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REGULATORY BULLETIN 2006-08¹

TO: All Insurers Authorized to Transact Insurance in Arizona, Insurance Trade Associations, Agents' Associations and Other Interested Parties

FROM: Christina Urias
Director of Insurance

DATE: October 24, 2006

RE: **Revision of Misquote Threshold for Private Passenger Automobile Insurance in Circular Letter 95-1**

The Arizona Department of Insurance ("ADOI") continues to receive complaints from policyholders that insurers (and/or producers) quote a lower price on private passenger automobile insurance than what insurers ultimately charge when issuing the policy. Insureds allege that the misquoted lower premiums either caused them to change insurers, or to purchase coverage items they would not have otherwise purchased, had they known the premium the insurer would actually charge.

Historically, ADOI has taken the position that an insurer must honor premium misquotes, regardless of intent, and when the policy is renewed, or changed at the insured's request, the insurer may then adjust the premium to the correct rate level. The reasons for misquoted premiums often include, failure to provide current rate information, rating miscalculations, "human error," or computer programming mistakes. Whatever the reason, consumers rely, often to their detriment, upon a quotation that they had every reason to expect would be accurate and the insurer should honor that quotation.

ADOI's position remains unchanged, although inflation over the past 11 years indicates a change in the prior \$10 misquote threshold is in order. Accordingly, the purpose of this Regulatory Bulletin is to: (1) revise the February 27, 1995 Circular Letter 95-1 to increase the prior \$10 misquote threshold to \$20; and, (2) remind insurers and producers who transact insurance business in Arizona of the ADOI's misquote policy.

¹ This Substantive Policy Statement is advisory only. A Substantive Policy Statement does not include internal procedural documents that only affect the internal procedures of the Agency, and does not impose additional requirements or penalties on regulated parties or include confidential information. If you believe that this Substantive Policy Statement does impose additional requirements or penalties on regulated parties, you may petition the agency under A.R.S. § 41-1033 for a review of the Statement.

Accordingly, for the purposes of this Regulatory Bulletin, a “misquote” means that the insurer/producer quoted a premium more than **\$20 less** than the insurer/producer should have quoted. A “misquote” does not include those situations where the applicant provided inaccurate information, fraudulently obtained the insurance or made material misrepresentations to the insurer/producer.

Licensed Arizona insurers and producers hold themselves out to the public as possessing special insurance knowledge and expertise and have an inherent responsibility to ensure that the quotations they provide to the public accurately reflect the price consumers can expect to pay for insurance. The most frequently asked consumer question is, “How much will this insurance cost me?” and it is reasonable for consumers to expect and receive accurate answers.

“The objectives of the department of insurance are to administer the state insurance laws, **protect the citizens of this state who purchase insurance, provide a better response to the needs of persons who purchase insurance** and stimulate the insurance market by encouraging competition.” (Emphasis added). See Laws 1980, Ch. 230, §1.

Therefore, to further the department’s objectives and to better protect the public, ADOI recommends all insurers amend their filings, within sixty (60) days of the date of this Regulatory Bulletin, with the following language:

Until the expiration of the policy term covered by the quotation, or until a change is subsequently made at the request of the insured the (Insurer’s Name) will adhere to the premium initially quoted by (Insurer’s Name) or by producers making quotations resulting in the issuance of a (Insurer’s Name) insurance policy and which quotations provided the applicant with **a premium more than \$20 lower** than should otherwise have been quoted. The aforementioned does not apply to those situations where **the lower** quotation was made because the applicant provided incorrect information, fraudulently obtained the insurance policy or made a material misrepresentation to the producer or (Insurer’s Name). The (Insurer’s Name) will advise the insured **in writing** that the premium quotation initially provided: a) was incorrect, b) should have been another dollar amount to be cited by (Insurer’s Name) in its communication to the insured, and c) will be honored by (Insurer’s Name) until the first policy renewal or until a change is subsequently made at the request of the insured.

Insurers/producers shall not provide “waivers” or disclaimers, or require applicants to sign releases relieving insurers/producers from honoring misquotes, and ADOI will not take action on presently pending complaints against insurers/producers for alleged rate filing violations, if the insurers honor the misquoted premium price, as provided herein.