

PALOMAR SPECIALTY INSURANCE COMPANY



Value Select Stand-Alone  
Residential Earthquake Program  
Underwriting Rules

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## 1. POLICY LIMITS

Up to \$15,000,000 Total Insured Value

## 2. DWELLING ELIGIBILITY

Binding and risk approval authority rests with the Insurance Company (Company) or their authorized representative. The Company reserves the right to decline coverage based on individual risk characteristics that represent unacceptable exposures. All dwellings must meet the following criteria in order to be eligible for coverage.

- Wood frame construction. Reinforced masonry, reinforced concrete and/or metal/steel frame
- Concrete slab, basement or solid perimeter foundation
- Residence types must be 1-4 family dwellings
- Property inspections may be conducted on behalf of Company to verify risk eligibility
- The following are ineligible:
  - Dwellings on Historical Register
  - Unreinforced masonry dwellings
  - Modular and Mobile homes

### **Seismic Retrofitting Discount Requirements**

Dwellings built prior to 1973 must meet the following requirements in order to qualify for retrofitting discount:

- a. The dwelling is properly anchor bolted to the foundation (see definition below); and
- b. Cripple walls if present (see definition below) are braced with plywood or its equivalent; and
- c. The hot water heater is secured to the building frame; and

Written verification of retrofitting addressing the above three is required for discount. Written verification includes a letter or completed work receipt from a licensed building contractor or inspection from a qualified structural engineer or retrofitting inspection service.

Foundation Bolting – Steel anchor bolts must connect the sill plate (the wood board that lays directly on top of the foundation) to the foundation. Bolts should be placed four to six feet apart.

How to identify if the dwelling is bolted to the foundation. In houses with a crawl space, the presence of bolts can be verified by looking underneath the house. In slab on grade foundation, an unfinished room such as a garage is the best place to verify the presence of bolts.

Cripple wall definition – Cripple walls (sometimes referred to as crawl space walls) are short, wood perimeter walls used to elevate the house above ground to allow access to the construction and utility lines or to level a dwelling built on a slope. The height of the cripple wall generally ranges from 14 inches to 4 feet. The interior or exterior faces of cripple walls should be sheathed with plywood. Many newer homes utilize concrete perimeter walls to elevate or level the home. These are not cripple walls. A dwelling built on a flat concrete slab without a crawl space beneath it will not have cripple walls.

How to identify if cripple walls have been braced – The presence of cripple walls can be confirmed by looking around the perimeter of the crawl space. If wood studs are visible then the cripple walls have not been braced. Braced cripple walls will be completely covered with plywood.

**3. CONDOMINIUM BUILDING ELIGIBITLY**

- Wood frame construction. Reinforced masonry, reinforced concrete and/or metal/steel frame. Unreinforced masonry buildings are ineligible for coverage.
- Year of Construction, Foundation & Parking

Year of Construction	Foundation & Parking
1985 to Present	Buildings with slab on grade foundation and/or reinforced concrete subterranean, first floor or “tuck under” parking are eligible.
Prior to 1985	Buildings with “tuck under” parking are ineligible.

- Stilts & pilings are subject to Palomar underwriter approval.

**4. PRIOR STRUCTURAL AND EARTHQUAKE DAMAGE**

All prior structural and earthquake damage must be repaired before the risk will be eligible for coverage. A breakdown of prior damage (amount of loss to the dwelling, other structures, contents, etc.) and proof of repair by a licensed contractor may be required by the Company.

**5. POLICY TERM**

The inception of the earthquake policy will be at 12:01a.m, local time, at insured location. Policies will be written for a maximum 12-month term only.

**6. COMPANION PROPERTY/OTHER INSURANCE REQUIREMENT**

The Company earthquake policies may be written only in conjunction with a homeowners or standard dwelling fire policy issued by an insurance company and approved by the insurance regulatory agency for the state in which the risk resides. The insured must maintain a Homeowners, Condominium Unit Owners or Dwelling Fire or their equivalents to be eligible for coverage.

**7. COVERAGE AMOUNT**

It is recommended that the Coverage A (for dwelling owners) limit of the insured’s homeowners or dwelling fire policy is equal to the Coverage A limit of the Earthquake policy. Lower or higher limits may be purchased with consideration to the risk tolerance and needs of the insured including potential increases in construction costs after a catastrophic event (commonly referred to as demand surge).

