



BUREAU OF INSURANCE

September 24, 1998

Administrative Letter 1998-12

TO: All Property and Casualty Insurers and Rate Service Organizations Licensed
in Virginia

FROM: Binding Arbitration Provisions in Insurance Contracts

The State Corporation Commission Bureau of Insurance has recently reviewed its position with regard to binding arbitration provisions and binding appraisal conditions in insurance contracts. Companies are advised that arbitration clauses or appraisal conditions that attempt to deprive a court of jurisdiction are not permitted in insurance contracts. This is based on language in § 38.2-312, which states in part: "No insurance contract delivered or issued for delivery in this Commonwealth and covering subjects which are located or residing in this Commonwealth, or which are performed in this Commonwealth shall contain any condition, stipulation or agreement...depriving the courts of this Commonwealth of jurisdiction in actions against the insurer." Arbitration clauses and appraisal conditions may be used in insurance contracts as long as they do not attempt to preclude jurisdiction of a dispute by a court in the Commonwealth of Virginia.

Consequently, Administrative Letter 1986-8 is withdrawn, and companies should review their policy forms on file with the Bureau to determine if any forms contain arbitration provisions or appraisal conditions which may be construed as binding. Such forms should be amended and re-filed with the Bureau no later than January 1, 1999. All new forms must be in compliance with § 38.2-312.

If you have any questions, please contact the Rates and Forms Section at (804) 371-9965.

Cordially,

Alfred W. Gross
Commissioner of Insurance