

REPORT ON MARKET CONDUCT EXAMINATION

OF

AETNA INSURANCE COMPANY

NAIC Company Code 36161

THE AUTOMOBILE INSURANCE COMPANY OF HARTFORD,

CONNECTICUT

NAIC Company Code 19062

THE STANDARD FIRE INSURANCE COMPANY

NAIC Company Code 19070

AS OF

DECEMBER 31, 1994

DEPARTMENT OF BUSINESS REGULATION

INSURANCE DIVISION

STATE OF RHODE ISLAND

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PROVIDENCE, RHODE ISLAND

September 21, 1995

Honorable Barry G. Hittner
Insurance Commissioner
State of Rhode Island

Dear Sir:

In accordance with your instructions and pursuant to the statutes of the State of Rhode Island, a Market Conduct Examination was conducted on the Rhode Island business of the following members of the Aetna Life & Casualty Group:

Aetna Insurance Company
151 Farmington Avenue
Hartford, Connecticut 06156

The Automobile Insurance Company of Hartford, Connecticut
151 Farmington Avenue
Hartford, Connecticut 06156

The Standard Fire Insurance Company
151 Farmington Avenue
Hartford, Connecticut 06156

which are hereinafter referred to as the "Companies." Our report is submitted as follows:

FOREWORD

Our Market Conduct Examination Report is in general, a report by exception. Discussions of practices, procedures, and/or files subject to review during the examination may have been omitted from the report if errors and/or improprieties were not evidenced.

SCOPE OF EXAMINATION

We conducted our examination in accordance with Title 27 Chapters 13 and 13.1 of the General Laws of Rhode Island. The examination covers the period from January 1, 1992, through December 31, 1994. Performance of the examination was in accordance with procedures established by the National Association of Insurance Commissioners and standards developed by the Rhode Island Department of Business Regulation, Insurance Division.

The lines of business examined were Homeowner and Personal Automobile. Areas examined included: Certificates of Authority, Consumer or Other Related Complaints, Homeowner Underwriting and Rating, Personal Automobile Underwriting and Rating, Homeowner Cancellation and Nonrenewal, Personal Automobile Cancellation and Nonrenewal, Homeowner Claims and Personal Automobile Claims.

The purpose of the examination was to evaluate the Companies' compliance with Rhode Island General Laws and Insurance Regulations and to determine whether Rhode Island policyholders and claimants are being treated fairly and equitably. The test work performed during the examination satisfied this purpose, and forms the basis for the findings and recommendations presented in this report.

The examination was conducted at the Companies' Fall River, Massachusetts and Middleboro, Massachusetts offices.

COMPANY OVERVIEW

History

Aetna Insurance Company

The Aetna Insurance Company was incorporated under the laws of Connecticut on January 3, 1990, and was licensed on January 24, 1990. The operations of this company are conducted through independent agents. The company is licensed in the District of Columbia and all states except Hawaii, Massachusetts, New Hampshire, and South Carolina.

The Automobile Insurance Company of Hartford, Connecticut

The Automobile Insurance Company of Hartford, Connecticut was chartered on June 25, 1965, as the Forward Casualty and Surety Company under the laws of Connecticut. It began operations and adopted its present name on August 9, 1968. Operations are coordinated with the business development program of the parent organization. The company is licensed to conduct business in the District of Columbia, Puerto Rico, the Virgin Islands and all states.

Standard Fire Insurance Company

The Standard Fire Insurance Company was chartered under the laws of Connecticut on July 6, 1905, and began operations on March 26, 1910. The company facilities are maintained for the handling of all property and casualty insurance coverages, with the majority of business written in the personal automobile and homeowners lines. Business is marketed through independent agents and brokers. This company is licensed to write business in the District of Columbia, Puerto Rico, the Virgin Islands and all States.

Company Operations

Aetna Insurance Company

The Aetna Insurance Company's 1994 direct written premiums were \$173,162,829. Rhode Island direct written premiums were \$1,596,906, which represents .9% of the Company's direct written premium. The following schedule outlines the Company's 1994 Rhode Island direct written premium by line of business:

<u>Line of Business</u>	<u>1994 R. I. Direct Written Premiums</u>
Other private passenger auto liability	\$1,478,919
Private passenger auto physical damage	<u>117,987</u>
Total	\$1,596,906

The Automobile Insurance Company of Hartford, Connecticut

The Automobile Insurance Company of Hartford, Connecticut's 1994 direct written premiums were \$407,618,802. Rhode Island direct written premiums were \$5,046,091, which represents 1.2% of the Company's direct written premium. The following schedule outlines the Company's 1994 Rhode Island direct written premium by line of business:

<u>Line of Business</u>	<u>1994 R. I. Direct Written Premiums</u>
Fire	\$248,435
Allied Lines	186,104
Homeowners multiple peril	1,603,266
Commercial multiple peril (non-liability portion)	167
Commercial multiple peril (liability portion)	3,240
Ocean Marine	67,737
Inland Marine	497,258
Earthquake	6,584
Other liability	429,381
Other private passenger auto liability	1,375,393
Other commercial auto liability	5,738
Private passenger auto physical damage	622,034
Commercial auto physical damage	<u>754</u>
Total	\$5,046,091

The Standard Fire Insurance Company

The Standard Fire Insurance Company's 1994 direct written premiums were \$671,156,761. Rhode Island direct written premiums were \$14,847,660, which represents 2.2% of the Company's direct written premium. The following schedule outlines the Company's 1994 Rhode Island direct written premium by line of business:

Line of Business1994 R. I. Direct Written Premiums

Fire	\$ 3,507
Allied lines	486,856
Homeowners multiple peril	3,580,513
Commercial multiple peril (non-liability portion)	123,691
Commercial multiple peril (liability portion)	60,034
Ocean marine	674,179
Inland marine	20,799
Earthquake	19,347
Workers' compensation	(76,544)
Other liability	2,518
Products liability	442
Other private passenger auto liability	6,918,351
Other commercial auto liability	6,237
Private passenger auto physical damage	3,025,777
Commercial auto physical damage	1,453
Burglary and theft	<u>500</u>
Total	\$14,847,660

Management

At December 31, 1994, the Companies' officers were as follows:

Aetna Insurance Company

President	Gary Gideon Benanav
Executive Vice President	Daniel Patrick Kearney
Executive Vice President	James Woods McLane
Senior Vice President and General Counsel	Zoë Eliot Baird
Vice President and Corporate Controller	Robert Ernest Broatch
Corporate Secretary	Stephen Paul Fisher
Vice President and Director of Internal Audit	Lawrence Joseph Harrington
Vice President and Senior Corporate Actuary	Brian Edward Scott

The Automobile Insurance Company of Hartford

President	Gary Gideon Benanav
Executive Vice President	Daniel Patrick Kearney
Executive Vice President	James Woods McLane
Senior Vice President and General Counsel	Zoë Eliot Baird
Senior Vice President, Finance and Corporate Controller	Robert Ernest Broatch
Corporate Secretary	Stephen Paul Fisher
Vice President and Director of Internal Audit	Lawrence Joseph Harrington
Vice President and Senior Corporate Actuary	Brian Edward Scott

The Standard Fire Insurance Company

Chairman and President	Ronald Edward Compton
Executive Vice President, Property/Casualty	Gary Gideon Benanav
Executive Vice President, Investments/Financial Services	Daniel Patrick Kearney
Executive Vice President, