

California Insurance Commissioner Orders Refunds to Policyholders

On April 13, 2020, the California Insurance Commissioner ordered insurers to make an initial premium refund to policyholders for the months of March and April 2020 for all policies in which loss exposure is less than projected because of reduced commercial activity due to the COVID-19 pandemic and response. The order, set forth in [Bulletin 2020-03](#), applies to commercial liability, commercial multiple peril, and workers' compensation policies, as well as private and commercial automobile policies. Insurers are ordered to issue the refunds within 120 days.

Because of the restrictions on commercial activity and commuting in response to the COVID-19 pandemic, insurers' pre-COVID-19 projections of covered losses overestimated actual insurable risk. This is particularly true for premiums calculated based on miles driven, payroll, revenue, and other measures sensitive to the economic effects of COVID-19.

Because policyholders paid premiums on over-estimations of risk, the Insurance Commissioner has ordered insurers to make an initial premium refund for the months of March and April 2020 for any "line of coverage where the measures of risk have become substantially overstated as a result of the pandemic." As examples, [Bulletin 2020-03](#) identifies private passenger and commercial automobile insurance, workers' compensation insurance, commercial liability insurance, and commercial multiple peril policies.

The Insurance Commissioner authorized insurers to calculate and issue refunds without prior approval by adjusting risk estimates and classifications to better comport with actual conditions. Initial refunds should be easy to calculate for commercial and personal auto liability policies, where insurers calculate premiums based on statistics such as miles driven. The insurers must issue the mandated refunds within 120 days from the issuance of [Bulletin 2020-03](#), which is August 11, 2020.

As the partial economic shutdown is poised to continue beyond May 2020, and possibly into 2021, expect further guidance from the Insurance Commissioner regarding policies impacted by the COVID-19 pandemic.