



Government of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE

RULING NO.: N-C-11-100-98
November 3, 1998

**TO ALL INSURERS AUTHORIZED TO TRANSACT
AUTOMOBILE INSURANCE IN PUERTO RICO**

Subject: Issuance of dual interest yearly policies and payment of commissions

Dear Ladies and Gentlemen:

In our Ruling No. N-E-5-96-98 of May 11, 1998, we made reference to the approval of the rules, forms and rate filings applicable to personal automobile insurance submitted by the Insurance Services Office, Inc., which became effective on June 1, 1998. Such filings consider, among other things, the issuance of yearly policies paid in advance for the financing term of an automobile, with an automatic renewal guarantee provided by the insurer.

Since this is a yearly policy program, the commissions to be paid for the solicitation of such business are those which correspond to the policy in effect at a given time, without any allowance for the advance of commissions for subsequent terms of the policy. Regarding this last requirement, different points of view have been submitted to this Office by diverse persons and organizations of the insurance industry, which indicate the possible adverse effects that such requirement would bring about. The situation has likewise elicited the attention of our Legislature, from which we have received requests to consider alternatives in order to minimize the consequences of said change. With respect to the referred requests, it is convenient to indicate, what constitutes our firm position pertaining to this matter: We shall not to approve any filing which may allow the issuance of multiyear personal automobile policies because it is our understanding that such system is detrimental to the best interests of the insurance consumer. For this reason, we shall not allow the payment of commissions for future renewals of yearly policies.

Notwithstanding the above, and recognizing the adverse effect which could result from the unexpected change of the present system of payment of commissions for multiyear policies, to one which only considers the payment of commissions for yearly periods, we are convinced

that a transition mechanism needs to be established in order to prevent a possible financial loss to those insurance producers which rely upon a high proportion of this type of business. At the suggestion of the producers' associations, this Office shall permit the insurers to advance commissions for the insurance described in this letter as illustrated below:

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| Policies with effective dates from June 1, 1998 until May 31, 1999 | The commission corresponding to the policy issued shall be paid and the commission corresponding to the following two (2) policy-years may be advanced. |
| Policies with effective dates from June 1, 1999 until May 31, 2000 | The commission corresponding to the policy issued shall be paid and the commission corresponding to the following policy-year may be advanced. |
| Policies with effective dates from June 1, 2000 and thereafter | The commission corresponding to the policy issued should be paid. No commission pertaining to the subsequent policy-year shall be advanced. |

As it may be noticed from the above, the transition plan hereby established shall terminate as of June 1 of 2000, and henceforth, any advance of commissions relating to the automobile dual interest insurance business shall be prohibited.

It is important to indicate that what is established by this Ruling by no means compels an insurer to advance commissions if the same determines not to resort to the transition plan hereby established. It shall be at the entire individual choice of each insurer to decide whether or not to offer such advances, and if it does so, to what producers the insurer will offer such advances, offered and as of which date, which could be retroactivated in order to cover automobile dual interest insurance policies issued on or after June 1, 1998.

Strict compliance with the provisions of this Ruling is required.

Sincerely,

Signed

Juan Antonio García
Commissioner of Insurance