

INSURANCE
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE

Homeowners' Insurance: Standard Hurricane Deductibles and Expedited Process for Homeowners' Insurance Rate Changes

Adopted New Rules: N.J.A.C. 11:2-42

Proposed: March 3, 2003 at 35 N.J.R. 1189(a)

Adopted: October 20, 2003 by Holly C. Bakke, Commissioner, Department of Banking and Insurance

Filed: October 20, 2003 as R. 2003 d.450 with substantive and technical changes not requiring additional public notice and comment (see N.J.A.C. 1:30-6.3).

Authority: N.J.S.A. 17:1-8.1, 17:1-15e and 17:36-5.33 to 5.37

Effective Date: November 17, 2003

Expiration Date: November 30, 2005

Summary of Public Comments and Agency Responses:

The Department of Banking and Insurance (Department) timely received comments from the following:

1. The National Association of Independent Insurers;
2. The Professional Insurance Agents of New Jersey;
3. B. Sashaw;
4. MSO, Inc.;
5. The Independent Insurance Agents of New Jersey;
6. The New Jersey Association of Mutual Insurance Companies;
7. State Farm Fire and Casualty Company;
8. Allstate New Jersey Insurance Company;

9. Walter R. Bliss, Jr., Esq., on behalf of the Alliance of American Insurers;
10. The American Insurance Association;
11. Fireman's Fund Insurance Companies;
12. The Insurance Council of New Jersey; and
13. New Jersey Manufacturers Insurance Group.

COMMENT: Several commenters expressed concern with the filing requirements regarding expedited rate filings under the rules. The commenters believed that the filing requirements were complex, dictate how insurers are to compute loss development factors and do not allow for actuarial judgment. Several commenters believed that this would discourage insurers from utilizing the process. As one example, one commenter cited N.J.A.C. 11:2-42.4(d)2, which sets forth the method for calculating loss development factors. The commenter believed that this will deny insurers the ability to apply actuarial judgment. The commenter stated that this type of flexibility serves to increase homeowner insurance capacity and provides new insurers stability in managing early losses.

RESPONSE: The requirements in the subchapter implement N.J.S.A. 17:36-5.35, which permit insurers transacting homeowners' insurance to obtain a decision on a rate filing from the Commissioner of Banking and Insurance (Commissioner) within a relatively short period of time. The statute expressly permits the Commissioner to establish by rule the documentation that shall accompany the filing. Consistent with the statute, and in order to enable the Commissioner to determine whether the proposed rate increase shall produce rates that are not excessive, inadequate for the safety and the soundness of the insurer, or are unfairly

discriminatory, the Department believes that it is reasonable and appropriate to provide for a uniform methodology for the filing of rate changes under the expedited rate filing procedures set forth in N.J.S.A. 17:36-5.35. The Department notes that this is consistent with the standard methodology established in N.J.A.C. 11:3-16B for rate changes for private passenger automobile insurance under N.J.S.A. 17:29A-46.6 and 46.7 with respect to certain limited rate changes. The Department notes that filers may utilize an alternative methodology for filing rates, except that such filings would not be reviewed pursuant to this rule or within the timeframe set forth therein, but would be reviewed in accordance with N.J.S.A. 17:29A-1 et seq.

The Department is, however, revising N.J.A.C. 11:2-42.4(d)2 to refer to loss development factors by form rather than by coverage to reflect proper terminology as a matter of form.

COMMENT: One commenter stated that the rules should allow the expense component of the calculation to include reinsurance premiums when insurers elect to reinsure against catastrophic losses.

RESPONSE: Reinsurance expenses may be included in the calculation of the catastrophe load as set forth in N.J.A.C. 11:2-42.4(d)7. This rule permits a load for catastrophic loss to be included, which would include any expenses for reinsurance.

COMMENT: Several commenters expressed concern with N.J.A.C. 11:2-42.4(d)4, which provides that loss trend factors shall be based on either annual selections from the latest

approved Insurance Services Office (ISO) filing in New Jersey or the latest New Jersey Fast Track Data.

One commenter questioned whether ISO information would be available to non-ISO companies. Another commenter stated that if such information will not be made available, the company must use Fast Track Data in order to utilize the expedited process, which the commenter believed may not reflect the insurer's own experience.

Another commenter expressly stated that the several areas of the rules that require insurers either to utilize ISO territories, calculations or data, or use their own specific equivalents, would not allow insurers to use other rating organizations. This commenter suggested that the rules recognize rating organizations other than ISO, and that references to ISO in the rules should be changed to "the company's rating organization." The commenter stated the references to ISO appear in the following provisions: N.J.A.C. 11:2-42.3(b)7; 42.4(c)3 and 4; 42.4(d)3, 4, 6, and 8; and 42.4(e). Other commenters expressed similar concerns.

Another commenter stated that the rule appears to require insurers to use multi-insurer group aggregated loss trend factors insofar as the ISO filing will reflect the past trends of all ISO companies together and the New Jersey Fast Track trend factors reflect the aggregated trends of all ISO or all NAII reporting insurers. The commenter stated that loss trend factors vary by company because it may be growing or not growing, or the insurer may have market concentrations in areas of the State that have different trends than other areas. The commenter believed that company-specific loss trend data should be permitted, and insurers should be permitted to put their own experience into the 12-quarter rolling average for trending. In order to address this issue, the commenter suggested that N.J.A.C. 11:2-42.4(d)4 be amended to read: "Loss trend factors shall be based on either annual selections from the latest approved ISO filing

in New Jersey, [or] the latest NJ Fast Track data or the filer's own data for the last 12 quarters, separately for severity and frequency by form.” (underlined language is to be added, bracketed language is to be deleted.)

Another commenter stated that the rule would limit an insurer's ability to react to changes in the market. The commenter cited the issue of mold in Texas as an example of how trends can “sky rocket” in a short period of time. The commenter believed a three-year rolling average would be unresponsive.

Another commenter stated that the use of Fast Track trend factors may be inappropriate for calculating loss trend factors for non-ISO companies because it is unedited and unaudited. The commenter stated that, unlike ISO statistical data, Fast Track data is not subject to quality review and therefore may be inaccurate.

RESPONSE: The Department believes that use of ISO data is appropriate. The Department notes that filings approved by the Department are public and that the trends used in the latest approved ISO filing would be available for inspection by all interested parties. The Department believes that it is appropriate to utilize ISO data as opposed to other rating organization data insofar as ISO data reflects the experience of the largest share of insurers writing homeowners' insurance in this State. This approach is also consistent with procedures for limited rate changes made for private passenger automobile insurance under N.J.A.C. 11:3-16B.

