

BULLETIN 98-2

TO: All Insurers Authorized to Write Property Insurance in Kentucky

FROM: George Nichols III, Commissioner

DATE: March 13, 1998

RE: Personal Lines Property Insurance for Earthquake Damages

The purpose of this bulletin is to consolidate and replace the Department's previous bulletins regarding earthquake damages, Bulletin Nos. 90-13, 90-15 and 92-8, and to advise you of the entry of the following order concerning the offering of earthquake insurance.

WHEREAS the possibility of significant property damage resulting from an earthquake in or near the New Madrid Seismic Zone has caused an increased demand for earthquake insurance in the states surrounding the New Madrid Seismic Zone, including Kentucky; and

WHEREAS the occurrence of any significant earthquake could place a personal lines carrier conducting business in this Commonwealth in a hazardous financial condition;

Therefore, pursuant to KRS 304.2-100, 304.2-120, 304.13-041 (2), 304.14-120, 304.14-130 (1)(a) and (b), 304.14-210 and all other applicable law, it is hereby ORDERED that:

1. The Orders dated November 5, 1990 and September 15, 1992 regarding property insurance for earthquake damages are rescinded and replaced by this order, and Bulletin 90-15, dated November 30, 1990 is withdrawn;
2. All insurers doing business in Kentucky and writing personal lines insurance covering homeowners, tenants, mobile homeowners and personal residential dwellings covered by a farmowners policy, shall have an endorsement for earthquake insurance available if requested;
3. Earthquake insurance shall be written on risks on which homeowners insurance is written, regardless of age or construction of the residential dwelling;
4. Deductibles for earthquake endorsements shall apply to the amount of insurance applicable to property damaged or destroyed as a result of the earthquake peril. Insurers shall not roll their existing book of business to a higher earthquake deductible. The deductibles referenced in this paragraph, below shall apply to new business, and shall be made available to existing customers upon renewal, at the insured's election. For purposes of writing deductibles, the Commonwealth shall be divided into three (3) regions, as follows:
 - a. The "Far West Region" shall consist of the counties of Ballard, Calloway, Carlisle, Fulton, Graves, Hickman, Marshall and McCracken. In the Far West Region, insurers shall not write deductibles exceeding twenty percent (20%);
 - b. The "Near West Region" shall consist of the counties of Butler, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Trigg, Union and Webster. In the Near West Region, insurers shall not write deductibles exceeding fifteen percent (15%);

- c. The "Eastern Region" shall consist of all of the remaining counties of the Commonwealth. In the Eastern Region, insurers shall not write deductibles exceeding ten percent (10%);
5. Any policies with an earthquake deductible in force prior to the effective date of this order in which the deductible exceeds the maximum limits referenced in paragraph four (4), above shall be deemed to provide a deductible equal to the maximum limit applicable for that county in which the insured property is located;
6. Any application of deductibles in deviation from the terms of this order must be approved in advance by the Commissioner. Insurers shall file with the Department any additional earthquake deductible options and their corresponding rate relativities, pursuant to KRS 304.13-051;
7. Insurers shall not impose a moratorium on binding new earthquake insurance coverage following a seismic event of less than 4.0 on the Richter Scale;
8. In the event of a seismic event of 4.0 or greater on the Richter scale, it shall be permissible for an insurer to impose a moratorium not to exceed thirty (30) days on binding new earthquake insurance coverage;
9. The binding authority which an agent has over other aspects of the personal lines insurance coverage must extend to earthquake coverage, unless the insurer has imposed a moratorium on binding earthquake coverage in a manner that is consistent with the terms of this order;
10. Earthquake endorsements shall be added to a policy only on inception or renewal, unless the insurer chooses to endorse the policy upon the insured's request;
11. Insurers may elect to treat earthquake premium as earned when paid;
12. Policy forms not in compliance with the provisions of this order are disapproved, but are valid and are construed as if they comply with the provisions of this order;
13. Any insurer which believes that the writing of additional earthquake coverage may place the insurer in a hazardous financial condition may submit a written request to the Commissioner for an exception.

Done and effective this 13th day of March, 1998.

George Nichols III, Commissioner
George Nichols III, Commissioner
Kentucky Department of Insurance

Questions may be directed to the Property and Casualty Division at (502)564-6046.