



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Bulletin PC-88
July 23, 2019

TO: ALL COMPANIES LICENSED TO WRITE PROPERTY AND CASUALTY INSURANCE

RE: CANCELLATION AND NONRENEWAL OF PERSONAL AND COMMERCIAL INSURANCE POLICIES

RENEWAL PREMIUM BILLING REQUIREMENTS FOR PERSONAL AND COMMERCIAL INSURANCE POLICIES

This Bulletin is intended to clarify and supersede Bulletin PC-66, dated December 21, 2009 to reflect the provisions of Public Act No. 18-158, effective July 1, 2019¹ and Public Act No. 19-125, effective July 1, 2019 concerning electronic notification requirements. In addition, the provisions in section I.D. below concerning conditional renewal notices have been generally codified in Conn. Gen. Stat. § 38a-323. *See* Public Act No. 17-198.

Insurance companies should distribute this Bulletin PC-88 to all areas of the company involved with decisions to terminate or continue to insure Connecticut risks. When making a filing for a multi-year policy, companies are instructed to complete the appropriate checklist and confirm Department requirements for issuance of multi-year policies. The Department examines each policy nonrenewal or cancellation based on the facts and circumstances specific to the particular action to determine compliance with the requirements of Connecticut law and approved policy provisions. Nonrenewal or cancellation notices that do not comply with Connecticut requirements are considered invalid.

I. CANCELLATION AND NONRENEWAL OF PERSONAL AND COMMERCIAL INSURANCE POLICIES

Statutes that govern the cancellation or nonrenewal of policies are:

Personal Lines: Conn. Gen. Stat. §§ 38a-170, 38a-307, 38a-323, 38a-323a. to 38a-323c., 38a-330, 38a-341 to 38a-345, 38a-358 and 38a-975 to 38a-998. Please be aware that Public Act No. 09-98 (effective October 1, 2009) limits the fees that can be imposed if the insured cancels a private

¹ Section 14 of Public Act No. 19-125 changed the effective date of certain sections in Public Act No. 18-158 from October 1, 2019 to July 1, 2019.

passenger motor vehicle policy prior to its expiration. It provides that if an insured cancels such policy prior to its expiration date, the insurer may not charge any fee or other charge for cancellation exceeding one hundred (\$100) dollars in the aggregate.

Commercial Lines (excluding Workers' Compensation): Conn. Gen. Stat. §§ 38a-170, 38a-323 to 38a-326, 38a-330 and 47-255(g).

Workers' Compensation: Conn. Gen. Stat. §§ 31-321, 31-348, 38a-170 and 38a-323.

The Department considers these statutes, together with Chapter 704, Unfair and Prohibited Practices and individual insurance policy provisions, when examining a policy nonrenewal or cancellation. Generally, an insurer's noncompliance with nonrenewal or cancellation requirements invalidates the action and entitles the insured to either renewal or reinstatement of the policy. In addition, the insurer is subject to appropriate fines and penalties imposed by the Department.

A. Statement of the Specific Reason for the Company's Action Required

1. Connecticut law requires that the advance notice of nonrenewal or cancellation be accompanied by a statement of the reason for the company's action.
2. The notice must provide a specific reason for the insurer's action. Nonspecific reasons such as "claims experience", "underwriting judgment" or "increase in hazard" are unacceptable. Nonspecific reasons do not provide the definitive notice necessary to enable the insured to remedy the circumstance causing the company's action.

If the reason is increase in hazard, the specific hazard increase must be listed on the notice or must accompany the notice.

For personal lines insurance if the reason is losses, the loss dates, type, and amounts paid or incurred must be listed on the notice or must accompany the notice. If motor vehicle violations are also part of the reason, the date, type, and individual involved must be included on the notice.

For commercial lines insurance if the reason is losses, the minimum information that shall be provided is the number of losses and the total amount incurred for each policy year.

