

PLAN OF OPERATION
OF THE
NORTH CAROLINA INSURANCE UNDERWRITING ASSOCIATION

The North Carolina Insurance Underwriting Association has been established by Article 45 of Chapter 58 of the General Statutes of North Carolina to provide a method whereby adequate Fire, Extended Coverage, Additional Extended Coverage, Optional Perils Coverage, Business Income and Extra Expense Coverage, Vandalism and Malicious Mischief, Windstorm and Hail Coverage and Crime Insurance, as herein defined and limited, may be provided in the Beach area of North Carolina and Windstorm and Hail Coverage may be provided in the Coast area of North Carolina.

Section I – Purpose of the North Carolina Insurance Underwriting Association

1. To provide an adequate market for Fire, Extended Coverage, Additional Extended Coverage, Optional Peril Coverage and Vandalism and Malicious Mischief Insurance that is necessary to the economic welfare of the Beach area in order to in its growth and development.
2. n financing for the purchase and improvement of their property.
3. To provide an equitable method whereby every licensed insurer writing Fire, Extended Coverage and Vandalism and Malicious Mischief Insurance in North Carolina is required to meet its public responsibility.
4. To provide a mandatory Plan to assure an adequate market for Fire, Extended Coverage, Additional Extended Coverage, Optional Perils Coverage, Business Income and Extra Expense Coverage and Vandalism and Malicious Mischief Insurance in Beach areas of North Carolina, to fulfill the purposes provided in General Statute 58-45-1, and to be exempt from State and federal taxation to the fullest extent permitted by law; and, to assure an adequate market for Crime Insurance, as herein defined and limited, in the same Beach area; and, to offer separate policies of Windstorm and Hail Insurance in the Beach area and Coastal area of North Carolina.

Section II – Definitions of Terms

1. “Association” The North Carolina Insurance Underwriting Association established pursuant to the provisions of Article 45 of Chapter 58 of the General Statutes of North Carolina.
2. “Available Surplus” - The Association’s Surplus less two (2) years of operating expenses and less the amount of premium required to purchase reinstatement premium protection under the Association’s Reinsurance Program.
3. “Beach area” - All of that area of the State south and east of the inland waterway from the South Carolina line to Fort Macon (Beaufort Inlet); thence, south and east of Core,

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Pamlico, Roanoke and Currituck Sounds to the Virginia line, being those portions of land generally known as the Outer Banks.

4. “Catastrophe recovery charge” - Any charge collected by member insurers from policyholders statewide, including any charge collected by the Association from their policyholders, upon issuance or renewal of residential and commercial property insurance policies, other than National Flood Insurance policies, after a deficit event has occurred as provided in G.S. 58-45-47. The amount of the catastrophe recovery charge collected in a particular year shall not exceed an aggregate amount of ten percent (10%) of policy premium. The catastrophe recovery charge shall be limited to the recovery of losses resulting from claims for property damage, allocated loss expenses, and actual costs and expenses directly resulting from the catastrophe recovery charge plan.
5. “Coastal area” - All of that area of the State of North Carolina comprising the following counties: Beaufort, Brunswick, Camden, Carteret, Chowan, Craven, Currituck, Dare, Hyde, Jones, New Hanover, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Tyrrell and Washington. "Coastal area" does not include the portions of these counties that lie within the Beach area.
6. “Coastal Property Insurance Pool” - The name of which was formerly known as "the Beach Plan" and which is governed by the North Carolina Insurance Underwriting Association. All references to "the Beach Plan" shall mean the Coastal Property Insurance Pool, which is the market of last resort provided by the Association to the beach area and the coastal area.
7. “Commissioner” - The Commissioner of Insurance of the State of North Carolina.
8. “Crime Insurance” - Insurance against losses resulting from robbery, burglary, larceny and similar crimes, as more specifically defined and limited in the various Crime Insurance policies approved by the Commissioner and issued by the Association.
9. “Deficit Event” - An occurrence when the Association knows that it has incurred losses and loss expenses in a particular calendar year that will exceed the consideration of available surplus, reinsurance and other sources of funding, including permissible member company assessments.
10. “Essential Property Insurance” - Insurance against direct loss to property as defined and limited in the standard statutory Fire Policy, Extended Coverage Endorsement and Vandalism and Malicious Mischief Endorsement, thereon, as approved by the Commissioner. Essential Property Insurance does not include Crime Insurance, Additional Extended Coverage, Optional Perils Coverage, Business Income and Extra Expense Coverage or policies of Windstorm and Hail Insurance Only.
11. “Homeowners’ insurance policy” – A multiperil policy providing full coverage of residential property as described in Article 36 of Chapter 58 of the North Carolina General Statute.

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12. “Insurable Property” - Real property at fixed locations in the Beach area and the Coastal area of the State, as those terms are hereinafter defined or the tangible personal property located therein, which property is determined by the Association, after inspection and pursuant to the criteria specified in the Plan of Operation, to be in an insurable condition; but shall not include insurance on motor vehicles. Insurable property includes appropriate classes of manufacturing risks, which meet reasonable underwriting guidelines as approved or modified therefore by the Commissioner of Insurance. Insurable property also includes travel trailers when tied-down at a fixed location and meeting reasonable underwriting guidelines established by the Directors of the Association and approved by the Commissioner.
13. All insurers authorized to write and engage in writing within this State, on a direct basis, essential property insurance, except town and county mutual insurance associations and assessable mutual companies as authorized by G.S. 58-7-75(5)b, 58-7-75(5)d, and 58-7-75(7)b and except an insurer who only writes insurance in this State on property exempted from taxation by the provisions of G.S. 105-278.1 through G.S. 105-278.8.
14. “Named storm” - A weather-related event involving wind that has been assigned a formal name by the National Hurricane Center, National Weather Service, World Meteorological Association, or any other generally recognized scientific or meteorological association that provides formal names for public use and reference. A named storm includes hurricanes, tropical depressions, and tropical storms.
15. “Net Direct Premiums” - Gross premiums (excluding reinsurance assumed and ceded) written on property in North Carolina for Fire, Extended Coverage and Vandalism and Malicious Mischief Insurance, Farmowners Insurance, Homeowners Insurance and the property portion of Commercial Multiple Peril Package Policies, as computed by the Commissioner, less return premiums upon canceled contracts, dividends paid or credited, to policyholders or the unused or unabsorbed portion of premium deposits and further excluding premiums on manufacturing risks.
16. “Nonrecoupable assessment” - Any assessment levied on and payable by members of the Association that is not directly recoverable from policyholders. Use of nonrecoupable assessments include addressing insufficiencies in surplus or other funding needs that arise prior to the Association reaching the attachment point of its reinsurance program. Nonrecoupable assessments may also be used to fund the Association’s co-participation percentage under the various layers of reinsurance that may exist in the Association’s reinsurance program
17. “Plan of Operation” - The Plan of Operation promulgated by the Association and approved by the Commissioner.

