



Homeowners Catastrophe Insurance Trust

Questions and Answers – For Agents' Use Only

[This Q&A brochure is strictly intended for the use of agents who are active members of the Independent Agents Association.

The objectives of this document are as follows: (1) Illustrate the value of the Homeowners Catastrophe Insurance Trust (HCIT) as an exclusive benefit for members of the Independent Agents Association. (2) Provide basic information about forms and procedures used when issuing coverage through a discussion of underwriting and eligibility. (4) Seek to increase the value of HCIT to member agents through careful and selective growth.

Q What is the Homeowners Catastrophe Insurance Trust (HCIT) Program?

A The HCIT program began in 1975 and was started by the same people who founded Trustco, Inc. There has been a continual need to provide for catastrophe protection for certain losses not generally covered by the standard homeowner's policies. The most obvious coverage is earthquake, but there is also a need for other types of losses such as sudden landslides, floods, etc.

Q Why is HCIT a Benefit for members of the Independent Agents Association?

A During the development of the HCIT program, we found that very few domestic insurers were interested in catastrophe homeowners risk. However, by marketing HCIT as a product benefit through the "Big I" associations, Lloyd's underwriters were persuaded that member agents are highly professional and are motivated to underwrite at the source, thus ensuring stable underwriting results over a long term.

Q What is DIC coverage and what types of losses are covered under the HCIT program?

A HCIT coverage is patterned from Difference in Conditions (DIC) forms more commonly used in commercial lines. The actual language was originally written, and has been frequently updated, by Trustco, Inc. and is considered proprietary. The DIC contract, which accompanies each issued declarations, clearly explains the coverages.

We strongly urge you to read through the *Insured's Questions and Answers Brochure*, the *Application*, and of course, this *Agents' Only Q&A Form*. Then, give us a call and we will go over any remaining questions or concerns.

Q Who is the insurer and who pays the claims?

A The HCIT program is insured 100% through *Certain Underwriters at Lloyd's, London*. The HCIT program has been with Lloyd's since its beginning. During that time there have been many covered losses. There has never been a substantial delay in getting authorization to release funds in payment of a claim. In fact, Lloyd's is on record for never having failed to pay a legitimate loss in its over three hundred year history. Trustco, Inc. is the Administrator of the HCIT program. However, all funds available for the payment of claims are part of the Lloyd's reserve system.

Q HCIT is issued through Surplus Lines. How do I explain this to my client?

A The answer to this question may well prompt other questions. We are probably more comfortable explaining Surplus Lines to our commercial lines clients. However, it is very important that your client understand that they are not covered by an admitted carrier. While there is little worry that Lloyd's will ever be unable to pay claims under the HCIT program, the fact is there are real differences in the regulation of admitted and non-admitted insurers. You can sell your client on the integrity of Lloyd's, and the fact that Trustco, Inc. has successfully managed the program for forty years. You cannot, however, fail to point out that coverage is issued through Surplus Lines.

HCIT policies are underwritten before issuance and we do conduct reviews at renewal but typically coverage is automatically renewed. We are here to assist you and your clients in maintaining this important coverage by providing a streamlined renewal process. HCIT will generate renewal billings and will mail them directly to the certificate holder and/or the mortgage company. Once renewal is offered, certificates will be renewed and issued automatically as long as our office receives full payment of the premium prior to the effective date of the renewal certificate; **there is no grace period**. If payment is received after the renewal certificate is set to take effect, but within 30 days of the effective date of the renewal certificate, a certificate may be reissued with a lapse in coverage with underwriter approval. A new effective date will be assigned based on the date full payment is received in our office. If payment is received more than 30 days after the renewal certificates effective date, a new application will be required, and the same 10 day waiting period for new business will apply.

Q Where do I get the forms needed to submit a HCIT application, and where do I send them?

A We want to make it as easy as possible for you to submit business. You can register at www.hcitins.com and once your membership with your state association is verified you will receive a user name and password enabling you to download fillable PDF versions of the application as well as other documents you may need. You may also download them from your state association website. The forms can also be mailed or emailed to you directly by a HCIT team member. Please call and/or email Trustco, Inc. with any questions you may have. You can find our contact info at the end of this form.