The Department also does not believe that the use of Fast Track data is inappropriate for non-ISO companies. This data historically has been used in similar contexts and has not posed any problems. However, in an effort to address the commenter's concerns, the Department

agrees that the rules should be modified to permit insurers to use their own internal trend data. Accordingly, N.J.A.C. 11:2-42.4(d)4 has been revised upon adoption to reflect this change.

The Department believes, however, that use of the 12--quarter (three year) rolling average is appropriate and should be sufficient to reflect changes in the market. The Department also notes that this is consistent with the methodology for limited rate changes for private passenger automobile insurance under N.J.A.C. 11:3-16B.

COMMENT: Several commenters objected to the provision in N.J.A.C. 11:2-42.4(d)10, which provides that the total load for wind and water, catastrophe and hurricane losses, shall not exceed 20 percent. The commenters believed that this may not be reasonable in all circumstances. One commenter specifically stated that for any insurer that has developed a combined load of greater than 20 percent based on its own data, the cap is arbitrary and requires the insurer's loss exposure to be understated.

Another commenter specifically stated that establishing a catastrophe load could adversely affect insurers that write a relatively large portion of coastal exposures. The commenter believed that in order to accomplish the objective of encouraging insurers to underwrite homes with coastal exposures, insurers should be permitted to include a catastrophe load in their rates that actuarially reflects the true risk characteristics of a property.

RESPONSE: Upon review of the commenter's concerns, the Department has determined that no change is required. The Department believes that the 20 percent load is reasonable for filings made pursuant to this rule to ensure that rates produced will not be excessive, inadequate for the safety and soundness of the insurer, or unfairly discriminatory. The Department notes that filers

that believe a different load should be utilized may do so by making a filing for a rate change pursuant to N.J.S.A. 17:29A-1 et seq.

COMMENT: Several commenters stated that N.J.A.C. 11:42.4(h), which requires a full credibility standard of 240,000 earned exposures over five years, may not be the standard for all companies. One commenter expressed similar concern with respect to the requirement in N.J.A.C. 11:2-42.4(i), which establishes the complement of credibility that is to be assigned to the annual selected loss ratio trend.

With respect to N.J.A.C. 11:2-42.4(h), one commenter noted that, under the rule, the minimum credibility assigned to any form may be 50 percent. The commenter stated that it is not clear whether this means that if there is partial credibility and the partial credibility is less than 50 percent, the filer should use 50 percent credibility or zero percent credibility. The commenter stated that insurers should be permitted to use whatever partial credibility they have in that percentage, not higher or lower, with the complement being all other forms combined. The commenter believed that, in this manner, the form's own experience receives all the consideration for which it is credible. The commenter thus believed that the last sentence of N.J.A.C. 11:2-42.2(h) should be deleted.

Another commenter noted that, in general, an insurer may find that a credibility factor greater or lesser than 240,000 exposures and for a period greater or less than five years is more reasonable under certain circumstances. The commenter believed that the rules fail to provide the necessary flexibility for actuaries to determine and use their actuarial judgment about the calculation for the loss development costs portion of an expedited filing. This commenter also expressed similar concerns with respect to subsection (i).

Another commenter specifically stated that the credibility standard appears very high and believed that actuarially, 3,163 claims are needed to have 99.5 percent confidence that the calculated value is within five percent of true value. In support of this assertion, the commenter cited Longley Cook's 1962 PCAS paper. The commenter believed that this can be translated into an exposure standard using countrywide claim frequency figures excluding catastrophic claims. The commenter stated that the average countrywide industry Fast Track frequency from 1998 to 2002, excluding catastrophic claims, is 6.4 claims per 100 house-years. Accordingly, the commenter believed that a full credibility standard of 50,000 earned exposures would be sufficient.

Another commenter stated that smaller insurers will have difficulty achieving the required credibility standard and it should be lessened to allow for inclusion of their loss experience.

RESPONSE: Upon review, the Department has determined not to change this provision. The Department believes that the credibility standard of 240,000 exposures is reasonable and notes it is based on the ISO standard. Accordingly, this credibility standard reflects the filings for insurers that write the majority of homeowners' insurance risks in New Jersey. As noted in a response to a previous comment, the rules set forth a uniform methodology for the evaluation of rates reviewed under the expedited process set forth in N.J.S.A. 17:36-5.35. The same is true with respect to the standards for utilizing the complement of credibility as set forth in N.J.A.C. 11:2-42.4(i). While different standards could be cited, the Department believes that in developing the uniform methodology to be utilized in determining whether rates are excessive, inadequate for the safety and soundness of the insurer, or unfairly discriminatory, within the

timeframes prescribed under N.J.S.A. 17:36-5.35, the methodology utilized is reasonable and appropriate. Further, the credibility standard of 240,000 earned exposures over five years, and the complement of credibility standards, are reasonable and appropriate and reflect the standards utilized by ISO.

With respect to the concerns expressed regarding N.J.A.C. 11:2-42.4(h), the Department is unclear as to what problems the rule imposes. Under the rule, the minimum credibility assigned to any form may be 50 percent. Accordingly, if the determination of credibility using the square root rule is less than 50 percent, filers may give weight and assume a minimum of 50 percent. Insurers will use the form's own experience and will receive all the consideration for which it is credible. The Department does not believe that the complement of credibility should be all other forms combined. The complement is assigned by form because to do otherwise would result in filers using data which is not credible and using forms to which the rates may not apply.

The Department also notes that insurers that file for limited changes in their private passenger automobile insurance rates do so under N.J.A.C. 11:3-16B, which also sets forth a minimum credibility standard to be utilized with respect to such filings.

COMMENT: Several commenters specifically supported the proposed rules, including the standard policy language for hurricane deductibles. One commenter, while supporting the rules, noted that there is still work to be done to solve New Jersey's coastal availability problem, but that the statute and rules are a good first step in achieving these goals.

RESPONSE: The Department appreciates the support of its proposal. The Department will continue to monitor the situation and consider suggestions from interested parties in evaluating whether additional action needs to be taken to address this issue.

COMMENT: One commenter objected to the proposal on the grounds that there should not be an expedited rate filing process to benefit insurers. The commenter believed that there should always be a full process to monitor insurers' rate filing practices. The commenter also opposed "special hurricane rates." The commenter stated that a hurricane is a natural event and should be covered under "regular rates."

RESPONSE: The commenter apparently has misconstrued the purpose and operation of these rules. The rules implement N.J.S.A. 17:36-5.33 to 5.37, which provide for the establishment of: uniform policy language regarding the application of hurricane deductibles under homeowners' insurance policies; the form of notice to be provided to policyholders regarding an insurer's hurricane deductible program(s); and an expedited rate filing process for homeowner's insurance, which is designed to attract insurers to the New Jersey homeowners' insurance market. With respect to the rate filing process, the rules provide for an expedited filing process and review times when an insurer seeks to alter its rates overall by no more than five percent. Pursuant to N.J.A.C. 11:2-42.6(a), the Commissioner must still find that the expedited rate filing will not produce rates that are excessive, inadequate for the safety and soundness of the insurer, or unfairly discriminatory between risks in this State involving substantially the same hazards and expense elements, in order to approve the filing.

Moreover, the rules do not address specifically rates to cover hurricane risks. Rather, the rules, pursuant to statute, provide uniform policy language for hurricane deductible program(s) to be utilized by insurers.

COMMENT: One commenter expressed concern with N.J.A.C. 11:2-42.4(d)5, which requires that unallocated loss adjustment expense (ULAE) be based on countrywide expenses rather than New Jersey-specific expenses. The commenter stated that the costs of operating in a given state may vary, including ULAE. Some insurers may be able to segregate some or most of their ULAE by state because they have claims offices and regional claims administration for New Jersey. The commenter believed that an insurer should be permitted to use New Jersey-specific ULAE to the extent available because it is more accurate. The commenter believed that the rule should be amended to read: “Adjusting and other claims related expenses (ULAE) shall be determined as a ratio of incurred ULAE to incurred loss plus incurred ALAE from the latest three-year average based on either Part 3 of the Countrywide Insurance Expense Exhibit (IEE) in the insurer’s annual statement filed with the Department or the filer’s own New Jersey ULAE expenses to the extent New Jersey-specific ULAE expenses are available and using Countrywide data for the balance for the ULAE expenses;” (underlined language was suggested to be added).

RESPONSE: Upon review, the Department has determined not to change this provision. The Department believes that using ULAE data as reported on the insurer’s annual statement is appropriate to enable the Department to determine whether the proposed rate change will not result in rates that are excessive, inadequate for the safety and soundness of the insurer, or unfairly discriminatory, within the timeframes prescribed by statute. As set forth in responses to

previous comments, the Department believes that it is appropriate to establish a uniform methodology for expedited rate filings under the timeframes required by the statute. The Department notes that it would be unable to verify independently New Jersey-specific ULAE data insofar as it is not reported. The Department also notes that this approach is consistent with N.J.A.C. 11:3-16B, governing limited rate changes by private passenger automobile insurers, which does not permit State-specific ULAE to be utilized in determining rates.

COMMENT: Several commenters expressed concern with N.J.A.C. 11:2-42.4(d)8, which permits a hurricane load either on the basis of 20 years of data or the latest filed and approved ISO hurricane load. One commenter stated that hurricanes strike New Jersey very infrequently, but its population density and the nearness of a large part of its population to the Atlantic Ocean, Delaware Bay and Raritan Bay means that a direct hit by a hurricane on New Jersey would cause great damage. The commenter believed that few, if any, insurers would have internal data that will accurately reflect the hurricane risk for New Jersey and believed that insurers should be able to use hurricane modeling to assess the proper hurricane load factor. The commenter suggested that the first sentence of N.J.A.C. 11:2-42.4(d)8 should be amended to read: “Filers may exclude hurricane losses and include a load based [either] on at least 20 years of internal data, a hurricane load based on a hurricane catastrophe model (with the filing citing which model is used), or the hurricane load calculated by ISO and included in its latest approved filing in New Jersey.” (underlined language was suggested to be added, bracketed language to be deleted.)

One commenter cited similar concerns with respect to N.J.A.C. 11:2-42.4(d)6 through 9. The commenter stated that if catastrophe losses are excluded, the load must be based on at least 20 years of internal data. The commenter believed that this method may be inaccurate if an

insurer has redefined its definition of “catastrophe” during the 20-year period. Moreover, with respect to the comment on hurricane loads set forth above, the commenter stated the carriers would not be permitted to utilize a varying hurricane load to indications by territory. The commenter stated that to the extent inland territories can be expected to have less hurricane exposure than coastal territories, this prohibition contemplates subsidization of the latter by the former. The commenter also believed that this raised the question of internal consistency within the rules. The commenter believed that ISO varies the hurricane load by territory. The commenter thus stated that prohibiting variability in hurricane load across territories by individual filers appears to be inconsistent with permitting these filers to use the applicable hurricane load. Another commenter expressed similar concerns and suggested that the last sentence prohibiting the varying of hurricane load by territory be deleted.

Another commenter similarly stated that prohibiting application of a varying hurricane load to the indications by territory is inconsistent with past Department practice. The commenter stated that for at least the past five years, the Department has approved ISO homeowners filings which utilize a hurricane model that varies by territory. Although the Department states in the approval letter that “approval of this filing does not constitute approval of the hurricane mode,” filings have been approved without any amendments. Accordingly, the hurricane loads used by ISO have been implemented by territory. Thus, the commenter stated that all companies that use ISO homeowners’ loss costs are in effect using rates that vary by territory, based on the relative hurricane exposure. In contrast, the commenter stated that companies that develop their own rates have been prohibited from allocating the overall hurricane load to territory. The commenter believed that individual hurricane models should be evaluated by the Department on

their own merits and the results of the particular insurer utilized in the model. The commenter recommended that this prohibition thus be deleted.

RESPONSE: Upon review, the Department has determined not to change these provisions. The Department believes that the methodology set forth in the rules for purposes of establishing rates and for Department review within the relatively short timeframes provided by N.J.S.A. 17:36-5.35 is reasonable and appropriate. The Department does not believe that review of the application of a hurricane model to each insurer's circumstances within the relatively short timeframe provided for review of rate filings under the statute would be adequate to ensure that the rates satisfy the statutory standard and are not excessive, inadequate for the safety and soundness of the insurer, or unfairly discriminatory. With respect to the concern that the method may be inaccurate if an insurer revised its definition of "catastrophe" during the 20-year period, the Department notes that insurers may utilize the latest approved ISO filing. Finally, the Department notes that it would not prohibit the use of hurricane modeling by insurers with respect to rate filings governed and reviewed under N.J.S.A. 17:29A-1 et seq.

