

No. 163

AN ACT

HB 653

Amending the act of May 17, 1921 (P.L. 789, No. 285), entitled, as amended, "An act relating to insurance; establishing an insurance department; and amending, revising, and consolidating the law relating to the licensing, qualification, regulation, examination, suspension, and dissolution of insurance companies, Lloyds associations, reciprocal and inter-insurance exchanges, and certain societies and orders, the examination and regulation of fire insurance rating bureaus, and the licensing and regulation of insurance agents and brokers; the service of legal process upon foreign insurance companies, associations or exchanges; providing penalties, and repealing existing laws," altering the method of computation of unearned premium liability and reserve, the distribution of unallocated liability loss expense payments, the distribution of unallocated compensation loss expense payments, and removing a requirement specifying certain information to be furnished in an annual report or statement.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Section 310, act of May 17, 1921 (P.L. 789, No. 285), known as "The Insurance Department Act of one thousand nine hundred and twenty-one," amended May 20, 1949 (P.L. 1498, No. 449), is amended to read:

Section 310. Computation of Unearned Premium Liability.—In determining the liabilities upon its contracts of insurance of any insurance company, other than life insurance companies, and the amount such company should hold as an unearned premium liability, the Insurance Commissioner shall [**for casualty insurance,**] *calculate such amount on a monthly pro-rata basis or its equivalent on the premiums in force at the end of any quarterly or annual period*, except in the case of noncancellable health and accident insurance issued on and after January first, one thousand nine hundred fifty, [**charge one-half of the premium on all annual policies written within one year, and, on policies written for more than one year, he shall charge one-half of the current year's premiums, plus the whole of the premiums for subsequent years. For fire insurance, he shall charge fifty per centum of the premiums written in their policies upon all unexpired risks that have one year or less than one year to run, and a pro rata of all premiums on risks having more than one year to run**] *such amount shall be calculated according to the methods set out in section 311.1 of this act*; on perpetual insurance, he shall charge the cash deposit received, less a surrender charge of not exceeding ten per centum thereof. For marine and inland insurance, he shall charge fifty per centum of the premium written in the policy [**upon yearly risks and**] upon risks covering more than one passage not terminated, and the full amount of the premium written in

the policy upon all other marine and inland risks not terminated: Provided, That the Insurance Commissioner may, in his discretion, charge a premium reserve equal to the unearned portions of the gross premiums charged, computed on each respective risk from the date of the issuance of the policy.

Section 2. Section 312 of the act is amended to read:

Section 312. Definitions.—The term “earned premiums,” as used in sections 313 to [317, inclusive, shall include gross premiums charged on all policies written, including all determined excess and additional premiums, less return premiums other than premiums returned to policyholders as dividends, and less reinsurance premiums and premiums on policies cancelled, and less unearned premiums on policies in force. But any participating company which has charged in its premiums a loading solely for dividends, shall not be required to include such loading in its earned premiums, provided a statement of the amount of such loading has been filed with, and approved by, the Insurance Commissioner.] *316 inclusive shall include gross premiums charged on all policies written, including all excess and additional premiums and reinsurance premiums accepted, less return premiums other than premiums returned to policyholders as dividends, and less all reinsurance premiums ceded and premiums on policies cancelled. Earned premiums attributable to any specific period shall be calculated by adding to the liability for unearned premiums at the beginning of the period, the premiums written during the period and subtracting the liability for unearned premiums at the end of the period.*

The word “compensation” shall relate to all insurance effected by virtue of statutes providing compensation to employes for personal injuries irrespective of fault of the employer.

The word “liability” shall relate to all insurance except compensation insurance, against loss or damage from accident to or injuries suffered by an employe or other person and for which the insured is liable.

The terms “loss payments” and “loss expense payments” shall include all payments to claimants, including payments for medical and surgical attendance, legal expenses, salaries, and expenses of investigators, adjusters, and field men, rents, stationery, telegraph and telephone charges, postage, salaries, and expenses of office employes, home office expenses, and all other payments made on account of claims, whether such payments shall be allocated to specific claims or unallocated.

The term “monthly pro-rata basis” shall mean that calculation by which written premium becomes earned in even monthly amounts for each entire calendar month or part thereof during which a policy is in force, except that for the calendar months in which a premium is written or expires, one-half the even monthly amount is earned.

The term “even monthly amount” shall mean the written premium divided by the number of months for which the premium is written.

