

Commonwealth of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE
P. O. Box 3508 - Old San Juan Station
San Juan, Puerto Rico 00904

December 18, 1978
Circular Letter No. AM-I-12-752-78

TO ALL INSURERS AUTHORIZED TO TRANSACT FIRE AND ALLIED LINES
INSURANCE IN PUERTO RICO

Subject: Notice of Hearing in Connection
with Property Schedule Rating
Plans approved either for
monoline or package policies

Gentlemen:

During the last five years the Commercial Fire experience has been continually deteriorating even though this Office has approved substantial increases in the commercial fire rates for that same period.

Effective on February 4, 1972, a revision was approved ranging from a 10% increase to a 143% increase for individual classifications. On March 15, 1974, another rate increase was approved ranging from 5.8% to 95.5% for individual commercial fire classifications. Furthermore, on November 23, 1977, a 20% overall increase in the commercial fire rate level was also approved by this Office. We have also, approved reductions in the Windstorm and Extended Coverage rate due to the good experience in this line of insurance in the past years.

A poor experience which results in an increase in rates may be the result of an increase in the frequency of accidents and/or the increase of the average cost of a single claim. It may also be the result of obtaining less premium volume through the use of excessive discounts. A revision in rates may not be fairly distributed among all insureds in the manner prescribed by law if certain groups of insureds do not pay the premiums they should.

An investigation conducted by this Office with respect to property policies which generate substantial premiums concluded that some companies are applying discounts as high as 60%.

The trend in granting higher discounts in the commercial property business is of much concern to us since the high premium commercial risks may not be sharing their part of the burden in the total losses. This results in low premium commercial risks paying more premium than they should due to the need of more periodic

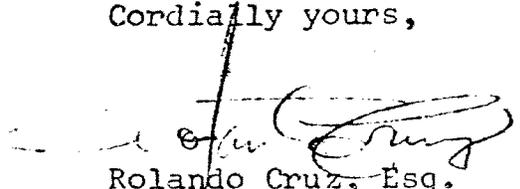
increases in the base rates since the amount of premium dollars destined to losses is considerably reduced by such discounts.

In view of the above, this Office is considering the implementation of the following guidelines for property schedule rating plans approved either for monoline or package policies, excluding the Rating Plan for Highly Protected Risks, the Petroleum Properties Schedule or Petrochemical Plants Schedule, Schedule for Rating Electric Generating Stations and deposit premium policies rating plans:

1. Such plans shall not provide for the granting of a total maximum debit or credit in excess of 25%, except that for the earthquake peril approved for use with monoline or package policies such credit shall not exceed 40%.
2. The maximum credit or debit shall only be granted taking in consideration the risk characteristics affecting the probable maximum loss potentialities of the risks.
3. Under no circumstances a credit shall be granted due to reduction in expenses of the risk specifically due to voluntary acceptance of reductions in acquisition costs.
4. The maximum credit or debit shall be applied to the rate using its complement as a factor after the application of all other rating procedures of the respective rate manuals.
5. Under no circumstances the application of the maximum credit produced by the schedule rating plan shall reduce the base rate to a final adjusted rate less than the percentage allocated in such base rate for expenses and profits according to the approved premium dollar distribution.

In order to comply with the provisions of section 12.120 of the Insurance Code of Puerto Rico, a hearing will be held in the Office of the Commissioner of Insurance, at Intendente Alejandro Ramírez Building, Paseo Covadonga, San Juan, on January 23, 1979, at 9:30 A.M., all insurers affected by this circular letter may attend. Nevertheless, failure to attend this hearing shall not preclude the Commissioner from applying the other provisions of article 12.120 of the Insurance Code. All insurers opposing this limitations should expose their objections in the aforementioned hearing.

Cordially yours,


Rolando Cruz, Esq.
Commissioner of Insurance