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CALIFORNIA INSURANCE COMMISSIONER

BULLETIN 2021-03

TO: All Admitted and Nonadmitted Property & Casualty and Workers' Compensation Insurers

FROM: Insurance Commissioner Ricardo Lara

DATE: March 11, 2021

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

The public health “stay-at-home” orders and the resulting decrease in economic activity following the onset of the COVID-19 pandemic in March 2020 decreased the risk of loss for California insurance consumers in many lines of insurance. In response, I directed insurance companies to return a portion of premiums and to report data about their premium relief actions to the Department of Insurance (Department) for our review. To date, private passenger automobile insurance companies have returned more than \$1.75 billion in premium for 2020 to California drivers through direct payments, credits, and future premium offsets. However, based on extensive analysis of data received, the Department’s review of this loss data demonstrates the premium relief that insurance companies provided to their policyholders was insufficient, leaving consumers paying inflated premiums while they continue to experience reduced risk of loss.

This Bulletin 2021-03, as set forth in greater detail below, directs insurance companies to take the following actions:

- Do more to return additional premium relief from March 2020 forward, and report these additional premium returns to the Department, commensurate with continuing reductions in the exposure to loss for particular lines of insurance.
- Communicate with their policyholders about how they will return premiums, as well as options available to consumers to reduce their ongoing premium.
- Consult this bulletin when seeking clarification regarding the directives and reporting requirements set forth here and in Bulletins [2020-3](#), [2020-4](#) and [2020-8](#).

Background on My Prior Actions

On April 13, 2020, I issued Bulletin 2020-3 acknowledging that the COVID-19 pandemic caused an unprecedented challenge for California's businesses and residents. Bulletin 2020-3 also recognized that the COVID-19 pandemic and the statewide and local public health stay-at-home orders have severely curtailed activities of policyholders and that projected loss exposures of many insurance policies in both personal and commercial lines have become overstated or misclassified. Bulletin 2020-3 ordered all property and casualty insurers including workers' compensation insurers in California to make an initial partial premium adjustment for the months of March and April to all adversely impacted California policyholders in the lines of insurance identified in Bulletin 2020-3, as quickly as practicable, but in any event no later than 120 days after the date of that Bulletin, or August 11, 2020.

Bulletin 2020-3 also required every insurer writing any line of insurance in California where the measures of risk have become substantially overstated as a result of the COVID-19 pandemic to report to the Department within 60 days of the date of Bulletin 2020-3 all actions taken and contemplated future actions to adjust premiums in response to or consistent with Bulletin 2020-3.

Subsequent Bulletins 2020-4 and 2020-8 extended the directives in Bulletin 2020-3 for as long as the circumstances resulting from this pandemic continue to substantially reduce an insurance company's exposure to loss for specific lines of insurance.

Information regarding premium relief provided to policyholders for the months of June, July, and August 2020 was to be submitted to the Department no later than October 1, 2020. If insurance companies provided no premium relief to policyholders for the months of June, July, and August 2020, the report due October 1, 2020 was required to indicate that no premium relief was provided to policyholders together with an explanation of the reason(s) why no premium relief was provided.

Similarly, information regarding premium relief provided to policyholders for the months of September, October, November, and December 2020 was required to be submitted to the Department no later than February 1, 2021. If insurance companies provided no premium relief to policyholders for the months of September, October, November, and December 2020, the report due February 1, 2021 was also required to indicate that no premium relief was provided to policyholders for that period and to include an explanation of the reason(s) why no premium relief was provided.

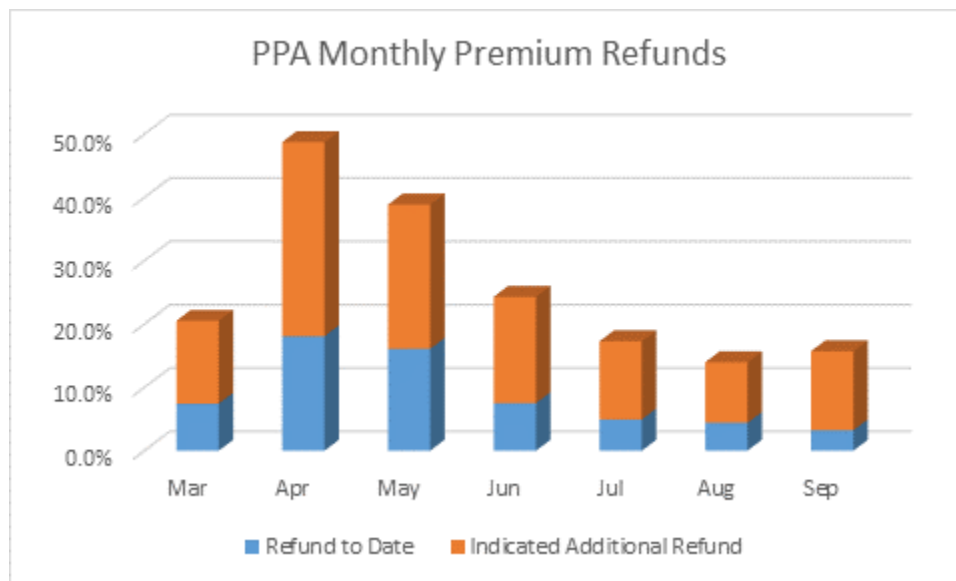
Data Shows Continued Reduced Losses and Overstated Premium in Some Lines

My prior bulletins recognized that COVID-19 triggered unforeseen circumstances, which changed the risk profile for many policyholders in various lines of insurance. My prior bulletins also relied upon insurance companies' judgment to reasonably determine which lines were overcharged premium and the amount of premium to return to policyholders.

