TEMPORARY PANEL ON HOMEOWNERS' INSURANCE COVERAGE

A Report to Governor Pataki
and
Members of the New York State Legislature

May 1, 2000

Superintendent of Insurance
Neil D. Levin
Chair, Temporary Panel

STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

May 1, 2000

To Governor George E. Pataki and members of the New York State Legislature:

In accordance with Chapter 36 of the Laws of 1999, I hereby submit the "Report of the Temporary Panel on Homeowners' Insurance Coverage."

This report represents the fourth consecutive year that the Temporary Panel on Homeowners' Insurance Coverage has reviewed and analyzed the affordability and availability of homeowners' insurance in New York State. The panel, comprised of experienced, knowledgeable insurance professionals were assisted in their efforts by staff from the New York State Insurance Department.

I would like to thank the members of the Panel for the time and energy they have devoted to assembling this comprehensive report.

Sincerely,

Neil D. Levin
Chair, Temporary Panel

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Temporary Panel on Homeowners' Insurance Coverage

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Executive Summary

This is the fourth consecutive year that the Temporary Panel on Homeowners' Insurance Coverage has reflected on the problems affecting the affordability and availability of homeowners' insurance in New York State. In previous Reports, the Panel provided extensive analyses of the issues impacting such affordability and availability (e.g., standardized vs. flexible deductibles, hurricane catastrophe funds, consumer education efforts, mitigation, capital markets).

The Panel believes that the arguments pertaining to these issues remain valid and refers the reader seeking more comprehensive information on such arguments to prior years' Reports.

The Panel's 2000 Report, which follows, provides updates on many of the issues that continue to impact the affordability and availability of homeowners' insurance in the Empire State. Accordingly, the Panel provides this update *on the recommendations unanimously made by the Market Dynamics Subcommittee* ***in last year's Report***:

1. Deductibles should be triggered by specific wind speeds and only upon classification/naming hurricanes.

This recommendation would create more uniformity by having a common "trigger" to activate the deductible. Insurers have resisted this suggestion reasoning that the benefits of having a uniform trigger do not offset the lessening of product development and competition that might result. In fact, the Insurance Department in 1999 received a number of filings from insurers amending their hurricane deductible filings to **raise** the threshold at which the hurricane deductible is activated. For example, some insurers have changed from category 1 to a category 2 hurricane, while others have remained at a category 1. This has enhanced competition, and created greater affordability and availability of coverage for consumers.

2. Insurers should offer policyholders an option of lower deductible amounts if significant mitigation efforts are undertaken.

Thus far, only one insurer has offered this option to its insureds. Where appropriate, insurers should offer eligible policyholders an option of lower deductible amounts if significant mitigation efforts are undertaken. Later this year, the Department intends to offer guidance to insurers in order to encourage wider participation in this effort.

3. Catastrophe Modeling should be permitted to support rate and deductible filings.

As stated in the prior report, the Insurance Department issued Circular Letter No. 7 (1998) to address this issue requesting data to support the use of Catastrophe Modeling. Over the past year, only one insurer responded to this request. The Department's position remains that without additional information relative to the methodologies and information used and derived in modeling, this means of support is unacceptable.

4. Full and adequate disclosure is vital to the success of the current deductible program.

As noted in the 1999 report, the Department has implemented Regulation 159 (see Appendix C), requiring disclosure in accordance with standards specified therein. Over the past year, no complaints or inquiries were received from the public in this regard. It would appear that insurer compliance with Regulation 159 has increased awareness for both insurers and producers.

All insurers are required to provide to consumers an explanation in clear language of the windstorm deductible. Many insurers have accomplished this by distributing brochures to consumers. An example of one such brochure can be found in Appendix D. The Department will be monitoring compliance with these disclosure requirements through its market conduct investigations.

5. An optional supplemental notice should be sent to policyholders by insurers, reminding them to contact their insurer or agent if questions arise.

In light of the apparent success of Regulation 159, this would appear to be redundant. It should also be noted that many insurers include the names and telephone numbers of individuals to contact (if questions arise) with information provided to the policyholder on delivery of new and renewal policies.

6. The public should be educated both prior to and during the hurricane season.

Many insurers now sponsor public service announcements, participate in local "town meetings" and provide educational materials to policyholders to enhance awareness and prevention before and during hurricane season. The Panel believes that the public should be educated about their homeowners' coverage throughout the year.

7. **Further consumer education is needed.**

In addition to the comments offered in the preceding paragraphs, the efforts of the industry and the Department in the development of educational programs such as "Protecting Home and Family" and the programs conducted under the auspices of the Neighborhood Housing Services have been noted in this Report.

8. Lack of an effective New York State performance-based building code needs to be addressed during the 1999 legislative session.

Legislation was introduced but did not pass in 1999. However, a budget appropriation was provided to the Department of State for this undertaking. Additionally, the Insurance Department has approved a "Building Code Effectiveness Grading Schedule" filing made by the Insurance Services Office, which will grade each municipality based upon its building codes and enforcement. Credits will be provided to property owners based on the grade achieved by its community.

With regard to the 1999 Panel recommendations on catastrophe funds, the Panel continues to believe that the establishment of a statewide catastrophe insurance fund in New York State is unwarranted at this time for the following reasons:

1. The availability of homeowners' insurance in coastal communities, with few exceptions, has rebounded as a result of efforts by the Governor, the Insurance Department, the Legislature, and the insurance community including both legislative initiatives and regulatory programs.

2. The number of residential insurance policies written by the insurer of last resort – the New York Property Insurance Underwriting Association (NYPIUA) – has leveled off and the number of new policies continues to decline. The Panel continues to believe that NYPIUA should be made permanent.

3. The property/casualty insurance industry is better positioned to withstand catastrophic events since Hurricane Andrew in 1992. The industry's surplus has risen from $193.1 billion in 1994 to $323.4 billion for the first nine months of 1999.

4. There continues to be an overabundance of capacity in the reinsurance market. This overabundance is driving down catastrophe pricing.

5. Additional capacity from the capital markets continues to grow and is expected to expand further.

6. Creation of a state catastrophe fund in New York raises public policy concerns, among them:

    - A viable catastrophe fund must be exempt from federal taxation. In order to achieve such an exemption, significant state financing of the fund would be required.
    - Cross-subsidization could occur between low-risk and high-risk areas, and commercial policyholders vs. private homeowners' policyholders.
    - It could impede the development of capital market and other alternative solutions.

7. Federal tax law has a major tax impact on the viability of any funding mechanism for catastrophes, whether public or private, whether pre- or post-event. Achieving consensus on federal tax law changes is very difficult, because a change in law will likely result in an increase in some taxes to offset revenue lost due to new tax cuts.

Preface

This report is submitted in accordance with Chapter 36 of the Laws of 1999, which continued the existence of the special advisory panel on problems affecting the affordability and availability of homeowners' insurance in New York State.

As in previous years, **Superintendent of Insurance Neil D. Levin** chaired the Panel. The Superintendent wishes to thank the following individual members of the Panel for their participation and generous contribution of time and effort in helping to accomplish the Panel's mission:

Marsha Cohen	**Reinsurance Association of America**
Anthony Granito	**McNeil & Co. Insurance and Risk Services**
Jeffrey Greenfield	**NGL Group, LLC**
Howard I. Honig	**Honig Insurance Agency, Inc.**
John B. Johnson	**Johnson & Johnson Agency, Inc.**
Shelly H. Kozel	**Lezok, Ltd.**
Mark Kriss, Esq.	**Kriss, Kriss & Brignola (Alliance of American Insurers)**
Mary Lanning	**Guy Carpenter & Company**
Phillip Lawson	**Allstate Insurance Company**
Peter Lefkin	**Fireman's Fund Insurance Company**
Daniel Robinson	**New York Central Mutual Fire Insurance Company**
Michael Rosenzweig	**Rosenzweig Financial Services**
James E. Ryman	**State Farm Insurance Company**
George D. Yates	**Dayton & Osborne**
Steven Wietlisbach	**Travelers Insurance Company**
Lewis Wilson	**Fire Mark Insurance**

In addition, the Panel would like to thank the following individuals for their contributions to this year's Report: **Christopher Roe (Fireman's Fund), John Cucci (Alliance of American Insurers), Doug Joseph (State Farm), Floyd Holloway (State Farm), Steve Ihm (Allstate), Mary Griffin (American Insurance Association), John Miletti (Travelers), Michael Barrett (New York Central Mutual/IAANY), Tom Lutz (PIANY) and Brad Kading (Reinsurance Association of America).**

Within the New York State Insurance Department ("the Department"), an internal task force was formed to assist and coordinate the Panel's activities. The members of the internal task force included **Deputy Superintendent John Cashin, Stephen Maluk, Mark Presser, Janet Glover, Elise Liebers, Charles Rapacciuolo, Michael Moriarty, Wayne Cotter, Benita Hirsch, Patricia Mann, Anthony Yoder, Gerald Scattaglia, Lucy Cilione, Vince Mazzarella and Naranjan Robert.**

Reports issued by the Panel in 1997, 1998 and 1999 provide an historical perspective as to the origin and evolution of the homeowners' insurance product. Homeowners' coverage continues to be a source of comfort to property owners and lenders in the development and maintenance of communities throughout America. A homeowners' insurance policy is a vital instrument of financial security for millions of Americans, as well as a profitable line of business for insurers.