The limit of insurance may be automatically adjusted on the renewal date of policy based on general inflation provision or other replacement cost factors for the insured dwelling. It is the responsibility of the producer and insured to ensure that adequate coverage limits are requested and maintained.

## 8. APPLICATION AND BINDING PROCEDURES

A Company earthquake application must be fully completed. No coverage will be bound unless all of the underwriting rules are followed when submitted to the Company and fully satisfied and approved by the Company.

## 9. CATASTROPHE MANAGEMENT

### A. MORATORIUM

When a major earthquake occurs, the Company (or its representative) may impose a moratorium on new business and additional coverages on existing business in the affected area as determined by the Company:

- Moratoriums may be imposed when an earthquake reading 5.0 or greater on the Richter Scale occurs.
- Moratoriums will apply on the day of the earthquake and for at least the 60-day period following the earthquake unless lifted earlier by the Company.
- An aftershock reading 5.0 or greater on the Richter Scale will be considered a new earthquake, and will result in a new moratorium period.
- Renewals are not affected by these restrictions

Moratoriums will remain in effect until lifted by the Company.

### B. MISCELLANEOUS RESTRICTIONS

The Company, as part of its Catastrophe Management Program, may also establish (at its discretion) temporary and/or permanent restrictions on new business to properly control and maintain appropriate geographic concentration levels, or to address reinsurance issues that cover this program.

Restrictions can include reducing availability of lower deductibles and/or enhanced coverage.

## 10. POLICY FEES AND INSPECTIONS

A policy fee of \$35 per policy is applicable to new and renewal policies for Dwellings with Coverage A limits of \$2.5 million and under. A \$150 policy fee applies to new and renewal policies with Coverage A limits from \$2.5 million to \$5.0 million. A \$300 policy fee applies to new and renewal policies with Coverage A limits great than \$5.0 million. Policy fees are fully earned and non-refundable. Risks may be inspected by a third-party vendor after coverage is bound.

## 11. POLICY BILLING

Billing is direct bill only. Policies and invoices are delivered and made available directly to the insured and copies to the producer.

Installment plans are available. A premium invoice will be mailed directly to the insured prior to each installment due date. A \$5 service fee is added to all installments, but not the initial down payment.

**12. COVERAGES**

- A. Earthquake coverage is available for the Dwelling, Other Structures, Personal Property, Loss of Use and other coverages. For Dwelling policies, Coverage A - Dwelling coverage must be purchased in order to obtain coverage for Other Structures, Personal Property, Loss of Use and other coverages. For a complete description, please refer to the policy.

## Earthquake Policy Coverage Summary

Coverage Type	Value Select Dwelling Policy	Value Select Condominium Unit Policy
<b>A – Dwelling</b>	Damage to the dwelling structure covered up to the Coverage A limit. Includes sublimits and exclusions for some types of property.	Damage to building property including additions & alterations within the Condominium unit covered up to the Coverage A limit. Includes sublimits and exclusions for some types of property.
<b>B – Other Structures</b>	Damage to appurtenant structures (not attached to the dwelling) covered up to the Coverage B limit. Includes sublimits and exclusions for some types of property.	Not applicable
<b>C – Personal Property</b>	Damage to personal property covered up to the Coverage C limit. Includes sublimits and exclusions for some types of property.	Damage to personal property covered up to the Coverage C limit. Includes sublimits and exclusions for some types of property.
<b>D – Loss of Use</b>	Loss of Use coverage provided up to the Coverage D limit.	Loss of Use coverage provided up to the Coverage D limit.
<b>F – Loss Assessment</b>	Includes \$10,000 coverage for loss assessments from association of property owners. Optional additional limits up to a maximum of \$100,000 available for an additional premium.	Includes \$5,000 coverage for loss assessments from association of property owners. Optional additional limits up to a maximum of \$100,000 available for an additional premium.
<b>Deductibles</b>	Deductibles of 2.5%, 5%, 7.5%, 10%, 12.5%, 15%, 20% and 25% are available. Deductibles apply separately to the Coverage A, B, C, D, & F limits. Deductible is waived for the first \$1,500 of Coverage D losses. For Partial Dwelling Coverage policies, the Dwelling Coverage A deductible applies to the “companion policy dwelling limit of insurance”.	Deductibles of 2.5%, 5%, 7.5%, 10%, 12.5%, 15%, 20% and 25% are available. Deductibles apply separately to the Coverage A, C & D limits. Deductible is waived for the first \$1,500 of Coverage D losses.