In this regard, although some insurance companies are to be commended for their earnest effort to return premium to California policyholders, evidence now shows that many insurance companies fell short.

The Department analyzed bodily injury, property damage, and collision data for the months of January through September 2020 for the top 10 Private Passenger Automobile groups in the state. Together, these groups represent over 80 percent of the private passenger automobile insurance market in California. Although some insurance companies demonstrably made a good faith effort to return premium to policyholders, some did not return enough. Even worse, some insurance companies simply stopped returning premium altogether after June of 2020, although the pandemic still continues.

The data collected by the Department demonstrates that, on average, insurance companies over-collected premium due to the lower loss exposures during the pandemic and did not return enough premium to drivers. If insurance companies do not supplement initial premium refunds from March through September of 2020, the premium refunds will fall short of an appropriate premium adjustment for private passenger automobile insurance by nearly half of the expected premium adjustment on average over that seven-month period.¹ These results are illustrated in the following refund graphic for the top 10 private passenger automobile (PPA) insurance groups in California:



¹ The Department's analysis is based upon expected loss ratios for the Private Passenger Automobile line in years prior to the pandemic. This analysis also considered an insurance company's efficiency standard, plus a 5% profit loading. Using these assumptions, it is apparent that, on the whole, private passenger automobile insurance companies must do more to return premium to their policyholders.

In short, many California drivers have been paying overstated premiums that do not reflect the reduced risk of loss during the continuing pandemic.

The Department's data analysis is consistent with a finding, recently reported to the California Automobile Assigned Risk Plan Advisory Committee, that California Low Cost Automobile incurred claims costs from March through November 2020 were considerably lower than previous years. As a result, the Advisory Committee recommended premium refunds to Low Cost Automobile policyholders of 30% for the months of March, April, and May, followed by a 15% premium reduction for the months of June and July, and a 20% premium reduction for August through December.

Insurance Companies Must Report Additional Premium Returns to Consumers

Insurance companies must do more to return overstated private passenger automobile premiums, and continue to do so as long as the pandemic results in reduced risk of loss.

Insurance companies are directed to communicate with their policyholders about how they will return premiums, as well as options available to consumers to reduce their ongoing premium. By way of example, for private passenger automobile insurance, if consumers are driving less, insurance companies must inform consumers about ways to reflect this change in driving patterns, such as asking consumers to report their actual driven mileage.

Accordingly, as conditions persist that warrant additional premium relief, insurance companies shall continue to provide premium relief information to the Department on a quarterly basis as of the last day of each subsequent calendar quarter. Premium relief information for each subsequent calendar quarter shall be provided to the Department within 30 days of the end of each subsequent calendar quarter. If no premium relief is provided to policyholders in a calendar quarter, the subsequent report due shall indicate that no premium relief was provided to policyholders with an explanation of the reason(s) why no premium relief was provided.

Additionally, for the private passenger automobile line of insurance and for other lines where loss experience now shows that premiums were over-collected, I direct insurance companies to report to the Department information about the additional premium relief that they provide to consumers as our state recovers from this unprecedented economic crisis and global pandemic. For the report of this first quarter of 2021, due by April 30, 2021 (i.e. – within 30 days of the end of the quarter), insurance companies shall also include a supplemental report to show how they plan to return additional premiums for the months of March through December 2020 where premiums remained overstated despite initial premium returns.

To aid in the submission of insurer reports for current and future reporting periods, and to ensure timely receipt of insurer submissions, the Department has provided an Excel workbook that can be downloaded at the following link: <http://www.insurance.ca.gov/0250-insurers/0300-insurers/0100-applications/rsb-forms/2020/Covid19PremRefndRprtngSepToDec2020.cfm>. As conditions warrant, the Department will provide additional workbooks for subsequent reporting periods.

Reports shall be submitted to the Rate Specialist Bureau at the following email address: RSBCovid19PR@insurance.ca.gov. All information provided to the Department pursuant to this Bulletin shall be available for public inspection pursuant to Insurance Code section 1861.07.

The extension of reporting required by this Bulletin 2021-03 does not change the previous deadlines for insurers to provide direct relief to policyholders, such as the deadline to report for the months of September, October, November, and December 2020, which was required to be submitted to the Department by no later than February 1, 2021.