

CA Short Rate Cancellation Penalty Disclosure

The California Legislature enacted law AB2404 for 2012 modifying the California Insurance Code section 481(c) (1). The change requires Workers Compensation carriers to disclose their short rate cancellation fee or penalty at the time of quoting.

"Any insurance policy that includes a provision to refund premium other than on a pro rata basis, including the assessment of cancellation fees, shall disclose that fact in writing, including the actual or maximum fees or penalties to be applied, which may be stated in the form of percentages of the premium. The disclosure shall be provided prior to, or concurrent with, the application and prior to each renewal to which the policy provision applies. **For purposes of this section, a workers' compensation insurer, as defined, may provide the disclosure with the quote prior to the consumer accepting the quote.** Disclosure shall not be required if the policy provision permits, but does not require, the insurer to refund premium other than on a pro rata basis, and the insurer refunds premium on a pro rata basis."

To comply with the new law, all ICW Group quotes for 2012 with CA coverage include the following language: "CA Short Rate Cancellation fee can be up to 100% of one-year premium."

What should Producers do?

Let the insurance buyer know that ICW Group may apply a short rate penalty if the insured cancels coverage (other than for Out of Business reasons), or if the carrier cancels coverage (usually if the insured fails to pay premium or report payrolls).

The CA Short Rate penalty is a percent of the full term premium based on the number of days of coverage in the canceled policy. To calculate the CA premium penalty, ICW Group uses the standard NCCI Short Rate Cancellation table for a one-year policy (see table on the following page). For example:

Example of standard NCCI Short Rate Cancellation applied	
California Canceled Policy Term:	100 days
Earned Premium for 100 days:	\$12,000
Factor to annualize the Earned Premium:	3.65 (365/100)
Annualized Premium:	\$43,800 (\$12,000 x 3.65)
Short Rate %:	38% (based on 100 day term in the table below)
Short Rate Penalty:	\$4,644 (\$43,800 x 38% = \$16,644; \$16,644 - \$12,000)
Billed Final Audit Premium:	\$16,644 (\$12,000 earned + \$4,644 penalty)

Workers' Compensation

Important Notice

Example of standard NCCI Short Rate Cancellation applied

Extended Number of Days	Percent of Full Policy Premium	Extended Number of Days	Percent of Full Policy Premium	Extended Number of Days	Percent of Full Policy Premium
1	5%	95-98	37%	219-223	69%
2	6%	99-102	38%	224-228	70%
3-4	7%	103-105	39%	229-232	71%
5-6	8%	106-109	40%	233-237	72%
7-8	9%	110-113	41%	238-241	73%
9-10	10%	114-116	42%	242-246 (8 mo.)	74%
11-12	11%	117-120	43%	247-250	75%
13-14	12%	121-124 (4 mo.)	44%	251-255	76%
15-16	13%	125-127	45%	256-260	77%
17-18	14%	128-131	46%	261-264	78%
19-20	15%	132-135	47%	265-269	79%
21-22	16%	136-138	48%	270-273 (9 mo.)	80%
23-25	17%	139-142	49%	274-278	81%
26-29	18%	143-146	50%	279-282	82%
30-32 (1 mo.)	19%	147-149	51%	283-287	83%
33-36	20%	150-153 (5 mo.)	52%	288-291	84%
37-40	21%	154-156	53%	292-296	85%
41-43	22%	157-160	54%	297-301	86%
44-47	23%	161-164	55%	302-305 (10 mo.)	87%
48-51	24%	165-167	56%	306-310	88%
52-54	25%	168-171	57%	311-314	89%
55-58	26%	172-175	58%	315-319	90%
59-62 (2 mo.)	27%	176-178	59%	320-323	91%
63-65	28%	179-182 (6 mo.)	60%	324-328	92%
66-69	29%	183-187	61%	329-332	93%
70-73	30%	188-191	62%	333-337 (11 mo.)	94%
74-76	31%	192-196	63%	338-342	95%
77-80	32%	197-200	64%	343-346	96%
81-83	33%	201-205	65%	347-351	97%
84-87	34%	206-209	66%	352-355	98%
88-91 (1 mo.)	35%	210-214 (7 mo.)	67%	356-360	99%
92-94	36%	215-218	68%	361-365 (12 mo.)	100%

Questions? Contact Us

This new law concerning disclosure requirements only applies to policies with CA coverage. If you have questions about this new requirement or Short Rate Cancellation rules and calculations in other states, please use our [Contact Us](#) page to locate your local ICW Group Underwriting Team.