Q What are the key forms used by the program and what is their purpose?

A There are really only four forms with which you will need to be familiar. These forms may change from time to time. The most current form numbers follow the format below.

Application (AP-ST--MMYY)

Insured's Questions and Answers Brochure (INS-MMY)

Difference in Conditions wording form (DIC-MMY)

Certificate or Declarations Page

The Application is self-contained and along with the insured's payment, is all you need for a submission. However, it is strongly urged that you go over the *Insured's Questions and Answers Brochure* with each client to help them fully understand the program, benefits, and limitations.

When coverage is issued, you will receive a declarations page and an accompanying DIC wording form. These forms are relatively straightforward, but you should spend a little time looking them over to see how the coverage works.

Q Can I bind coverage and provide evidence of coverage to the insured or mortgagee?

A Unfortunately agents do not have binding authority. You must NOT give the client or any lending institution any indication that coverage is in effect until the application requirements are met and a policy certificate has been issued. Trustco, Inc. cannot bind coverage by fax, email, or over the telephone.

Q When is coverage bound or effective and how does the waiting period work?

A The statement above the insured's signature on the application reads as:

PLEASE NOTE that your insurance will effective on the proposed date shown above OR ten (10) days from the date your application (with your premium payment) has been date stamped by the Administrator of the Program and accepted by the Underwriter, **WHICHEVER IS LATER.**

Q Are there any exceptions to the waiting period? What if the insured is closing a mortgage on their home?

A If the application is requesting coverage to meet the requirements of a new mortgage loan closing, the above waiting period may be reduced to 5 days.

Q What risks are eligible and acceptable?

A There may be quite a difference between "eligibility" and "acceptability". Generally, most homes that are acceptable for standard homeowner's coverage will be eligible. One to four family dwellings qualify, as well as homes held for rental of up to four family units. Condominiums or townhomes are **NOT** eligible.

There needs to be one owner of the dwelling of no more than four units to be eligible for HCIT.

Acceptability of risks is much more subtle. We depend on the professionalism of each independent agent to do most of the underwriting and selection at the source, helping to preserve the longevity of HCIT.

The simplest underwriting rule that we can offer is this: An acceptable application is one where there is no greater than nominal exposure to loss.

Q How are renewals billed?

A HCIT will bill for the renewal certificate approximately 53 days in advance of the effective date of the renewal certificate. HCIT will send the renewal invoice directly to the insured and/or a mortgage company listed. If payment is received prior to the renewal certificates effective date, it will be automatically issued and each copy will be mailed to you, the agent, to be reviewed and mailed to each appropriate party, i.e. insured's copy and mortgagee copy. If payment is not received by the due date, a final notice of no coverage will be mailed out to all parties (Client, Mortgage Company, and Agent). If payment is received after the effective date of the renewal certificate, the following conditions apply:

- 1) If the payment is received no more than 30 days after expiration, a new certificate will be underwritten and if accepted a new effective date will be given when payment was received. A new application will not be required.
- 2) When payments are received more than 30 days after expiration, the submission will be treated as new business, and a new application will be required in order to have coverage approved.

Q The insured's mortgagee says they cannot accept HCIT because the 5% deductible is too high. Can the deductible be lowered?

A HCIT has the ability to offer a 1% deductible (of the dwelling sum) for the peril of flood in cases where the mortgage company will not accept the usual single deductible of 5%. There is a 1% deductible application with the appropriate rate table for 1% deductible premiums. Keep in mind that there is a minimum deductible of \$1,000.00. Upon applying this 1% option, a deductible of 5% of the dwelling sum insured still applies to all other types of losses (i.e. earthquake and/or landslide).

Q What do I tell a bank if they refuse to accept HCIT on a home requiring flood coverage?

A In 2012 the Federal Government passed legislation regarding private flood insurance. This legislation requires lending institutions to accept private flood insurance that meets certain criteria. HCIT meets the six requirements to be NFIP equivalent to lending institutions.

