



Government of Puerto Rico

OFFICE OF THE COMMISSIONER OF INSURANCE

Ruling Letter No. N-C-4-78-96
May 6 1996

TO ALL DOMESTIC INSURERS AND GENERAL AGENTS AND MANAGERS OF
FOREIGN INSURERS THAT WRITE AUTOMOBILE INSURANCE

RE: Cancellations of Personal Automobile Insurance Policies

Dear Sirs:

This Office wishes to reaffirm the manner in which personal automobile insurance policies should be cancelled, specifically those that cover the interest of the insured as well as the interest of the financing entity of the vehicle.

In this regard, we have performed an analysis of applicable legal and contractual provisions, in order to clearly establish the correct cancellation procedure. The analysis shows the following:

1. The section on Cancellation in the compulsory rider PP 01 70 06 94 submitted to this Office by Insurance Services Office, Inc., on behalf of all of its insurer members or subscribers and which is part of said policies, provides as follows with regard to the reimbursement to which the insured has when an insurance contract is canceled:

"If this policy is canceled, you may have the right to the reimbursement of the premiums. If that is the case, we will send you a reimbursement. If we cancel the policy we will reimburse the unearned premium proportionately. If you cancel, we will reimburse you 90% of the unearned premium on a proportional basis." (Our emphasis)

2. This provision regarding cancellation is consistent with Section 5.040(3) of the Puerto Rico Insurance Code, 26 L.P.R.A. sec. 504(3), which allows insurers to earn premiums on a monthly or daily pro rata basis, a method used by all domestic insurers doing insurance business in Puerto Rico.

3. In view of the scope and meaning of the term "pro rata", used in the legal provision in question and according to the formal definition of the word "proportional," the phrase "unearned premium proportionally," used in the insurance contract referred to above can only have one meaning: the total premium of the contract multiplied by the proportion obtained by dividing (1) the number of days that have elapsed since the date of the cancelation of the policy until the expiration date of the policy, by (2) the total number days of the term of the policy.

This is regardless of whether the policy period is one year or more than one year, as frequently happens when these policies are used to cover the interest of the financing entity for the motor vehicle.

In view of the above, and considering that an insurance policy is a contract and therefore contains obligations that have the force of law between the contracting parties, any method of cancelation that is not set forth in the above paragraph 3 is a violation of the aforementioned contractual obligations. Therefore, you are required hereby that any time a personal automobile insurance policy is terminated prior to its expiration date, to strictly follow the cancelation method described above so as to comply with the provisions of the insurance contract.

Failure to comply with this guidance will result in the application of such sanctions as are provided by law and return to the insured, along with applicable interest, any deficiency in the premium that has not been returned due to an incorrect application of the aforementioned contractual provisions regarding cancelation.

Very truly yours,

Juan Antonio García
Commissioner of Insurance