



# Homeowners Catastrophe Insurance Trust

## Questions and Answers—For Agents' Use Only

**This Q & A Brochure is strictly intended for the use of agents who are active members of the Independent Agents Association. The objectives of this document are as follows: (1) Illustrate the value of the Homeowners Catastrophe Insurance Trust (HCIT) as an exclusive benefit for members of the Independent Agents Association. (2) Provide basic information about forms and procedures used when issuing coverage in the HCIT program. (3) Identify the intended (and unintended) market for HCIT coverage through a discussion of underwriting and eligibility. (4) Seek to increase the value of HCIT to member agents through careful and selected growth.**

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

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

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

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

The HCIT program has thrived in its present form for thirty-five years. Everything has been done to insure continuation of the program at a reasonable premium. The fee paid as compensation for writing HCIT coverage is modest and consistent with keeping the premium affordable for catastrophic coverage. You should also know that your Independent Agent’s Association receives a small fee for each application issued. This relationship, now into its fourth decade, conveys a mutual benefit worth preserving. We hope you agree.

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

A HCIT coverage, is patterned from Difference in Conditions (DIC) forms more commonly used in commercial lines. The actual language was originally written, and has been frequently updated, by Trustco, Inc. and is considered proprietary.

The phrase “all risk” may be tempting, but, as professional agents, we know to avoid this trap. The DIC Wording Form, which accompanies each issued Declarations, clearly explains the coverages.

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

**Q Who is the insurer and who pays the claims?**

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

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

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

Perhaps the most important theme you should convey to your client is that HCIT is a private program and is underwritten. Issuance is not guaranteed. Each certificate is issued with an expiration date.

HCIT is now set to assist you and your clients in maintaining this important coverage by providing seamless automatic renewals. HCIT will automatically generate renewal billings and will mail them directly to the certificate holder and, if necessary, the mortgage company. Certificates will be renewed and issued automatically as long as our office receives full payment of the premium prior to the effective date of the renewal certificate; **there is no grace period**. If payment is received after the renewal certificate is set to take effect, but within 30 days of the effective date of the renewal certificate, a certificate may be issued with underwriter approval. A new effective date will be assigned based on the date full payment is received plus the customary 10-day waiting period. If payment is received in our office more than 30 days after the renewal certificate’s effective date, a new application will be needed and the same 10-day waiting period will apply.

## Questions and Answers—For Agents (cont.)

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**Q Where do I get the forms needed to submit HCIT applications? Where do I send them?**

**A** We want to make it as easy as possible for you to submit business. Your Independent Agents Association office maintains supplies of the forms you will need. You can also get them from the Association web sites, the HCIT Web site at [www.hcitins.com](http://www.hcitins.com), or by calling our office. The forms can be mailed, or emailed to you. You may then submit applications directly to Trustco, Inc. Call, fax, or email Trustco with any questions. Contact numbers appear at the end of this document.

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

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

Application (AP-st-mmyy)

*Insured's* Questions and Answers Brochure (BR-mmyy)

Difference in Conditions wording form (DIC-mmyy)

Certificate or Declarations Page

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

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

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

**A** Coverage may NOT be bound. You must NOT give the client or any lending institution any indication that coverage is in effect until the application requirements are met. Trustco cannot bind coverage by fax, e-mail, or over the phone.

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

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

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

We believe the best explanation of how and when coverage becomes effective comes from a careful reading of the above. Please be sure that your clients read and understand this statement before signing the application.

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

**A** While not strictly an exception, we do bypass the waiting period for expiring HCIT business if we receive full premium payment prior to the expiration date.

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

We cannot force the waiting period to meet a closing deadline. If your client, or a mortgagee, cannot accept the waiting period effective date, we recommend you issue coverage through National Flood (NFIP).

**Q What risks are eligible and acceptable?**

**A** There may be quite a difference between eligibility and acceptability. The Application and the *Insured's* Question & Answer Brochure give some indications as to eligibility. Generally, most homes acceptable for standard homeowners coverage will be eligible: One and two-family homes and owner-occupied homes – not mobile homes. Secondary homes will be considered on an individual basis, and some homes that are not owner-occupied, but occupied by a relative or another party close to the insured, may be accepted at the underwriters' discretion.