Section III – Inspections and Reports

1. Any person having an insurable interest in insurable property located in the Beach area or Coastal area of North Carolina is entitled to apply to the Association for the coverages

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herein authorized and for an inspection of the property by the Association. Such application shall be submitted on forms prescribed by the Association and may be made on behalf of the applicant by an authorized broker or agent, and shall contain a statement as to whether or not there are any unpaid premiums due from the applicant to the Association for fire insurance on the property. Applications for the separate policies of Windstorm and Hail shall be submitted by an insurance producer of the applicant's choice for the purpose of preparing a certificate that the Essential Property Insurance is in force as required by Section IV. 9 of this Plan of Operation. Applications from producers may be transmitted electronically upon forms and guidelines approved by the Commissioner. The term "insurable interest" shall be deemed to include any lawful and substantial economic interest in the safety or preservation of property from loss, destruction or pecuniary damage.

2. The manner and scope of the inspections shall be prescribed by the Association with the approval of the Commissioner.
3. The Association must be provided full access to the building and to the property on which it is located, but the presence of the owner of a building is not required for a tenant seeking insurance.
4. An inspection report shall be made for each property the Association inspects. The report shall cover pertinent structural and occupancy features as well as the general condition of the building and surrounding structures. A representative photograph of the property may be taken during the inspection.
5. After the inspection, a copy of the completed inspection report (and any photographs), indicating the pertinent features of building construction, maintenance and occupancy shall be sent within five (5) business days to the Association.
6. All reports of inspections performed by or on behalf of the Association shall be made available to members of the Association, applicants, their producers of record and the Commissioner upon request.

Section IV – Procedure After Inspection

1. The Association shall, within ten (10) business days after receipt of the inspection report and application, advise the applicant and his or her agent that:
 - a. the risk is acceptable and it will cause a policy to be issued upon receipt by the Association of the full amount of the premium due; or
 - b. the risk is not accepted but will be acceptable if improvements noted in the action report that the Association provides to the applicant are made by the applicant and confirmed by reinspection; or

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- c. the risk is not acceptable for the reason stated in the action report. If the Association takes no action within the ten (10) business days of its receipt of the inspection report and application, the risk will be deemed acceptable without condition surcharges, provided there has been no misrepresentation or no willful concealment on the part of the applicant, in which case the Association will cancel the policy from inception and it will be void ab initio.
2. In the event a risk is declined because it fails to meet reasonable underwriting standards, the Association shall notify the applicant and his designated representative. Reasonable underwriting standards shall include, but not be limited to, an analysis and examination of, the following:
 - a. the amount of insurance requested, together with other insurance, bears a reasonable relationship to the value of the property involved;
 - b. physical condition of the property, such as its construction, heating, wiring, evidence of previous fires or general deterioration;
 - c. its present use or housekeeping, such as vacancy or unoccupancy, overcrowding, storage of rubbish or flammable materials;
 - d. violation of law, public policy, morals and the character or integrity of the property owner or occupant, which results in increased exposure to loss.
3. Any one and two family dwelling built in substantial compliance with the Federal Manufactured Home Construction and Safety Standards, any predecessor or successor Federal or State construction or safety standards, and any further construction or safety standards promulgated by the Association and approved by the Commissioner, or the North Carolina Uniform Residential Building Code and any structure or building built in substantial compliance with the North Carolina State Building Code, including the wind–design requirements, which is not otherwise rendered uninsurable by reason of use or occupancy, shall be an insurable risk within the meaning of the Plan. Further, any structure commenced on or after January 1, 1970, not built in substantial compliance with the Federal Manufactured Home Construction and Safety Standards, any predecessor or successor Federal or State construction or safety standards, any further construction or safety standard promulgated by the Association and approved by the Commissioner, or the North Carolina Uniform Residential Building Code or the North Carolina State Building Code, including the wind-design requirements therein, shall not be an insurable risk. The owner or applicant shall furnish with the application proof in the form of a certificate from a local building inspector, contractor, engineer or architect that the structure is built in substantial accordance with the Federal Manufactured Home Construction and Safety Standards, any predecessor or successor Federal or State construction or safety standards, and any further construction or safety standards promulgated by the Association and approved by the Commissioner, or the North Carolina Uniform Residential Building Code or the North Carolina State Building Code. Provided, however, such individual certificate shall not be necessary in those cases where

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the structure is located within a political subdivision which has certified to the Association on an annual basis that it is enforcing the North Carolina Uniform Residential Building Code and the North Carolina State Building Code and has no plans to discontinue enforcing these codes during that year. Individual certificates will be required for dwellings built in substantial compliance with the Federal Manufactured Home Construction and Safety Standards, and any predecessor or successor Federal or State construction or safety standards, and such certificates shall state that the dwelling meets the wind design load requirements for "Hurricane Zones" identified in the State of North Carolina Regulations for Mobile Homes, when said dwelling is, in fact, a mobile home.

