



STATE OF ARIZONA
DEPARTMENT OF INSURANCE

JANE DEE HULL
Governor

2910 NORTH 44th STREET, SUITE 210
PHOENIX, ARIZONA 85018-7256
602/912-8456 (phone) 602/912-8452 (fax)

CHARLES R. COHEN
Director of Insurance

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TO: Commercial Lines Property & Casualty Insurers, Producers, Insurance Support Organizations, Insurance Trade Associations and Other Interested Parties

FROM: Charles R. Cohen
Director of Insurance

DATE: March 18, 2002

RE: **Property & Casualty Commercial Insurance Notices**

With certain exceptions,¹ cancellation, nonrenewal and changes in premium or coverage of property and casualty commercial lines insurance in Arizona are subject to Arizona Revised Statutes, Title 20, Chapter 6, Article 14 (Article 14). Among other things, Article 14 prescribes prior notice requirements.

The Arizona Department of Insurance (Department) has reason to believe that some insurers are failing to comply with the spirit of this law as it relates to the timing and content of notice. The purpose of this Bulletin is to clarify the notice requirements of Article 14, particularly with respect to changes in premium or coverage.

A.R.S. § 20-1677(A) states:

- A. An insurer shall mail or deliver to the named insured at the mailing address shown on the policy written notice of premium increase, change in deductible or reduction in limits or substantial reduction in coverage at least sixty days before the expiration date of the policy. If the insurer fails to provide the sixty days' notice, the coverage provided to the named insured remains in effect until notice is given or until the effective date of replacement coverage obtained by the named insured, whichever occurs first [emphasis added].

Notice is inadequate under A.R.S. §20-1677(A) if it merely informs the policyholder about the possibility of future changes in premium or coverage, or if it is too general as to what will occur and when. It is insufficient notice to make vague statements such as, "(b)ased on rate increases applied to your present coverages and exposures, your renewal premium may increase," or "(t)here may be changes in

¹ The following lines of insurance are statutorily exempted from Article 14: workers' compensation and employers' liability insurance, personal lines motor vehicle, surplus lines insurance, mortgage guaranty insurance, title insurance, excess insurance, assigned risk insurance, marine insurance, and policies covering multistate risks. A.R.S. § 20-1671. Additionally, the Director has by order exempted certain other kinds and types of insurance from the requirements of Article 14, pursuant to A.R.S. §20-1671(12).

coverages and exposures that may further alter the premium when you actually receive your renewal policy.” These types of statements do not comply with the statute because they do not provide enough information to enable the policyholder to know and understand what changes to the policy will occur and when. It is also insufficient notice to merely advise policyholders that Arizona law requires advance notice of any renewal premium increase, reductions in coverage or limits or changes in deductibles.

The purpose of the statute is to assure that policyholders receive meaningful prior notice of changes in premium or coverage. For the notice to be meaningful, it must provide information that is sufficiently timely and specific to allow policyholders at least sixty days to make informed decisions regarding their insurance before the changes take effect. Allowing that it will not be necessary or feasible in every case, ideally, the notice will state precisely what changes will occur on a date certain. In any event, a generic or vague notice designed to achieve only technical compliance with the statutory requirements does not provide the policyholder with a genuine opportunity to prepare for the changes, and is merely a noncompliant gesture.

For example, if a policyholder has an annual commercial lines package policy on which the insurer plans to increase the premium, change the deductible, reduce the liability limits and reduce coverage, the Department would consider the following notice to be compliant if provided within the statutory time frame:

On September 1, 2002 [at least 60 days in advance of the effective date], the following changes will take effect regarding your ABC Insurance Company policy, policy number ABC11126:

1. **Premium Increase:** Your current annual premium of \$1,000 will increase to \$1,100 [or your annual premium of \$1,000 will increase by 10% or your \$1,000 premium will increase by \$100].
2. **Deductible Change:** The \$250 deductible on Section I, Property Coverage, will be increased to \$500.
3. **Reduction in Liability Limits:** The \$1,000,000 limit of liability on Section II, Liability coverage, will be reduced to \$500,000.
4. **Substantial Change In Coverage:** We will no longer provide all risk coverage on your property covered under Section I, but will only provide named peril coverage.

The Department takes this opportunity to also remind insurers of the requirements for prior notice of nonrenewal prescribed in A.R.S. § 20-1676. Notwithstanding that insurers may be exiting from an entire line of insurance or no longer writing specific coverage in Arizona, they must adhere to the letter and spirit of this law. A.R.S. § 20-1673 limits the allowable grounds for mid-term cancellations, and A.R.S. § 20-1674 establishes requirements for prior notice of cancellation. The Department advises insurers to closely review the aforementioned laws to ensure that they are in compliance.

Particularly during the current hard market in property and casualty commercial lines, it is of the utmost importance that insurers are familiar with and abide by the laws that govern changes to coverage in Arizona. Should you have any questions regarding this Bulletin, please feel free to contact Deloris Williamson, Assistant Director, at (602) 912-8461.