

“Letter of Security”

SPECIAL BULLETIN

Insurance to Value

To All Security Agents:

February, 2006

This is further to our January Letter of Security. An internal audit has concluded that too frequently Coverage A Limits have not been sufficiently increased to keep pace with rising construction costs. As such, we are asking for your cooperation with the following Insurance To Value (ITV) program:

Renewal Inflation Update Factors: Effective with our May, 2006 renewals we will be implementing a minimum 12% Coverage A limit increase on our 3 year term Homeowner and Landlord Package policies. This will apply to all Replacement Cost and Actual Cash Value policies except those for which agents are requesting a larger increase or policies with Inflation Guard Endorsements – ML-243 on Homeowners and FL-10 on Landlord Package policies.

Inflation Guard Forms ML-243 & FL-10: These endorsements automatically increase the Coverage A limit by a set percentage (1% - most common, 1.5%, 2% and higher by half point increments) every 90 days from inception for a nominal premium charge. Upon renewal, the Coverage A limit on the Dec page is increased to reflect the prior terms compounded increase and the quarterly limit increases resume. We are encouraging the use of these forms as a convenient way for the agency to provide the policyholder with some “imbedded” inflationary protection for rising construction costs. Note: all UltraSecurity Homeowners have the ML-243.

The existing book: Inadequate ITV on existing policies will most commonly be addressed on renewal (although, there will be some midterm communications as well). Underwriters will be assessing ITV adequacy and communicating with the agency regarding an increase greater than 12% for continued Replacement Cost coverage and/or conditionally renewing on an Actual Cash Value basis if the disparity between Replacement Cost and Market Value is considered so great as to create a moral hazard concern, i.e. there may be some situations where continuation of Replacement Cost coverage is not an acceptable option. It is our intent to communicate with the agency prior to policyholder receipt of any Conditional Renewal Notice.

Expiration Lists: We urge agencies to be proactive in addressing ITV issues by using the Expiration lists, sent well in advance of renewal, as a communication tool by returning them with Coverage A increase requests (subject to the 12% minimum) and/or requesting the addition of Inflation Guard endorsements.

As always, please contact Underwriting at 800.822.1232 or your Marketing Representative with any questions or concerns. Thank you in advance for your cooperation with this initiative.

Tom Randall
Director of Marketing