



GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

May 13, 2009

ELECTRONIC DISTRIBUTION

RULING LETTER NO. 2009-101-AP

TO ALL DOMESTIC INSURERS, GENERAL AGENTS, AND MANAGERS OF FOREIGN INSURERS AUTHORIZED TO UNDERWRITE PROPERTY INSURANCE IN PUERTO RICO AND ALL PRODUCERS AND RATING ORGANIZATIONS

**Dwelling (DW) and Homeowners (HO) Insurance
Mixed Construction**

Dear Sirs and Madams:

The Office of the Insurance Commissioner ("OIC") approved a revision of Rule 106 of the Dwelling Policy Program Manual to enter into effect on October 1, 2008, for Insurance Services Office, Inc. (ISO), on behalf of its members and subscribers. As you know, this rule is the Definitions of Construction under which housing risks are classified for rating purposes¹. Under the Homeowners Program, the revision to this rule has been included in the new program (2007 edition), which is now under consideration for approval by this Office.

The purpose of the revision of this rule, aside from some editing, has been to clarify the note that describes when mixed construction, based on a percentage of construction, shall be classified as superior, or otherwise, according to the kind of additional construction of the dwelling or the structure of the dwelling.¹ Under the new version of the note, the roof is expressly mentioned as a part to be taken into consideration in determining the percentage of superior construction in a mixed structure. The version reads as follows:

"Note: Mixed (Superior/Masonry/Frame) A combination of superior and other construction shall be classed superior when the exterior

¹ Rule 103, Eligibility, of the Housing Policy Program Manual allows for issuing a dwelling policy to cover a dwelling structure of no more than four apartments. Rule 104, Eligibility of the Homeowners' Program, allows issuing policies using forms HO2 and HO 4, to cover residences of no more than two families.

walls, floor and roof equal or exceed 66 2/3% superior construction; otherwise class as masonry or frame."

So that all insurers may comply in a uniform manner with the above rule, we are informing you of the manner in which the rule is to be interpreted and applied. For this purpose, we will take as an example a two-story structure that houses more than one family. This is being done, because it has come to the attention of this Office that most of the issues that arise between insurers and producers or insurers and their clients with regard to classification are related to structures of this kind. See the example below.

Example

This is a two-story residential structure, whose dimensions are specified in the second and fourth columns of the following table, where construction on the first floor is entirely concrete and on the second floor, entirely wood, except for the floor, which is concrete. According to the note to the rule we are analyzing, the area should be determined as follows:

	First Floor Dimensions	First Floor Area (square feet)	Second Floor Dimensions	Second Floor Area (square feet)
Floor	24 feet X 50 feet	1,200	20 feet X 24 feet	Not considered
Ceiling	28 feet X 54 feet*	1,512	28 feet X 54 feet*	672
Walls	8.5 feet high	1,258**	8.5 feet high	704***
Total		3,970		1,376

* Dimensions include eaves.

** Area of the four walls = $8.5 \times (24+50+24+50)$

The total area of the residence is $3,970+1,376 = 5,346$ square feet. The area of the second-story floor is not taken into consideration because it is the ceiling of the first floor. Therefore, **74.26%** of the residence ($3,970 \div 5,346$) is superior construction (exterior walls, floor and roof), and for rating purposes, the structure should be classified as fire resistive. Nevertheless, according to the last phrase of the above note, which establishes "otherwise class as masonry or frame," if in this particular case the superior construction area had been less than 66 2/3% of the structure, it would have had to have been classified as "frame."

It should be noted that for insurance purposes it is assumed that the above structure is a single fire division. This is because Rule 107 of the Dwelling Program Manual and Rule 109 of the Homeowners' Manual provide the following:

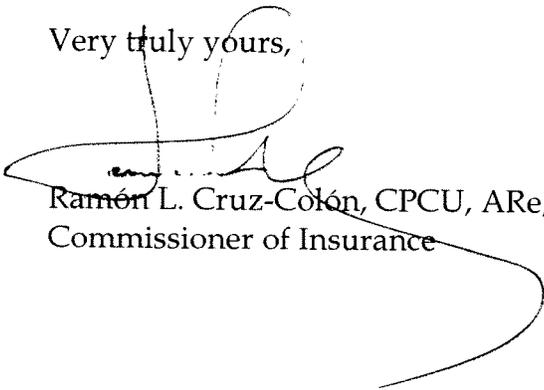
"107. SINGLE BUILDING DEFINITION

A. All buildings or sections of buildings which are accessible through unprotected openings shall be considered as a single building."

Since the revision to the rule is merely for clarification purposes, it should be understood that the instructions set forth herein are equally applicable to homeowners' insurance, even when it has not entered into effect for this program

Strict compliance is required with all of the provisions in this Ruling Letter by all persons involved in the property insurance business.

Very truly yours,



Ramón L. Cruz-Colón, CPCU, ARe, AU
Commissioner of Insurance