4. A risk shall not be declined for neighborhood, area, location or environmental hazards beyond the control of the applicant or owner of the property.
5. In any case where a risk, not accepted because the property does not meet reasonable underwriting standards, can be improved to meet such standards, the Association shall promptly advise the applicant and his agent what improvements, noted in the action report, should be made to the property to make it acceptable. Upon notice to the Association of completion of such improvements, the Association shall promptly arrange to have the property re-inspected and if, after such re-inspection, the property is found insurable, the Association shall, upon receipt of the required premium, issue a policy.
6. If the inspection of property reveals the existence of substandard conditions, an additional premium charge shall be applied in conformity with rating plans approved by the Commissioner. The applicant or policyholder and producer shall be notified of any substandard conditions and what must be done to remove the additional premium charges.
7. If the risk is declined, or if the applicant is notified that coverage will be written if stated improvements are made, the Association shall within ten (10) days send copies of the inspection and action reports to the applicant (or policyholder) and the producer and shall advise the applicant of the right to appeal and the procedures therefore.
8. No new or increased coverage shall be bound or application for new or increased coverage accepted after 12:01 A.M. the following day when the center of a designated named storm is located with Longitudes 65° West and 85° West, and Latitudes 20° North and 37° North. The term "designated named storm" is a windstorm designated as a hurricane or tropical storm by the National Weather Service.
9. Policies of Windstorm and Hail Insurance are available only for risks for which essential Property Insurance has been written by licensed insurers. In order to be eligible for a policy of Windstorm and Hail Insurance, the applicant shall provide the Association, along with the premium payment for the Windstorm and Hail Insurance, a certificate that the Essential Property Insurance is in force. For the limited purpose of obtaining Windstorm and Hail Coverages at a fixed location, Inland Marine Builders' Risk

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Coverage shall be deemed to be Essential Property Insurance as that term is used in this paragraph.

10. The rate for Commercial Windstorm and Hail Insurance shall be no greater than the manual credit authorized by the Insurance Services Office or any successor entity for excluding the Windstorm and Hail Peril for Commercial Property Coverage.
11. Homeowners' insurance policies shall be available to persons who reside in the Beach and Coastal areas and who are unable to obtain homeowners' insurance policies from insurers that are authorized to transact the business of insurance in North Carolina and are actually writing homeowners' insurance policies in this State for principal residences. The Association shall issue homeowners insurance policies for principal residences. The terms and conditions, including forms, rates, and underwriting guidelines, of the homeowners' insurance policies shall be issued according to rules approved by the Commissioner of Insurance.

Section V – Placement of Insurance

- 1.A. As provided in North Carolina General Statutes 58-45-35(d), an agent who is properly licensed as an agent of a company which is a member of the Association shall not be deemed an agent of the Association. Consistent with the foregoing, the Association shall be temporarily bound by a written temporary binder of insurance issued by any duly licensed insurance agent or broker. Coverage shall be effective upon payment to the agent or broker of the entire premium or part of the premium, as prescribed in the Plan of Operation. However, nothing shall impair the rights of the Association under law to decline to issue a policy based upon a lack of insurability as determined by the Association or the existence of an unpaid premium due from the applicant.

Temporary coverage addressed in this section shall terminate of its own accord upon the earliest of the following: (1) thirty (30) days from the date the temporary coverage is bound, (2) on the date the Association issues a policy of insurance pursuant to North Carolina General Statute §58-45-35(b), or (3) on the date the Association refuses to issue a policy under North Carolina General Statute §58-45-35(b).

The Association shall return any unearned premium on the temporary binder to the policyholder if the Association refuses to issue a policy. Nothing in this section shall prevent the Association from temporarily suspending binding authority in accordance with the Plan of Operation.

The Association shall establish rules and procedures which may change from time to time to include any limitations for binding authority. These underwriting guidelines, including limitations, rules and procedures, shall be filed with and approved by the Commissioner.

- 1.B. Upon approval by the Association of an application for insurance and upon receipt by the Association of the full amount of the required premium in cash, certified check, bank check, money order, the check of a licensed lending institution, or the electronic transfer

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of funds including but not limited to credit card payment, electronic checks, or Automatic Clearinghouse (ACH) transfers or a check remitted by a North Carolina licensed agent, provided satisfactory evidence is submitted to the Association that a valid agent's license from the Insurance Department is in force, the Association shall issue a policy. A check remitted by a policyholder or applicant is also proper payment for Policyholder Billed policies of insurance.

- 2.A Subject to the limitation set forth in Section VII(3)(e) of this Plan, the Association shall extend interim coverage to eligible occupied habitational and occupied commercial risks upon receipt of a properly completed application and the estimated annual or approved installment premium. For purposes of this paragraph of the Plan of Operation, the effective date of interim coverage shall be 12:01 am, on the day following the postmark affixed by the US Postal Service, on the envelope carrying to the Association a properly completed application and the estimated annual or approved installment premium. In the absence of such postmark, the effective date will be 12:01 am on the day that the Association receives the properly completed application and premium at its office.
- 2.B Interim coverage provided for in Section 2.A above shall be extended to other eligible risks without further action, if:
- i. through no fault of the applicant, coverage has not been either offered or denied within twenty (20) calendar days after the date the Association received the request for inspection and
 - ii. the applicant, at the time of requesting the inspection or at any time prior to the receipt of an inspection report indicating that the property is uninsurable, pays the estimated annual premium or approved installment premium. For purposes of this sub-paragraph ii of the Plan of Operation, the effective date of interim coverage shall be 12:01 am on the 20th day following the postmark affixed by the US Postal Service on the envelope delivering to the Association the estimated annual premium or approved installment premium. In the absence of such postmark, the effective date will be 12:01 am on the 20th day following the date the Association received the premium at its office.
- 2.C The estimated annual or approved installment premium shall be based on the applicable existing specific or class rate in accordance with the manual rates or adjusted loss costs promulgated by the rating organization having applicable rate jurisdiction.
3. The Association shall cause to be issued insurance up to the reasonable value of the insurable property, subject to a maximum of seven hundred fifty thousand dollars (\$750,000) on habitational property. The above limits on habitational property shall apply to the value of the building only. Insurance issued by the Association for commercial property shall not exceed three million dollars (\$3,000,000) on any freestanding structure or any building unit within multiple firewall divisions, provided the aggregate insurance

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on structures with multiple firewall divisions shall not exceed six million dollars (\$6,000,000) on all interest at one risk.

Contents of habitational property can be insured up to forty percent (40%) of the maximum building value allowed by the Association. The Association shall ensure that rates accurately reflect the maximum limits for contents coverage and any reduction in contents coverage limits for habitational property.

If the building value of the property exceeds the maximum coverage limits as described in this section, the Association shall not issue coverage without the insured's purchase of excess coverage to the full value of the property insured.