COMMENT: One commenter expressed concern with N.J.A.C. 11:2-42.4(f)1, 2 and 3, which require the use of three-year averages of New Jersey expenses for commissions, countrywide general and other acquisition expenses, and for New Jersey taxes, licenses and fees. The commenter stated that projected expenses in these categories can vary significantly from the three-year average due to changes in commission levels or changes in taxes. The commenter believed that insurers should be allowed to utilize an alternative to the three-year average for actual changes. The commenter suggested that N.J.A.C. 11:2-42.4(f) be amended to recodify the

current paragraphs 4, 5 and 6 as 5, 6 and 7, and a new paragraph 4 be provided reading as follows: “A filer may modify the three-year expense averages in N.J.A.C. 11:2-42-4(f)1, 2, and 3 above if the filer can document a specific change in expense such as a change in commissions, a change in marketing system, or change in taxes that occurred during the three-year period or after.” Another commenter expressed similar concerns.

RESPONSE: Upon review of the commenters’ concerns, the Department has determined that no change is required. The Department believes that utilizing a three-year expense average as reported on the insurer’s annual statement is appropriate to minimize skewing of an insurer’s results based on the effect of abnormal expenses in any given year. The Department notes that this is consistent with the process set forth in N.J.A.C. 11:3-16B, governing limited rate changes in private passenger automobile insurance rates.

COMMENT: Several commenters expressed concern with N.J.A.C. 11:2-42.6(a), which provides that the Commissioner shall approve an expedited rate filing if he or she determines that the filing will not produce rates that are excessive, inadequate or unfairly discriminatory. One commenter believed that under this provision, the Commissioner could use his or her discretion to disapprove a filing that is, in fact, justified by the methodology set forth in the rules. The commenter believed that this disapproval power is unnecessary. The commenter believed that if the filing meets the methodology then the rates are not excessive, inadequate or unfairly discriminatory and should be approved. The commenter believed this would expedite and make the filing process more predictable, consistent with the intent of the statute. The commenter suggested that N.J.A.C. 11:2-42.6(a) be amended to read “if the methodology under section 11:2-

42.4 shows [Commissioner determines] that the filing will not produce rates that are excessive, inadequate ..., or unfairly discriminatory ... then the Commissioner shall approve the filing.” (underlined language was suggested to be added, bracketed language to be deleted.)

RESPONSE: The Department disagrees. The provision reflects the statutory requirement that the proposed increase in an insurer’s homeowners’ insurance rates shall not produce rates that are excessive, inadequate for the safety and soundness of the insurer or unfairly discriminatory, as set forth in N.J.S.A. 17:36-5.35a. The Department does not believe that this rule provides any additional discretion to the Commissioner beyond that provided by the statute insofar as the Commissioner is required to render a decision within 30 days of receipt of a complete filing under N.J.A.C. 11:2-42.6(d).

COMMENT: One commenter suggested that N.J.A.C. 11:2-42.5(a) include an additional sentence as follows: “A decision on a filing requesting an increase less than five percent shall be rendered not less than 30 days after receipt of the filing.”

RESPONSE: Upon review, the Department has determined that no change is required. The Department believes that the timeframes for review and action on a filing under the rules are clearly set forth in N.J.A.C. 11:2-42.6.

COMMENT: One commenter suggested that N.J.A.C. 11:2-42.5 be revised to include a new subsection (d) to provide: “An insurer not using this expedited process in a 12-month period

may elect to file a proposed alteration to its rating system with appropriate documentation for the required change in rates.”

Another commenter suggested that the rule be amended to provide that a filer is permitted more than one “prior approval” rate change filing within the 12-month period under N.J.A.C. 11:2-42.5(c).

Another commenter recommended that the rule be amended to clarify that a filer may make rate changes per form.

RESPONSE: Upon review, the Department has determined that no change is required. N.J.A.C. 11:2-42.5(c) clearly provides that a filer may not have more than one rate change request pursuant to this subchapter approved in any 12-month period. Accordingly, the Department does not believe additional clarification is necessary that an insurer not utilizing the expedited process may file an alteration in its rating system under N.J.S.A. 17:29A-1 et seq.

With respect to the comment that the rules should be amended to clarify that insurers may make rate changes per form, the Department notes that N.J.A.C. 11:2-42.1(c) provides that the rules apply to base rate changes by form. Insurers may make rate changes by form, subject to the overall limitation for all forms combined of not more than five percent in its Statewide rate for homeowners’ insurance under N.J.S.A. 17:36-5.35a.

COMMENT: One commenter requested clarification of N.J.A.C. 11:2-42.5(a) and (b), which set forth limitations on a filer’s rate request. Specifically, the commenter questioned if an insurer has a negative indication, whether it may take a revenue-neutral change. The commenter also questioned whether the rules limit increases up to five percent for each form individually. The

commenter also questioned whether an increase of eight percent on owners' forms and zero percent on all other forms would be permissible if the change would result in an overall increase within the regulatory guidelines.

RESPONSE: A filer with a negative overall indication may file for a revenue-neutral change. The increase by form is limited only by the filer's indication. Accordingly, the scenario presented by the commenter would be permissible if the indication for owners' forms was at least eight percent and the overall change would not exceed five percent.

COMMENT: One commenter suggested that N.J.A.C. 11:2-42.6(c), which sets forth the timeframes for the Department to determine whether the filing is complete and to notify of any deficiencies found, should be amended to add the following sentence: "If the Commissioner determines that the filing includes all the necessary information and calculations required to support the rate change, the Commissioner shall approve the filing."

RESPONSE: The Department disagrees. The initial process set forth in N.J.A.C. 11:2-42.6(c) is to determine whether the filing has all necessary information as set forth in the rules. This does not necessarily lead to a conclusion that the calculations are all appropriate or that the filer has presented an indication or need commensurate with the rate proposed in the filing. The Department believes that it is reasonable and appropriate to provide time to determine whether the rate change proposed will result in rates which are excessive, inadequate for the safety and soundness of the insurer or unfairly discriminatory, as required under N.J.S.A. 17:36-5.35a.

COMMENT: One commenter expressed concern with N.J.A.C. 11:2-42.4(d)2i, which requires that loss development factors be determined using a straight average of the latest five age-to-age factors, excluding the highest and lowest, and using New Jersey data. The commenter believed that this does not take into account changes in claims practices, such as changes in payment patterns, that affect loss development factors. The commenter further stated that basing loss development factors only on New Jersey data will lead to volatility for companies with low volumes of business.