**13. LOSSES INSURED**

Damage to insured Dwelling (Coverage A), Other Structures (Coverage B), and Personal Property (Coverage C) is insured against direct physical loss caused by earthquake, with certain conditions and exclusions.

**14. LOSS SETTLEMENT**

The Dwelling, Other Structures and Personal Property insured under Coverages A, B and C are settled on a limited replacement cost basis. (Please refer to the policy for a complete description of the coverage).

**15. UNACCEPTABLE RISKS**

The INSURANCE COMPANY will not accept the following risks:

1. Any risk that does not meet all eligibility requirements outlined in Section 2 (Eligibility) of this manual.
2. Any premises not used for residential purposes.

**16. CHANGES ON POLICY**

Limits may be increased or decreased (subject to minimum eligibility requirements) during the term of the policy. Additional or return premium shall be computed on a pro rata basis. Amount of \$5.00 or less shall be waived.

**17. CANCELLATION OF INSURANCE**

Policies may be canceled at the request of the insured at any time. The return premium shall be 100% of the pro rata unearned premium, less the fully-earned fees. No flat cancellations are permitted if coverage has been provided.

**18. ASSIGNMENT**

Assignment of this policy will not be valid without our written consent. You may, without our consent, assign to any person, all or part of a claim after an earthquake loss.



**19. CONSTRUCTION CLASSIFICATIONS**

The following construction classifications apply to this program:

A. Wood Frame / Light Metal

A dwelling with exterior walls of combustible construction (including walls with metal, stucco or metal lath and plaster on combustible supports), with less than 1/3 exterior masonry veneer, is classified as frame.

B. Reinforced Masonry

Dwellings having load bearing exterior walls of reinforced concrete and/or reinforced hollow concrete block masonry and roofs and supported floors of wood or metal assemblies.

C. Masonry Veneer

Dwellings constructed of wood frame/light metal with more than 1/3 exterior masonry veneer. Exterior masonry veneer is defined as non-supporting brick, stone, or other masonry, except stucco, fastened to a wall of different material.

D. Metal / Steel Frame

The framing of the dwelling is constructed with metal/steel. Most metal homes are constructed on a slab foundation and have conventional features such as vinyl siding, sheet rock and paint on the inside walls.

E. Unreinforced Masonry

A building constructed of masonry, such as bricks, adobe, Compressed Earth Blocks ("CEBs"), etc. with no reinforcement. Please note that dwellings constructed of unreinforced masonry are unacceptable for this program.

F. Modular Home

A modular home is constructed of pre-made parts and unit modules. Unlike site-built dwellings, modular homes are placed on a pre-made foundation, and assembled into a single residential building at their site of use. Please note that modular dwellings are unacceptable for this program

G. Mobile Home

Mobile homes (also known as manufactured homes) are prefabricated homes built in factories, rather than on site, and then taken to the place where they will be occupied. They are built according to the federal HUD building code. This requires all mobile homes to be built on a non-removable steel chassis, wheels and tow- hitches. Please note that mobile homes are unacceptable for this program.

**20. PARTIAL COVERAGE A – DWELLING LIMITS FACTORS**

Coverage A - Dwelling Insurance to Replacement Value Percent of Total Dwelling Replacement Value	Percent of Premium Factors
100%+	1.00
50%	0.70
25%	0.50

**21. CONSTRUCTION FACTORS & DISCOUNTS**

**A. Year and Type of Construction**

Construction Type	Year of Construction				
	Pre-1937	1937-1972	1973-1988	1989-2000	Post 2000
Wood Frame / Metal Frame	1.75	1.30	1.00	1.00	0.95
Reinforced Masonry	2.50	2.00	1.60	1.40	1.25
Masonry Veneer	2.00	1.55	1.25	1.10	1.00

**B. Retrofitting – Applies to Dwellings built prior to 1973**

Category	Hazard Reduction Factors
Bolted to Foundation	0.85
- AND -	
Braced Cripple Walls or No Cripple Walls	

**22. NUMBER OF LEVELS**

Number of Levels	Factors
1	0.90
2	1.00
3+	1.15

**23. DEDUCTIBLE FACTORS**

Deductible	Per Coverage Option Factor
2.5%	1.60
5.0%	1.35
7.5%	1.15
10.0%	1.00
12.5%	0.85
15.0%	0.75
20.0%	0.60
25.0%	0.50

**24. LOSS ASSESSMENT COVERAGE**

The Value Select Earthquake policy (VSHO 02-17) includes \$10,000 of coverage and the Value Select Condominium Unit Owners (VSCON 02-17) Earthquake policy includes \$5,000 of coverage for loss assessment charged by a corporation or association of property owners or condominium association because of a “covered event” during the policy period. Additional limits up to a maximum of \$100,000 can be purchased for an additional premium. Refer to the premiums for Loss Assessment Coverage in the Territory and Base Rate Tables.