Section 3. Section 313 of the act, amended July 12, 1935 (P.L.956, No.305), is amended to read:

Section 313. Computation of Reserve.—The reserve required of stock and mutual [**casualty**] insurance companies and exchanges for outstanding losses under insurance against loss or damage from accident to, or injuries suffered by, an employe or other person, and for which the insured is liable, shall be computed as follows:

[(a) For all liability suits being defended under policies written more than—

I. Ten years prior to the date as of which the statement is made, one thousand five hundred dollars (\$1,500) for each suit.

II. Five and less than ten years prior to date as of which the statement is made, one thousand dollars (\$1,000) for each suit.

III. Three and less than five years prior to the date as of which the statement is made, eight hundred and fifty dollars (\$850) for each suit.]

(b) For all liability [**policies written**] *premiums earned* during the three years immediately preceding the date as of which the statement is made such reserve shall be sixty per centum of the earned liability premiums of each of such three years, less all loss and loss expense payments made under liability policies written in the corresponding years [**but in any event, such reserves shall, for the first of such three years, be not less than seven hundred and fifty dollars (\$750) for each outstanding liability suit on said year's policies**].

(c) For all compensation claims under policies written more than three years prior to the date as of which the statement is made, the present value, at four per centum interest, of the determined and estimated future payments.

(d) For all compensation [**claims under policies written**] *premiums earned* in the three years immediately preceding the date as of which the statement is made, such reserve shall be sixty-five per centum of the earned compensation premiums of each of such three years, less all loss and loss expense payments made in connection with such claims under policies written in the corresponding years, but, in any event, such reserve shall be not less than the present value, at four per centum interest, of the determined and the estimated unpaid compensation claims under policies written during each of such years.

Section 4. Sections 314 and 315 of the act are amended to read:

Section 314. Distribution of Unallocated Liability Loss Expense Payments.—**[All unallocated liability loss expense payments made in each of the first four calendar years in which an insurer issues liability policies, shall be distributed as follows: In the first calendar year, one hundred per centum shall be charged to the policies written in that year; in the second calendar year, fifty per centum shall be charged to the policies written in that year, and fifty per centum to the policies written in the preceding year; in the third calendar year, forty per centum shall be charged to the policies written in that year, forty per centum to the**

policies written in the preceding year, and twenty per centum to the policies written in the second year preceding; and in the fourth calendar year, thirty-five per centum shall be charged to the policies written in that year, forty per centum to the policies written in the preceding year, fifteen per centum to the policies written in the second year preceding, and ten per centum to the policies written in the third year preceding.]

All unallocated liability loss expense payments made in a given calendar year [subsequent to the first four years] in which an insurer has been issuing liability policies, shall be [distributed as follows: Thirty-five per centum shall be charged to the policies written in that year; forty per centum to the policies written in the preceding year; ten per centum to the policies written in the second year preceding; ten per centum to the policies written in the third year preceding; and five per centum to the policies written in the fourth year preceding] *made in accordance with instructions set forth in the notes pertaining to Schedule P, at page 35 of the Fire and Casualty Companies (Association Edition) Annual Statement Blank for the year ended December 31, 1974, as adopted for use in Pennsylvania by the commissioner.*

Section 315. Distribution of Unallocated Compensation Loss Expense Payments.—[All unallocated compensation loss expense payments made in each of the first three calendar years in which an insurer issues compensation policies, shall be distributed as follows: In the first calendar year, one hundred per centum shall be charged to the policies written in that year; in the second calendar year, fifty per centum shall be charged to the policies written in that year, and fifty per centum to the policies written in the preceding year; in the third calendar year, forty-five per centum shall be charged to the policies written in that year, forty-five per centum to the policies written in the preceding year, and ten per centum to the policies written in the second year preceding.]

All unallocated compensation loss expense payments made in a given calendar year [subsequent to the first three years] in which an insurer has been issuing compensation policies, shall be [distributed as follows: Forty per centum shall be charged to policies written in that year; forty-five per centum to the policies written in the preceding year; ten per centum to the policies written in the second year preceding; and five per centum to the policies written in the third year preceding] *made in accordance with instructions set forth in the note pertaining to Schedule P, at page 35, of the Fire and Casualty Companies (Association Edition) Annual Statement Blank for the year ended December 31, 1974, as adopted for use in Pennsylvania by the commissioner.*

Section 5. Section 317 of the act is repealed.

Section 6. This act shall take effect immediately.

APPROVED—The 19th day of December, A. D. 1975.

MILTON J. SHAPP