



RLI Insurance Company

Peoria, Illinois 61615

POLICYHOLDER NOTICE

POTENTIAL RESTRICTIONS OF TERRORISM COVERAGE

This Notice has been prepared in conjunction with the **POTENTIAL** implementation of changes related to coverage of terrorism under your policy.

The Terrorism Risk Insurance Act established a program (Terrorism Risk Insurance Program) within the Department of the Treasury, under which the federal government shares, with the insurance industry, the risk of loss from future terrorist attacks. That Program is subject to a termination date of December 31, 2014 unless extended by the federal government. If the federal Program terminates, or is extended with certain changes prior to or during the term of your policy, then the treatment of terrorism under your policy will change. This Notice is being provided to you for the purpose of summarizing potential impact on your coverage. The summary is a brief synopsis of significant exclusionary provisions and limitations.

This Notice does **not** form a part of your insurance contract. The Notice is designed to alert you to coverage restrictions and to other provisions in certain terrorism endorsement(s) in this policy. If there is any conflict between this Notice and the policy (including its endorsements), the provisions of the policy (including its endorsements) apply.

Carefully read your policy, including the endorsements attached to your policy.

YOUR POLICY DURING TENURE OF THE TERRORISM RISK INSURANCE PROGRAM AS THAT PROGRAM EXISTS PURSUANT TO THE TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007:

The terrorism endorsement in this policy excludes coverage for "certified acts of terrorism" (which is more fully defined in the endorsement, but involves an act of terrorism certified by the federal government to be an act of terrorism pursuant to the federal Terrorism Risk Insurance Act), but such exclusion applies only:

- Under property insurance, if the event involves radioactive material or pathogenic or poisonous biological or chemical material under certain circumstances; or
- Under liability insurance, if the event qualified as a nuclear event or if the event qualified under certain circumstances as a biological or chemical event.

The certified-acts coverage that remains is subject to a limit on our liability pursuant to the federal Terrorism Risk Insurance Act and is subject to all policy exclusions (for example, the property insurance war exclusion or the liability insurance war liability exclusion) and other policy provisions.

The Exception Covering Certain Fire Losses applies only in certain states. If the exception applies in any states under your policy, that is indicated in the Schedule of the terrorism endorsement. When the Exception applies, the exclusion of terrorism does not apply to direct loss or damage by fire to Covered Property in affected states.

POTENTIAL CHANGE TO YOUR POLICY:

Depending on your state, endorsement BP 05 64, BP 06 33 (IDAHO ONLY) or BP 06 50 (ALASKA ONLY) is attached to your policy. Its provisions become applicable to your policy only if certain events (one or more of them) occur. Those events include the following:

- If the federal Terrorism Risk Insurance Program (TRIP) terminates with respect to the type of insurance provided under this policy. (TRIP is/was scheduled to terminate at the end of December 31, 2014 unless extended by the federal government.); or
- If TRIP is extended with changes that redefine terrorism, and we are not required to make such revised coverage available to you; or
- If TRIP is extended with changes that make insurance coverage for terrorism subject to provisions or requirements that differ from those that apply to other events or occurrences under this policy, and we are not required to make such revised coverage available to you; or
- If TRIP is extended with changes that increase insurers' statutory percentage deductible under TRIP for terrorism losses, or decrease the federal government's statutory percentage share in potential terrorism losses, and we are not required to make terrorism coverage available to you. Our deductible is 20% of the total of our previous year's direct earned premiums. The government's share is 85% of the terrorism losses paid by us above the deductible.

Endorsements BP 05 64, BP 06 33, or BP 06 50 treat terrorism as follows:

- Coverage for loss or damage under property coverage or injury or damage under liability coverage arising out of a terrorism incident is excluded only if:
 - The total of all insured damage to all types of property (including business interruption losses sustained by owners or occupants of damaged property), from the incident, exceeds \$25 million. The \$25 million property damage threshold is based on losses sustained by all persons and entities who are affected by an incident of terrorism, and who are insured for the damage, or who would be insured but for a terrorism exclusion; or
 - Fifty or more persons sustain death or serious injury; or

(To determine whether the threshold for property damage (\$25 million) or persons injured is exceeded, multiple incidents of terrorism which occur within a seventy-two hour period and appear to be linked together or have a related purpose or common leadership behind them shall be considered to be one incident of terrorism.)

- The terrorism event involves nuclear materials or results in nuclear reaction or radiation or radioactive contamination; or
- The terrorism event involves the release of radioactive material, and it appears that one purpose of the terrorism was to release such material; or
- The terrorism event is carried out by means of the dispersal or application of pathogenic or poisonous biological or chemical materials; or
- The terrorism event involves the release of pathogenic or poisonous biological or chemical materials, and it appears that one purpose of the terrorism was to release such materials.
- The Exception Covering Certain Fire Losses applies only in certain states. If the exception applies in any states under your policy, that is indicated in the Schedule of the terrorism endorsement. The Schedule of the terrorism endorsement does not apply if **BP 06 33** or **BP 06 50** is attached to your policy. When the Exception applies, the exclusion of terrorism does not apply to direct loss or damage by fire to Covered Property, with respect to affected types of insurance in affected states.

See the definition of terrorism for purposes of the terrorism exclusion.