

Directive No. 8

**INDISCRIMINATE CANCELLATIONS AND
ARBITRARY REFUSALS TO RENEW
INSURANCE CONTRACTS**

March 6, 1967

In recent months, the indiscriminate cancellation of insurance policies and arbitrary refusal to renew such policies without substantial underwriting reasons has become widespread and has reached the point that cancellations without cause effectively prevent innocent insureds from obtaining insurance through normal channels.

The Insurance Department and Louisiana Legislature had been aware of the restrictive market conditions in this State. During the last regular session, the Legislature passed the Modified Prior Approval Bill designed by its proponents to correct this situation. It has not done so.

A license to transact insurance business in the State of Louisiana carries with it the obligation to conduct such business in a manner consistent with and responsive to the best interests of the citizens of Louisiana. While this Department has no desire to interfere with the contractual relationships of insurance companies, it is believed that the situation regarding cancellations and refusal to renew policies has deteriorated to a point where it is necessary that certain guidelines with respect to these problems be set in order to protect the insurance buying public.

The guidelines hereinafter promulgated, are reasonable standards observed by many insurers and are not designed to create a burden or hardship. Nevertheless, it should be made clear that in the event that subsequent experience should prove that a significant number of companies in the industry are either unable or unwilling to follow the principles laid down in these guidelines, corrective legislation can be anticipated.

The Commissioner of Insurance hereby promulgates the following guidelines relative to indiscriminate cancellation and arbitrary refusal to renew insurance contracts:

LOUISIANA INSURANCE REGULATIONS

1. Interim cancellations, or refusals to renew at any anniversary date, should be prompted solely by unfavorable underwriting factors pertinent to the individual risk which were not present at the inception of the coverage. Catastrophes shall not be considered underwriting factors pertinent to the *individual* risk.

2. All companies shall substantiate with valid reason and advise this Department in advance of their intention to withdraw from a particular area, agency or class of risk in this State should they deem it necessary to do so.

3. Where mass cancellations are contemplated as the result of discontinuing certain lines, or withdrawal from a certain agency or area and the like, it shall be the responsibility of the company to see that replacement coverage is made without penalty to the insured.

4. Any cancellation of an insured or refusal to renew which was the result of mass cancellation unrelated to the underwriting characteristic of the individual risk shall not be a factor in the subsequent underwriting by other companies.

5. Interim cancellation of policies of insurance by a company and re-writing by the same company or its affiliated companies which results in the insured being penalized by a higher rate is strictly prohibited. This restriction applies to all business whether it is re-written by the original agent, brokered by him or otherwise obtained.

6. Each company shall retain its underwriting information concerning cancellation or refusal to renew individual risks readily available to the Insurance Department and be prepared to justify its underwriting rules and procedures in terms of its rate filings. These records shall be kept until the next regular examination of the company.

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COMMISSIONER OF INSURANCE