Acceptability of risks is much more subtle. We depend on the professionalism of each independent agent to do most of the underwriting and selection at the source. The premium charged for HCIT coverage is, as we have pointed out, modest. Most of the premium is reserved for the catastrophic event of earthquake. Very little premium is available to pay for the types of losses that can be expected where homes are located near or constructed in hazardous environments.

The most simple underwriting rule that we can offer is this: An acceptable application is one where there is no greater than *nominal* exposure to loss. Please call Trustco, Inc. for any clarification of underwriting.

**Q How is the renewal process different now that renewals can be issued automatically without a new application?**

**A** As mentioned earlier, HCIT will bill for the renewal certificate approximately 30 days in advance of the effective date of the renewal certificate. HCIT will send the invoice directly to the party on file shown to be responsible for payment (either the customer or mortgagee) with a copy of the invoice going to the other party. If payment is received prior to the renewal certificate's effective date it will be automatically issued and mailed to the insured with a copy going to you as the agent. If payment is not received by the due date, a final notice of no coverage will be mailed out to all parties (client, mortgage company and agent.) If payment is received after the effective date of the renewal certificate, the following conditions apply:

1. If the payment is received no more than 30 days after expiration, a new certificate will be issued *with underwriter approval* effective with the customary 10-day waiting period.
2. When payments are received more than 30 days after

expiration, the submission will be treated as new business and a new application will be required in order to have coverage approved.

**Q Will HCIT apply an inflation factor to the coverage limits as part of the renewal process?**

Yes, our underwriters will require that we apply a modest inflation increase to the policy upon renewal. This factor will be modest and determined in consultation with property valuation services. If you have any further questions about automatic increases in coverage, please call our office.

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

A HCIT now has the ability to offer a 1% deductible for the peril of flood solely in cases where the mortgage company will not accept the usual single deductible of 5%. There is an additional premium charge for this 1% flood deductible option of approximately 10% and a minimum \$1,000.00 deductible applies. Upon applying this option, a deductible of 5% of the Dwelling Sum Insured still applies to all other types of losses (i.e. earthquake, landslide.) If the mortgagee is unwilling to accept the modified deductible program, we strongly recommend using the National Flood (NFIP) program.

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

A Since selecting HCIT means you are offering your client a broader protection plan, you may want to take the time to explain this to the bank loan underwriter. Stipulate that HCIT provides broader coverage than the National Flood Program (NFIP), covering earthquake and landslide in addition to the peril of flood. The end result is better financial security for the client for whom you share a mutual interest. Remember that while HCIT covers flood similar to NFIP, the HCIT Program cannot and should not be sold as a direct equivalent to a NFIP flood policy. If the insured's mortgage is federally funded, and if the home is in a flood plain, the bank loan underwriter certainly has the right to insist on NFIP.

**Q Does HCIT provide the same coverage as a National Flood (NFIP) policy?**

A It is unwise to make any unilateral claims that HCIT is equal to, or even better than NFIP. To do so begs for an unusual claim, one that we have never imagined, and one that will not be covered by one form or the other. However, our experience with actual claims and language comparisons suggests that HCIT, as a catastrophe coverage, will cover general conditions of surface flooding at least as well as the NFIP. It will certainly cover many other types of losses that NFIP excludes.

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

A Yes, but not flat. The insured may request cancellation of her HCIT coverage. She will need to return her original certificate or complete the customary cancellation request. However, consider how you would respond to your client if she requested cancellation of her homeowners policy, simply because her

mortgage was paid off. Homeowners policies, and HCIT provide coverage regardless of whether the home has a mortgage, or is located in a flood zone. Neither policy should, nor will, permit backdating a cancellation under these circumstances.

**Q My insured, or his bank, is asking for a Best's Rating for Lloyd's of London. Where do I get this information?**

A Fortunately, Lloyd's is now regularly rated by Best's, Moody's, and other organizations. And, the ratings are highly favorable. We recommend that you call up Lloyd's home page on the Internet and print the latest screens which describe their ratings and security. (See [www.lloyds.com](http://www.lloyds.com) and [ambest.com](http://ambest.com))

Remember, HCIT is insured 100% through Underwriters at Lloyd's. The HCIT program has been around since 1975. You can rest assured that you are offering your client a quality product backed by integrity and financial strength.

