



COMMONWEALTH OF PUERTO RICO

OFFICE OF THE COMMISSIONER OF INSURANCE

Circular Letter #E-12-904-82

December 22, 1982

TO ALL INSURERS AUTHORIZED TO TRANSACT SINGLE INTEREST
AUTOMOBILE PHYSICAL DAMAGE INSURANCE IN PUERTO RICO

Subject: Unearned Premium Reserves Computation

Dear Sirs:

Section 5.040 of the Insurance Code of Puerto Rico, 26 LPRC sec. 504, prescribes two methods for the computation of unearned premium reserves, one on an "annual pro rata" basis in accordance with a specific table contained therein, and the other on a monthly pro rata basis. After adopting any one of the methods for computing such reserve an insurer shall not change methods without the Commissioner's approval.

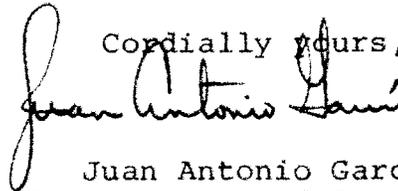
Both methods, the annual pro rata and the monthly pro rata tend to estimate the unearned premium reserves by estimating the unearned premiums that would result at the time of evaluation according to the filings approved by the Commissioner, provided that the portfolio is evenly distributed throughout the period of evaluation.

The monthly pro rata method as well as the annual pro rata method prescribed by Section 5.040 are both applicable to Single Interest Automobile Physical Damage Insurance. However, the annual pro rata method may produce reserves that may be either excessive or inadequate from the standpoint of the liability for unearned premiums, to a point that it may adversely affect the insurer or the insuring public. The monthly pro rata method using straight pro rata may also produce reserves which may differ considerably from the true liability of the insurer due to the fact that the monthly liability of the insurer decreases with time.

After giving consideration to all relevant aspects, this Office considers that a monthly pro rata method derived from the special single interest automobile pro rata table contained in the Commercial Automobile Rate Manual approved by this Office is contemplated by the provisions of Section 5.040, mentioned above, since the resulting reserve would approximate the true liability for unearned premiums in this line of insurance. Therefore, insurers may use an unearned premium terminal reserve formula developed from the formula used to determine the pro rata unearned premium from the special single interest pro rata table.

Insurers are hereby reminded that once they adopt such method for the computation of their unearned premiums reserves they shall not change methods without the Commissioner's approval pursuant to Section 5.040(5) of the Insurance Code of Puerto Rico.

Cordially yours,



Juan Antonio García
Commissioner of Insurance