Natural disasters throughout the country in the early 1990s prompted many insurers to reassess their position in the market. Some insurers reduced their writings on properties located along New York's coast in order to minimize potential losses from a Hurricane Andrew-like storm. In response to these developments, a number of steps were taken by the industry and the Department to expand capacity, including (1) a Coastal Market Assistance Program that helps secure coverage for hard-to-place risks, (2) the development of windstorm deductibles (which are applied separately from the traditional all-perils deductibles found in homeowners' policies), (3) the expansion of catastrophe reinsurance, capital markets and other risk-spreading mechanisms, and (4) various initiatives to promote consumer education and loss mitigation.

This Report was prepared by the Temporary Panel on Homeowners' Insurance Coverage. The Temporary Panel is comprised of members appointed by Governor Pataki and the leadership of the New York State Legislature. Although the Report was prepared as a result of meetings conducted in the New York State Insurance Department's offices and the Report was published by the Department, the Report is not an official publication of the New York State Insurance Department. It reflects the findings and opinions of the appointed members of the Temporary Panel, and not necessarily those of the Insurance Department.

I. STATE OF THE MARKET

A. Primary Insurance Marketplace

The primary insurance industry, which pays approximately 66% to 75% of catastrophic losses, has sufficient capacity and is well-prepared to handle the cost of a natural disaster.

According to a July 14, 1999 Wharton School Catastrophe Risk Management Study analyzing the capacity of the U.S. P/C industry's ability to finance major catastrophic losses, the insurance industry has more than adequate capacity to pay at least 98.6 percent of a $20 billion loss. For a catastrophe of $100 billion, the industry could pay at least 92.8 percent. The Study concludes that the gaps in catastrophe risk financing are presently insufficient to justify Federal government intervention in private insurance markets in the form of a public catastrophe reinsurance program.

According to A.M. Best, insurance industry surplus currently stands at $332.3 billion, an increase of 77.1% since 1994 (after the industry suffered losses from Hurricane Andrew and the Northridge Earthquake). Policyholder surplus for the top five homeowners insurers, controlling 49 percent of the market share (State Farm, Allstate, Farmers, Nationwide and Travelers) currently stands at $87.4 billion, more than double the surplus of five years ago.

B. Reinsurance Marketplace

There is currently an overabundance of reinsurance capacity in the United States. A reinsurance broker, U.S. Re Corporation, released a report on July 28, 1999, which analyzed the current marketplace for reinsurance. The Report states that: (1) there is approximately $13-$15 billion of "excess of loss" catastrophe reinsurance capacity in place per region, per event in the U.S.; (2) an additional 40 percent of capacity is in place from other forms of reinsurance being purchased (facultative, per risk excess of loss and proportional); and (3) an additional $1 billion of capacity per region is also available from capital markets products. These factors could result in approximately $20 billion of catastrophe reinsurance capacity being available per region, per event. This number does not include the capacity provided by the primary insurance market to finance catastrophes.

Consistent with the U.S. Re report, a Renaissance Re report analyzing the reinsurance marketplace concludes that: (1) there is approximately $14 billion in capacity, per event, per region of excess of loss reinsurance purchased by the primary marketplace at this time; (2) reinsurers are offering additional capacity in the excess of loss market but many insurance companies have decided to retain the risk on their own balance sheet rather than purchase reinsurance; and (3) in addition to the $14 billion of excess of loss reinsurance available per region, there is additional reinsurance catastrophe protection currently being purchased from other forms of reinsurance (i.e., proportional, facultative and per risk excess of loss contracts). This additional protection adds approximately 40 percent more reinsurance being purchased, resulting in approximately $20 billion of reinsurance sold per region. This number does not include the capacity of the primary industry to finance catastrophes. (Renaissance Re is one of the largest catastrophe writers in the world. It maintains an extensive database of all catastrophe offerings.)

Guy Carpenter Inc., a reinsurance broker, reported in October of 1999 that the capacity of reinsurance has risen and insurance companies can now purchase traditional catastrophe excess coverage above $632.6 million per event, per insurer, as compared to $200 million in 1992. The average retention in 1999 was $310 million, up from $125 million in 1992.

The cost of catastrophe reinsurance is at a historic low point, declining in each of the past five years.

On June 1, 1999, Paragon Risk Management Services issued its Catastrophe Price Index (a measure of domestic reinsurance catastrophe prices) and reported that reinsurance prices for renewals for January 1, 1999 have dropped for the ninth semi-annual period in a row. Paragon's report concludes that global catastrophe pricing remains under pressure as reinsurance capacity exceeds demands in all regions.

C. Capital Markets

The 1998 Panel Report contained a comprehensive description of the recent trend toward securitization of insurance risk. Securitization has been established as an alternative source of protection for the insurance industry and is becoming more accepted as an asset class for the investment community. The 1998 Panel Report detailed the nature of this newly evolving market and the benefits it will afford the property and casualty insurance industry and the investment community.

As the number of investors participating in the insurance-related capital market grows, issuers of insurance-related securities benefit by having a new and deeper pool of capital to assume risks. As catastrophe risk is spread over this larger capital base, the severe price increases that have traditionally occurred after a large event should be reduced significantly. Reduced volatility of reinsurance cost allows insurers to budget more accurately and to benefit from a more stable earnings stream.

The securitization of insurance risk continued to grow during 1999 ($2.5 billion in 1998, and $802 million the first half of 1999). A summary of press accounts detailing this growth (compiled by the Reinsurance Association of America) is annexed to this Report as Appendix A.

D. New York State Building Code Update

New York is one of only two states in the nation that still maintains and enforces a self-written code. Although the Uniform Fire Prevention and Building Code has served New York well, its development has not kept up with today's fast-paced construction industry, and as such it does not recognize many modern construction technologies and materials. Also, the format is not consistent with the codes developed by the three major code groups: International Conference of Building Officials ("ICBO"), Southern Building Code Congress International ("SBCCI") and Building Officials and Code Administrators, International ("BOCA").

A Governor's Program Bill to adopt a model code was introduced in the 1999 Legislative Session, but did not pass. However, a budget appropriation was provided to the Department of State for this undertaking. Legislation was not required for this change since the Uniform Fire Prevention and Building Code Council ("Code Council"), which is chaired by the New York Secretary of State, has the statutory authority for the maintenance and development of the Uniform Code.

On November 10, 1999, the Code Council voted to adopt, with modifications, the *International Codes*. The 2000 International Codes were chosen since they are the most up-to-date model codes. This is the first printed version code drafted jointly by the three model code organizations (ICBO, SBCCI and BOCA).

E. New York Property Insurance Underwriting Association

The following table shows NYPIUA's residential policies in force for designated coastal areas. While these figures in previous years have shown increases in NYPIUA policies, the latest figures for 1999 indicate that the number of policies in force has decreased since 1998. In addition, applications for new business declined in 1999, for the third consecutive year, indicating a possible downward trend for overall NYPIUA writings.

NEW YORK PROPERTY INSURANCE UNDERWRITING ASSOCIATION RESIDENTIAL POLICIES IN FORCE, SELECTED COUNTIES 1995-1999

	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	Percentage Change 1998-1999
Bronx	3,165	3,439	3,579	3,546	3,266	-7.9%
Kings	16,128	17,210	17,721	17,402	15,736	-9.6%
Queens	6,635	8,698	9,885	9,943	8,815	-11.3%
Richmond	1,064	1,440	1,674	1,657	1,307	-21.1%
Westchester	534	651	711	763	647	-15.2%
Nassau	2,597	4,282	5,333	5,422	4,633	-14.6%
Suffolk	7,152	9,477	10,953	11,112	10,042	-9.6%
Total for Selected Counties	37,275	45,197	49,856	49,845	44,446	-10.8%

Source: New York Property Insurance Underwriting Association

The data shown in the table below indicates a decrease in NYPIUA's new writings from 1998 to 1999 in selected counties, a positive trend which is accompanied by a similar decrease in renewal business in the same counties.

