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To:	RSBCovid19PR
Subject:	Protective Property & Casualty Insurance Company Response to Bulletin 2020-3
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Attachments:	image001.png

To Whom It May Concern:

This report is in response to the recent Bulletin 2020-3 issued by Insurance Commissioner Ricardo Lara, dated April 13, 2020 in reference to Premium Refunds, Credits, and Reductions in Response to COVID-19 Pandemic.

Protective Property & Casualty Insurance Company (PPCIC) provides contractual liability insurance in connection with Vehicle Service Contracts (VSC) and Guaranteed Asset Protection (GAP) contracts. (For reference, our contractual liability insurance written premium in California in 2019 was about $4.6 million). We do not believe that the above referenced bulletin was intended to apply to the contractual liability insurance provided by PPCIC. However, we do not want to be seen as ignoring the bulletin, therefore, we are responding out of an abundance of caution.

For our VSC line of business, the contractual liability insurance only incurs a loss if / when the VSC administrator can no longer make loss payments themselves. Given the economic downturn associated with the pandemic, the likelihood of a VSC administrator being unable to satisfy their financial responsibilities to cover losses is likely to increase, thus increasing the possibility of a contractual liability loss for PPCIC.

GAP products reimburse a vehicle lender for the difference between the outstanding balance of the loan and the primary insurance company's settlement amount in the event of a total vehicle loss. The average GAP contract covers a time period of about 70 months. While the pandemic is likely to result in fewer vehicle accidents over the next few months, the decrease in frequency across a contract of such duration will be relatively small. In addition, the pandemic and its ensuing economic impact are likely to result in a rapid decrease in used vehicle values. When used vehicle values decline, this results in a lower settlement amount from the primary insurance company and thus a larger GAP loss amount. Used vehicle prices will not rebound until later in 2020 or early in 2021, resulting in several months of higher GAP loss severity which will most likely more than offset the decrease in vehicle accidents.

In conclusion, during an economic downturn, contractual liability insurance covering VSC and GAP contracts are more likely to see an increase in expected losses. If you have any questions or would like to discuss this further, please feel free to contact me at the information shown below.

Regards,

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