4. Pursuant to G.S. 58-45-45(a1) the Association's rates shall be the North Carolina Rate Bureau Manual Rates plus a surcharge of five percent (5%) of the applicable North Carolina Rate Bureau Manual Rate for wind and hail coverage and a surcharge of fifteen percent (15%) of the applicable North Carolina Rate Bureau Manual Rate for homeowners' insurance including wind and hail coverage. It is the intent of the General Assembly that these surcharges ensure that the Coastal Property Insurance Pool is the market of last resort over and above the manual rate.
5. Pursuant to G.S. 58-45-45(a2) the Association shall file to offer a deductible for named storm wind and hail losses of one percent (1%) of the insured value of the property for all policies and may offer any other deductible options provided by the North Carolina Rate Bureau, so long as the deductible is not lower than one percent (1%) of the insured value of the property applicable to named storm wind and hail losses.
6. Pursuant to G.S. 58-45-45 (e) the Association shall file to use a schedule of credits for policyholders based on the presence of mitigation and construction features and on the condition of buildings that it insures. The Association shall develop rules applicable to the operation of the schedule and the mitigation program with approval by the Commissioner. The schedule shall not be unfairly discriminatory and shall be reviewed by the Association annually, with the results included as part of the Association's annual report to the Commissioner.
7. In the event that insurance is available to the applicant from other sources, the Association may waive the pro-rata liability provisions of the commercial policy, and the habitational policy in excess of the Plan maximum, and may provide primary insurance. The premium charged for such primary insurance will be determined in a manner approved by the Board of Directors and the Commissioner of Insurance.

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Section VI – Standard Policy Coverage

1. All policies issued shall be on standard policy forms for Fire, Extended Coverage, Additional Extended Coverage, Optional Perils Coverage and Vandalism and Malicious Mischief and also shall be issued for a term of one year. The Association may also issue short term policies. The Association will issue all policies according to guidelines approved by the Commissioner of Insurance, State of North Carolina. Crime Policies shall be approved by the Commissioner and issued by the Association; and shall not be more restrictive than those previously available under the Federal Crime Insurance Program authorized Law 91-609. Windstorm and Hail Policies shall be approved by the Commissioner and issued by the Association for a term of one year. The Association may also issue Short-term Policies. The Association will issue all policies according to rules approved by the Commissioner of Insurance, State of North Carolina.
2. The Association shall review annually any policy that it issues pursuant to the provisions of this Plan, upon application therefore, so long as the property meets the definition of “Insurable Property” and reasonable underwriting standards. The Association shall deem payment of the premium, as required by Section V (1), for eligible habitational policies, including windstorm and hail, and as provided for in Section VII (3), to be an application for renewal coverage-(Continuation of Coverage).
3. Subject to the limitations imposed by Section V, (3), the insurance coverages provided through the Association shall not extend beyond the actual cash value of the insured property at the time of loss or damage, except that upon a determination that the insured property meets reasonable underwriting guidelines as approved therefore by the Commissioner of Insurance, and if the insured so requests, such coverages shall be provided for real property, exclusive of mobile homes, on a replacement cost basis. The Association will write policies for replacement cost subject to the terms of standard property insurance policies.

Section VII – Cancellation and Renewal (Continuation of Coverage)

1. Grounds for cancellation by the Association shall be limited to:
 - a. non-payment of premium; or
 - b. evidence of incendiarism; or
 - c. misrepresentation of any material fact either before or after loss; or
 - d. a cause which would have been grounds for non-acceptance of the risk under the Plan of Operation, had such cause been known at the time of acceptance; or
 - e. a cause, arising subsequent to the inspection which would have been grounds for non-acceptance of the risk under the Plan of Operation, had such cause been known at the time of acceptance.

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2. The Association shall send Notice of Cancellation, together with a statement of the reason therefore, to the insured, identified mortgagees and the insured's producer of record. Such notice shall be accompanied by a statement explaining that the insured has a right of appeal as hereinafter provided.
3. With respect to the continuation of existing coverage(s) the following rules and procedures shall apply:
 - (a) Automatic continuation shall be available only for eligible habitational and commercial policies, including windstorm and hail.
 - (b) At least forty-five (45) days prior to the expiration of the current policy the Association will send a Billing Notice to the payor (policyholder or identified mortgagee) with a copy thereof to the producer of record. (Unless there is an unpaid balance which is then processed according to cancellation rules. If the Association reinstates coverage or rescinds the cancellation notice, the Association will then mail a Billing Notice as soon as possible during the final forty-five (45) day time period prior to expiration.) If the payor is an identified mortgagee, the Association will also send a copy of the Billing Notice to the policyholder. If the payor is a Premium Finance Company, the Association will send the Billing Notice to the policyholder.
 - (c) If the Association does not receive the payment of premium, as required by Section V(1) the Association shall send to the policyholder, identified mortgagees and producer of record by the expiration of the then current policy, a Notice of Cancellation effective on the 15th day (20th day for commercial only) after expiration. If the Association receives this premium before the cancellation date there will be no lapse in coverage. If the Association receives this premium within the 16th day (21st day for commercial only) and 60th day following expiration of said policy, there will be a lapse in coverage from the cancellation date until the date such premium is received; provided, however, such reinstatement of coverage will be subject to the no coverage limitations imposed by Section IV(8). The Association will return premium that it receives after the 60th day following expiration unless the applicant submits this premium with a properly completed application.
 - (d) The Association shall deem payment of the premium as herein provided to be a representation by the applicant that there have been no substantial changes in the occupancy or condition of the property.
 - (e) The interim coverage provisions of Sections V (2.A) and V (2.B) shall not apply to Renewal (continuation of coverage).

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Section VIII – Appeals

1. Any applicant for insurance, any person insured by the Association or any insurer affected by a decision of the Association may appeal in writing to the Board of Directors within fifteen (15) days after any final ruling, action or decision of the Association (other than a ruling, action or decision relating to the cause or amount of a claimed loss or the reasonableness of expenses incurred by an insurer under NCGS 58-45-35(e)). The Board or an Appeals Committee designated by the Board shall schedule and advise appellant of such appeal hearing within thirty (30) days after the same is filed. The appellant may appeal the determination of the Board of Appeals Committee to the Commissioner within thirty (30) days after the ruling as provided by Statute.
2. Orders of the Commissioner shall be subject to judicial review as provided by statute.