NEW YORK PROPERTY INSURANCE UNDERWRITING ASSOCIATION
NEW & RENEWAL POLICIES, SELECTED COUNTIES
1995-1999

	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	Percentage Change 1998-1999
BRONX						
New	644	777	699	606	465	-23.3%
Renewal	2,521	2,662	2,880	2,940	2,801	-4.7%
Total	3,165	3,439	3,579	3,546	3,266	-7.9%
KINGS						
New	2,857	3,362	2,870	2,219	1,298	-41.5%
Renewal	13,271	13,848	14,851	15,183	14,438	-4.9%
Total	16,128	17,210	17,721	17,402	15,736	-9.6%
QUEENS						
New	2,571	3,384	2,847	1,988	1,159	-41.7%
Renewal	4,064	5,314	7,038	7,955	7,656	-3.8%
Total	6,635	8,698	9,885	9,943	8,815	-11.3%
RICHMOND						
New	534	636	541	369	136	-63.1%
Renewal	530	804	1,133	1,288	1,171	-9.1%
Total	1,064	1,440	1,674	1,657	1,307	-21.1%
WESTCHESTER						
New	195	244	209	204	105	-48.5%
Renewal	339	407	502	559	542	-3.0%
Total	534	651	711	763	647	-15.2%
NASSAU						
New	1,431	2,195	1,840	1,187	607	-48.9%
Renewal	1,166	2,087	3,493	4,235	4,026	-4.9%
Total	2,597	4,282	5,333	5,422	4,633	-14.6%
SUFFOLK						
New	2,376	3,159	2,804	2,075	1,156	-44.3%
Renewal	4,776	6,318	8,149	9,037	8,886	-1.7%
Total	7,152	9,477	10,953	11,112	10,042	-9.6%
TOTAL COASTAL						
New	10,608	13,757	11,810	8,648	4,926	-43.0%
Renewal	26,667	31,440	38,046	41,197	39,520	-4.1%
Total	37,275	45,197	49,856	49,845	44,446	-10.8%

Source: New York Property Insurance Underwriting Association

II. INSURANCE DEPARTMENT INITIATIVES

States have responded to the homeowners' insurance problem in various ways. States such as California and Florida, which are prone to earthquakes and weather-related disasters, were compelled to address these issues in an acute crisis atmosphere. By contrast, New York has been responding to market disruptions that result largely in anticipation of a hypothetical catastrophe that has not yet occurred. Because New York's coastal areas are densely populated and highly developed, the potential losses from such a storm could be significant.

One of Governor Pataki's major objectives in the insurance arena has been to provide financial security for New York's families living in coastal areas by encouraging the availability of homeowners' insurance. Recognizing that free market initiatives offer the best opportunity to achieve an effective and lasting solution, Governor Pataki has stressed the importance of participation of the voluntary insurance market in a coordinated program of response. As a result, New York's efforts to address the problem were renewed and strengthened.

A. Capital Market Development of Catastrophe Risk Financing

The Department continues to encourage the development of innovative approaches for the financing of natural catastrophe insurance exposures. Finding more efficient ways to access the capital markets is key to this endeavor. As indicated in last year's Panel Report, the Department's initiatives with respect to capital markets include:

- facilitating transactions using catastrophe bonds and similar instruments;
- considering legislation to permit special purpose entities and protected cells to securitize insurance risk;
- reviewing the use of derivatives to transfer insurance risk;
- licensing the Catastrophe Risk Exchange, Inc. as a reinsurance intermediary;
- proposing legislation that permits the issuance of capital notes; and
- developing a model for a tax deductible pre-event catastrophe reserve on a national level.

Some of these initiatives are, *prima facia*, capital market approaches while others have the potential to be integrated with capital market approaches in the financing of natural catastrophe risk.

The following is a Year 2000 update on these activities:

Monitoring Capital Markets Activities: The Department continues to review specific transactions which facilitate insurers' access to the capital markets through the sale of catastrophe and insurance linked securities by insurers. These securities have variable interest payment and principal repayment obligations, the specific mechanics of which depend on the risk alleviation objectives of the issuing insurer. The Department continues to review such transactions upon request by insurers or investment banks.

The Department also serves as the Vice-Chair of the NAIC Insurance Securitization Working Group, which is charged with reviewing the continuing developments in insurance securitization. This Working Group developed a Protected Cell Model Act, which was adopted by the NAIC late last year, and is reviewing special purpose vehicles and derivatives that could be used in the transfer of insurance risk.

Authorization of Derivatives: Derivative legislation drafted with significant input from the Department became effective on July 1, 1999. This legislation authorizes licensed New York insurance companies to use a wide range of derivative instruments for the purpose of hedging assets and liabilities. Although the primary focus of the law is to allow the use of derivatives to hedge against the fluctuation in value of investments (either due to market risk or foreign currency exposure), certain derivative instruments, such as catastrophe options traded on the Chicago Board of Trade, can be used to transfer insurance risk to the capital markets.

Licensing of the Catastrophe Risk Exchange, Inc.: The Catastrophe Risk Exchange, Inc. (CATEX) continues to be licensed as a reinsurance intermediary under New York Insurance Law. Via a highly secure yet flexible computer based trading exchange, CATEX provides a means whereby primary insurers and reinsurers can have access to a wider and more efficient distribution for their risks. CATEX is exploring the transfer of risk through its system to the capital markets and has a proposal pending before the Department.

Capital Notes: The Department also continues to support legislation proposed by Governor Pataki that would authorize the issuance of *capital notes* by property/casualty insurers. Capital notes currently authorized for life insurers are constructed as debt instruments. A capital note is carried as a liability on an insurer's balance sheet, but may be added to total adjusted capital for purposes of calculating risk-based capital.

Concept in Progress: Tax Deductible Pre-Event Catastrophe Reserve: The Department, along with other state regulators, is involved in developing a proposal for a tax-deductible pre-event catastrophe reserve. This proposal requires that insurers establish a reserve based on a portion of premiums collected each year for property lines of business. A key component of the proposal is the tax-deductibility of the proposed reserve. This will require a ruling or regulation by the U.S. Treasury. The Department continues to believe that the proposal promotes the safety and soundness of the insurance industry by enhancing the ability of insurers to fund a major catastrophe and that it provides appropriate incentives for insurers to expand capacity to handle larger catastrophic events. A brief discussion of the benefits of the proposal is contained in last year's report.

Computer Modeling: As part of last year's Temporary Panel report, a continuing recommendation was made that the Department consider permitting computer simulation modeling to be used by insurers and rate service organizations as another acceptable actuarial technique for the development of appropriate homeowners' rates and deductibles.

When this recommendation was first made part of the Temporary Panel report two years ago, the Department responded by issuing Circular Letter No. 7 on April 30, 1998 to all property/casualty insurers authorized to write homeowners' insurance and all rate service organizations. The Circular Letter encourages those insurers and rate service organizations which use computer simulation modeling as part of their homeowners' insurance rate review and development process in New York to voluntarily provide a comparison of indicated rate and rate changes by form and territory. The comparison is to include the rates and rate changes developed using the results of computer simulation modeling as well as those developed using more traditional ratemaking methodology.

When Circular Letter No. 7 was issued in 1998, the Department hoped that the information submitted in response would help us to gain additional perspective and familiarity with computer simulation modeling, assist us in measuring its financial impact on the market, and, ultimately, enable us to make a future determination on the appropriateness of the use of this methodology in the ratemaking process for homeowners' insurance rate and deductible filings.

At the time of last year's Temporary Panel report, insufficient information had been furnished by insurers to determine whether computer modeling was an appropriate component of the ratemaking process. Since last year's Temporary Panel report was issued, only one insurer has submitted information to the Department in response to Circular Letter No. 7.

Notwithstanding the lack of substantive responses to Circular Letter No. 7, the Department continues to permit insurers to file, as part of homeowners rate filings, the net cost of catastrophe reinsurance purchased and catastrophe deductibles for review and consideration.

Through this combination of efforts, the Department is attempting to be responsive to the industry's needs while balancing the desire to maintain a stable and viable homeowners' market in New York for years to come.

B. Proposed Legislation: The Department is examining possible legislative proposals needed to facilitate the *on-shore securitization of insurance risk*. Two mechanisms under consideration are:

- **Protected Cells –** permit domestic insurers to create one or more "protected cells." The establishment of a "protected cell" isolates assets and liabilities related to an insurance securitization and protects them from an insolvency of the rest of the insurer. The isolation of assets and liabilities enhances the marketability of these offerings in the capital markets. In December 1999, the NAIC passed a model act enabling the formation of protected cells by U.S. insurers. To date two states, Rhode Island and Illinois, have adopted protected cell legislation.

- **Special Purpose Vehicles –** permit the formation of special purpose insurance companies in New York State. These companies would be formed to assume insurance risk under single or multiple structured insurance and reinsurance agreements from insurers and ceding insurance companies. Funding of the structured reinsurance company's potential obligations under the reinsurance agreement is financed by the issuance or sale of securities in the capital markets. Investors in such securities risk loss of principal and/or interest in the event the losses (or other triggering points) specified in the reinsurance contract are realized.

To be feasible, both proposals require a tax ruling or a tax code change at the federal level.

C. Regulation No. 154

Legislative mandates require the Department to study the dynamics of the homeowners insurance marketplace. In fulfilling this obligation, the Department promulgated Regulation No. 154 (11 NYCRR 19), which, among its provisions, requires insurers writing homeowners insurance in the voluntary marketplace to report, on a quarterly basis: the number of policies in force; new policies written; terminated policies (either by the insured or the insurer); transfers of business; and the number of producers authorized to transact business on behalf of the insurer. This information is collected for all counties in New York State and for designated zip codes areas.

The data shown below represents policy-in-force figures for designated coastal areas. In comparing the beginning and end policies in force, it is noted that from the beginning to the end of the three-year period, policies in force along the coastal areas has increased by approximately 100,000 policies. During that period the increases in quarterly policies in force ranged from 4.5% to 9.2%. It appears that the coastal area marketplace is stable with insurers gradually increasing their exposure in this area.

