

FAIR PLAN NEWS

December 2001

INFLATION GUARD

It is difficult for policyholders and insurance agents to make sure that property insurance limits accurately reflect changes in building construction costs. If the limits are not updated regularly, the policyholder may find themselves without adequate limits at the time of loss. In order to address this problem, the Association will offer an endorsement that will automatically increase the policyholder's limits on dwellings and appurtenant structures.

The Virginia Property Insurance Association offers two dwelling forms. The basic form, FP1, provides coverage on an actual cash value. The broad form policy, FP2, provides replacement cost coverage on the dwelling. In order to qualify for broad form coverage, policyholders are required to maintain 100% of the replacement cost of the dwelling. The inflation guard protection will be mandatory on all replacement cost dwelling policies. The automatic increase in insurance endorsement will be optional for actual cash value dwelling policies.

The endorsement automatically increases the amount of insurance by 1/2% at the end of each three-month period. The dwelling and appurtenant structures limits will be increased by 2% at each expiration until the maximum amount of insurance available from the Association has been reached.

The inflation guard endorsement will be available for policies effective on or after January 1, 2002. Policyholders and agents can request that the endorsement be attached to the FP1 actual cash value dwelling policies as well. This endorsement does not create an agreed amount of coverage, and all losses will be settled based on the value of the property at the time of the loss.

MAXIMUM DWELLING LIMITS INCREASED TO \$350,000

In an attempt to keep up with building costs inflation, the Association will be raising its maximum dwelling limits from \$300,000 to \$350,000 effective January 1, 2002. The Association can add more than one location to a policy, but the maximum limit and deductible apply separately to each location included on that policy. The total limit at each location represents the aggregate of the building plus the contents. This is another way the Association is trying to remain responsive to your customer's needs.



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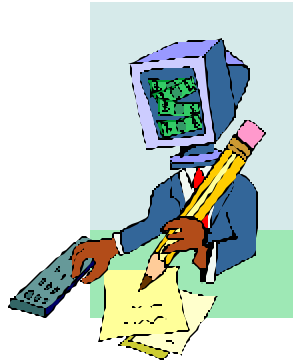
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Helpful Hints

- Register your agency at VPIA's web site
- Download the latest version of rating software
- Include replacement cost estimator with all FP2 dwelling applications
- Include a copy of premium finance contract with all faxed applications.

ACTUAL CASH VALUE

Many agents are uncertain about how to determine the actual cash value of a property. Virginia is a "Broad Evidence Rule" state, meaning that every standard of value having a bearing on the property under consideration should be considered when trying to calculate the value of a structure at the time of a loss.



- Comparison sales of similar properties
- Real estate appraisals
- Prior sales of the property
- Market value based on capitalization of income
- Pending contracts of sale
- Tax assessments
- Real estate listings
- Insured's statement of values
- Vacancy rate at the insured location
- Economic Conditions
- Functional obsolescence

The traditional method of determining actual cash value is replacement or reproduction costs less physical and functional depreciation. Other values that should be considered include:

This is not an exhaustive list. Any fact that has a material impact on the value of a building should be considered when determining the value of the property under the broad evidence rule.

COMMERCIAL PROPERTY COVERAGES

Many insurance agents who submit dwelling fire insurance applications to the Association are surprised to learn that the FAIR Plan can provide coverage for their commercial policyholders as well. The Association will write up to \$1,000,000 per location for the combined limits of a commercial building and its business contents. All commercial risks, except those engaged in manufacturing, are eligible for coverage through the FAIR Plan.

The software has a lookup feature that will find the correct commercial class code for you. Simply press the binoculars and an alphabetical list of commercial classifications will be presented to you.

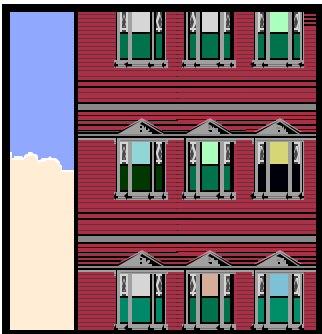
Our basic commercial property policy provides fire, extended coverage and vandalism on an actual cash value basis. Our forms provide coverage for commercial buildings, business personal property, builder's risk coverage, condominium building coverage and condominium unit owners protection.

It is easy to calculate premiums for commercial risks. Our rating program has a module for commercial property coverage.

The Association uses class rates to calculate all of our commercial premiums. You no longer need to call for specific fire rates. We provide a spreadsheet on the Internet and on the producer's rating CD that can be used to calculate the credits for fire protection and determine the surcharges for large areas, spray painting and commercial cooking.