**25. SHARED LOSS SETTLEMENT OPTION**

An optional shared loss settlement provision is available for a premium discount. If this option is selected, losses to the Dwelling and Appurtenant Structures from a “covered event” are shared in the selected proportion between the Company and “insured” after the application of the deductible and up to the Coverage A – Dwelling and Coverage B – Appurtenant Structures limits stated in the Declarations. Refer to the exhibit below for the shared loss proportional amounts and associated discount factors.

Coverage Type & Percentage Limit	Shared Loss Proportions & Factors		
	Company Percentage of Losses After Deductible	Insured Percentage of Losses After Deductible	Shared Loss Premium Factor
<b>Coverage A - Dwelling</b>			
Dwelling - 75% Shared Limit	75%	25%	0.75
Dwelling - 50% Shared Limit	50%	50%	0.50
Dwelling - 25% Shared Limit	25%	75%	0.25
<b>Coverage B – Appurtenant Structures</b>			
Appurtenant Structures – 75% Shared Limit	75%	25%	0.75
Appurtenant Structures – 50% Shared Limit	50%	50%	0.50
Appurtenant Structures – 25% Shared Limit	25%	75%	0.25

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Value Select Dwelling Rate Calculation Worksheet

	A	B	C	D
Coverage Type	Requested Coverage Limit	Requested Coverage/1,000	Territory Base Rate (from Program Manual)	Territory Base Premium
1 Coverage A - Dwelling		\$ -		\$ -
A. Partial Limit Premium (if applicable) (D1 x B.7.A.)				\$ -
B. Shared Loss Limit Premium (if applicable) (D1 x B8)				\$ -
2 Coverage B - Other Structures		\$ -		\$ -
A. Shared Loss Limit Premium (if applicable)				\$ -
3 Coverage C - Personal Property		\$ -		\$ -
4 Coverage D - Loss of Use		\$ -		\$ -
5 Coverage F - Loss Assessment (Increased Limits)		\$ -		\$ -
6 Total Base Premium (Sum of D1 or D1.A. or D1.B. + D2 or D2A + D3 + D4 + D5)				\$ -
		Factors/Credits (from Program Manual)		
Base Premium Adjustments	Risk Profile			
7 Companion HO/DF Dwelling - Cov. A Limit				
A. Partial Limits % & Factor (from table 20 if applicable)				
8 Shared Loss % & Factor (from table 27 if applicable)				
9 Year and Type of Construction (Table 21.A.)				
10 Retrofitting (Table 21.A. if applicable)				
11 Number of Levels & Factor (Table 22)				
12 Deductible Amount & Factor (Table 23)				
13 Total Factors/Discounts (Sum of B9 through B12)		0		
14 Total Policy Premium Credit (B13 x D6)				\$ -
15 Total Policy Premium (D6 - D14)				\$ -
16 Policy Fee				\$ 35.00
<b>Total Premium &amp; Fees (D15 + D16)</b>				<b>\$ 35.00</b>

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Value Select Condominium Rate Calculation Worksheet

	A	B	C	D
Coverage Type	Requested Coverage Limit	Requested Coverage/1,000	Territory Base Rate (from Program Manual)	Territory Premium
1 Coverage A - Building Property		\$ -		\$ -
2 Coverage C - Personal Property		\$ -		\$ -
3 Coverage D - Loss of Use		\$ -		\$ -
4 Coverage F - Loss Assessment (Increased Limits)		\$ -		\$ -
5 Total Base Premium (Sum of D1 through D4)				\$ -
		Factors/Credits (from Program Manual)		
Base Premium Adjustments	Risk Profile			
6 Deductible				
7 Total Factors/Discounts (B6)		0		
8 Total Policy Premium Credit (B7 x D5)				\$ -
9 Total Policy Premium (D5 - D8)				\$ -
10 Policy Fee				\$ 35.00
<b>Total Premium &amp; Fees (D9 + D10)</b>				<b>\$ 35.00</b>