Number of Voluntary Market Homeowners' Policies in Force
Selected Counties
1996-1999

Counties	Policies in Force 9/30/96	Policies in Force 9/30/97	Policies in Force 9/30/98	Policies in Force 9/30/99
Bronx	76,308	79,397	77,311	79,816
Kings	185,637	196,884	187,751	194,048
Queens	279,900	297,986	292,146	301,128
Richmond	89,570	94,521	94,214	97,858
Westchester	218,296	222,802	224,436	230,188
Nassau	355,059	367,103	367,498	374,428
Suffolk	389,994	402,870	402,673	416,838
Total for Selected Counties	1,594,765	1,661,563	1,646,030	1,694,304

Note: The policy-in-force data shown above was collected pursuant to Regulation 154, and therefore represents writings only from insurers writing at least $500,000 in homeowners premium during a calendar year. Those companies had premiums comprising 97.56% of the total homeowners market as of September 30, 1999.

D. Regulation 159

The Department has permitted the use of windstorm deductibles as a means of encouraging insurers' participation in the voluntary market. Following a series of meetings with concerned public officials, producers and insurers, the Department issued Circular Letter No. 11 in September, 1993 (which was supplemented in October 1993 and June 1995) which set forth guidelines for mandatory and optional windstorm deductibles for catastrophic and non-catastrophic losses. The Circular Letter also permitted insurers to file independent windstorm deductible programs that were supported with adequate justification.

As of January 14, 2000, 43 independent windstorm deductible programs (submitted either by individual insurers or groups) have been approved by the Department. Two rate service organizations (AAIS and URB) have filed and received approval for programs on behalf of their member companies that follow the Department's guidelines established in the circular letters described above. The approved programs provide windstorm coverage subject to certain mandatory deductibles depending on the geographical location of the risk. The mandatory deductibles range from 1% to 5% of the insured amount, with optional deductibles available at higher percentages. Another rate service organization, ISO, has filed and received approval for an independent windstorm deductible program on behalf of its members. Insurers that adopt the ISO program must offer windstorm deductibles to their insureds on an optional basis.

The event that triggers the use of these deductibles varies widely from insurer to insurer. Some insurers use a Category One Hurricane as the triggering event while others use a Category Two Hurricane. In any event, the hurricane would have to be designated as such by either the National Weather Service or the National Hurricane Center. Some insurers use either a specific mile per hour wind speed as a trigger or a mandatory $500 deductible for all windstorm loss. A summary of all windstorm deductibles, including percentage amounts, descriptions of the triggering event and the time frames the deductible is effective, approved by the Department is provided in Appendix B.

In response to the increased use of windstorm deductibles by insurers, a new Section 3445 of the Insurance Law was enacted which requires insurers to provide proper disclosure to their insureds of any windstorm deductibles attached to their homeowners policies. The Department was directed to promulgate a regulation that would set forth the information to be contained in the notice and in August 1998 Regulation 159 became effective. In addition to outlining the specific information to be contained in the notice it directs insurers to attach this notice to all new and renewal homeowners policies issued on or after January 1, 1999. As of January 1, 2000, disclosure notices for 46 insurers and one rate service organization have been approved.

E. C-MAP

The Department established the Coastal Market Assistance Program (CMAP) in March 1996. This is a voluntary network of insurers and insurance producers who assist New York homeowners in coastal areas in obtaining insurance. The program was established for owner-occupied, one-to-four family dwellings, including condominiums and cooperative apartments, in the Bronx, Brooklyn, Nassau, Queens, Staten Island, Suffolk and Westchester. On Long Island's south shore and forks, as well as in Brooklyn, Queens, and Staten Island, the dwelling must be located within one mile of the shore. On the north shore of Long Island and in the Bronx and Westchester, the home must be within 2,500 feet of the shore to qualify for consideration.

Before applying to CMAP, a homeowner must have been notified that an existing policy is being canceled or nonrenewed for other than nonpayment of premium. In the case of the sale of real estate, the homeowner or prospective property owner must be unable to find insurance through the voluntary market. Insureds may apply to CMAP through their insurance agent or broker or by contacting the Department for further information.

Insurers that collectively write over 80% of the homeowners market in New York participate in CMAP and have committed to write as many as 5,000 policies over a three-year period.

Policies may be placed in the CMAP program through either the company/agent rotation process or the self-certification process. In the company/agent rotation process, an insured will be reviewed for coverage by a participating insurer that has been assigned this risk on a rotating basis according to the CMAP Plan of Operations. Insurers also may use the self-certification process by voluntarily accepting a risk which does not meet their "proximity to shore" underwriting guidelines and which was not brought to them through CMAP. Once the insurer has filed the appropriate self-certification documentation with the CMAP program regarding its voluntary acceptance of this risk, the insurer will receive a credit in the CMAP rotation process.

From the inception of this program on March 18, 1996, through October of 1999, a total of 3,404 policies have been written. Of this total, 405 were placed through the company/agent rotation process, while 2,999 were placed in CMAP through the self-certification process. Activity in

CMAP was greatest during 1996 and 1997. During the first nine months of 1999, 484 policies were issued using the CMAP mechanism.

F. Multi-tier Programs

Chapter 42 of the Laws of 1996 added Section 2351 to the Insurance Law to permit the use of multi-tier programs for homeowners insurance in order to enhance the availability of homeowners insurance in the voluntary market. A multi-tier program is one in which there is more than one rate level, or tier, in the same company, with a complete rating system associated with each tier. Specific underwriting rules applicable to each tier determine the placement of insureds in the various rating tiers.

Multi-tier legislation for homeowners insurance formalized the rating options that had previously been available to (and was implemented by) insurers in associated fleet structures. Many such groups employed diverse underwriting criteria and rate levels that were exclusive to individual companies within the group. Approval also had been granted to independent insurers that were able to demonstrate that specially established preferred rate classifications would be objectively applied in accordance with the principles of the open rating law. As a result, there have not been a great number of proposals filed for additional multi-tier programs under the new law. To date, the Department has approved six new multi-tier programs.

G. Mitigation Initiatives

Protecting Home and Family - The State Emergency Management Office (SEMO) sponsored a two-day symposium in New York on November 16-17,1999, the purpose of which was to kick off the Protecting Home and Family project. This project is a cooperative effort under the auspices of SEMO, geared toward the development of an educational program for hazard mitigation and for reform of building construction, practices and codes throughout the State, especially those areas most susceptible to disaster and natural catastrophes. It includes the participants from a broad range of interests and disciplines.

Neighborhood Housing Services of New York City (“NHS”) NHS is a non-profit organization working to: 1) increase and protect investment in underserved neighborhoods, 2) help people help themselves through education, 3) encourage and support neighborhood self-reliance, and 4) create, preserve and promote affordable housing in New York City. Many of the initiatives of NHS focus on the common themes of property rehabilitation and protection and the education of existing and prospective homeowners. NHS relies upon the expertise of the business community and, in particular, the insurance industry, to help carry out its mission. Its programs and projects have received the support of the financial services industry in helping individuals prepare for homeownership and become aware of the steps they should take to maintain and preserve their property. Programs offered by NHS include Homebuyers Clubs, Home Maintenance Training Programs, Water Loss Prevention Programs, Landlord Education, Home Improvement Loans, and Emergency Loans.

These efforts dovetail with recommendations expressed by the Temporary Panel in the past for the promotion of loss prevention and mitigation. The Insurance Department and segments of the insurance industry have participated in the activities of NHS by providing technical support and funding (industry only).

III. FEDERAL INITIATIVES

Summary of 1999 Federal Natural Disaster Legislation

Homeowners' Insurance Availability Act of 1999 (H.R. 21)

The fundamental purpose of H.R. 21 is to make homeowners' insurance more available in disaster prone areas.

H.R. 21 would:

- Direct the Secretary of the Treasury to establish a federally funded program to make reinsurance coverage available through an auction system. Eligible participants would include:
  - certain State programs,
  - private insurers and reinsurers,
  - State insurance and reinsurance programs, and
  - Other entities;

- Establish, within the Treasury, a Disaster Reinsurance Fund to pay for contracts, commissions, administrative expenses, and termination of the Fund;
- Establish the National Commission on Catastrophic Risks and Insurance Loss Costs to advise the Secretary regarding the estimated loss costs associated with carrying out the Act.

H.R. 21 was reported out of the House Banking and Financial Services Committee on November 10, 1999 by a vote of 34-18. The bill has been reported to the House for a possible floor vote.

Earthquake Volcanic Eruption and Hurricane Hazards Insurance Act of 1999 (H.R. 481)

The purpose of H.R. 481 is to insure against the risk of catastrophic earthquakes, volcanic eruptions and hurricanes through the mitigation of property damage and claims payments.

