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STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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Administrative Letter 1979-23

TO: The President of Each Property and Casualty
Insurance Company Licensed in Virginia

During the 1979 Session the Virginia General Assembly adopted House Joint Resolution 247 directing the Commissioner of Insurance to "actively encourage insurance companies doing business in Virginia to develop and issue more readable insurance policies". This letter is my response to the General Assembly's directive.

In recent years the interest of State legislators, insurance regulators, and the general public in simplified, readable insurance policies has increased significantly. This trend is well known and needs no further elaboration.

A number of insurance companies and the rate service organizations have developed new insurance policy forms intended to be more readable and understandable than insurance policy forms presently in use. While some of these new policy forms are better than others, all represent a step in the right direction. Unfortunately, not as much progress has been made as should have (and could have) been made because many of the new policy forms contained a large number of coverage changes. These coverage changes, most of which were not in the insured's favor, served to "cloud the issue" and delay the adoption of the new policy forms. This, at least, has been the experience in Virginia.

The approach of the Virginia General Assembly and the Bureau of Insurance has been to permit experimentation with more readable policies rather than mandating that all companies must use policies meeting certain quantitative readability standards. It was anticipated that within a reasonable period of time, most property and casualty insurance companies would begin using more readable policies on a voluntary basis. This is still the preferred approach in Virginia.

In the next few months the Bureau's Property and Casualty Insurance Division will focus attention on evaluating readable private passenger automobile insurance policy forms. The basis for the Bureau's policy form approval process for the readable auto policies will be the standard private passenger automobile insurance policy forms adopted by order of the State Corporation Commission.

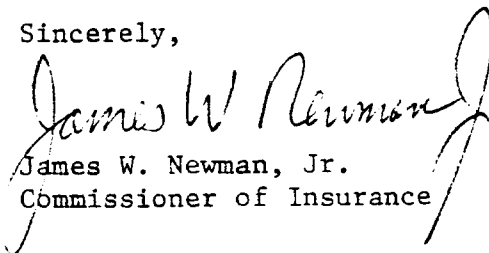
Also during the next few months, the Bureau will develop a regulation setting forth standards for the content of homeowners insurance policies. The authority for this regulation is a new law (Chapter 457, Acts of Assembly) adopted during the 1979 Session. The Bureau's first plan was to evaluate several readable homeowners insurance policy form filings and to approve as many as possible before taking the time to develop the regulation on content standards. This plan proved to be unworkable because there was too much variation in coverages in the readable policy form filings. Therefore, even though it means delaying the approval and use of more readable homeowners insurance policy forms, I have decided that the Bureau will have to take the time to develop the new regulation. Once the regulation is promulgated, the review and approval process for readable homeowners insurance policy forms should be greatly simplified.

The Virginia General Assembly adopted a new law (Chapter 47, Acts of Assembly) during the 1979 Session giving the State Corporation Commission the authority to establish rules and regulations for simplified and readable accident and sickness insurance policies. The Commission's authority extends to policies for individuals and groups with ten or fewer members. I am mentioning this in this letter because the Bureau will use the standards in this regulation, once it is promulgated, to evaluate the readability of all insurance policy forms. Therefore, your company may want to follow the Bureau's efforts to develop the accident and sickness readability regulation even if your company does not sell individual accident and sickness insurance policies.

In conclusion, while I am unhappy that the Bureau of Insurance and the property and casualty insurance companies doing business in Virginia have not been able to make more progress toward making more readable policies available to the insurance-buying public, I am optimistic that considerable progress will be made in the next few months. Thereafter, I will be monitoring closely the responsiveness of property and casualty insurance companies. A positive response on a voluntary basis will avoid the necessity of the Bureau seeking legislation to require the use of more readable insurance policies in Virginia.

I welcome comments and suggestions regarding the matters discussed in this letter.

Sincerely,



James W. Newman, Jr.
Commissioner of Insurance

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