**Q What are the payment options? Can the homeowner pay by credit card?**

A Each new HCIT application must be submitted with complete information, the insured's signature, and payment of the full annual premium. The insured's personal check is preferred. However, we will accept payment by VISA or MasterCard. See the application for details.

As stated earlier, renewals will be billed directly to the mortgage company or the insured. The same payment options will be available as for new business. A credit card payment form will be included which can be e-mailed, faxed or mailed to the HCIT offices.

**Q What is the Blanket Limit Provision?**

A This coverage is automatic, but you really should explain it to your client up front. At the time of a loss, the limits of coverage for the Dwelling, Other Structures, Contents, and Extra Living Expense are added together and may be used as a total Sum Insured for the payment of any losses within these coverage groups. For example: A home insured with a Dwelling limit of \$100,000 will actually have a total Sum Insured limit of \$140,000 at the time of a loss. The *Insured's* Question and Answer Brochure will help you go over this coverage with your client.

(The Blanket Limit Provision does limit Other Structures to a maximum of \$100,000 and Extra Living Expense to a maximum of \$25,000. See the policy for specific wording.)

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

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

## Questions and Answers—For Agents (cont.)

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**Q The mortgagee is requiring coverage for their loan amount which is greater than the limits available through NFIP. Can HCIT be written for the excess over NFIP?**

**A** Yes, in the sense that you may be able to provide HCIT coverage for the full dwelling amount. However, see the previous question and answer. HCIT is intended neither as a literal substitute for NFIP, nor as mere excess flood coverage. If all other underwriting criteria are met, and the coverage requested is equal to full dwelling replacement cost, Underwriters will be eager to approve the application.

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

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

**Q My insured wants to know if a particular type of loss is covered. Is it?**

**A** As independent agents, we are asked this question all the time and we certainly owe our clients a thoughtful answer. However, we also realize that what we say is covered, or is not covered, cannot be inconsistent with the actual coverage forms which will be used by adjusters at the time of a loss. Here is an example, somewhat contrived, to help you with your client. Suppose they ask you if their car is covered for avalanche. Is it? You tell them

comprehensive includes avalanche but you cannot find the word avalanche anywhere in the automobile policy. As professional agents, we are able to explain to the client that avalanche would be covered under comprehensive because it is not excluded. However, as professional agents and *underwriters*, maybe we need to ask more about where they are parking their car.

Call us if you or your clients have coverage questions. Please understand, however, that we too are independent agents. We will help you review the coverage forms and try to point out the wording that may apply.

**Q Others claim to have cloned and improved upon the HCIT program. Is HCIT still the best?**

**A** Yes. It is not surprising that others would seek to copy a program that has successfully operated since 1975. There are, indeed, others who claim to have copied and even improved upon our program. Our sincere belief is that these “copycats” are more interested in competing directly with NFIP than in providing a unique and separate product to Independent Agents.

Trustco, Inc., in addition to administering the HCIT program, is an Independent Agency. We write business for our own clients in NFIP. We add earthquake coverage to homeowners policies. We also offer HCIT to many, but certainly not all, of our clients.

We make you this pledge: We will discontinue the HCIT program when it no longer meets the following tests: (1) It no longer provides a meaningful member benefit to the Independent Agency Associations. (2) It no longer enjoys an unexcelled reputation in our industry, both here in the states and in London. (3) Equivalent coverage, at a comparable price, can be secured through conventional markets. (4) We can no longer assure our Lloyd’s Underwriters that HCIT is being maintained and operated with integrity and every expectation of profitability.

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**These questions and answers are typical of those we are asked daily. We know you have other questions as well. We plan to revise this document periodically as we learn more about your needs and concerns. Please call us often. Our goal is to continue offering the Homeowners Catastrophe program through the Independent Agents Associations for another thirty years. Remember who we are and where we can be reached.**

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