H.R. 481 would:

- Require development of loss reduction criteria for State and local land use and management ordinances, building codes and other measures;
- Establish the Earthquake, Volcanic Eruption and Hurricane Loss Mitigation Advisory Committee, within FEMA, to review loss reduction criteria;
- Require the deposit of a percentage of annual hurricane, earthquake and volcanic eruption insurance and excess reinsurance premiums collected under the Primary Insurance program into a Self-Sustaining Mitigation Fund;
- Prohibit making, increasing, extending or renewing any federally-related mortgage loan secured by residential property (or improved real estate or a mobile home) located in a state that is not in compliance with the loss reduction criteria or that does not meet the minimum mitigation criteria in earthquake-prone, volcanic eruption-prone, or hurricane-prone areas;
- Require the FEMA Director to establish a Primary Insurance Program and to make reinsurance and excess reinsurance available to private insurer members;
- Establish the Earthquake, Volcanic Eruption and Hurricane Reinsurance Advisory Committee to assist and report on the Primary Insurance Program;
- Establish the Residential Property Insurance Fund to fund the Primary Insurance Program; and

- Establish the Reinsurance Fund within the Treasury to carry out the loss reinsurance program.

H.R. 481 was referred to the House Banking Subcommittee on Housing and Community Opportunity.

Policyholder Disaster Protection Act of 1999 (H.R. 2749)

The purpose of H.R. 2749 is to facilitate the growth of disaster protection funds by property/casualty insurance companies with the intent of preventing their insolvency and reliance on government funds in the event of an extraordinary natural disaster.

H.R. 2749 would:

- Amend Section 832(c) of the Internal Revenue Code of 1986 to provide for the creation of disaster protection funds by property/casualty insurers;
- Allow qualified contributions to a Policyholder Disaster Protection Fund to be tax deductible;
- Provide for the payment of policyholders' claims arising from future catastrophic events through the drawdown of this fund; and
- Establish guidelines for making contributions to the Fund, investing within the Fund, and making distributions from the Fund.

H.R. 2749 was introduced to the House Committee on Ways and Means.

Two Floods And You are Out of the Taxpayers' Pocket Act of 1999 (H.R. 2728)

H.R. 2728 would:

- Amend the National Flood Insurance Act of 1968 to reduce losses on properties with a history of repetitive flood insurance claims;
- Establish repetitive flood claim payment properties as priority properties with regard to National Flood Mitigation Fund distributions (for buy-out, elevation or other mitigation measures);
- Amend the National Flood Insurance Act of 1994 to remove federal disaster assistance responsibility for those repetitive flood claim payment properties that refuse mitigation assistance; and
- Provide additional funding for mitigation actions that reduce flood damages to repetitive flood insurance claim payment properties and which the Director determines were in the best interest of the National Flood Insurance Fund and could not be funded under Section 1366 (guidelines for mitigation grant awarding) in the National Flood Insurance Act of 1968.

HR 2728 was referred to the House Banking Subcommittee on Housing and Community Opportunity.

IV. Conclusion

This Report of the Temporary Panel on Homeowners' Insurance Coverage, the Panel's fourth, updates the issues affecting the affordability and availability of homeowners' insurance in New York State. The Panel concludes that the New York homeowners' insurance market continues to improve as fewer and fewer New Yorkers are turning to the New York Property Insurance Underwriting Association, New York's insurer of last resort. The Panel continues to believe that the establishment of a statewide catastrophe insurance fund in New York State is unwarranted at this time. In addition, the Panel reiterates its support for more uniformity in the triggering of hurricane deductibles, the use of catastrophe modeling to support rate and deductible filings, full disclosure of deductibles and the need for increased consumer education.

Appendix A
Homeowners' Insurance Deductible Filings
New York State, as of 4/1/00

Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
AAIS R97005021 11/1/98	Optional, See Note A	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	See Note A	This is a Rate Service Organization. This deductible may be used by member companies who adopt this filing.
Allstate R96002573 7/21/97	5%	The deductible is applicable to a windstorm loss that occurs during the following time period: a) beginning 24 hours prior to the time that a one minute average sustained wind speed exceeding 100 mile per hour at an altitude of 10 meters above any part of NYS during a hurricane, as estimated by the National Hurricane Center; b) during the duration of such hurricane; and c) ending 12 hours after the last time the National Hurricane Center declares that the hurricane has been downgraded to a tropical storm.	Staten Island, Bronx Queens, New York, Brooklyn, Nassau and Suffolk.	A 7% hurricane deductible is available on an optional basis to the insured.

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Am Motorists R98005792 5/11/99	5%	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	Staten Island, Bronx Queens, New York, Brooklyn, Nassau and Suffolk.	
Atlantic Mut. R9901551 5/11/99	5% applicable within 1000 feet of the shore or on a barrier island and 2% for the rest of Long Island.	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	Nassau and Suffolk.	
Chubb R95003269 10/6/95	5% mandatory hurricane deductible to be applicable up to 1 mile on the North Shore of Nassau & Suffolk & up to 5 miles on the South Shore of Nassau and Suffolk.	Category 1 hurricane Trigger.	Nassau and Suffolk.	Hurricane deductible capped at $50,000 The insured has the option of installing an approved windstorm protection in accordance with Chubb's guidelines, thereby eliminating this hurricane windstorm deductible.

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Cigna Ind & Ind Co. of North America R97000645 3/1/97	3%	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared the National Weather Service to be category 1,2,3,4 or 5 hurricane.	Nassau, Suffolk, Brooklyn, & Queens.	$1500 all wind deductible within 2500 ft from the affected areas (approved on an experimental basis)
Cigna - applicable to the rest of the companies other than those approved for the Special LI Program R97004459 1/16/98	3% -	Category 1 or higher hurricane	applicable within 2500 feet of an ocean, sound, bay or similar body of water in the following counties: Nassau and Suffolk Kings, Queens, Richmond, Westchester and Bronx	Optional 5% hurricane deductible is available. Currently Cigna has on file with the Dept. Special LI Program which provides for: a mandatory 3% hurricane deductible to be applicable in LI, Brooklyn and Queens; a $1500 all wind deductible to be applicable within 2500 feet from the shore and an optional 5% hurricane(experimental basis approval) The Special LI Program is approved for only 2 of Cigna's companies: Indemnity Insurance Company Of North America and Cigna Indemnity Insurance Company.
Clarendon R98003095 9/15/98	Optional hurricane deductibles, ranging from 2%, 5% &10%.	Trigger is a category 2 hurricane, making landfall in NYS.	Available only for the coastal areas	

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
CNA Companies R96002456 7 and 8 3/15/97	5% for risks located 1 mile or less from the shore; 2% for risk located more than 1 mile but less than 5 miles from the shore; 1% for risks located more than 5 miles from the shore within the entire coastal area.	Category 1 or higher hurricane as designated by the National Weather Service, at the time it impacts anywhere in New York.	Brooklyn, Queens, Westchester, Nassau, Suffolk, Bronx, Richmond, & New York counties.	Higher hurricane deductibles may be elected on an optional basis.
Colonial Penn R94002511 & R94002536 1/30/95	See Note A.	The deductible is applicable to a windstorm loss if, according to the National Weather Service, a Category 2, 3, 4 or 5 hurricane makes landfall anywhere in New York State within 12 hours before or 12 hours after windstorm loss.	See Note A.	
Commercial Union R96002138 07/31/96	See Note A.	The deductible is applicable to a windstorm loss if, according to the National Weather Service, a Category 2, 3, 4 or 5 hurricane makes landfall anywhere in New York State within 12 hours before or 12 hours after windstorm loss.	See Note A.	

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Electric R99003667 1/3/2000	2%	The deductible will apply when a windstorm loss occurs within a period of 12 hours before and 12 hours after a Category 2 hurricane or higher, as determined by the National Weather Service, makes landfall anywhere in NYS.	Brooklyn, Queens, Staten Island, Bronx, Nassau and Suffolk.	Deductible is capped for any policy with Coverage A limits greater than $250,000 at $5000.
Empire R99001288 7/23/99	5% for risks up to 1 mile of the south shore of LI and within 1000 feet of the north shore of LI and Westchester. A 3% will apply to the remainder of the Bronx, Brooklyn, New York, Queens, Richmond, Nassau and Suffolk counties.	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	Brooklyn, Queens, Westchester, Nassau, Suffolk, Bronx, Richmond, & New York counties.	Insureds with the 3% mandatory hurricane deductible have the option of purchasing a 4% or 5% hurricane deductible.

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Company, File No, Approval Date	**Percent Deductible based on Dwelling (A)**	**Trigger (circumstances under which deductible is applicable)**	**Territory**	**Comments**
Fireman's Fund	2% or 1%.	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	Mandatory 2% for Nassau and Suffolk. Mandatory 1% for SI, Queens, & Brooklyn.	Optional 2% 5% and 10% hurricane deductibles are available.
Gen Accident R94003043 1/18/95	See note A.	The deductible is applicable to windstorm loss to covered property, that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in New York State as declared to be a Category 2, 3, 4 or 5 hurricane by the National Weather Service.	See Note A.	
Greater NY Mut. & Ins. Co. of Greater NY R99001921 7/9/99	3%	Category 2 hurricane	3% hurricane deductible to be applicable to all risks located within 2500 feet and 1000 feet from the waterfront in Brooklyn, Queens, Nassau and Suffolk.	