3. The routine issuance of nonrenewal or cancellation notices or the use of nonspecific or nonexistent reasons for such action is improper and fails to provide the notice required by Connecticut law. This is considered an attempt to circumvent statutory notice requirements of Connecticut law.
4. Companies may not routinely issue or include notice of nonrenewal or notice of cancellation for nonpayment coincident with the premium billing or payment notice. Notice of cancellation for nonpayment of premium should not be issued until after nonpayment has occurred, meaning after the insurer has failed to receive payment by the due date. It is an improper practice to terminate coverage using a reason that does not exist at the time notice is given.

5. When a policy is cancelled for material misrepresentation, the notice or accompanying statement shall indicate that the cancellation is due to material misrepresentation and specify the reasons. It cannot be accomplished by implication.

Examples:

INCORRECT AND UNACCEPTABLE: “You are cancelled for failure to report three violations (1-3-02, 6-7-02, 2-12-03) on your application.”

CORRECT: “You are cancelled for material misrepresentation. You did not report three speeding violations for John Doe (1-3-02, 6-7-02, 2-12-03) on your application.”

B. Compliance with Minimum Advance Notice Requirements

1. Various sections of the Connecticut General Statutes and Regulations specify minimum time standards with which an insurer must comply when notifying an insured of a cancellation, nonrenewal or renewal billing. The advance notice requirements of such statutes contemplate 24-hour days, not portions thereof.

2. Compliance with the minimum notice standards is determined by counting the number of calendar days beginning with the first day after the date of mailing of the transaction up to, but not including, the date the transaction is effective. The date of mailing is evidenced by (a) the postmark date on the envelope; (b) a copy of the completed receipt that it was sent by registered mail or certified mail²; or (c) a certificate of mailing from the U. S. Post Office. If the transaction is delivered in person by the insurer to the insured, this should be evidenced by a signed receipt from the insured.

Pursuant to Public Act No. 18-158 effective July 1, 2019, notice may be provided by electronic means if agreed between the insurer and the named insured. Pursuant to Public Act No. 19-125 for policies of commercial risk insurance, notice of cancellation may be made by electronic means evidenced by a delivery receipt if agreed between the insurer and the named insured. The Department expects that insurers will retain evidence of the date of electronic delivery or a delivery receipt of the electronic notice to show compliance with the advance notice requirements together with proof that the named insured agreed to the use of electronic means of notification.

3. Notice of nonrenewal must be given to the insured a minimum number of days in advance of the effective nonrenewal date for personal and commercial policies, including workers’ compensation. Insurers may not extend the current policy past the expiration date in order to meet the minimum advance number of days’ notice. The term “expiration date” as used herein shall mean the date upon which coverage under a policy ends. It shall also mean, with respect to personal and commercial risk insurance policies (excluding workers’ compensation policies) written for a policy term greater than one year or with no fixed expiration date, each annual anniversary date of such policy.

² Conn. Gen. Stat. § 1-2b provides that any reference to certified mail, return receipt requested, shall include mail, electronic, and digital methods of receiving the return receipt, including all methods of receiving the return receipt identified by the Mailing Standards of the United States Postal Service in Chapter 500 of the Domestic Mail Manual or any subsequent corresponding document of the United States Postal Service.

4. With respect to an automobile or homeowners policy, each insurer that sends or delivers a notice of cancellation or nonrenewal shall use the same method to send or deliver such notice to any third party designated pursuant to Conn. Gen. Stat. § 38a-323a. Public Act No. 19-125 allows electronic notice of cancellation or nonrenewal of a policy to be provided to a third party designated by an insured if agreed to between the parties. The Department expects that any cancellation or nonrenewal notification to a third party would be accompanied by a description of the specific policy being cancelled or nonrenewal—as the insurer would undertake in a non-electronic environment—in order to adequately inform the third party of such cancellation or nonrenewal and any necessary action to be taken. Insurers are encouraged to contact any insured and/or third party in the event delivery of an email notice fails due to an incorrect email address.