Section IX – Underwriting Association

1. The Association shall make provisions for reserving unearned premiums and reserving for losses, including incurred but not reported losses, and loss expenses in accordance with G.S. 58-3-71, 58-3-75, and 58-3-81.

With respect to unearned premium reserves, the Association shall maintain reserves equal to the unearned portions of the gross premiums charged on active policies. The Association shall make no deductions from gross premiums in force except for original premiums canceled on risks terminated or reduced before expiration.

With respect to loss reserves, the Association will charge as a liability loss reserves in an amount equal to the aggregate of the estimated amounts payable on all outstanding claims reported to it which arose out of any contract of insurance made by it, and in addition thereto an amount fairly estimated as necessary to provide for unreported losses incurred on or prior to the date of such determination and including, both as to reported and unreported claims, an amount estimated as necessary to provide for the expense of adjusting such claims.

With respect to loss and loss expense reserves, the Association shall include in its liabilities the aggregate estimated amounts due or to become due on account of all known losses and claims and loss expenses incurred but not paid, including the estimated liability of any notice received by the Association of the occurrence of any event which may result in a loss, and the aggregate amounts of liability for all losses and loss expenses incurred but on which no notice has been received, estimated in accordance with the Association's prior experience.

Consistent with the reserving practices identified above and in accordance with the Association's existing procedures, the Association will make an annual determination of any nonrecoupable assessments payable by its members. The Association will maintain five open policy fiscal years to facilitate the processing of loss reserves or loss handling expenses.

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The Association shall invest its surplus in government securities, U.S. Government Federal Agency, Nations Treasury Reserves and Nations Government Reserves or other U. S. Government backed securities.

2. The Underwriting Association shall be authorized to purchase reinsurance on behalf of its members, provided such reinsurance is authorized by a majority of the Directors.
3. The Association shall have the power to pledge the proceeds of assessments, projected reinsurance recoveries, other recoverables, and any other funds available to the Association as the source of revenue for and to secure lines of credit or other borrowings or financing arrangements necessary to fund any actual, projected, or future deficits of the Association, including borrowing from member companies.
4. Beach Area Writings. Subject to the limitations contained in 6 below each member of the Association shall participate in the nonrecoupable assessments of the Beach Area Writings and Operations including Homeowners' Insurance, in the proportion that the net direct premiums of such member written in the State during the preceding calendar year for residential and commercial properties outside of the Beach area and the Coastal Area bear to the aggregate net direct premiums written in the State during the preceding calendar year for residential and commercial properties outside of the Beach Area and Coastal Area by all members of the Association. (For the purpose of this calculation, farm writings including Farmowners Insurance are not to be included.) The Commissioner shall certify to the Association, after review of annual statements, other reports and any other statistics he shall deem necessary, the aggregate net direct premiums written by all members. However, a member shall annually receive credit for, as set forth below, Essential Property Insurance, Homeowners Insurance and the property portion of Commercial Multiple Peril Package Policies voluntarily written in the Beach Area and its participation in the nonrecoupable assessments of the Beach Area Writings and Operations including Homeowners' Insurance, of the Associations shall be reduced accordingly. Each member's participation in the nonrecoupable assessments of the Beach Area Writings and Operations, including Homeowners' Insurance, shall be determined annually. To encourage each member company to voluntarily write these coverages in the Beach Area for commercial and residential properties, each company shall receive credits as follows: a premium credit factor of 2 if its achieved voluntary Beach market share is 70% or more of its non-Breach and non-Coastal market share; a premium credit factor of 1.5 if its achieved voluntary Beach market share is at least 35% of its non-Beach and non-Coastal share and a premium credit factor of 1 if its achieved voluntary Beach market share is less than 35% of its non-Beach and non-Coastal market share. Such credits shall apply to any nonrecoupable assessments levied pursuant to G.S.58-45-47. In no event, however, will any credit be given for such insurance voluntarily written in the Beach Area where coverage for the peril of wind has been excluded.
5. Coastal Area Writings. Subject to the limitation in 6 below each member of the Association shall participate in the nonrecoupable assessments of the Coastal Area Writings and Homeowners' Insurance, in the proportion that the net direct premiums of such member written in the State during the preceding calendar year for residential and commercial

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properties outside of the Beach area and Coastal area bear to the aggregate net direct premiums written in the State during the preceding calendar year for residential and commercial properties outside the Beach area and Coastal area by all members of the Association. (For the purpose of this calculation farm writings including Farmowners Insurance are to be included.) The Commissioner shall certify to the Association, after review of annual statements, other reports and any other statistics he shall deem necessary, the aggregate net direct premiums written by all members to encourage each member company to voluntarily write these coverages in the Coastal area. Each member shall annually receive credit for Essential Property Insurance, including farm properties, Farmowners Insurance, Homeowners Insurance and the property portion of Commercial Multiple Peril Package Policies voluntarily written in the Coastal area and its participation in the nonrecoupable assessments of the Coastal Area Writings and Operations including Homeowners' Insurance, of the Association shall be reduced accordingly. Each member's participation in the nonrecoupable assessments of the Coastal Area Writings and Operations including Homeowners' Insurance, of the Association shall be determined annually. Such credits shall apply to any nonrecoupable assessments levied pursuant to G.S. 58-45-47. In no event, however, will any credit be given for such insurance voluntarily written in the Coastal area where coverage for the peril of wind has been excluded.

6. Deficit Event.

(a) In the event of losses and expenses to the Association exceeding available surplus, reinsurance, and other sources of funding of Association losses, the Association is authorized to issue a nonrecoupable assessment upon its members in accordance with its Plan of Operation. Member assessments shall not exceed one billion dollars (\$1,000,000,000) for losses incurred from any event or series of events that occur in a given calendar year, regardless of when such assessments are actually levied on or collected from member companies.

(b) When the Association knows that it has incurred losses and loss expenses in a particular calendar year that will exceed the combination of available surplus, reinsurance, and other sources of funding, including permissible member company assessments, then the Association shall immediately give notice to the Commissioner that a deficit event has occurred.

(c) Upon a determination by the Association that a deficit event has occurred, the Association shall determine, in its discretion, the appropriate means of financing the deficit, which may include, but is not limited to, the purchase of reinsurance, arranging lines of credit, or other forms of borrowing or financing. If the Association determines that the member companies have paid one billion dollars (\$1,000,000,000) in nonrecoupable assessments for losses and expenses incurred in any given year pursuant to subsection (a) of this section, the Association may, subject to the verification by the Commissioner that the dollar value of losses and expenses has reached the level necessary for a catastrophe recovery charge, authorize member companies to impose a catastrophe recovery charge on their residential and commercial property insurance policyholders statewide. Catastrophe recovery charges shall be charged as a uniform percentage of written premiums as prescribed by the Commissioner and shall not exceed an aggregate amount of ten percent (10%) of the annual policy premium on any one policy of insurance. Catastrophe recovery charges collected under this section shall be transferred directly to the Association on a periodic basis

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as determined by the Association and ordered by the Commissioner. The Association also shall charge their policyholders a catastrophe recovery charge as provided in this section.

(d) The catastrophe recovery charge shall be clearly identified to policyholders on the premium statement, declarations page, or by other appropriate electronic or written method. The identification shall refer to the post-catastrophe loss for which the charge was imposed. Any such catastrophe recovery charge shall not be considered premium for any purpose, including premium taxes or commissions, except that failure to pay the catastrophe recovery charge shall be treated as failure to pay premium and shall be grounds for termination of insurance. The identified catastrophe recovery charge shall be accompanied by an explanation of the charge and shall appear on the medium by which the charge is conveyed to the policyholder. The explanatory language shall be prescribed by the Commissioner.

(e) The Association shall report quarterly to the Commissioner providing all financial information for each catastrophe recovery charge authorized by this section, including total catastrophe recovery charge funds recovered to date and any information reasonably requested by the Commissioner.

(f) The Association shall recalculate the catastrophe recovery charge amount annually and, subject to procedure approved by the Commissioner, adjust the charge percentage as needed.

(g) The catastrophe recovery charge amount shall continue until financing of the deficit event has been paid in full. Upon order of cessation, any catastrophe recovery charge amounts collected by member companies, the Association or the FAIR Plan that exceed amounts necessary for payment of the debt shall be remitted to the Association and added to the surplus for the purposes of offsetting future Association losses or expenses.

(h) Nothing contained in this section prohibits the Association from entering into any financing arrangements for the purpose of financing a deficit, provided that the pledge of catastrophe recovery charge amounts under such financing agreements shall not result in the actual levying of any catastrophe recovery charge until after the Association has incurred a deficit and until after the Commissioner has approved implementation of the Association's catastrophe recovery charge plan.

(i) The nonrecoupable assessment of a member insurer may be ordered deferred in whole or in part upon application by the insurer if, in the opinion of the Commissioner or his designee, payment of the assessment would render the insurer insolvent or in danger of insolvency or would otherwise leave the insurer in a condition so that further transaction of the insurer's business would be hazardous to its policyholders. If payment of an assessment against a member insurer is deferred by order of the Commissioner or his designee in whole or in part, the amount by which the assessment is deferred must be assessed against other member insurers in the same manner as provided in this Article. In its order of deferral, or in necessary subsequent orders, the Commissioner or his designee shall prescribe a plan by which the assessment so deferred must be repaid to the Association by the impaired insurer with interest at the six-month treasury bill rate adjusted semiannually. The plan also shall provide for the reimbursement of excess assessments paid by member companies as a result of a deferral of assessments for an impaired insurer.

7. To assist member companies to increase their voluntary Beach area and Coastal area market share, the Association shall establish and maintain a "takeout" program whereby each member company may voluntarily accept or reject renewals or continuations of coverage and

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upon acceptance will become the insuring company for that risk and so receive credit therefore.

8. Any insurer authorized to write and engage in writing Essential Property Insurance after the effective date of this Plan shall become a member of the Association on the January 1 immediately following such authorization and the determination of such insurer's participation in the Association shall be made as of the date of such membership in the same manner as for all other members of the Association.
9. Each member of the Association shall have 45 days following the receipt of notice of its percent of participation in the Beach Area Writings and Operations and in Coastal Areas Writings and Operations within which to appeal same as otherwise provided for in Section VIII. Appeals or errors found after the forty-five (45) days will result in a recalculation of the percent of participation if this benefits all members as a whole.
10. The accumulated surplus of the Association shall be retained from year to year and used to pay losses, reinsurance costs, and other operating expenses as necessary. No member company shall be entitled to the distribution of any portion of the Association's surplus, except pursuant to judgments entered prior to the effective date of this subsection.
11. The premiums, surplus, assessments, investment income, and other revenue of the Association are funds received for the sole purpose of providing insurance coverage, paying claims for Association policyholders, purchasing reinsurance, securing and repaying debt obligations issued by the Association, and conducting all other activities of the Association, as required or permitted by this Article. Accumulated surplus shall not be removed from the Association or used for other purposes except pursuant to judgments entered prior to the effective date of this subsection.
12. The Beach Plan will close out the fifth open policy year at the end of each fiscal year (September 30). As outlined in G.S. 58-45-25(b1), the accumulated surplus of the Association shall be retained from year to year and used to pay losses, reinsurance costs, and other operating expenses as necessary. No member company shall be entitled to the distribution of any portion of the Association's surplus, except pursuant to judgments entered prior to the effective date of this subsection. The recommendation for the final close-out of the fifth year will be presented to the Accounting and Fiscal Affairs Committee at the Annual Board of Directors meeting (November). This committee will present their recommendation to the Board of Directors. The final close-out for the fifth open year will be processed by rolling forward the surplus or deficit to the next open year.
13. Pursuant to G.S. 58-45-41(f) the Association shall file, with the Commissioner, an installment plan for premium payments and shall accept other methods of payment that are the same as those filed by the North Carolina Rate Bureau. The Association shall collect an installment fee if premiums are paid other than on an annual basis.

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Section X – Commission

1. Commission paid by this Association to the licensed agent or broker designated by the applicant shall be as determined by the Board of Directors and approved by the Commissioner.
2. In the event of cancellation of a policy, or if an endorsement is issued which requires premium to be returned to the insured, the producer shall refund ratably to the Association commission on the unearned portion of cancelled liability and on reductions in premiums at the same rate at which the Association originally paid such commissions.

Section XI – Administration

1. This Plan shall be administered by a Board of Directors (hereinafter referred to as the Board) of the North Carolina Insurance Underwriting Association, subject to the review of the Commissioner.
2. The Articles of Agreement may be amended by the membership of the Association with the approval of the Commissioner. The vote of the Member Insurers shall be cast and counted on a weighted basis in the same portion as each insurers' statewide net direct premiums written for Essential Property Insurance, Homeowners Insurance and the property portion of Commercial and Multiple Peril Package Policies bear to the aggregate net direct statewide premiums written for said insurance by all insurers. The amendment to the Articles of Agreement shall become effective when approved by the majority of the votes cast on such weighted basis and by the Commissioner.
3. The Board shall consist of a) seven [7] insurers, one of which shall be a domestic insurer; b) three [3] individuals not employed by, or otherwise affiliated with, insurers, insurance agents, insurance brokers, producers or other entities of the insurance industry; and, c) four [4] individuals who are North Carolina licensed insurance agents or brokers. The seven [7] members consisting of insurers shall be elected annually by cumulative voting by the insurers of the Association, whose votes in such election shall be weighted in accordance with the proportion that each insurer's premium written in the State during the most recent calendar year for which data are available bear to the aggregate premiums written by all insurers in the Plan of Operation. Voting may be in person or by proxy. Not more than one insurer in a group under the same management or ownership shall serve on the Board at the same time. The three [3] individual members not affiliated with the insurance industry and the four [4] agents or brokers shall be appointed annually by the Commissioner of Insurance.

Section XII – Annual and Special Meetings

1. The annual meeting of the insurers for the election of the Board and such other business as may be necessary shall be held in the State of North Carolina, at a time and place to be determined by the Board each year. At any regular or special meeting at which the vote of the insurers is or may be required on any proposal, voting may be in person or by written proxy. Voting at regular or special meetings of insurers, or any vote of the

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insurers which may be taken by mail, shall be cast and counted on a weighted basis in the same proportion as each insurer's statewide net direct premiums written for Essential Property Insurance (excluding farms), Homeowners Insurance and the property portion of Commercial Multiple Peril Package Policies, bear to the aggregate net direct statewide premiums written for said insurance by all insurers. A proposal shall become effective when approved by the majority of the votes cast on such weighted basis.

2. As soon as practicable, after election to membership on the Board, and thereafter from time to time as it may elect, each member shall designate a qualified alternate and shall immediately notify the General Manager of the Association in writing of such designation. Insurer alternates must be from the same company as the insurer Board members they represent.
3. **Officers** – The Board shall elect a Chairman, Vice-Chairman, Secretary, Treasurer and General Manager.
 - a. The Chairman shall preside over all meetings of the Board and at all meetings of the insurers. He shall discharge such other duties as may be incidental to his office or as required of him by these rules or by the Board.
 - b. The Vice-Chairman shall preside at any meeting of the Board in the absence of the Chairman. In the event of death, incapacity or disability of the Chairman, the Vice-Chairman shall perform the duties of the Chairman until such office has been filled by the Board.
 - c. The Secretary shall issue all notices of meetings, record minutes of all meetings, keep the records of the Board and discharge such other duties as may be incidental to his office or as shall be required of him by these rules or by the Board.
 - d. The Treasurer shall discharge such duties as may be incidental to his office or as shall be required of him by these rules or by the Board.
 - e. The General Manager shall discharge such duties as may be incidental to his office or as shall be required of him by these rules or by the Board.
4. **Special Meetings** – Special Meetings of the Board or of the insurers may be held upon the call of the Chairman or in the event of his resignation, death or incapacity, upon the call of the Vice-Chairman. Any six (6) members of the Board, acting by their designated representatives, may request the Chairman to call a meeting of the Board or of the insurers at such time and place and for such purposes as may be set out in writing in such request. Should the Chairman decline to call such meetings, the same may be called by the six (6) members making the request. Such special meetings may be held at the principal office of the Association or at such other place within the State of North Carolina as may be designated in the call. Participation in special meetings by telephone conference call or other electronic means is permitted.

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5. **Notices of Meetings** – Notices of all meetings shall be given by the Secretary to the members of the Board and in the case of meetings of the insurers to the insurers. The notice shall state the time and place and the principal purposes thereof, except that no notice of the annual meeting shall be given to newly elected insurers in order to legally constitute the meeting, provided a majority of the designated representatives of the insurers shall be present at such meeting. Such notices may be given by telephone, facsimile or by mail (including electronic mail) directed to the individual Board Members and to the attention of the designated representatives of any of the Insurers and shall be sent or mailed at least ten days in advance of the meeting. Any individual Board Member and any Insurer or the designated representative may waive notice of any meeting, and the presence of such representative at any meeting shall constitute a waiver of notice as to such Insurer.
6. **Advance Agenda** – The Secretary, after consultation with the Chairman, shall prepare in advance of each meeting of the Board and each meeting of the insurers an agenda, which, with such supporting data and information as may be conveniently assembled, shall be forwarded to the individual members of the Board and to the insurers or their designated representatives, as the case may be, in advance of any such meeting.
7. **Committees** – Subject to the Articles of Agreement, the Chairman of the Board may appoint or the Board may elect such standing committees or such temporary or special committees as may be deemed necessary for the transaction of its business. With the exception of the Appeals Committee, all committees so appointed or elected shall be advisory only. The Appeals Committee shall consist of three members of the Board, one of whom shall be one of the seven individual members of the Board and shall be appointed annually by the Commissioner of Insurance and two of whom shall be appointed by the Chairman.
8. **Ex-Officio Members** – The Chairman and Vice-Chairman of the Board shall be ex-officio members of all standing or special committees, with no right to vote.
9. **Written Ballot** – Voting by written ballot is permitted by the Board and by the Member Companies upon the giving of at least ten (10) days' written notice and provided that the written ballot provisions of the Open Meetings Act, N.C. Gen. Stat. § 143-318.13, are followed. Any matter voted upon by written ballot shall be carried, provided it receives an affirmative vote from a majority of the members of the Board. Any matter voted upon by the written ballots of the member companies shall be carried, provided it receives an affirmative vote from a weighted majority and provided no more than 5% of the votes entitled to be cast, counted on a weighted basis, are negative votes. Written ballot procedures do not apply to meetings conducted with conference call participants.
10. The Directors of the Association may, subject to the approval of the Commissioner, amend the Plan of Operation at any time.