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Hartford R98005621 4/13/99 R99003382 10/1/99	5% & 2%.	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a category, 2,3,4 or 5 hurricane or creates hurricane force winds of category 2 or higher, as determined by the National Weather Service, anywhere in the county within NYS in which the covered property is located.	5% hurricane deductible applicable within 2 miles of the south shore or within 1 mile of the north shore in Suffolk, Nassau, Brooklyn, Queens and Staten Island counties. In other areas of these counties, a mandatory 2% hurricane deductible is required.	For renewals business, policies not within 2 miles of the south shore and 1 mile of the north shore having a mandatory 5% hurricane deductible will be offered the opportunity to purchase a 2% mandatory hurricane deductible. Amended the hurricane trigger from a category 1 to a category 2 hurricane, effective 10/1/99.
ISO	Optional See Note A	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	See Note A.	This is a Rate Service Organization. This deductible may be used by member companies who adopt this filing.
Kemper Auto & Home/Kemper Independence Cos. R99002441 6/18/99	5%	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	Staten Island, Bronx Queens, New York, Brooklyn, Nassau and Suffolk.	

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Kemper Group R98004501 1/28/99 R99002325 6/18/99	2% & 5%	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	5 NYC boroughs, Nassau, Suffolk and Westchester counties	The 2% mandatory hurricane deductible is applicable to the 5 NYC boroughs, Nassau, Suffolk counties, except for insureds located within 2500 feet of any shoreline. The 5% mandatory hurricane deductible is applicable to those insureds located within 2500 feet of any shoreline.
Lancer R93004181 12/28/93	See Note A.	The deductible shall be activated only in the event a Category 2 Storm, as defined by the National Weather Service, makes landfall within the geographic boundaries of the State of New York and shall apply only to losses as a result of that storm for damage and loss covered under the peril of windstorm.	See Note A.	

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Liberty Mut. R99004601 & R99004605 2/1/2000	5% and 2%.	The mandatory hurricane deductible applies to a windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 1 hurricane or higher; or makes landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the loss occur.	The 5% hurricane deductible is applicable to all risks located within 1 mile of the south shore of Brooklyn, Queens, Nassau and Suffolk counties. The 2% hurricane deductible is applicable to the rest of Brooklyn, Queens, Nassau, Suffolk and the entire Staten Island.	
Merchants Mutual R94001257 6/1/94	Adopted ISO's deductible with the exception of a mandatory $500 windstorm deductible for the affected areas.	Does not have a mandatory hurricane deductible, however, has a mandatory $500 all wind deductible.	Kings, Queens, LI, SI, Westchester, and Bronx.	$2000 mandatory standard windstorm deductible applicable to C-Map policies only. Company has not implemented ISO's filing.

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Met P & C R96004067 12/31/96	The base policy deductible is mandatory and an optional 2% and 5% Hurricane deductible is available (see comments).	The deductible is applicable to a loss caused by a hurricane windstorm. A hurricane windstorm means a windstorm and accompanying winds along its path, which is identified and recorded as a hurricane by the National Hurricane Center or any agency responsible for identifying and recording hurricanes.	SI, Queens, Bronx, Brooklyn, Nassau, and Suffolk.	Base premium for the affected territories does not include hurricane windstorm coverage. It must be added for a charge. The surcharge factors vary depending upon the territory and the amount of the deductible. The policy deductible is mandatory and an optional 2% and 5% Hurricane deductible is available.
National General R95000785 1/17/96	1%	The deductible is applicable to a windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm, which caused the loss, makes landfall anywhere in New York State as declared Category 2, 3, 4 or 5 hurricane by the National Weather Service.	LI South Shore, Bklyn, Queens, SI, and LI Forks.	
National Grange R99004494 1/5/2000	2%	The deductible is applicable to a windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm, which caused the loss, makes landfall anywhere in New York State as declared Category 2, 3, 4 or 5 hurricane by the National Weather Service.	Long Island	

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Nationwide R96002213 10/4/96 R99001792 4/26/99	2%	The deductible applies in the event of a loss caused by any one storm declared to be a hurricane by the National Hurricane Center/Tropical Prediction Center; and makes landfall in NYS or contiguous states; and causes loss in NYS while it is a hurricane or throughout any subsequent downgrades in storm status by the National Hurricane Center/Tropical Prediction Center, until it is no longer a tropical storm.	Bronx, Kings, NY, Queens, Richmond, Westchester, Suffolk, & Nassau Counties.	Higher hurricane deductibles may be elected on an optional basis. **Amended to be applicable to only 7 coastal zip codes in Westchester instead of the entire Westchester county (R99001792)**.
NY Casualty R97004899 6/30/98	1%	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a category 1,2,3,4 or 5 hurricane.	Kings, Queens, Richmond, Suffolk, & Nassau Counties	

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
NY Central Mut. R97004079 7/21/98	3% & 5%	The deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 2, 3, 4, or 5 hurricane	Bronx, Kings, Queens, Richmond, Suffolk, & Nassau Counties	The 3% mandatory hurricane deductible would be applicable in the event of a category 2 or 3 hurricane makes landfall in NYS and the 5% mandatory hurricane deductible would be applicable in the event of a category 4 or 5 hurricane makes landfall in NYS. It should be noted that **only 1** of the hurricane deductibles would be applicable, depending upon the category of hurricane that makes landfall in NYS, **e.g.** if a category 2 hurricane makes landfall then **only** the 3% deductible would be applicable and if a category 5 hurricane makes landfall then **only** the 5% deductible would be applicable.
Norfolk & Dedham R98004238 & R98004765 5/14/99 R99004693 12/6/99	5%, 2% or 1%, depending on the distance from shore.	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	Long Island : 0-1 mile = 5% 0-2 mile = 2% 0-3 mile = 1%	

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Peerless R97002559 10/15/97	2%	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a category 1,2,3,4 or 5 hurricane.	Staten Island, Queens, Bronx, Brooklyn, Westchester, Nassau and Suffolk.	
Providence Washingtn R96004809 6/1/97	1%	The deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 1, 2, 3, 4, or 5 hurricane.	See Note A.	
Prudential R94003476 & R94003999 12/15/94	2%	The deductible is applicable to a windstorm loss caused by winds in New York from at least a Category 2 hurricane as classified by the National Weather Service.	See Note A.	The insured has the option of buying back to the regular policy deductible.
Royal R97003071	2% 10/1/97	Category 1 Hurricane.	Nassau and Suffolk counties.	For the remaining affected territories, these hurricane deductibles are optional.
Security of Hartford R98005736 & R98005770 5/27/99	2%	Category 2 hurricane making landfall in NYS.	Bronx, Kings, Queens, Richmond, New York, Suffolk, & Nassau Counties	Optional higher hurricane deductible is available.

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Shelby R98002902	3%	The deductible is applicable to windstorm loss to covered property, that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in New York State as declared to be a Category 2, 3, 4 or 5 hurricane by the National Weather Service.	applicable within 2500 feet of an ocean, sound, bay or similar body of water in the following counties: Nassau and Suffolk Kings, Queens.	Optional 5% hurricane deductible is available.
State Farm R98002212 & (form) R98002243 (rating rules) 8/1/99 (new) 10/1/99(renew)	5% & 2%	The deductible is activated if a hurricane produces a minimum windspeed of at least 74 mph (category 1)at any National Weather Service (NWS) measuring site in the county in which the dwelling is located. The deductible is applicable during the following time frame: beginning 12 hours prior to the time hurricane force wind speeds are measured at any NWS measuring site in this state, continuing for the time period during which the hurricane conditions exist anywhere in this state and ending 12 hours after the last time the NWS declares that the hurricane has been downgraded to a tropical storm.	The **5%** mandatory hurricane deductible is required for all risks located on barrier islands or within 1000 feet of the water in Staten Island, Queens, New York, Bronx, Brooklyn, Nassau, Suffolk and Westchester counties. The **2%** mandatory hurricane deductible is mandatory in Nassau and Suffolk counties for more than 1000 feet from water.	Optional hurricane deductibles are available.

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
St. Paul R98000804 7/30/98	1% & 2%	The deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 2 hurricane or higher.	1% for Nassau 2% for Suffolk	The hurricane deductible is capped at $50,000.
TIG R97003949 R97003973 R97003948 6/10/98	5% mandatory deductible one mile in the coastal areas and 2% mandatory deductible further inland.	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	5 NYC boroughs, and Long Island.	Optional higher hurricane are deductible available.
Tower Ins. Co. of NY R99000025 7/1/99	5% & 2%	The deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 1 hurricane or higher.	5% - within 1 mile of the coast in Nassau & Suffolk and 2% over 1 mile and within 3 miles of the coast. 2% - within 1 mile from the coast in Richmond, Brooklyn, Queens and Bronx.	

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Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Travelers Companies R96004580 & R96004386 12/13/96	5% hurricane deductible applicable up to one mile from LI, South Shore & the shores of Brooklyn, Queens, SI, & Long Island Forks and up to 1000 feet from Long Island North Shore, the areas along the Bronx and Westchester County along the Long Island Sound. 3% hurricane for the remainder of Long Island and the 5 boroughs.	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	See Note A.	Insureds with the 3% mandatory hurricane deductible have the option to purchase a 4% or 5% hurricane deductible.

