraft;
6. vehicles (not owned or operated by the family);
7. smoke (including furnace puffbacks, but not fireplace smoke); and
8. volcanic eruption (this peril is not available on NYPIUA policies).

Note: Damage from "puffbacks in peril No. 7 was not expressly covered prior to the Feb. 1, 2006, adoption by NYPIUA of the 2002 edition of the ISO DP-1 policy.

The peril of "vandalism or malicious mischief" (other than glass breakage) also may be insured, if this option is purchased. However, this peril is not available under wrap-around options No. 1 and No. 2 because the homeowners policy is expected to cover it.

Besides limiting coverage to a short list of perils, the ISO DP-1 policy is inferior to the typical homeowners policy in other ways. In addition, some of the options available under the ISO DP-1 program are not available under the NYPIUA program. For example:

Coverage B—Other Structures

An ISO HO policy insures other structures for an additional limit that is 10 percent of the Coverage A—Dwelling limit.

The NYPIUA DP-1 policy insures other structures for 10 percent of the Coverage A—Dwelling limit, but is not an additional limit (it is within the Coverage A limit).

Coverage D—Fair Rental Value

An ISO HO policy insures the loss of rents for an additional limit that is 10 percent of the Coverage A—Dwelling limit.

The NYPIUA DP-1 policy insures the loss of rents for 10 percent of the Coverage A—Dwelling limit, but is not an additional limit (it is within Coverage A limit). It also pays no more than 1/12 of this limit for each month of loss.

Coverage E—Additional Living Expense

An ISO HO policy insures additional living expense for an additional limit that is 10 percent of the Coverage A—Dwelling limit.

The NYPIUA DP-1 policy insures additional living expense only as an option.

Debris Removal

An ISO HO policy insures debris removal for an additional limit that is 5 percent of the limit that applies to the property damaged. It also covers the removal of trees under certain circumstances.

The NYPIUA DP-1 policy insures debris removal, but is not an additional limit (it is within the limit that applies to the property damaged). There is no tree removal coverage.

Trees, Shrubs and Other Plants

An ISO HO policy insures trees, shrubs and other plants for an additional limit that is 5 percent of the Coverage A—Dwelling limit.

The NYPIUA DP-1 policy does not insure trees, shrubs and other plants.

Collapse

An ISO HO policy insures collapse resulting from certain causes.

The NYPIUA DP-1 policy does not cover collapse.

Glass Breakage

An ISO HO policy insures glass breakage.

The NYPIUA DP-1 policy does not cover glass breakage.

Ordinance or Law

An ISO HO policy insures ordinance or law expense for an additional limit that is 10 percent of the Coverage A—Dwelling limit.

The NYPIUA DP-1 policy insures ordinance or law expense only as an option.

Loss Valuation

An ISO HO policy is settled on the basis of replacement cost (RC).

The NYPIUA DP-1 policy is settled on the basis of actual cash value (ACV).

Vacancy

An ISO HO-2 policy excludes damage caused by "vandalism or malicious mischief" and "accidental discharge or overflow of water or steam" if the dwelling has been vacant more than 30 consecutive days prior to loss and it excludes "glass breakage" if the dwelling has been vacant more than 60 consecutive days prior to loss. (Vacancy does not mean a dwelling in the course of construction.) The HO-3 policy is the same, except that it does not exclude damage caused by "accidental discharge or overflow of water or steam" during a period of vacancy.

The NYPIUA DP-1 policy excludes all causes of loss if the dwelling has been vacant or unoccupied more than 60 consecutive days prior to loss (except for dwellings in the course of construction and seasonal occupancy).

Increase In Hazard

An ISO HO policy does not exclude loss while the hazard is increased by the insured.

The NYPIUA DP-1 policy excludes loss while the hazard is increased by any means within the control or knowledge of the insured.

Wrap-around option No. 1—HO policy wrapped around an ACV DP-1 policy

The first wrap-around option is the voluntary offer of either a HO-2 or a HO-3 policy (some insurers also may offer a HO-5 policy, which expands the covered perils applicable to personal property). These homeowners policies will cover all property on the basis of their own terms to the extent not covered by the NYPIUA DP-1 policy. Keep in mind that under every option, only the homeowners policy covers the insured's personal property.

HO-2. Besides the DP-1 perils, the ISO Homeowners 2—Broad Form (HO 00 02 10 00) policy insures the following perils:

1. theft;
2. falling objects;
3. weight of ice, snow or sleet;
4. accidental discharge or overflow of water or steam;
5. sudden and accidental tearing apart, cracking, burning or bulging;
6. freezing; and
7. sudden and accidental damage from artificially generated electrical current.

In addition, "vandalism or malicious mischief" will be provided by the homeowners policy, because this peril is not eligible to be added to the NYPIUA DP-1 policy when combined with a wrap-around policy. And, since "volcanic eruption" is endorsed off all NYPIUA DP-1 policies (UA-538), this peril will be covered by the homeowners policy.

