



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

May 3, 1993
Ruling Letter N-AM-I-4-57-93

TO ALL DOMESTIC INSURERS AND ALL GENERAL AGENTS AND
MANAGERS OF INSURERS AUTHORIZED TO WRITE PROPERTY AND
CASUALTY INSURANCE IN PUERTO RICO

**Re: Cancellation on the
anniversary of policies
issued for a term of more
than one year**

Dear Sirs:

As you know, this Office has approved several endorsements for the purpose of complying with the provisions of Rule 55 of the Regulations of the Puerto Rico Insurance Code, hereinafter "the Rule." These endorsements allow insurers to cancel on their anniversary personal insurance policies that have been issued for a term of more than one year.

It is important that when an insurer is to proceed as described in the previous paragraph, the insurer should ensure that the cancellation is done according to current regulations. To this effect Section 2(f) of the Rule provides that:

"In the case of any policy, excluding insurance certificates issued in relation with the financing, leasing or renting of real or personal property, or bond, issued for a term longer than one year contemplated within the provisions this Rule, except those issued to comply with a law or regulation, the insurer may cancel such for any valid reason at the date of any anniversary." (Our emphasis)

It may be deemed from this regulation that certificates that are issued under master policies and in relation to financing of personal property (for example, an automobile) or real property (for example, a dwelling) may not be cancelled on the anniversary of the policy, unless the cancellation is due to one of the circumstances set forth in paragraphs (a), (b), and (c) of Section 2 of the Rule. The circumstances are as follows:

- (a) If the insured should fail to comply with any obligation upon maturity, with regard to the payment of premiums, whether in full or any additional premium due to adjustments in the policy at the request of a duly authorized inspection body, authorized by the Commissioner of Insurance or changes requested by the insured, or should fail to pay any installment payable directly to the insured or the insured's authorized representative or under any premium financing plan or duly approved extension of credit.

- (b) In the case of insurance policies that provide coverage for physical damage and/or liability for an automobile:
 - (1) If the insured's driver's license or of any driver of the automobile residing under the same roof of the insured or any driver who usually operates the insured automobile has been suspended or revoked during the term of the policy.

 - (2) If the automobile is financed, when it is being repossessed under a financing agreement or is a total loss under any insured risk or is voluntarily returned to the seller by the conditional buyer or constitutes a total loss due to confiscation by a competent government authority.

- (c) In the case of policies that provide fire and allied lines coverage for the structure or contents of dwelling with a capacity to house 4 or fewer families, or multiple lines personal policies as such term is defined in Rule 40, that cover a structure or its contents for fire risk and allied lines:
 - (1) If the insurance contract was obtained through misrepresentation, fraudulent statements, omissions or concealment of essential information for the acceptance of the risk or hazard assumed by the insurer.

 - (2) If there has been a substantial change within the control of the insured of the exposure to risk assumed by the insurer from the time of issue of the insurance contract.

 - (3) If premeditated and negligent acts or omissions by the insured have substantially increased hazard of the insured risk.

Furthermore, we must clarify that with regard to such policies that the Rule allows to be cancelled at any of the policy anniversaries, such cancellation cannot be arbitrarily effected by the insurer. To this effect, Section 2(f), *supra*, requires that the cancellation be effected for any justified reason. Furthermore, the provisions of the endorsements are clear with regard to the requirement that the cancellation must be for a valid reason. A valid reason is deemed to be a legally valid reason based on grounds set forth by law in the Puerto Rico Insurance Code and its Regulations, specifically the Rule.

In view of the above, we advise insurers, general agents and managers that failure to comply with the above guidelines will constitute a violation of this provision of the rule, as well as the filings approved by this Office, and will be subject to the appropriate penalties. To this effect, you are further advised that in the application of sanctions denial of coverage by means of the cancellation of each policy or each certificate or insurance memorandum issued under a master policy, in violation of the aforementioned provision of the rule, will be considered by this Office as a separate infraction.

Very truly yours,

SIGNED

Juan Antonio García
Commissioner of Insurance