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JOHN A. GREENE
Director

# ARIZONA DEPARTMENT OF INSURANCE

**2910 North 44th Street, Suite 210, Phoenix, Arizona 85018-7256 · (602) 912-8456 · FAX: (602) 912-8452**

**http://www.state.az.us/id**

Circular Letter 97-1

TO: All Insurance Industry Representatives, Insurance Trade Associations and Interested Parties

FROM: John Greene, Director of Insurance

DATE: March 7, 1997

RE: Non-Renewal of Motor Vehicle Insurance Policies and Transfers of Policies to Affiliated Insurers Pursuant to A.R.S. § 20-1631(E) and (L)

A.R.S. § 20-1631, as amended in 1996, permits an insurer to non-renew up to "one-half of one per cent of its policies annually" pursuant to subsection E, in addition to non-renewals pursuant to subsection D. Subsection L, also as amended in 1996, further permits an insurer to "transfer one per cent of its policies to an affiliated insurer within one calendar year" based on prescribed grounds. Inquiries from insurance industry representatives have brought to the Department of Insurance's attention questions relating to the Department's current approach to or opinion of the requirements of these statutes.

The Department believes the method for calculating the percentage limitations should be consistent with the statute's purpose to provide a clear baseline from which insurers can determine their compliance on a present and prospective basis. We also believe the method should be based on readily available data, and be as simple as possible for insurers to apply and the Department to enforce.

Calculation

Therefore, insurers should use the following formula to calculate the percentages prescribed in both subsections E. and L. of A.R.S. § 20-1631:

Denominator - the number of the insurer's outstanding motor vehicle policies in this state as of December 31 of the most recently completed calendar year.

Numerator - The number of non-renewals pursuant to subsection E., or transfers to affiliates pursuant to subsection L., as the case may be, in the current calendar year.

Of course, the resulting quotient must be multiplied by 100 to be expressed as a percentage.

<u>Reporting</u>

The statutory annual statement filed by each insurer in March of each year contains information relating to the insurer's "financial condition, transactions and affairs as of the December 31 preceding." A.R.S. §20-223(A). The Department will evaluate the information included in an insurer's statutory annual statement to determine compliance with A.R.S. §20-1631 for the period covered by the statement.

Thus, each insurer should include with its statutory annual statement the following information and calculations to permit the Department to determine if the insurer has complied with A.R.S. §20-1631:

¶1. The number of relevant non-renewals that occurred during the period covered by the statement.

¶2. The number of relevant transfers to affiliates that occurred during the period covered by the statement.

¶3. The number of outstanding motor vehicle insurance policies issued by the insurer in effect as of December 31 of the calendar year immediately preceding the period covered by the statutory annual statement.

¶4. The resulting calculations, expressed as percentages:

a. (¶1) ÷ (¶3) x 100 = _____%

b. (¶2) ÷ (¶3) x 100 = _____%

For example, if an insurer had 35 "relevant non-renewals" during the period covered by the statement, 25 "relevant transfers to affiliates" during the period covered by the statement, and as of December 31 of the year immediately preceding the period covered by the statutory annual statement the insurer had 10,000 outstanding motor vehicle insurance policies, the insurer would report the following information along with its statutory annual statement:

¶1. The number of relevant non-renewals that occurred during the period covered by the statement. **35**

¶2. The number of relevant transfers to affiliates that occurred during the period covered by the statement. **25**

¶3. The number of outstanding motor vehicle insurance policies issued by the insurer in effect as of December 31 of the calendar year immediately preceding the period covered by the statutory annual statement. **10,000**

¶4. The resulting calculations, expressed as percentages:

a. (35) ÷ (10,000) x 100 = .35%

b. (25) ÷ (10,000) x 100 = .25%

Insurers should begin reporting this information with their statutory annual statement for calendar year 1997, to be filed in March 1998..