



RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

BULLETIN 2020-3

TO: All Property and Casualty Insurers and Workers Compensation Insurers

FROM: Insurance Commissioner Ricardo Lara

DATE: April 13, 2020

RE: Premium Refunds, Credits, and Reductions in Response to COVID-19 Pandemic

Insurance Commissioner Ricardo Lara recognizes that the COVID-19 pandemic has caused an unprecedented challenge for California's businesses and residents. In response to the COVID-19 pandemic, Governor Gavin Newsom on March 4, 2020 declared a statewide State of Emergency. Californians were ordered to "shelter-in-place" shortly thereafter.

The COVID-19 pandemic has severely curtailed activities of policyholders in both personal and commercial lines. As a result, projected loss exposures of many insurance policies have become overstated or misclassified. This is especially true for policies where premiums are based partly on measures of risk such as number of miles driven, revenue, and payrolls which have all dropped significantly because of COVID-19.

According to UC Davis' *Special Report on Impact of COVID-19 on California Traffic Accidents*, reduced driving has resulted in fewer accidents, injuries, and fatalities on public highways and roads. In addition, the Consumer Federation of California Education Foundation (CFC) on March 23, 2020, submitted to the Insurance Commissioner a Petition for Hearing to redress excessive automobile insurance rates and premiums caused by the COVID-19 pandemic. Commissioner Lara agrees that the overall risk of loss for private passenger automobile insurance is lower due to the pandemic, however, the Commissioner also recognizes that these reductions in risk extend beyond the automobile line of insurance referenced in the Petition. Accordingly, this Bulletin requires broader premium reductions for other lines of insurance in addition to reductions for the private passenger automobile insurance line.

To protect consumers and to provide consistent direction to the insurance industry regarding misclassifications of risk resulting from the COVID-19 pandemic and to address

certain issues raised in CFC's petition, Commissioner Lara hereby orders insurers to make an initial premium refund for the months of March and April to all adversely impacted California policyholders in the following lines of insurance, as quickly as practicable, but in any event no later than 120 days after the date of this Bulletin:

- Private passenger automobile insurance
- Commercial automobile insurance
- Workers' compensation insurance
- Commercial multiple peril insurance
- Commercial liability insurance
- Medical malpractice insurance
- Any other line of coverage where the measures of risk have become substantially overstated as a result of the pandemic.

If the COVID-19 pandemic continues beyond May, Commissioner Lara will send out a subsequent Bulletin to insurers and provide appropriate instructions.

Commissioner Lara grants each insurer reasonable flexibility in determining how best to quickly and fairly accomplish the refund of premium to policyholders. Insurers may comply with the premium refund order by providing a premium credit, reduction, return of premium, or other appropriate premium adjustment.

In responding to this Order, insurers may take the following actions without obtaining prior approval of rates or rules by the Department of Insurance if done consistent with the insurer's existing rating plan:

- Reclassification of exposures to comport with current exposure, or
- Reduction of the exposure base (miles driven, payroll, receipts, etc.) to reflect actual or anticipated exposure.

Insurers may refund premium without prior approval by the Department of Insurance if they apply a uniform premium reduction for all policyholders in an individual line of insurance, for recent, current, and upcoming policy periods or any portion thereof. The amount of the across-the-board premium refund may be an average percentage based on estimated change in risk and/or reduction of exposure bases. Considerations relevant to determining the amount of an appropriate premium refund or credit, if any, may include distribution of policyholders across mileage bands or type of use of vehicle (such as pleasure use vs. commute use) for personal automobile insurance or, at a minimum, premium for a commercial policy.

Alternatively, insurers may refund premium without prior approval by the Department of Insurance by reassessing the classification and exposure bases of affected risks on a case-by-case basis for recent, current, and upcoming policy periods or any portion thereof. Where there are risk misclassifications resulting in premium overcharges, insurers should immediately reclassify risks and refund premium. An example would be to reclassify a personal automobile exposure from "commute use" to "pleasure use" and

to reduce the insured's estimated miles driven for as long as the COVID-19 pandemic continues to substantially reduce the number of miles driven.

Whether choosing one of the above-described approaches, or an alternative approach, insurers shall, no later than 120 days after the date of this Bulletin, provide each affected policyholder, if applicable, with a notification of the amount of the refund, a check, premium credit, reduction, return of premium, or other appropriate premium adjustment. In addition, insurers shall provide an explanation of the basis for the adjustment, including a description of the policy period that was the basis of the premium refund and any changes to the classification or exposure basis of the affected policyholder. The insurer shall further offer each insured the opportunity to provide their individual actual or estimated experience. For automobile policies, this includes an invitation to provide updated mileage estimates as appropriate.

Commissioner Lara further hereby orders every insurer writing any of the above-referenced lines of insurance in California to report to the Department of Insurance within 60 days of the date of this Bulletin, all actions taken and contemplated future actions to refund premium in response to or consistent with this Bulletin. The report shall include California-specific information and an explanation and justification for the amount and duration of any premium refund, and how those measures reflect the actual or expected reduction of exposure to loss.

The report shall also provide monthly and overall totals for the following:

- Percentage of refund applied,
- Aggregate premium prior to, and subject to, application of refund,
- Aggregate premium refund,
- Average premium before and after refund,
- Average percentage of refund, applied to each policyholder,
- Number of in-force policies, and
- Number of policyholders receiving refund.

Reports shall be submitted to the Rate Specialist Bureau at the following email address: RSBCovid19PR@insurance.ca.gov. Reports may be made available to the public.