Please contact our Customer Service Department if you would like assistance downloading or using the software.



VACANT PROPERTY COVERAGE

Involuntary property insurance markets were created after the major riots that occurred in the late 1960's. The FAIR Plans attempted to solve one of the problems that contributed to urban decay; the lack of affordable property insurance. Many individuals and small businesses located in the inner cities found it difficult or prohibitively expensive to obtain property insurance necessary to start businesses or to purchase homes in urban areas. The FAIR Plans were established to guarantee that people could get basic property insurance so that the cities could begin to rebuild. Most FAIR Plans did not provide coverage for vacant property because they wanted to encourage the owners of those properties to renovate the structures and encourage urban renewal.

However, the Virginia Property Insurance Association will provide coverage for vacant or unoccupied structures if they are undergoing active renovation. The applicant must complete a vacancy questionnaire and the Association will inspect the property before



coverage can be secured. Our underwriters will ask for documentation to verify that active renovations are taking place. This may include copies of the building permit, construction contracts, loan documents or receipts for building materials. The Association will apply a vacancy surcharge to the policy while renovations are going on. The surcharge is \$.50 per \$100 of value on dwellings and \$1.00 for commercial buildings.

The Association will not provide coverage for vacant property that is sitting idle. There are several companies that provide coverage for vacant or unoccupied structures. A list of the surplus lines brokers that offer this coverage is available on our website. Additionally, as names are provided, we will update our website www.vpia.com to include additional sources for this coverage.

It is important that policyholders make us aware when a property is no longer fully occupied. The Association will deny claims based on material misrepresentation if a

policyholder states that a property is fully occupied at the time of application when the property is either vacant or unoccupied, either in whole or in part.

Vacancy that occurs during the policy term may invalidate your policyholder's coverage. The Association's dwelling policies exclude losses caused by vandalism if the residence is vacant for more than thirty days in a row just before a loss. Broad form dwelling policies provide coverage for glass breakage, and accidental discharge of liquids or steam. These additional coverages are also excluded if the residence is vacant for more than thirty days in a row just before a loss. Freezing coverage ceases immediately upon vacancy if the insured fails to maintain heat or drain the water from the system. All coverage under the commercial program ceases after thirty days of vacancy or unoccupancy. Please make sure that your customers are aware of these limitations and that they are using the Association for vacant property coverage only when their properties are undergoing active renovation.

INTERNET ENHANCEMENTS

We recently introduced a major change to our web site. The site has been redesigned to make it simpler for insurance agents to find the information they need. We have added more information, and made it easier to download applications and software.

Shortly after the first of the year you will be able to view current policyholder billing information on line. We will mail you a password that will allow you to

inquire current payment status for all of your customers. You will be able to maintain your agency information and get a list of each of your policyholders.

Please visit www.vpia.com and let us know what you think. We have incorporated many of your suggestions and want to continue to develop the website to meet your needs.

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IS IT WIND OR IS IT WATER?

Most dwelling and commercial property policies, including those written by the Virginia Property Insurance Association, exclude losses caused by flood. Our policies do not pay for loss that result from flood, surface water, waves, tidal water or overflow of a body of water, even if the water was driven by wind.

During many hurricanes, structures are damaged both by strong winds and by storm surges, which send a wave of water crashing in on the property. After the storm, adjusters assigned by the FAIR Plan and those assigned by the flood insurance company, would inspect the property to determine the division of losses between wind and water. The use of two separate adjusters leads to a delay in the settlement of the claim and may



lead to a conflict on an appropriate split of the damages.

The Virginia Property Insurance Association, working with Federal Emergency Management Agency (FEMA), has developed a program to eliminate this problem and provide better service to your policyholder after a catastrophe. When you submit an application for new business, and each time the policy renews, simply write down the current flood policy number and flood carrier on the FAIR Plan

application. We will record that information in our system. In the event of a hurricane, we will assign a flood certified adjuster to handle the entire loss. That adjuster will inform the flood carrier how much of the damages were caused by flood and inform us of the portion we need to pay our policyholder for the damage caused by wind. This eliminates the need for the two adjusters to agree on damages and eliminates delays that your policyholder may experience after a catastrophe. A single adjuster can streamline the process and allow your policyholder to feel that their claim is being handled in a timely manner. We will be happy to provide you with a list of your policyholders so that you may provide the flood policy information for each of them.