<u>Insurance Policy Cancellation Types</u>

Flat Rate:
You will receive your entire premium as a refund if your policy is canceled as if it never existed in the first place. Insurance companies can rescind a policy for various reasons governed by state law. Flat rate cancellations mean the insurance company <u>never accepted any risk under the policy and therefore earned none of your premium.</u>

Pro-rate: (Proportional Ration)
Pro-rate or pro-rata cancellations are the most common type of premium refund. You will receive a <u>refund of premium proportionate to the amount of the original policy period</u> that remains. For example, if you paid $300 for a 12-month policy and it cancels after only six months you would receive $150 back. Insurance rates are calculated on a daily basis so a pro-rate cancellation will be accurate to the day.

Short Rate:
<u>A short-rate cancellation means you will receive a pro-rated refund minus a penalty.</u> The penalty represents an administrative fee for costs incurred by the company and is typically 10 percent of the pro-rated amount. A common reason for a short-rate refund is when you cancel your existing policy midterm in order to buy a new policy with a different company.

Policy Language
Your policy should state in its contract language whether you will be subject to a short-rate refund upon cancellation. This is not an attractive option for most people so don't expect the policy language to be obvious. Refunds are processed by the insurance company, not your agent or broker. So your broker may not be able to answer your refund questions and won't be able to give you an exact short-rate refund amount.

State Law
State laws govern how insurance companies calculate and distribute short-rate refunds but the practice of short rating is not illegal in itself. An insurance company may choose not to employ the short-rate method but this decision will be according to its own business model and not as a result of governing state law.