Appendix A

(continued)

Company, File No, Approval Date	Percent Deductible based on Dwelling (A)	Trigger (circumstances under which deductible is applicable)	Territory	Comments
Tristate R97003769 5/15/98	2%	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	5 NYC boroughs, Westchester, and Long Island	
URB	See Note A			
USF&G R97001265 10/15/97	2%	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a category 1,2,3,4 or 5 hurricane.	Staten Island, Queens, Bronx, Brooklyn, Nassau and Suffolk.	
Utica First R97000239 & R97000247 7/15/97 R99004412 1/22/2000	1%	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	Queens, Staten Island Nassau & Suffolk Counties.	

Appendix A *(continued)*				
Company, File No, Approval Date	**Percent Deductible based on Dwelling (A)**	**Trigger (circumstances under which deductible is applicable)**	**Territory**	**Comments**
Utica Mutual R99000317 7/14/99	2% & 5%	Category 2 Hurricane.	2**%** for NYC and Long Island, except for risks located less than 1500 from salt water on the south shore of LI; 500 feet from salt water on the north shore of LI and 500 feet from salt water in NYC areas which requires 5**%.**	
Worcester R97001510 6/5/97	2%	The deductible is applicable to a windstorm loss if, according to the National Weather Service, a Category 1, 2, 3, 4 or 5 hurricane makes landfall anywhere in New York State within 12 hours before or 12 hours after windstorm loss to covered property first occurs.	Bronx, Brooklyn, LI, Queens, and SI.	

Note A: See the guidelines contained in the supplement to circular letter No. 11 (1993), which was issued to all insurers writing homeowners' policies informing them of standards to be followed in making filings for windstorm deductibles.
Source: New York State Insurance Department

Appendix B
Recent Risk Securitization Activity

Nationwide - Nationwide has the option to issue up to $400 million of 9.222% surplus notes to fund new business opportunities or to reimburse catastrophic losses. Contract with Morgan Guaranty Trust Company. (1995)

Arkwright - Arkwright has set up a trust to issue $100 million in trust notes to private investors. New proceeds of the notes will be used to buy government securities held by the trust. (1996)

AIG Combined Risks/Benfield - Placed 5 catastrophe-linked bonds with an investment fund managed by Mercury Asset Management. Bonds will pay out if a catastrophe exceeding an agreed trigger occurs in the U.S., Japan, Australia, Caribbean, Europe or Japan. (1996)

Hanover Re - Sold $100 million worth of catastrophe cover. The portfolio-linked swap is comprised of the following: Japanese earthquakes, U.S. natural catastrophes, Canadian natural catastrophes, North European storms, North European other catastrophes, Australia - all catastrophes and aviation excess of loss. (1996)

St. Paul Re - $68.5 million deal through Goldman Sachs & Co. to increase capacity. St. Paul Re will cede reinsurance business from five classes under a 10-year reinsurance treaty. Investors participate in excess-of-loss underwriting by investing in bonds or preference shares. Enables St. Paul to increase capacity in 5 excess-of-loss classes: U.S./Caribbean property-casualty, European property-casualty, other property-casualty, retrocessional/Lloyd’s short-tail and marine and aviation. (1997)

Winterthur Swiss Insurance Group - Placed $282 million of catastrophe bonds in private capital market. The bonds cover Winterthur exposure to auto claims stemming from domestic summer hailstorms. Transaction managed by Credit-Suisse First Boston. (1997)

Swiss Re - Placed $137 million in two-year bonds tied to reinsurance losses from a potential California earthquake. Swiss Re and Credit Suisse First Boston were the placement agents for the notes. (1997)

Horace Mann Educators Corporation - Agreement allows Horace Mann to receive up to $100 million from Center Re, the transactions underwriter, in exchange for an equivalent value of its convertible preferred shared in the event of a mega-catastrophe. (1997)

RLI Corporation - Aon Re Services developed a $50 million catastrophe equity put (CatEPut) for the RLI Corporation. The deal was underwritten by Centre Re. In the event of a catastrophe, which exhausts RLI’s traditional reinsurance coverage, the CatEPut program allows RLI to sell up to $50 million in preferred shares to Centre Re. (1997)

USAA - Placed $477 million of hurricane bonds in the private placement market. The bonds will provide USAA with an excess-of-loss cover tied to a single hurricane producing losses of more than $1 billion during a one-year reinsurance period. The syndicate managers were Merrill Lynch & Co., Goldman Sachs & Co. and Lehman Bros. (1997)

LaSalle Re - Aon Re, Inc. and Aon Securities Corporation developed a $100 million multi-year Catastrophe Equity Put (CatEPut) option program for LaSalle Re. The option program allows LaSalle to issue up to $100 million in convertible preferred shares in the event of a major catastrophe or series of large catastrophes that result in substantial losses to LaSalle Re. (1997)

Reliance National Insurance Company - Completed a $40 million securitization of non-catastrophe coverage for its property, aviation, marine drilling and satellite launch exposure. The placement ties bond payment trigger points to a catastrophe index established by Swiss Re. Sedwick Lane Financial structured the deal. (1997)

Tokio Marine & Fire Insurance Co., Ltd - Tokio Marine has acquired earthquake risk coverage of $90 million purchased from capital markets investors through Parametric Re, Ltd. Parametric Re issued 10-year fixed income securities with principal reduction contingent on the occurrence and severity of earthquakes within an area centered on Tokyo. Goldman, Sachs & Co. and Swiss Re Capital Markets Corporation were co-leaders for the transaction. (1997)

Centre Solutions - Issued $83.5 million in catastrophe bonds. The bonds provide retrocessional catastrophe cover for natural and man-made perils which Centre Solutions has underwritten. The bonds have an expected maturity date of December 31, 1998. The bonds were placed by Goldman Sachs. (1998)

Mitsui Marine and Fire - Obtained $30 million in reinsurance cover backed by event-linked swap transactions. Payment is determined by the magnitude of earthquakes in and around the Tokyo area. The cover for risks is available for a three-year period that began April 1, 1998. Swiss Re Capital Markets served as the agent for the swap transaction. (1998)

Reliance National Insurance Company - Purchased an option to issue multi-peril-linked insurance notes, providing a guaranteed reinsurance cost. The deal gives Reliance the right to issue notes over a three-year period to fund reinsurance coverage provided through SLF Reinsurance LTD. The notes are tied to five classes of risk: U.S. property, property outside of the U.S., aviation, and marine drilling rigs and satellite launch failure. Sedwick Lane Financial structured the deal. (1998)

USAA - Placed $450 million of hurricane bonds in the private market. The syndicate managers were Merrill Lynch & Co., Goldman Sachs & Co., and Lehman Bros. (1998)

Yasuda Fire & Marine, Aon Capital Markets and Munich Reinsurance Company - Private placement of $80 million of catastrophe reinsurance notes that provides protection against Japanese typhoon-related losses. The notes may be triggered by either one large typhoon or two, smaller separate typhoons. (1998)

F & G Re - F & G Re, in conjunction with Goldman Sachs and E.W. Blanche Capital Markets, completed a $54 million bond issuance that backs its property catastrophe excess-of-loss reinsurance contracts. The funding benefits Mosaic Re, an offshore firm that provides reinsurance on F & G Re's products. This is the first Cat bond deal to securitize multiple underlying reinsurance contracts sold to a variety of insurers. (1998)

CNA - Issued $200 million of 6.6 percent notes due December 2008. Goldman Sachs is the lead manager, and Lehman Brothers the co-manager for the issue. The net proceeds will be used for general corporate purposes. (1998)

Centre Re Solutions (Bermuda) Limited - Sponsored its second securitization of reinsurance coverage by purchasing retrocessional capacity against Florida hurricanes from capital market investors through special purpose vehicle. Trinity Re 1999, Ltd. has used $56.615 mm of fixed income securities due 12/31/99. The loss of principal on the bond is triggered if Centre Re Solutions (Bermuda) Ltd. incurs losses as the direct result of a hurricane under an excess of loss reinsurance policy the company has written for a Florida residential property insurer. Goldman Sachs is lead manager, with Chase Securities, Lufkin & Jenrette Securities Corporation, and Zurich Capital Markets Securities, Inc. as co-managers. (1998)

Allianz A.G. Holdings - Issued a $150 million catastrophe bond option to cover European catastrophe risks. The bond option gives Allianz the right to issue notes at a fixed rate any time over a three-year period to fund $150 million of reinsurance coverage through Gemini Re, a Cayman Islands special purpose reinsurer. The bond allows Allianz to hedge its future cost of reinsurance. If traditional reinsurance costs rise after windstorm losses, the company might find it more cost effective to exercise the option to issue notes. Goldman Sachs placed the notes. (1998)

Hanover Re - Secured commitments for $50 million in options for risk securitization of catastrophe losses. The option was placed with North American institutional investors and was amended to a November 1996 transaction. (1998)

XL Mid Ocean Re - Placed a $200 million retrocessional property catastrophe cover. The transaction covers the upper layers of XL Mid Ocean Re's hurricane and earthquake exposure in the U.S. and its territories and possessions in the Caribbean. The deal provides retrocessional cover in the form of a swap in which claims recovery is triggered by catastrophe losses incurred by XL Mid Ocean Re. (1998)

