

**PROGRAM DIVISION  
BULLETIN**

2004-23

June 21, 2004

**CONNECTICUT: Cancellation and Nonrenewal of  
Commercial Insurance Policies**

The Connecticut Insurance Department has issued updated information concerning compliance with the state insurance laws regulating the cancellation and nonrenewal of insurance policies. The Department examines each policy nonrenewal or cancellation based on the specific circumstances to determine compliance with the requirements of Connecticut law and approved policy provisions. Nonrenewal or cancellation notices that do not comply with Connecticut requirements are considered invalid.

**Notice Requirements to Insureds**

- Connecticut law requires that the advance notice of nonrenewal or cancellation be accompanied by a statement of the reason for the company's action.
  - ◆ The notice must provide a specific reason for the insurer's action. Nonspecific reasons such as "claims experience," "underwriting judgment" or "increase in hazard" are not acceptable. If the reason is an increase in hazard, the specific hazard increases must be listed on the notice or must accompany the notice.
    - For commercial lines insurance, if the reason is loss experience, the minimum information that must be provided is the number of losses and the total amount incurred for each policy year.
  - ◆ The routine issuance of nonrenewal or cancellation notices, or the use of nonspecific reasons is improper.
  - ◆ Companies may not routinely include a notice of nonrenewal or cancellation for nonpayment coincident with a premium billing notice. Notice of cancellation for nonpayment of premium should not be issued until after the insurer has failed to receive payment by the due date.
  - ◆ When a policy is cancelled for material misrepresentation, the notice or accompanying statement must indicate that the cancellation is due to material misrepresentation and specify the reasons. An example of a correct notice would read: *"You are cancelled for material misrepresentation. You did not report three speeding violations for (insert name of driver), which occurred on 1-3-02, 6-7-02 and 2-12-03, on your application."*

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#### Minimum Advance Notice Requirements

- The minimum time standards with which an insurer must comply when notifying an insured of a cancellation, nonrenewal or renewal billing are defined in days, which the Department interprets as meaning a 24-hour day, and not any portion thereof.
  - ◆ Compliance with the minimum notice standards is determined by counting the number of calendar days beginning with the first day after the date of mailing of the transaction up to, but not including, the date the transaction is effective. The date of mailing is evidenced by:
    - The postmark date on the envelope;
    - A copy of the completed receipt when delivered by registered or certified mail; or
    - A certificate of mailing from the U.S. Post Office.
  - ◆ If the transaction is delivered in person by the insurer to the insured, this should be evidenced by a signed receipt from the insured.
- Insurers may not extend a current policy past the expiration date in order to meet the minimum advance number of days required for proper notice.
- Insurers must comply with the prior notice provisions for nonrenewal of §38a-323 of sixty (60) days for commercial lines policies, except for professional liability policies requiring ninety (90) days notice, in the event policy coverage is transferred between companies within a group. An exception to this requirement is a policy transfer to an affiliate as the result of a merger or acquisition. Such a transfer requires sixty (60) days notice to the insured, but does not require a nonrenewal notice.

#### Cancellation for Nonpayment of Premium; Policies Subject to Premium Audit

- For most policies, ten (10) days advance notice is required for cancellation due to nonpayment of premium. For professional liability policies covering medical providers, architects and attorneys, ninety (90) days advance notice is required, pursuant to §38a-324, Grounds for Cancelling Commercial Risk Policies.
- With respect to the renewal policy of an auditable policy, such as a general liability, commercial motor vehicle, a renewal of a auditable policy may be cancelled for the reason “nonpayment of premium” based on the insured’s nonpayment of the audit premium due on the prior year’s policy, i.e., the renewed policy. This recognizes the pricing procedures of certain commercial policies, which use estimated exposures to estimate premium.

#### Guidelines Regarding the Use of Conditional Renewal Notices

- If an insurer intends to continue to insure a risk but under terms or conditions less favorable than previously provided, the insurer must send either a notice of nonrenewal or a conditional renewal notice. The conditional renewal notice must clearly identify the terms or conditions that may be less favorable to the insured under the ensuing policy.
  - ◆ Any significant reduction of coverage requires either a notice of nonrenewal or a condition renewal notice. Some examples where conditional renewal notices are appropriate are: an increase in the policy’s deductible or retention, a decrease in the limits of coverage or a new exclusion or deletion of coverage.
  - ◆ The Department will not consider an insurer to be in violation of §38a-323 if the insurer provides a conditional renewal notice that gives the insured the advance number of days required by statute for nonrenewal, together with the statement of less favorable terms or conditions.

#### Remedy for Failure to Provide the Required Notice of Nonrenewal or Conditional Renewal Notice

- Failure of the insurer or its agent to provide the insured with the required notice of nonrenewal or with a conditional renewal notice entitles the insured to a policy renewal for a term of not less than one (1) year on the same terms (excluding premium rate) as the expiring policy, as well as the privilege of pro-rata cancellation at the lower of the current or previous year’s rate, if the option is exercised by the insured within sixty (60) days from the renewal or anniversary date.

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Renewal Premium Billing Requirements for Commercial Insureds

- The provisions of §38a-323 also govern the renewal premium billing requirements for commercial lines insureds. However, these provisions do not apply to:
  - ◆ Commercial insurance policies if the premium for the ensuing policy period is to increase less than ten percent (10%) on an annual basis;
  - ◆ Policies for which the annual premium was \$50,000 or more.
- For commercial insurance policies, a premium billing notice must be mailed or delivered to the insured not less than thirty (30) days in advance of the policy's renewal or anniversary date. For policies in which the named insured is a public entity, the notice must be sent at last sixty (60) days prior to policy renewal.
- Renewal premium billing notices must state the actual renewal premium. The routine issuance of premium billing notices with the statement that the premium will increase 10% or more is improper and fails to provide the notice required by law.

Remedy for Failure to Provide the Required Premium Billing Notice

- Failure of the insurer or its agent to provide the insured with the required notice entitles the insured to a policy renewal for a term of not less than one (1) year, as well as the privilege of pro-rata cancellation at the lower of the current or previous year's rate, if the option is exercised by the insured within sixty (60) days from the renewal or anniversary date.

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