RESPONSE: The Department believes that a standard calculation based on five years, exclusive of the high and low, is inappropriate to properly evaluate filings made pursuant to this subchapter. The Department notes that N.J.A.C. 11:3-16B, which sets forth the procedures governing limited increases in private passenger automobile insurance rates, provides for a similar calculation. Moreover, it is appropriate to utilize New Jersey data insofar as it reflects the losses for business in the State to which the rates will apply.

COMMENT: Several commenters expressed concerns with N.J.A.C. 11:2-42.4(d)3, which requires that current cost factors be calculated in accordance with the standard ISO methodology, using the modified CPI and Boeckh Residential Index (BRI), or using selections from the latest approved ISO filing in New Jersey. One commenter stated that the modified CPI accounts only for changes in price and not for changes in quantity of consumption. The commenter stated that changes in the latter, larger houses, more contents, greater coverage, also increase insurer costs. Accordingly, the commenter believed that Fast Track data provides a better basis for determining changes in an insurer's costs.

Another commenter stated that the latest ISO filings use data from the prior year and thus recommended that current cost factors be based on data from the most recent six months to ensure up to date cost factors.

RESPONSE: The Department believes that CPI combined with the BRI appropriately reflects increases in homeowners-related costs. These indices also would reflect more recent data than the latest ISO filing. Filers are provided a choice of which data to utilize for calculating current cost factors.

COMMENT: One commenter noted that N.J.A.C. 11:2-42.4(i) requires the complement of credibility to be assigned to the annual selected loss ratio trend by form. The commenter stated that this assumes the current rate levels are adequate.

RESPONSE: It is not clear from the comment as to whether the commenter believes any change should be provided. In evaluating a proposed rate change, the Department is assuming rates meet the statutory standard of not being excessive, inadequate or unfairly discriminatory. The Department again notes that to the extent insurers wish to utilize an alternate methodology, they may make such a filing outside the scope of this rule under N.J.S.A. 17:29A-1 et seq.

COMMENT: One commenter stated that the term “filer,” which is used throughout the rules, should include a group of writing companies. The commenter stated that many group insurers have multiple companies licensed and writing homeowners’ insurance in New Jersey. The commenter stated that it would be more efficient for these groups, and for the Department, if the

group were permitted to make one filing on behalf of all of its writing companies, rather than requiring each company to make a separate filing.

RESPONSE: Consistent with existing practice in other contexts, groups that use a common rating system, that is, which have identical rates or have rates separated only by a factor, may file jointly. Groups that have different rating systems would be required to make separate filings insofar as the different members of the group will have different rate indications.

COMMENT: Two commenters questioned whether the exhibit required in N.J.A.C. 11:2-42.4(f)4, if the profit and contingency provision is greater than five percent, should be clarified to determine whether it is pre- or post-tax dollars. One commenter specifically assumed that the five percent maximum is after taxes. The commenter believed that if this is not the case, the profit provisions would be lower than the Clifford formula allowance that translates into 5.4 percent pre-tax.

RESPONSE: The five percent provision is on a pre-tax basis. The Department has revised N.J.A.C. 11:2-42.4(f)4 upon adoption to reflect this clarification. The Department notes, however, that the “Clifford formula” applies only to private passenger automobile insurance rates pursuant to N.J.A.C. 11:3-16, and is the subject of a pending proposed amendment (see the July 21, 2003 issue of the New Jersey Register, 35 N.J.R. 3084(a)).

COMMENT: One commenter suggested that N.J.A.C. 11:2-42.4(f) be revised to include a reinsurance risk load as an additional expense item.

RESPONSE: As noted in a response to a previous comment, reinsurance premiums may be reflected under N.J.A.C. 11:2-42.4(d)7.

COMMENT: One commenter suggested that the rules be revised to allow insurers to vary rate changes by criteria other than form and territory, for example, deductible in amount of insurance, within the parameters of an expedited rate filing.

RESPONSE: The Department notes that these types of changes, as set forth by the commenter, are specifically permitted by N.J.A.C. 11:2-42.1(c).

COMMENT: Several commenters expressed concern with N.J.A.C. 11:2-42.4(l), which provides that all filers shall use the Department's methodology set forth in N.J.A.C. 11:2-42.4(a) through (k). The rule further provides that the filer can submit an alternate methodology, or use different data to support its filing, provided that it is clearly labeled as such and is submitted in addition to the methodology set forth in the rules. The rule further provides that the Department's review of any alternate methodology or data submission is not governed by the timeframes in N.J.A.C. 11:2-42.6. One commenter stated that under the rule, a filer desiring an alternate methodology must still comply with the standard methodology. The commenter believed that this is duplicative and unnecessary. In addition, the commenter expressed concern that the timeframes under N.J.A.C. 11:2-42.6 for standard filings will not apply if the filer elects an alternate methodology. The commenter stated that the rule provides no timeframes for Department action on filings using an alternative methodology. The commenter recommended

that the rules be amended to allow an “unencumbered alternate methodology filing,” unaccompanied by a standard filing. In addition, the commenter recommended that the timeframes and Department review be appropriately circumscribed for alternate methodology filings. Further, this commenter, as well as another commenter, suggested that once an alternate methodology or type of data has been filed and approved by the Department, future filings using the same methodology and type of data should be subject to the expedited timeframes set forth in N.J.A.C. 11:2-42.6.

RESPONSE: Upon review, the Department has determined that no change is required. The process set forth in the rule is consistent with the statutory provisions at N.J.S.A. 17:36-5.35. The purpose of these rules is to establish the information and methodology to be utilized by insurers wishing to utilize an expedited rate filing procedure. The timeframes set forth in the statute and these rules apply only to rate filings utilizing the expedited procedure. As set forth in responses to previous comments, the Department believes it is reasonable and appropriate to establish a standard ratemaking methodology for use in determining whether rates filed under this expedited procedure will produce rates that are excessive, inadequate for the safety and soundness of the insurer, or unfairly discriminatory. Insurers may utilize an alternative methodology; however, a review of such a rate filing would be in accordance with N.J.S.A. 17:29A-1 et seq., currently utilized for homeowners’ insurance rate filings. The Department believes it is reasonable and appropriate to determine what the rates would be under the Department’s standard methodology for insurers making rate filings under these rules. The Department also notes that this is consistent with the requirements in N.J.A.C. 11:3-16B.4(k), governing limited rate increases for private passenger automobile insurance rates.

COMMENT: One commenter stated that the rules should specify that they apply exclusively to residential policies and not to commercial policies.