Q My insured learns that they are not in a designated flood zone, can she cancel her HCIT coverage after it is written?

A The insured may request cancellation of their HCIT coverage, albeit, part of being NFIP equivalent as mentioned earlier, HCIT must have a letter from the mortgage company stating that flood insurance is no longer required. HCIT has an obligation to the mortgage company when the mortgage company has required the coverage be purchased. Once we are in possession of a letter, they will need to return the original certificate or complete the customary cancellation request. However, consider how you would respond to your client if they request their homeowner's policy be cancelled simply because they've paid off their mortgage. HCIT provides coverage regardless of whether the home has a mortgage, or is located in a flood zone. Neither policy should, nor will, permit backdating a cancellation under these circumstances.

Q My insured, or his bank, is asking for a Best's rating for Lloyd's of London. Where can I obtain this information?

A Fortunately, Lloyd's is now regularly rated by Best's, Moody's and other organizations. You'll notice that the ratings are highly favorable. We recommend that you call up Lloyd's home page on the internet and print the latest screens which describe their ratings and security. You can also go to www.lloyds.com and www.ambest.com. Remember, HCIT is insured 100% through Underwriters at Lloyd's. The HCIT program has been around for over 40 years. You can rest assured that you are offering your client a quality insurance product that is backed by *Certain Underwriters at Lloyd's, London* that has a reputation as an industry leader with over 300 years of financial strength behind it.

Q What are the payment options? Can the homeowner pay with a credit card?

A Each new HCIT application must be submitted with all the information completed, including the insured's signature, and the annual premium paid in full upon issuance and/or renewal. The insured's personal check is preferred. However, we will accept payment by VISA or MasterCard. (See the application for details.) As stated earlier, renewals will be billed directly to the mortgage company or the insured. The same payment options will be available as for new business. A credit card payment form will be included which can be emailed, faxed and/or mailed to the HCIT office.

Q What is the Blanket Limit Provision?

A This coverage is automatic, albeit you really should explain it to your client up front. At the time of a loss, the limits of coverage for the *Dwelling, Other Structures, Contents, and Extra Living Expenses*, are added together and may be used as a total sum

insured for the payment of any losses within these coverage groups. For example: A home insured with a dwelling limit of \$100,000 will actually have a total sum insured limit of \$140,000 at the time of a loss. The **Insured's Questions and Answer Brochure** will help you go over this coverage with your client.

**The Blanket Limit Provision does limit "other structures" to a maximum of \$100,000 and "Extra Living Expense" to a maximum of \$25,000. See the policy for specific wording.*

Q My insured does not want to buy full coverage equal to the replacement cost of their home. Can they apply for less?

A No. As professional agents, we already have the correct answers to this question. The HCIT program is modeled around a homeowner's policy. It makes complete sense to have the homeowner's policy and HCIT certificate carry the same dwelling limit, which in turn should be the best possible estimate of full replacement cost. Discuss this issue with your client(s) in the same way you do when you develop the appropriate coverage limit for the homeowner's policy.

Q How much commission do I earn writing HCIT coverage and how is it paid?

A In the strict sense, HCIT does not pay commissions. A modest handling fee is collected with the premium and is distributed between the member agent and the Independent Agents Association. These fees are paid quarterly. You will probably not become wealthy offering HCIT alone to your clients. If your sole motivation is commission, consider an aggressive campaign to market National Flood Policies and extend earthquake to the homeowner's policy for each client. However, if the HCIT program helps your agency retain your most valued clients because you are able to offer them broad catastrophe coverage generally unavailable elsewhere at the lowest possible premium, then we have fulfilled our mission.



These questions and answers are typical of those we are asked on a daily basis. We know you may have other questions as well, and as those questions arise, and we learn more about your needs and concerns, we will periodically revise this document to address the appropriate questions and/or concerns. Please call us with any questions or concerns you have. Our goal is to continue offering the Homeowners Catastrophe program through the Independent Agents Associations for another forty years.

The Administrator of the Homeowners Catastrophe Insurance Trust is:

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