



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

Fermín M. Contreras-Gómez
Commissioner of Insurance

May 30, 2003

RULING LETTER NO.: N-AM-5-37-2003

TO ALL INSURERS AUTHORIZED TO UNDERWRITE ALL KINDS OF INSURANCE IN PUERTO RICO, EXCEPT LIFE AND DISABILITY INSURANCE, AND TO ALL MANAGERS, GENERAL AGENTS, AGENTS, AND INSURANCE BROKERS

RE: Suspension of Rate-Filing Requirements for Commercial Property Insurance for Waterfront Condominiums, Pursuant to Section 12.080 of the Puerto Rico Insurance Code

Dear Sirs and Madams:

Under the provisions of Section 12.080 of the Puerto Rico Insurance Code, as amended, and considering that current conditions of the commercial property insurance market for Waterfront Condominiums are unfavorable for the insured in terms of availability and cost of such insurance, the Office of the Commissioner of Insurance, hereinafter "the OCI," has decided to suspend the rate-filing requirements, as provided in Sections 12.050 and 12.060 of the Puerto Rico Insurance Code, 26 P.R.L.A. secs. 1205 and 1206, for this risk class.

In view of the imminent hurricane season and in order to encourage greater competition in the insurance industry with regard to this class of insurance, which will be for the benefit and protection of consumers, as of **June 1, 2003**, the OCI is suspending the rate-filing requirements only for commercial property insurance for **waterfront condominiums**, as the term is defined in this Ruling Letter. Accordingly, Ruling Letter

No. N-AM-10-11-2001, dated December 21, 2001, is hereby amended so that paragraph (5) on page 2 should exclude waterfront condominiums from "insurance for condominiums."

For the purposes of this Ruling Letter, the term "waterfront condominiums" means all condominiums located no more than 1,000 feet from the seaside.

While the suspension of the rate-filing requirements for this class of risk is in effect, the following will be complied with:

1. The insurer will not provide any quote for this class of risk, except through a party holding a license that has been duly issued by this Office.
2. The insurer will not provide any quote that establishes unfair differentiation between risks that involve essentially the same hazards, regardless of whether the person involved in the insurance transaction was a general agent, a broker or an insurance agent.
3. According to Section 12.040 (1)(b) of the Puerto Rico Insurance Code, 26 P.R.L.A. sec. 1204 (1)(b), any rate used to calculate the premium that is greater than \$1.75 for every \$100 of the insured value will be considered excessive. If the rate of \$1.75 is inadequate due to the cost of reinsurance, the insurer must request an excess rate under Section 12.090 of the Puerto Rico Insurance Code, *supra*.
4. The quote provided by the insurer will include an itemized distribution of the premium dollar, i.e. not net quotations.
5. The insurer will state the commission to be paid to the agents and insurance brokers separately from the compensation established for general agents for their services. The insurer will notify the general agents of the commission to be paid to the agents and insurance brokers.
6. The insurer will not pay, directly or through an affiliated general agent, any commission to an agent or broker greater than that agreed on with the unaffiliated general agent as a commission for the broker agent, nor will the general agent pay the agent or broker any commission greater than that agreed on by the general agent with the insurer.

The provisions of this Ruling Letter will only be applicable to new policies and renewals that are in effect on or after **June 1, 2003**, the date when the suspension of the rate-filing requirements for this class of risk enters into effect. We will consider it to be

an undefined unfair practice, under Section 27.180 of the Puerto Rico Insurance Code, *supra*, for an insurer to cancel any policy that may be currently in effect to take advantage of the benefits of the suspension of the rate-filing requirements for this class of risk.

The suspension of the rate-filing requirements authorized in this Ruling Letter for commercial property insurance for waterfront condominiums, will be in effect until **December 31, 2003**. Nevertheless, the Commissioner may at any time and through an Order or Ruling Letter to that effect, reinstate the rate-filing requirements for this class of risk, if the Commissioner considers that the suspension provided in this Ruling Letter is detrimental to the public interest.

We advise you that the suspension of the rate-filing requirements provided in this Ruling Letter does not exempt you from complying with the provisions of Sections 12.150, 27.080, 27.090 and 27.100 of the Code, regarding the requirements for statistical reports, and the prohibition of unfair differentiation and illegal discounts and incentives, respectively. Likewise, it is clearly set forth that the provisions of this Ruling Letter are only applicable to rates, and not to forms or rules.

You are further advised, that under the powers conferred by the Insurance Code, including the provisions of the aforementioned Section 12.080, the OCI may carry out any investigation it may deem necessary to ensure the enforcement of current regulations and obtain any information that may be useful for the legal enforcement of any of the provisions of the Puerto Rico Insurance Code and this Ruling Letter.

Strict compliance with the provisions of this Ruling Letter is hereby ordered. Licensees who fail to comply with the obligations set forth in this Ruling Letter will be subject to the sanctions provided by law.

Very truly yours,

SIGNED

Fermín M. Contreras Gómez
Commissioner of Insurance