RESPONSE: Rates for commercial policies are not subject to prior approval, but rather are subject to “use and file” procedure under N.J.S.A. 17:29AA-5. Accordingly, rates for commercial policies are not subject to the prior approval process, including the process set forth in these rules.

COMMENT: One commenter questioned whether, under N.J.A.C. 11:2-42.1(c), which sets forth the purpose and scope of the rules, the rules are applicable to “miscellaneous” rates. Specifically, the commenter questioned the applicability to increased mold (property and/or liability) limits, oil tank surcharges, etc. and recommended that the rule be amended to address this issue.

RESPONSE: The rules by their terms do not apply to “miscellaneous” rates.

COMMENT: One commenter stated that some of the definitions in N.J.A.C. 11:2-42.2 are too restrictive and do not reflect current practices. For example, the definition of owners’ forms and tenant forms include references to policy numbers HO-1, HO-2, HO-4. The commenter stated that some other forms that are currently utilized (for example, HO-3000, HO-4000) are not identified in the rules. The commenter recommended that to address this issue, the phrase “including, but not limited to” be inserted in the definition where the forms are specified.

RESPONSE: The Department agrees and has revised the definition of “form” upon adoption for the reasons expressed by the commenter.

COMMENT: One commenter requested that N.J.A.C. 11:2-42.3(b)6, 9 and 10 be clarified as follows:

Paragraph (b)6 does not indicate if the maximum increase or decrease is in terms of dollars or percentages. The commenter recommended that the provision be amended to clarify this reference.

With respect to paragraph (b)9, the commenter expressed concern that the exhibit must include an exposure distribution by item changed. The commenter stated that some rate impacts are calculated based on premium rather than on exposures. Accordingly, the commenter recommended that the phrase “exposure distribution” be changed to read “exposure or a premium distribution.”

With respect to paragraph (b)10, which requires the presentation of a seven-year history with effective date by form, the commenter stated that this paragraph does not distinguish between tenant and condominium forms. In contrast, the commenter stated that N.J.A.C. 11:2-42.4(a)2ii distinguishes between the two forms by allowing the forms “either combined or separately.” The commenter suggested that the same flexibility in N.J.A.C. 11:2-42.4(a)ii be permitted in N.J.A.C. 11:2-42.3(b)10.

RESPONSE: The Department agrees with the commenter that N.J.A.C. 11:2-42.3(b)6 and (b)9 should be clarified. The Department has clarified N.J.A.C. 11:2-42.3(b)6 upon adoption to

provide that the maximum increase or decrease should be expressed on a percentage basis and paragraph (b)9 has been revised to provide that the exhibit shall include an exposure or premium distribution by item changed.

With respect to N.J.A.C. 11:2-42.3(b)10, the purpose of the rule is to require a presentation of a seven-year history by form. If the tenant and condominium form data was combined, then it may restated combined.

COMMENT: One commenter stated that N.J.A.C. 11:2-42.4(i) should be amended to clarify the phrase “last approved filing” in that subsection. The commenter stated that without clarification, the reference may inappropriately be interpreted to mean a new discount or form (for example, home safety credit, coastal coverage endorsement) or a new limit (for example, mold). To avoid this confusion, the commenter suggested that the rule be changed to refer to the “last approved base rate change.”

RESPONSE: The Department agrees for the reasons expressed by the commenter and has made this clarifying change to the rule upon adoption. The rule has been revised upon adoption to refer to the last approved rate filing. The Department believes that this term appropriately captures all potential changes to rates, including factors.

COMMENT: One commenter suggested that N.J.A.C. 11:2-42.4(j)3 be revised to confirm that insurers may file an expedited indication for each form separately. An insurer wishing to change only its dwellers rates should not be required also to submit exhibits for its renter or condominium rates that it is not seeking to change. The commenter recommended the following

language be added: “If filing indications for more than one form, the overall indication shall be only for the forms included in the filing.”

RESPONSE: The Department agrees for the reasons expressed by the commenter. If no changes are proposed for a particular form, no indication is required. However, the premium weight of the form must still be considered for determining the overall rate change. In order to address the commenter’s concerns, N.J.A.C. 11:2-42.4(a)1 has been revised upon adoption to provide that filers shall provide form indications for all forms for which changes are proposed.

COMMENT: Several commenters questioned whether the Department will provide further guidance with respect to N.J.A.C. 11:2-42.8, regarding the use of existing consumer brochures as they relate to the proposed notice requirement under the proposal. One commenter believed further guidance is required. Another commenter stated that if a company uses a homeowners’ buyers guide, it would appear that including the information required by this rule in that guide would constitute compliance. Another commenter questioned whether companies would be required to redevelop their consumer brochures.

RESPONSE: Upon review of the commenters’ concerns, the Department has determined that no change is required. The statute at N.J.S.A. 17:36-5.36 sets forth the requirements for insurers to provide brochures to accompany policies. Insurers will be required to develop, or modify, as applicable, brochures to provide the information as required in the statute. The Department cannot determine whether an individual insurer’s consumer guide would satisfy the requirements

for the notice in N.J.A.C. 11:2-42.8. This would vary based on the information currently provided by insurers and the hurricane deductible programs they may utilize.

COMMENT: One commenter stated that additional clarification is needed in N.J.A.C. 11:2-42.8(a)9i, which provides that policyholder notices must identify the criteria that must be met to qualify for a lower deductible or elimination of the hurricane deductible. The commenter requested that the Department specify the level of detail necessary to comply with this requirement. The commenter questioned whether a general statement regarding premium differences would suffice and questioned whether a rating example would be required. The commenter further questioned whether all variables that affect the pricing must be identified (for example, deductible level, percentage vs. fixed dollar deductible, all other perils deductible amount, Coverage A amount, etc.). The commenter further questioned whether the notice would be required to provide the actual dollar amount the insured would save by choosing a lower deductible or no deductible.

RESPONSE: The Department intends the rule to require a general description or summary of the required information. The rule does not require the inclusion of a rating example, but the notice should generally list the criteria that an insured must meet to qualify for a lower deductible or elimination of the deductible. Every possible criteria need not be listed in the notice. The brochure which insurers are required by N.J.S.A. 17:36-5.36 to supply to insureds could, however, provide more detailed information, and/or the notice and brochure could refer the policyholder to the agent or insurer for more detailed information.

COMMENT: One commenter requested that the Department consider using the standard policy language used by the commenter to meet the requirements of the law.

RESPONSE: The Department believes that this particular forum is inappropriate to determine or respond to questions regarding compliance of a filer's particular form. The Department believes that the rules are clear as to what is necessary for a form to meet the requirements of the rule. Questions regarding compliance with the rules may be addressed to the appropriate office within the Department for further information.

