

**Addendum to Explanatory Memorandum
RLI Insurance Company (NAIC 13056)
COVID-19 Premium Refunds, Credits, and Reduction Report
January, February, and March 2021**

Explanatory Memorandum – Section I

2a. *Please provide your explanation describing the types or risk exposures that are not subject to refund.*

RLI Insurance Company's (RLI) review determined that no refunds are necessary in certain lines of business or types of policies. In these lines of business and types of policies, RLI has determined that the measure of risk is not substantially overstated and has, in fact, increased for certain lines.

- **Claims Made Policies:** Claims made policies are triggered by a claim made during the policy period, not an occurrence during the policy period. A downturn in activity or receipts does not decrease our exposure because the act giving rise to the claim likely occurred before the inception of the policy (and after the retroactive date). Therefore, the activity of the insured today or during the pandemic does not necessarily impact the risk of a claim. Typically, claims made policies are Directors and Officers, Cyber, Fiduciary, and Employment Practices Liability.
- **Personal Umbrella:** Exposures under excess liability are primarily based on the severity of a loss. This exposure is not decreased due to the short-term activity reduction caused by the pandemic. Studies and reports are showing that the severity of losses increased during the COVID-19 pandemic.
- **Surety Bonds:** Most of the surety bonds provide financial assurance for specific performance functions. This financial assurance has not changed and in many cases has resulted in a substantial increase in exposures. Further, Surety bonds contain indemnification provisions. If a principal is unable to provide the reimbursement or collateral required under the indemnification agreement because of COVID-19 restrictions or effects, this will increase RLI's/CBIC's exposures under the bond.
- **High Performance Drivers (Track Day Insurance):** This is insurance for individuals based on participation at high performance driver education events. They are limited in duration and scope and are only purchased for a particular "track day" event. This product line was not impacted by the COVID-19 pandemic.
- **Snap-on Tools (captive):** This product line is written in conjunction with a captive insurer for Snap-on Tools. Snap-on Tools was considered an essential business during the COVID-19 pandemic and continued to operate; therefore, there was no reduction in exposure.
- **Businessowners/Home Business:** Rating factors for determination of premium include zip codes, business class, and property value limits. This product line does not consider factors that could have been affected by COVID-19. The risks insured by this product line are not "storefronts" where customers visit the premises. Homes Businesses conducting the same operations in the same area are charged the same base rate regardless of revenues or other factors affected by the COVID-19 pandemic.

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Explanatory Memorandum – Section II

2b: If your company writes in one of the lines specified in Bulletin 2020-3 and has issued refunds for your policyholders please explain all actions taken to date to refund premium in response to or consistent with this Bulletin.

RLI's Public Transportation (School Buses and Charter Buses) segment has been actively working with our California policyholders to (temporarily) suspend certain coverage on fleet units that are not in service and issuing refunds or credits. RLI has been taking this action since March 2020, promptly following the declaration of the state of emergency. Depending upon the policyholder's situation, coverage suspensions have been applied to entire fleets as well as individual units. Suspending coverage has allowed these policyholders to keep their vehicles tagged and registered during the time the policy is suspended and will also allow the policyholders to quickly resume operations as soon as the demand for service returns. Additionally, if needed, physical damage-only coverage has been maintained on specified vehicles. These actions are within the currently filed rating plans. When a policyholder wants to put a suspended vehicle back in service, RLI will reactivate coverage upon request, at the prorated annual rate.

4, 5: How did your company accomplish its refund to policyholders? Explain which of the following method(s) your company used to compute the premium refund. If the response differs by program within line of insurance, provide additional explanation for the remaining programs.

Given the diverse nature of the businesses RLI writes, a one-size fits all solution was not deemed appropriate or fair to apply to our books of business. After a review of all lines of business, including the lines of insurance identified in Bulletin 2020-3, RLI determined that certain lines of business may have overstated exposures because of the COVID-19 pandemic, while other lines either had not changed, or the exposure may have increased. Thus, RLI decided to apply either a resurvey approach or a uniform premium reduction, depending on the product.

Resurvey:

The product lines for which we resurveyed policyholders include General Liability, Marine Liability, Artisans Liability, and Package Liability. These product lines are appropriate for resurvey because the rating factors that typically relate to these products could have been affected by the COVID-19 pandemic. RLI sent notices to those potentially affected policyholders to begin reassessing the classification and exposure bases of affected risks on a case-by-case basis, by asking for information on payroll and gross receipts depending on the product. In conjunction with the above, RLI also notified all potentially impacted producers, of our plan. Upon receipt of the resurvey information from each affected policyholder, RLI assessed the information to determine if a premium refund should be issued, and in what amount, according to the rating guidelines for that product line. It should be noted that certain resurveyed policies contained a minimum premium requirement. If the resurvey resulted in a premium lower than the minimum premium amount, the minimum premium was applied and any premium refund was adjusted accordingly. RLI also believes that this resurvey approach does not require a revised filing with California, as it is a reassessment of risks and exposure bases for any overstated risks.

Uniform:

Separately, RLI applied a uniform premium reduction to certain Commercial Auto Liability policies contained as part of our package policies. While this portion of the package policy is based on factors not affected by the COVID-19 pandemic, RLI does feel that there was a reduction in liability. As such, RLI previously provided a uniform 15% premium reduction.

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Premium reductions were issued in the form of a premium refund check or credit to the producer's statement to be returned to the policyholder by the producer.

Reporting Requirements:

RLI has been and will continue to comply with California's reporting requirements.