

COMMONWEALTH OF PUERTO RICO

## OFFICE OF THE COMMISSIONER OF INSURANCE

September 6, 1988

Ruling No. N-AM-I-4-19-88

TO THE MEMBER AND SUBSCRIBER INSURERS OF  
INSURANCE SERVICES OFFICE, INC.

Subject: Application of the  
Commercial Lines Policy and  
Rating Simplification Program to  
New and Renewal Business

Dear Sirs:

The New Commercial Lines Policy and Rating Simplification Program approved to the Insurance Services Office, Inc., became effective in Puerto Rico, for new business only on January 1, 1988. At that time, insurers were advised that the implementation of the program for renewal business would be postponed until further notice.

This Office has completed the analysis of the circumstances surrounding the implementation of said program, among others, the substantial increases in premium for some risks, and has concluded that said program may be implemented subject to the guidelines hereby established:

1. These guidelines shall apply to new as well as to renewal business.
2. Said guidelines, with respect to limitations of premium increases or decreases for individual risks, shall only apply to Division 6 of the Commercial Lines Manual and only to those classifications suffering change in the rating bases.
3. The limitation for each classification shall remain in force until such time as a revision of the rate level of such classification using statistical data developed by the new program becomes effective.
4. The premium for those classifications or coverages subject to change in rating bases, shall not exceed 110% nor be less than 95% of the premium that such classifications or

coverages developed under the old program. In the calculation of the premium under the old program, occurrence limits shall be used in all cases where the old manual does not quote an aggregate limit, when such aggregate limit is needed. Also, consideration shall be given to a surcharge due to the addition of coverages contained under the old Broad Form Endorsement, when applicable, to a surcharge due to addition of coverages to classifications with designation "X,C,U", when applicable, and also to the use of a combined single limit for bodily injury and property damage. In applying this limitation to renewal policies, where no change in the previous coverages has occurred, the premium applicable to the risk under the new program shall not exceed 110% nor be less than 95% of the premium charged under the expiring policy. If coverages are added or deleted to a renewal policy, or its limits of liability are reduced or increased, the final premium shall not exceed nor be less than the premium developed by applying the percentages herein established to the premium developed by such policy under the old program, using the new specifications of coverage.

5. In the case of new policies, beginning as of the effective date of this ruling, the final premium shall not exceed 110% nor shall be less than 95% of the premium that such risk would have developed under the old program, taking into consideration the conditions contained in item 4 relative to absence of aggregate limits for certain coverages in the old program, the use of separate limits for bodily injury and property damage and the addition of coverages when insuring classifications containing the designations "X,C,U".

6. In the case of renewal policies only, the limitation of +10% or -5% in the new premium shall apply after consideration of any rate level indication which has been approved prior to the renewal date of the renewal policy and while said expiring policy was in force. However, if the approved rate level indication applicable to a particular classification exceeds the above limitations when applied to the rate level of the expiring policy, then the renewal premium under the new program shall be the premium resulting from the approved rate level indication applied to the rate level of the expiring policy.

In using the above guidelines, insurers must first rate the general liability exposures using the procedures contained in the new program including the transition rule. They must then rate such exposures using the procedures contained in the old program. If the premium developed under the new program after the application of the transition rule falls within the interval having an upper boundary equal to 1.10 of the premium under the old program

and a lower boundary equal to .95 of said premium, then the premium to be charged to the risk shall be the premium developed under the new program. If said premium falls outside the aforementioned interval, then the premium to be charged to the risk will be 1.10 or .95 of the premium developed under the old program, whichever the case may be, except as noted in item 6 above.

Once again, we hereby emphasize that the above guidelines, shall only apply to those general liability classifications which have suffered a change in rating basis. The rest of the Commercial Lines Policy and Rating Simplification Program components, Division 2 through Division 9 of the New Commercial Lines Manual, shall be used as originally approved to the Insurance Services Office, Inc., with no limitations.

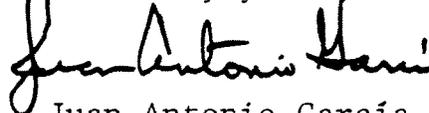
At this time, we hereby inform the insurance industry that the Commercial Lines Policy and Rating Simplification Program shall become effective in Puerto Rico not earlier than September 15, 1988, nor later than January 1, 1989, for all business of the insurer, both new and renewal. To this effect, each insurer must select a uniform date in between the two aforesaid dates to implement its own program and inform this Office the selected date.

Concurrently with the initial permissible date, September 15, 1988, Ruling No. N-AM-I-12-13-87 of December 18, 1987, is hereby withdrawn and its provisions shall have no force and effect as of that date. As a result, all insurers shall use the old Commercial Lines Program with their new as well as their renewal business beginning on September 15, 1988 and ending on the date selected by them to implement the new program in accordance with the foregoing instructions. Once the insurer has selected the implementation date for the new program, it will be allowed to use only the new Commercial Lines Policy and Rating Simplification Program.

The latest date for the implementation of the program (January 1, 1989) shall not be further postponed under any circumstances.

Strict compliance with the provisions of this ruling is hereby required.

Cordially yours,



Juan Antonio García  
Commissioner of Insurance