COMMENT: One commenter noted that N.J.A.C. 11:2-42.7 requires uniform policy language to be used for all mandatory and optional hurricane deductible programs for homeowners' insurance, as set forth by Exhibit D in the Appendix to the subchapter, incorporated therein by reference. The commenter believed that this rule is contradictory in that N.J.A.C. 11:2-42.7(a) requires an insurer to use the uniform language, but subsection (c) allows the insurer to certify that it is using a deductible that is substantially similar. The commenter recommended addressing this inconsistency by revising N.J.A.C. 11:2-42.7(a) to permit insurers to use substantially similar language. The commenter also recommended that the Department not impose uniform language at all because carriers operate differently. The commenter believed that the Department should foster a regulatory system that encourages insurers to innovate and bring new products to market, to promote competition among New Jersey homeowners' insurers.

RESPONSE: Upon review, the Department has determined that no change is required. The issue of permitting insurers to use substantially similar language is addressed in N.J.A.C. 11:2-

42.7(b), which requires insurers that currently have forms in use to modify them to conform with Exhibit D only to the extent that they are not currently substantially similar. The provision merely obviates the need for insurers to submit revised filings if the form currently utilized is substantially similar to the requirements in Exhibit D. The Department also disagrees that the Department should not adopt uniform policy language. N.J.S.A. 17:36-5.33 to 5.37 specifically require that the Department establish uniform policy language regarding the applicability of hurricane deductibles under homeowners' insurance policies.

COMMENT: One commenter suggested that N.J.A.C. 11:2-42.7(b), which provides that insurers are required to file appropriate changes to their forms to conform to the rules, to the extent that the forms are not substantially similar to the language in Exhibit D, be amended to clarify that the changes become effective at the next policy renewal after such changes are approved by the Department.

RESPONSE: Upon review, the Department has determined not to change this provision. The rule provides that the changes shall become effective at the next policy renewal. New filings are required to conform to the language in Exhibit D. Only existing forms may continue to be utilized if they are "substantially similar" to the form of Exhibit D. Accordingly, new filings must be identical to Exhibit D and would thus need not be "approved" by the Department. The Department notes that other changes to an insurer's rating system will continue to be subject to review and approval pursuant to law.

COMMENT: One commenter suggested that the first sentence in N.J.A.C. 11:2-42.8(a) be revised to provide that the notice requirement only applies to those policyholders for which deductible programs apply. The commenter stated that as currently written, this language could be interpreted to apply to all policyholders, which the commenter did not believe was the intent.

RESPONSE: N.J.A.C. 11:2-42.8(a)2 specifically provides that the notice accompanies the issuance of each new policy to which the hurricane deductible applies and each renewal thereof. Thus, the Department believes that this issue is addressed in the rules.

COMMENT: One commenter stated that N.J.A.C. 11:2-42.8(a)2, which requires insurers to provide a notice with each policy to which the hurricane deductible applies, at issuance and renewal, be amended to clarify that the notice requirement applies only to notices that have been approved by the Department.

RESPONSE: Notices are not subject to separate review and approval by the Department. Accordingly, the suggested change is unnecessary.

COMMENT: One commenter suggested that the first sentence of N.J.A.C. 11:2-42.8(a)4, which provides that the notice must be specific to the policy and identify whether the applicable hurricane deductible is optional or mandatory, be deleted. The commenter stated that the proposed notice is complex and this requirement is vague and would not be helpful to the consumer.

RESPONSE: The Department disagrees. The Department believes that this information should be provided to policyholders so that they may be in a position to evaluate their coverage options. Information as to whether the deductible program is optional or mandatory is basic information that should be provided to policyholders. It is unclear from the comment why this requirement would impose a burden on insurers.

COMMENT: One commenter, while supporting the intent of the rules, questioned whether various wind and wind/hail deductibles will be effected and questioned whether the current deductibles are still permitted, and would they be permitted to be mandatory on a general basis.

RESPONSE: This comment is outside the scope of this proposal. The wind and wind/hail deductibles currently permitted, and the standards related to their use, are not affected by these rules.

COMMENT: Several commenters raised specific questions regarding Exhibit D, which establishes the hurricane deductible format. One commenter believed that the Department should provide an example of an acceptable notice and allow each insurer to develop its own form, as long as such notice reflects the minimum coverage set forth by the Department. In addition, the commenter suggested that in the eighth paragraph, the second sentence should also reference “loss or damage,” and not just “objects.”

Another commenter believed that the deductible language should be revised so that it applies when the National Weather Service measures hurricane force winds of 74 mph or greater in an area within a 100-mile radius of New Jersey. The commenter stated that this would cover

situations where hurricanes hit the nearby coast of Delaware, but sustained winds never reached 74 mph in New Jersey.

RESPONSE: With respect to the comment that insurers be permitted to develop their own form of deductible language, the Department disagrees for the reasons set forth in a response to a previous comment.

With respect to the comment that the second sentence in paragraph eight should also reference “loss or damage,” the Department has revised the form upon adoption to clarify that the deductible applies to “any loss or damage to covered property caused by objects driven by wind.....” (additions in boldface).

With respect to the comment that the language should be revised to reference winds of 74 mph within a 100 mile radius of New Jersey, the Department disagrees. The Department believes that the criteria in Exhibit D is appropriate to address potential situations in this State. Adopting the expansive language suggested by the commenter could result in the inappropriate triggering of a hurricane deductible in a situation where, in fact, only minimal winds are experienced in New Jersey.

COMMENT: One commenter stated that the WindMAP rules at N.J.A.C. 11:2-41.10, which set forth permissible windstorm deductibles and requirements in order to institute such deductibles, should be eliminated. These rules provide that in determining whether to approve such filings, the Commissioner will consider the insurer’s demonstrated participation in the homeowners’ insurance market and whether approval of the filing will contribute to improving availability and affordability of homeowners insurance in coastal areas. The commenter believed that this should

be deleted because it is “obsolete.” The commenter stated that the market has improved so that there is no longer a need to use this approach in order to have companies write coastal business. The commenter further believed that the rule is actually a deterrent to writing new business.

RESPONSE: This comment is outside the scope of this proposal. These rules do not address the WindMAP rules. The Department will consider the commenter’s concerns and determine whether any changes to those rules are appropriate for future action.

Summary of Agency-Initiated Change:

The Department is making a technical change to Exhibit C upon adoption to provide a line for the reporting of otherwise required information with respect mobile home owners forms.