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11. The Association is subject to the Open Meetings Act, Article 33C of Chapter 143 of the General Statutes, as amended.

Section XIII – Duties of the Board

1. The Board shall meet as often as required to perform the general duties of the administration of the Plan of Operation or on the call of the Commissioner. Ten (10) members of the Board shall constitute a quorum.
2. The Board shall be empowered to appoint or otherwise contract for the services of a General Manager; to budget expenses; levy nonrecoupable assessments, including preliminary nonrecoupable assessments; disburse funds and perform all other duties provided herein or necessary or incidental to the administration of the Plan of Operation. The adoption of substantive changes in pension plans or employee benefits programs shall be subject to approval of insurers. Nonrecoupable assessments upon each insurer shall be levied on the basis of its percentage of participation. A late charge of one-half percent (.5%) per week, not to exceed a total of four percent (4%) of the original assessment, shall be applied to the nonrecoupable assessment of any member for any payment past due for fifteen (15) days or more.
3. Annually, the General Manager shall prepare an operating budget, which shall be subject to approval of the Board. Any contemplated expenditure in excess of or not included in the annual budget shall require prior approval by the Board.
4. The Board shall furnish to the Commissioner a written report of operations annually on or before January 1 in such form and detail as the Commissioner may determine. The Board shall furnish to all insurers a written report of operations annually, in such form and detail as the Board may determine.

Section XIV – Crime Insurance

1. Pursuant to Chapter 1027 of the 1985 Sessions (Regular Session 1986) Laws of North Carolina, the North Carolina Insurance Underwriting Association shall offer Crime Insurance for eligible and insurable property located in the “Beach area” of North Carolina.
2. The following provisions of the Plan of Operation shall not apply to Crime Insurance; Section IV, paragraphs 2, 3, 6 and 8; Section V, paragraphs 2, 3 and 7; Section VII, paragraph 1(b); and Section IX, paragraphs 4 (3rd, 4th and 5th sentences) and 5.
3. Residential Crime Insurance will be provided in amounts approved by the Board of Directors and the Insurance Commissioner, not to exceed \$10,000. The Residential Crime Insurance Policy shall be a combination package for both burglary and robbery coverage. Commercial Crime Insurance coverages offered shall be: 1) burglary only; 2) robbery only; or, 3) a combination of burglary and robbery in uniform or varying

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amounts as specified by the Board of Directors and approved by the Commissioner, up to a maximum of \$15,000.

4. The Board of Directors, with the approval of the Commissioner, will establish rates for crime coverage.
5. Applicants must submit a properly completed, signed application to be considered for crime coverage. The application will set forth minimum protective device requirements that the applicant must meet to be eligible for such coverage. These requirements will be established by the Board of Directors and approved by the Commissioner.
6. Reasonable underwriting standards shall include, but not be limited to, the following:
 - a. physical condition of the property;
 - b. violation of law, public policy, morals and the character or integrity of the property owner or occupant;
 - c. where the building has been subject to two (2) crime losses, each loss amounting to at least \$500 in any 12-month period; or three (3) of such losses in any 24-month period; provided that if the cause of such crime loss was due to conditions, which are the responsibility and within the control of the owner-named insured, the Association may decline or decline to continue coverage for Crime Insurance.
 - d. Such other standards as may be approved from time to time by the Commissioner of Insurance.
7. The insured must notify local law enforcement authorities and the Association immediately after discovery of a loss.

Section XV – Business Income

Business Income and Extra Expense Coverage Insurance shall be made available in such amounts and pursuant to underwriting guidelines as shall be established by the Board of Directors and approved by the Commissioner.

Section XVI – Catastrophic Losses for Wind and Hail

1. Catastrophic losses that are covered under Windstorm and Hail Coverage in the Beach area or Coastal area shall be adjusted by the licensed carrier that issued the Essential Property Insurance and not by the Association. The Association shall reimburse the reasonable expenses incurred by the licensed carrier in adjusting such losses.
2. A catastrophic loss is defined as “windstorm” loss due to a “named storm”, whether a “hurricane occurrence” or a “tropical storm occurrence”.

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- a. A “hurricane or tropical storm occurrence”:
 - i. begins at the time a hurricane or tropical storm warning is issued for any part of North Carolina by the “National Weather Service”; and,
 - ii. ends 72-hours following the termination of the last hurricane or tropical storm warning issued for any part of North Carolina by the “National Weather Service”.

- b. “National Weather Service” means the National Weather Service, or if the National Weather Service ceases to exist, ceases to perform the function of declaring weather systems to be hurricanes or tropical storms, or ceases to perform the function of issuing hurricane watches or warnings, such other entity as may replace it or as determined by the North Carolina Rate Bureau.

- c. “Hurricane” means a storm system that has been declared a “hurricane” by the “National Weather Service”.

- d. “Tropical Storm” means a storm system that has been declared a “tropical storm” by the “National Weather Service”.

- e. “Windstorm” means wind, wind gust, hail, rain, snow or sleet caused by or resulting from a “hurricane”, tropical storm” or a tornado or cyclone originating from either. This includes loss or damages to the inside of a building or the property inside a building caused by rain, snow, sleet, hail and or dust, if the direct force of the wind during a “hurricane or tropical storm occurrence” damages the building, causing an opening in a roof or wall and the rain, snow, sleet, hail, sand or dust enters through this opening. It also includes loss or damage caused by wind-driven objects during a “hurricane or tropical storm occurrence”.

Section XVII – Related Parties Transactions

The North Carolina Insurance Underwriting Association pays all operating expenses (except Producer Commissions, Inspections and Premium Taxes) on behalf of the North Carolina Joint Underwriting Association. The Association shall jointly prepare and process a monthly Intercompany Transaction to settle all receivables and payables between the two entities.

The Association must settle these Intercompany Transactions by the fifteenth of the month following the month in which the Association records the transactions.