Horace Mann Educators Corporation - Agreement involving a $100 million transaction with Center Re. The transaction was managed by Aon Capital Markets. (1999)

Constitution Re - Transferred its East and Gulf Coast hurricane risk to Arrow Re. The risk was spread through a series of securitization and risk-transfer transactions. The transaction involved a $10 million risk transfer. Goldman Sachs, Swiss Re New Markets and E.W. Blanch Capital Markets served as advisors. (1999)

St. Paul - Completed a $45 million securitization transaction. The transaction provides additional capacity for a defined portfolio of U.S. property catastrophe excess-of-loss reinsurance contracts. Mosaic Re II issued the debt securities for the securitization. (1999)

Kemper - Acquired $100 million of earthquake coverage. The capital markets transaction funds a fully collateralized reinsurance agreement providing $100 million of Midwest earthquake coverage to the Kemper Insurance Companies. The transaction was managed by Aon Capital Markets. (1999)

Sorema - Issued a three-year $17 million deal to protect its European windstorm exposures and Japanese typhoon and earthquake risks. The bonds have an annually renegotiable interest rate and allow Sorema to adjust the size of the coverage and the premium to meet market conditions. Merrill Lynch and Aon Capital Markets arranged the transaction. (1999)

Oriental Land Company - The owner of Tokyo Disneyland, Oriental Land Company, placed two catastrophe bonds totaling $200 million to protect against earthquake risk. In the first bond, Concentric Ltd. would pay Oriental Land $100 million upon the occurrence of an earthquake that meets certain trigger conditions. The second bond provides Oriental Land with a $100 million post earthquake financing facility. Goldman Sachs and Company was the placement agent for both transactions. (1999)

USAA - Acquired $200 million in catastrophe reinsurance from Residential Reinsurance Limited. The proceeds of the sale of the bond were segregated into a trust to pay USAA's claims in excess of $1.0

billion arising from a category 3, 4, or 5 storm on the Saffir-Simpson index. The placement was co-managed by Goldman Sachs & Company, Lehman Brothers Holding and Merrill Lynch. (1999)

Gerling Global Re - has secured $80 million of cover in a three-year deal to protect the company against US hurricane losses of more than $200 million. The securitized retrocession is provided by a special purpose vehicle, Juno Re, based in the Cayman Islands. The deal was managed by Goldman Sachs. (1999)

Marsh & McLennan - has completed a $50 million insurance-linked swap transaction covering losses in six states around the New Madrid faultline. (1999)

Source: Reinsurance Association of America

Appendix C

NEW YORK STATE
INSURANCE DEPARTMENT
REGULATION 159
(11 NYCRR 74)

HOMEOWNER'S INSURANCE DISCLOSURE INFORMATION

I, Neil D. Levin, Superintendent of Insurance of the State of New York, pursuant to the authority granted by Sections 201, 301 and 3445 of the Insurance Law, do hereby promulgate the following new Part 74 of Title 11 of the Official Compilation of Codes, Rules and Regulations of the State of New York, (Regulation 159), to take effect upon publication in the State Register to apply to policies issued or renewed on or after January 1, 1999, to read as follows:

All matter is new.

Section 74.0 Introduction and purpose.

(a) Chapter 44 of the Laws of 1998 enacted a new Section 3445 of the Insurance Law, requiring the Superintendent to establish by regulation disclosure requirements with respect to the operation of any deductible in a homeowner's insurance policy or dwelling fire personal lines policy which applies as the result of a windstorm. Further, Section 3445 requires such regulation to prescribe the form of a notice to be provided by an insurer to an insured and provides that the notice shall explain in clear and plain language the amount of the deductible, the circumstances under which the deductible applies and any other matters which the Superintendent, in his or her discretion, shall deem necessary or appropriate.

(b) The purpose of this Part is to set standards for the uniform display of windstorm deductibles, which consist of hurricane and non-hurricane deductibles, in the policy declarations; and to provide the minimum provisions to be contained in the policyholder disclosure notice, which will explain the purpose and operation of the hurricane deductible, and must accompany new and renewal policies containing such deductibles.

Section 74.1 Policyholder disclosure.

(a) Every homeowner's and dwelling fire personal lines policy containing a hurricane deductible shall display the applicable percentage amount and corresponding dollar amount of the hurricane deductible in the policy declarations. The non-hurricane deductible, as well as any deductible applicable to all other covered perils, may be shown as a dollar amount only. The hurricane deductible provisions shall be shown in close proximity to the non-hurricane deductible provisions and shall be given equal or greater prominence as the non-hurricane deductible provisions applicable to the policy.

(b) Every homeowner's and dwelling fire personal lines policy containing a hurricane deductible shall be accompanied by a policyholder notice, to be filed with the Insurance Department, and which shall contain the following minimum information:

(1) a prominent announcement that the accompanying policy is subject to a hurricane deductible;

(2) a clear explanation that a hurricane deductible means the amount for which the policyholder is responsible in the event of a covered loss caused by a hurricane;

(3) a plain-language explanation of the coverage part or parts subject to the hurricane deductible and of whether the hurricane deductible applies separately to each coverage part or in the aggregate to total losses under all affected coverage parts;

(4) a statement that a clear display of the actual dollar amount as well as a description of the hurricane deductible as a percentage of the insured value can be found on the declarations page;

(5) generic examples of how sample deductible amounts would apply to some theoretical loss scenarios, including losses smaller than and greater than the deductible amount;

(6) a clear explanation of the event which shall trigger the hurricane deductible;

(7) a clear explanation of the time period during which the hurricane deductible will be triggered; and

(8) a clear explanation that, if a coverage part limit of liability or policy limit of liability is changed (for example, due to contractual inflation protection provisions, adjustments reflecting changes in replacement cost or a request by the insured), then the dollar amount of the deductible will be changed based on the amount of the new limit of liability.

(c) This policyholder notice shall accompany all new homeowner’s and dwelling fire personal lines policies subject to a hurricane deductible and first written to become effective on or after January 1, 1999; and all renewal homeowners and dwelling fire policies subject to a hurricane deductible renewed effective on or after January 1, 1999.

(d) This policyholder notice shall accompany all renewals of affected homeowner's and dwelling fire personal lines policies annually thereafter.

(e) At its option, an insurer may combine the flood insurance notice required by Section 3444 of the Insurance Law with the policyholder notice required by this subsection.

I, Neil D. Levin, Superintendent of Insurance of the State of New York, do hereby certify that the foregoing is 11 NYCRR 74 (Regulation 159), promulgated by me on March 5, 1999, pursuant to the authority granted by Sections 201, 301 and 3445, to take effect upon publication in the State Register for all policies issued on or after January 1, 1999.

Pursuant to the provisions of the State Administrative Procedure Act, prior notice of the proposed new part was published in the State Register on December 30, 1998. No other publication or prior notice is required by statute.

Neil D. Levin
Superintendent of Insurance

March 5, 1999

Appendix D

Sample Windstorm Deductible Brochure

It's Hurricane Season

At the start of this summer hurricane season, Travelers and your Travelers agent would like to remind you to review your Homeowners Policy with respect to the coverage and deductible that applies to loss from a hurricane. Your policy contains a special hurricane deductible provision which increases the deductible amount to either 3% or 5% of the amount of insurance on your home for loss caused by a windstorm declared by the National Weather Service to be a Category 1 or higher hurricane. The Important Notice regarding your hurricane deductible you received with your Homeowners Policy provides complete details of how the deductible provision works with illustrative examples.

If you have any questions after reviewing your policy and the Important Notice, please contact your agent.

You Can Help Reduce Your Potential For Damage From Windstorms

You can take certain precautions to reduce your potential for damage by windstorm to the interior and exterior of your home and other buildings. Here are a few things to consider:

1. Install storm shutters on all exterior openings such as windows, skylights and glass doors to prevent breakage. Shutters should be capable of withstanding hurricane force winds and windblown debris.
2. Have a qualified home inspector or engineer reevaluate and strengthen entry and garage doors to withstand wind and flood loads.
3. Have composition roof shingles checked and, if necessary, reinforced with additional nails or screws to more firmly secure them to the roof sheathing. When you replace your shingles, install a water-resistant membrane (tar paper or hot-mopped underlayment) under the new shingles. Inspect your roof and flashing every year and make repairs as needed.
4. Make sure double-entry doors can be secured at the top and bottom. If weak, install a reinforcing kit.
5. Inspect and renew caulking around windows and other openings as necessary.
6. Trim branches away from buildings and wires.

When A Storm Is Approaching:

1. Secure all storm shutters or protect glass windows and doors with plywood.
2. Store outdoor furniture and equipment indoors. Tie down anything that cannot be brought indoors such as sheds, swing sets and other large yard items.
3. Prepare for the possibility of a protracted power outage. Fill bathtub and water bottles. Make ice. Have a portable radio and flashlight handy, with fresh batteries for both.
4. If requested to evacuate by authorities, do so. Know your evacuation route and where you are going.

Travelers Property Casualty customers who have a claim should call 1-800-CLAIM33 to report the loss.

These simple tips can help you avoid property damage or personal injury. — *Your Friends at Travelers Property Casualty*

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