5. Affiliate Transfers Not Due to a Merger or Acquisition. Compliance with the advance nonrenewal notice requirements is required where an insurer proposes to discontinue providing coverage in one company within a group of companies and proposes to write the insured in another company within the same group of companies if the insurer is proposing to change the terms, conditions or provisions of the transferred policy or there is an interruption of coverage. However, such advance notice of nonrenewal is not required for a commercial or personal risk policy if the policy is transferred from the insurer to an affiliate of such insurer for another policy with no interruption of coverage **and** contains the same terms, conditions and provisions, including policy limits, as the transferred policy, except that the insurer to which the policy is transferred shall not be prohibited from applying its rates and rating plans at the time of renewal. *See* Conn. Gen. Stat. §§38a-323 and 38a-343.

Affiliate Transfers Due to Merger or Acquisition. The advance notice of nonrenewal requirement does not apply when, at the time of policy renewal, such policy is transferred to an affiliate due to a merger or acquisition. However, such transfer requires at least sixty (60) days' **notice** to the insured prior to the effective date of the transfer but shall not require a nonrenewal or cancellation of the policy. *See* Conn. Gen. Stat. §38a-330.

C. Cancellation for Nonpayment

1. Various sections of the Connecticut General Statutes govern the cancellation of insurance policies due to nonpayment of premium. For most policies, ten (10) days advance notice is required for the reason nonpayment of premium. For professional liability policies as defined in Conn. Gen. Stat. § 38a-393, ninety (90) days advance notice is required pursuant to Conn. Gen. Stat. § 38a-324. For workers' compensation policies, cancellation shall not become effective until fifteen (15) days after notice of such cancellation has been filed with the Chairman of the Workers' Compensation Commission. *See* Conn. Gen. Stat. §31-348.

2. An insurer may not cancel a paid-to-date policy due to "nonpayment" based on unpaid premium due on another policy. The nonpayment of premium provision permitted by statute may not be used based on unpaid premium due under another policy or the prior year's policy payment plan. These are separate contracts of insurance and must be treated as such by the insurer.

3. Notwithstanding paragraph 2 above, with respect to the renewal policy of an auditable policy such as general liability, commercial automobile, or workers' compensation, a renewal of an

auditable policy may be cancelled for the reason “nonpayment of premium” based on the insured’s nonpayment of the audit premium due on the prior year’s policy (the renewed policy). This recognizes the pricing procedures of certain commercial policies that use estimated exposures to estimate premium. Standard audit pricing procedures are not premium finance or premium payment plans. Insurers are expected to afford policyholders a reasonable period to pay additional audit premium. Individual circumstances will determine what is reasonable and will normally reflect the size of the risk, the amount of the audit in relation to the original premium and current economic conditions.

4. An insurer may not cancel a paid-to-date policy using the statutory ten (10) day cancellation for “nonpayment” based on an unpaid premium finance or premium payment plan of another or prior policy. The insurer controls the payment schedules and rules. Special procedures apply to financed policies that protect the insurer and allow it to collect premium due under the finance or payment plan.

D. Guidelines Regarding the Use of Conditional Renewal Notices

1. If an insurer intends to continue to insure a risk, either commercial or personal, but under terms or conditions less favorable than previously provided under the existing policy (other than a change in premium which is handled separately with the use of a Premium Billing Notice as set forth in section II below), the insurer must notify the insured by sending a conditional renewal notice. Pursuant to Conn. Gen. Stat. § 38a-323, as enacted by Section 6 of Public Act No. 17-198 effective October 1, 2017, the conditional renewal notice shall clearly state or be accompanied by a statement clearly identifying any reduction in coverage limits, coverage provisions added or revised that reduce coverage or increases in deductibles under the renewal policy.

The Department treats the advance number of days’ notice requirement for renewal premium billing as separate from the Conditional Renewal requirements to avoid having to provide multiple premium billing notices since the actual amount of a premium increase may not be known 60 days prior to policy renewal.

2. Any reduction of coverage requires a conditional renewal notice. Some examples where conditional renewal notices are appropriate are:

- An increase in the policy’s deductible or retention.
- A decrease in the limits of coverage.
- A new exclusion or deletion of coverage.