HO-3. The ISO Homeowners 3—Special Form (HO 00 03 10 00) policy insures covered property for all risks of direct physical loss that are not excluded. Below are some examples of actual claims paid under open perils (HO-3), but not payable under broad form perils (HO-2):

- an unbalanced washing machine took a walk and damaged the hot water heater;
- a window left open in a rainstorm allowed water to damage the interior walls and floor;
- water backed up on the roof, causing leaks, where no physical damage was done to the roof (caused by an "ice dam"—very common in the Northeast);
- a fence was damaged by the new 16-year-old driver of the family car;
- while a homeowner was moving a large dresser, it rolled down the stairs and through a wall;
- a homeowner's young child with a hammer did some redecorating;
- a homeowner missed the joists while attic walking and fell through the ceiling;
- a deer bled and roughed up the interior of the home after jumping through a picture window;
- a chandelier fell while it was being cleaned;
- a furnace working overtime due to a faulty thermostat warped cupboards and ruined drapes; and
- a countertop was scorched from a hot appliance.

When the NYPIUA DP-1 and the homeowners policy overlap by covering the dwelling for the same perils, the DP-1 policy is intended to be primary. However, since the DP-1 policy settles a loss on the basis of actual cash value, the homeowners policy will pay the additional amount needed to replace the property.

When a homeowners policy wraps around the NYPIUA DP-1 policy, personal property should not be written on the DP-1 policy; it is intended that only the homeowners policy covers the contents. Besides filling the gaps in property coverage, the homeowners policy also provides the personal liability coverage.

Some other wrap-around features to be aware of are:

- ▶ The NYPIUA DP-1 policy should be written at 100 percent of the dwelling's actual cash value (subject to the maximum limit available) and the homeowners policy should be written at 100 percent of the dwelling's replacement cost.
- ▶ The homeowners policy should not be written with a windstorm deductible.
- ▶ The homeowners policy will be endorsed to coordinate its provisions with the NYPIUA DP-1 policy.
- ▶ The Insurance Department has pre-approved the use of a 55 percent credit on the homeowners premium to account for the coverage provided by the NYPIUA DP-1 policy.

Wrap-around option No. 2—HO policy wrapped around a RC DP-1 policy

The second wrap-around option is like the first, except that the DP-1 policy provided by the NYPIUA is endorsed to insure the dwelling for replacement cost. This option eliminates the dual settlement complications that would occur under the first option, where the wrap-around homeowners policy pays for replacement cost in excess of the DP-1 policy's payment of actual cash value. Under this option, both the DP-1 policy and the homeowners policy should be written at 100 percent of the dwelling's replacement cost (subject to the maximum limit available from NYPIUA).

The Insurance Department has pre-approved the use of a 65 percent credit on the homeowners premium to account for the coverage provided by the NYPIUA DP-1 policy endorsed with the replacement cost valuation. The DP-1 policy will be charged \$25 for the replacement cost valuation endorsement.

Wrap-around option No. 3—HO-4 policy combined with an ACV or RC DP-1 policy

This third wrap-around option merely adds broad form personal property (contents) coverage and personal liability coverage alongside the dwelling and other structures coverage provided by the NYPIUA DP-1 policy.

HO-4. This wrap-around policy, for example, the ISO Homeowners 4—Contents Broad Form (HO 00 04 10 00) policy, does not supplement coverage for the dwelling and other structures provided by the NYPIUA DP-1 policy. Consequently, coverage for the dwelling and other structures is limited to the eight DP-1 perils (plus vandalism or malicious mischief, if purchased) and all of the inferior elements highlighted above. However, the DP-1 policy may be endorsed with replacement cost valuation by the same means specified under the second option.

The Insurance Department has pre-approved the use of a 25 percent credit on the HO-4 policy premium to account for the ownership factor not contemplated in this renter-priced policy. Also, the building additions and alterations additional coverage will be endorsed off the wrap-around HO-4 policy.

Maximum NYPIUA limits

The standard maximum limit offered by NYPIUA for a dwelling is \$600,000. However, the NYPIUA Appeals Committee could approve an amount up to \$1.5 million, provided certain conditions are met (including a monitored burglar alarm system and, if within 1,500 feet of the shore, special shutters and/or glass). Under options No. 1 and No. 2, the homeowners policy would be excess over the maximum limit payable by the NYPIUA policy.

Summary of wrap-around options		
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Option No. 1	<u>Primary</u>	<u>Excess</u>
Dwelling/other structures	ACV DP-1 policy	HO policy
Personal property and liability	HO policy	None
Option No. 2	<u>Primary</u>	<u>Excess</u>
Dwelling/other structures	RC DP-1 policy	HO policy
Personal property and liability	HO policy	None
Option No. 3	<u>Primary</u>	<u>Excess</u>
Dwelling/other structures	ACV or RC DP-1 policy	None
Personal property and liability	HO policy	None

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