

EXPLANATORY MEMORANDUM

SUMMARY OF ACTIONS TAKEN TO ADJUST PREMIUMS IN COMPLIANCE WITH REVISED BULLETIN 2021-3

April 30, 2021

**AMERICAN CASUALTY COMPANY OF READING, PENNSYLVANIA (20427)
COLUMBIA CASUALTY COMPANY (31127)
CONTINENTAL CASUALTY COMPANY (20443)
THE CONTINENTAL INSURANCE COMPANY (35289)
NATIONAL FIRE INSURANCE COMPANY OF HARTFORD (20478)
TRANSPORTATION INSURANCE COMPANY (20494)
VALLEY FORGE INSURANCE COMPANY (20508)
WESTERN SURETY COMPANY (13188)
SURETY BONDING COMPANY OF AMERICA (24047)
UNIVERSAL SURETY OF AMERICA (13200)**

Introduction

In compliance with Bulletin 2020-3, Continental Casualty Company and its above-referenced subsidiaries and affiliates (hereafter “CNA”) submitted a comprehensive plan on June 12, 2020 to issue premium refunds or adjustments to California policyholders due to the potential for reduced exposure as a result of the COVID-19 “Stay-at-Home” order. CNA’s detailed plan outlined the refund efforts that were undertaken for the exposure period of March 19, 2020 – May 31, 2020 for Commercial Auto, Workers’ Compensation, Commercial General Liability, Commercial Multi-Peril, Medical Malpractice and Other Liability policyholders. Subsequently, in compliance with the original Bulletin 2020-8, CNA submitted an explanatory memorandum on November 20, 2020 outlining our approach to handling additional refund requests on a case-by-case basis for the exposure period of June 1, 2020 – August 31, 2020 and a second explanatory memorandum on February 1, 2021 for the exposure period of September 1, 2020 – December 31, 2020. This explanatory memorandum summarizes the premium refund or adjustment actions CNA intends to implement on insurance products or segments that warrant consideration for the exposure period of January 1, 2021 – March 31, 2021, in compliance with revised Bulletin 2021-3.

While CNA intends to implement the outlined premium refunds and adjustments in compliance with revised Bulletin 2021-3, it is our view that temporary reductions in exposure for certain products or segments due to the “Stay-at-Home” order do not render any of CNA’s rates excessive, inadequate or unfairly discriminatory. CNA will continue to closely monitor loss experience and make any necessary adjustments to its filed rates to ensure continued compliance with California laws and regulations.

Summary of Premium Refund Actions and Adjustments

CNA will address all premium refund or adjustment actions for the months of January, February and March 2021 on an individual basis for policyholders who reach out to CNA for additional assistance. CNA issued broad refunds to policyholders in response to Bulletin 2020-3. While we have continued to process additional refund requests on a case-by-case basis, we do not believe broad, across-the-board refunds to be appropriate for a number of reasons:

- As the impact of the pandemic varied throughout the state during the exposure period, some areas continued business activities and other areas may have needed to pause or restrict certain business activities. As a result, CNA feels that it is more appropriate to address the impact to our insureds on a case-by-case basis rather than through a broad refund effort.
- A large number of refunds issued by CNA in compliance with Bulletin 2020-3 were for policies rated on an economically sensitive exposure base (sales/revenue or payroll) and subject to premium audit upon policy expiration. This includes all workers' compensation policies and a portion of general liability and commercial automobile liability policies. The broad refunds that CNA made in June 2020 recognized the reduction in risk for the period of time during which risk reductions were most prevalent and provided timely relief to our customers. Any additional exposure changes on these policies, whether due to COVID-19-related impacts or other changes to business operations, will be identified during the premium audit process and any necessary adjustments will be made to the premium that was estimated at issuance.
- New and renewal businesses written during the period of March 19, 2020 through December 31, 2020 have had the opportunity to provide an appropriately adjusted estimate of their loss exposure that reflects the impact of the pandemic on their business operations. Because these risks were appropriately priced at policy inception, with recognition for current circumstances, additional adjustments to premium are not appropriate.
- In compliance with Bulletin 2020-3, CNA sent a letter to all California policyholders who were determined to be eligible for a premium refund. In this letter, CNA encouraged impacted policyholders to reach out to their insurance agent if they would like to provide additional details concerning their actual reduction in risk as a result of the COVID-19 pandemic. As such, all impacted policyholders have already been notified of their right to work with CNA on a case-by-case basis to determine additional premium adjustments, as warranted. Additionally, CNA issued a subsequent communications to our agents who work with California domiciled insureds on December 21, 2020. This communication reiterated that CNA remains willing to work with policyholders that continue to be significantly impacted by the COVID pandemic.

Impact of End-of-Period Audits:

Many of the policies CCC and its subsidiaries write in California are auditable policies. Policies are rated based on estimated payroll and class codes, using workers compensation as an example, provided by the insured at the inception of the policy. At the conclusion of the policy period, CNA auditors collect information from insureds and adjust premiums to reflect the actual exposure during the policy period. While individual impact of the audit varies significantly from insured-to-insured, before COVID we were experiencing an average 4% additional premium due as a result of the end-of-period audit. As we have audited policies impacted by the pandemic (i.e., those ending in late March 2020 or later), the premium adjustments have trended down with our largest historic reductions occurring in the most recent audit months. We are consistently seeing double digit percentage reductions due to the audits, with some reductions reaching 50% or more. These adjustments are intentional and expected, a result of the design of auditable policies. We expect this trend will continue as we continue to audit policies in force during months impacted by the pandemic.

Conclusion

CNA remains committed to working with our policyholders who have experienced financial hardship as a result of the ongoing COVID-19 pandemic. In all instances, we will continue to follow regulatory guidance and provide support to our customers where need be.