3. The conditional renewal notice must comply with the advance number of days required by statute for nonrenewal of the particular type of policy. The conditional renewal notice must be sent by (a) registered or certified mail; (b) by mail evidenced by a United States Post Office certificate of mailing; or (c) delivered by the insurer to the insured by the required date. Pursuant to Public Act No. 18-158 effective July 1, 2019, notice may be provided by electronic means if agreed between the insurer and the named insured. The Department expects that insurers will retain evidence of electronic delivery or a delivery receipt of the electronic notice to show

compliance with the advance notice requirements as well as proof that the named insured agreed to the use of electronic means of notification.

4. The Department will not consider an insurer to be in violation of the requirements of Conn. Gen. Stat. § 38a-323 if the insurer provides a conditional renewal notice that gives the insured the advance number of days required by statute for nonrenewal, together with the statement of less favorable terms or conditions.

E. Remedy for Failure to Provide the Required Notice of Nonrenewal or Conditional Renewal Notice

Failure of the insurer or its agent to provide the insured with the required notice of nonrenewal or with a conditional renewal notice shall entitle the insured to a renewal of the policy for a term of not less than one year on the same terms (not including premium) as the expiring policy and the privilege of pro-rata cancellation at the lower of the current or previous year rates if exercised by the insured within sixty (60) days from the renewal or anniversary date.

II. RENEWAL PREMIUM BILLING REQUIREMENTS FOR PERSONAL AND COMMERCIAL INSURANCE POLICIES

Conn. Gen. Stat. § 38a-323 governs the renewal premium billing requirements for personal and commercial risk insurance policies.

A. Renewal premium billing notice requirements do not apply to:

- (a) Workers' Compensation policies;
- (b) Commercial insurance policies if the premium for the ensuing policy period is to increase less than ten (10%) percent on an annual basis; or
- (c) Policies for which the preceding annual premium is \$50,000 or more.

B. Compliance with Advance Notice Requirements

1. For personal and commercial risk insurance policies (other than a liability policy where a municipality is the named insured), a premium billing notice shall be mailed or delivered to the insured by the company or its agent not less than thirty (30) days in advance of the policy's renewal or anniversary date.
2. The advance premium billing notice for a liability policy where a municipality is the named insured shall be sixty (60) days.
3. Compliance with the minimum advance notice standards is determined by counting the number of calendar days beginning with the first day after the date of mailing of the notice up to, but not

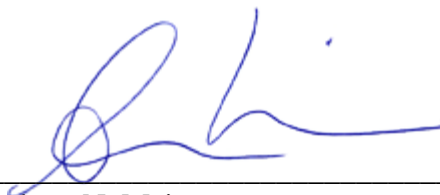
including, the renewal or anniversary date of the policy. The date of mailing is evidenced by (a) the postmark date on the envelope; (b) a copy of the completed receipt that it was sent by registered mail or certified mail; or (c) a certificate of mailing from the U. S. Post Office. If the notice is delivered to the insured in person by the company or agent, this should be evidenced by a signed receipt from the insured. In addition, pursuant to Conn. Gen. Stat. § 38a-323, notice may be provided by electronic means if agreed between the insurer and the named insured. *See* Public Act No. 18-158. The Department expects that insurers will retain evidence of electronic delivery or a delivery receipt of the electronic notice to show compliance with the advance notice requirements as well as proof that the named insured agreed to the use of electronic means of notification.

4. Renewal premium billing notices must state the actual renewal premium. The routine issuance of premium billing notices with the statement that the premium will increase by some percentage is improper and fails to provide the notice required by law.

C. Remedy For Failure To Provide The Required Premium Billing Notice

Failure of the insurer or its agent to provide the insured with the required premium billing notice shall entitle the insured to renewal of the policy for a term of not less than one year and the privilege of pro-rata cancellation at the lower of the current or previous year rates if exercised by the insured within sixty (60) days from the renewal or anniversary date.

For information on this bulletin, please contact the Connecticut Insurance Department, Property and Casualty Division at 860-297-3867 or by e-mail to cid.pc@ct.gov.



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