Federal Standards Statement

A Federal standards analysis is not required because the adopted new rules are not subject to any Federal requirements or standards.

Full text of the adoption follows (additions to proposal indicated in boldface with asterisks ***thus***; deletions from proposal indicated in brackets with asterisks *[thus]*):

SUBCHAPTER 42. HOMEOWNERS' INSURANCE: STANDARD HURRICANE
 DEDUCTIBLES AND EXPEDITED PROCESS FOR HOMEOWNERS' INSURANCE RATE
 CHANGES

11:2-42.2 Definitions

The following words and terms, as used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise.

...

“Form” means:

1. Owners forms, including *** but not limited to,** HO-1, HO-2, HO-3, HO-3 w/ 15, HO-5, and HO-8;
2. Tenants forms, ***including, but not limited to,** HO-4;
3. Condominium forms, ***including, but not limited to,** HO-6;
4. - 6. (No change from proposal.)

...

11:2-42.3 Expedited rate filings; general requirements

(a) (No change from proposal.)

(b) An insurer and/or rating organization, pursuant to N.J.S.A. 17:36-5.35, may file for a rate change in accordance with this subchapter. The filer shall provide the following information in support of its filing:

- 1.- 5. (No change from proposal.)
6. By form ***on a percentage basis***, the maximum increase (or smallest

decrease if no insured would receive an increase) and maximum decrease (or smallest increase if no insured would receive a decrease), along with a profile of the insured and the number of insureds that would receive each;

8. (No change from proposal.)

9. Exhibit(s) showing the effects of each proposed change separately and the overall impact of all changes combined. The exhibit shall include an exposure ***or premium*** distribution by item changed (such as, by territory, amount of insurance, protection/construction classification, etc.), with current and proposed factors and calculated changes, if revisions to these factors are being proposed; and

10. (No change from proposal.)

(c) (No change from proposal.)

11:2-42.4 Expedited process calculations for homeowner's insurance rates

(a) General requirements for expedited rate filings are as follows:

1. Filers shall provide form indications ***for all forms for which changes are proposed*** based on five accident years of data; and

2. (No change from proposal.)

(b) - (c) (No change from proposal.)

(d) Ultimate loss and loss adjustment expense (LAE) shall be determined by the product of incurred loss and ALAE and the factors calculated below:

1. (No change from proposal.)

2. NJ loss development factors (LDFs) by ***[coverage]* *form***, either combined (loss and ALAE) or separately;

i. - ii. (No change from proposal.)

3. (No change from proposal.)

4. Loss trend factors shall be based on *[either]* annual selections from the latest approved ISO filing in New Jersey *[or]**,* the latest available NJ Fast Track data ***or the filer's internal trend data***, ***shown*** separately for severity and frequency by form. If supplying NJ Fast Track trend factors ***or trend data*** developed by the company, the filer shall use the 12 quarter-rolling average and provide all data and calculations. NJ Fast Track data shall be calculated based on paid (not arising) claims excluding catastrophes;

5. - 11. (No change from proposal.)

(e) (No change from proposal.)

(f) Expenses shall be determined from the total of:

1. - 3. (No change from proposal.)

4. The profit and contingency provision. If the provision is greater than five percent ***on a pre-tax basis***, an exhibit showing the calculation of the provision shall be included;

5. - 6. (No change from proposal.)

(g) - (h) (No change from proposal)

(i) The complement of credibility shall be assigned to the annual selected loss ratio trend by form, calculated as the ratio of the annual loss trend divided by the annual premium trend, raised to the power of the difference between the effective date of the last approved ***rate*** filing and the proposed effective date (for renewal business) in the pending filing, expressed in years.

(j) - (l) (No change from proposal.)

APPENDIX

Exhibit C

Data is as of: _____

Form	In-Force Exposures	Latest Year On-Level Premium	Proposed Percentage Change	Proposed Dollar Effect	Current Average Premium	Proposed Average Premium
HO-1						
HO-2						
HO-3, 3 w/ 15						
HO-5						
HO-8						
Total Owners						
HO-4						
HO-6						
Total TN/CO						
Overall HO						

Form	In-Force Exposures	Latest Year On-Level Premium	Proposed Percentage Change	Proposed Dollar Effect	Current Average Premium	Proposed Average Premium
DW						
EC						
Total DW Fire						

*

Form	In-Force Exposures	Latest Year On-Level Premium	Proposed Percentage Change	Proposed Dollar Effect	Current Average Premium	Proposed Average Premium
MHO						

*

Exhibit D

HURRICANE DEDUCTIBLE

For the premium charged, we will pay only that part of the total of the loss for all Section I Property Coverages that exceeds the Hurricane Deductible noted below:

This deductible applies, as described below, in the event of direct physical loss to property covered under this policy, caused directly or indirectly in the event of a hurricane named by the National Weather Service or its successor from which sustained hurricane force winds of 74 miles per hour or greater have been measured in New Jersey by the National Weather Service (regardless of whether the sustained hurricane force winds reach the risk insured under the policy) and shall replace any other applicable deductible in that event. In no case will this deductible be less than the Section I deductible amount shown in the Declarations.

The duration of the hurricane includes the time period:

1. Beginning 12 hours prior to the first time that sustained hurricane force winds of 74 miles per hour or greater have been measured in New Jersey by the National Weather Service (regardless of whether the sustained hurricane force winds reach the risk insured under the policy).
2. Continuing for the time period during which the hurricane conditions exist anywhere in New Jersey.
3. Ending 12 hours after the last time the hurricane force winds of 74 miles per hour or greater have been measured in New Jersey by the National Weather Service (regardless of whether the sustained hurricane force winds reach the risk insured under the policy).

This deductible applies regardless of any other cause or event contributing concurrently or in any sequence.

The Hurricane Deductible (% or Stated Amount Deductible) shown in the Declarations applies only for loss or damage to covered property caused by wind, wind gusts, hail, rain, tornadoes, or cyclones caused by or resulting from a hurricane. The Hurricane Deductible also applies to any ***loss or damage to covered property caused by*** objects driven by wind, if your covered loss occurs during the time period.

The deductible for loss caused by each hurricane occurrence is the amount determined by applying the deductible percentage or Stated Amount Deductible shown in the Declarations to the applicable Coverage A- Dwelling limit shown in the Declarations.

This deductible amount does not apply to loss under Coverage D, Loss of Use. Instead the deductible amount that applies to loss under Coverage D will be the same as the deductible amount that would have been applied to the peril of fire.

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