



**STATE OF CONNECTICUT
INSURANCE DEPARTMENT**

Bulletin PC-42-04
May 05, 2004

**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**

Bulletin PC-42-04 supersedes Insurance Department Bulletin PC-42 pertaining to the cancellation or nonrenewal of insurance policies in Connecticut. Insurance companies should distribute Bulletin PC-42-04 to all areas of the company involved with decisions to terminate or continue to insure Connecticut risks. 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.

**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-341 to 38a-345, 38a-358, and 38a-975 to 38a-998.

Commercial Lines (excluding Workers' Compensation): Conn. Gen. Stat. §§ 38a-170, 38a-323 to 38a-326, 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 mail, 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.
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.
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.
5. Compliance with 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 in the same group of companies. An exception to this requirement is when the transfer of the policy to an affiliate is due to a merger or acquisition. Such transfer requires sixty (60) days notice to the insured but shall not require a nonrenewal.

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 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 (a). 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.
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, which 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 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, the insurer must notify the insured by either sending a notice of nonrenewal or a conditional renewal notice. The conditional renewal notice must clearly state or be accompanied by a clear statement that identifies terms or conditions that may be less favorable to the insured under the ensuing policy.

2. Any significant reduction of coverage requires either a notice of nonrenewal or 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 registered or certified mail or by mail evidenced by a United States Post Office certificate of mailing, or delivered by the insurer to the insured by the required date.

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 days from the renewal or anniversary date.

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 insurance policies.

A. Renewal premium billing 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 percent on an annual basis,
- (c) Policies for which the annual premium was \$50,000 or more.

B. Compliance With Advance Notice Requirements

1. For personal and commercial insurance policies (other than a liability policy wherein 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 30 days in advance of the policy's renewal or anniversary date.
2. The advance premium billing notice for a liability policy wherein a municipality is the named insured shall be 60 days.
3. 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 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.
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 10% or more 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 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 ctinsdept.propcasualty@po.state.ct.us



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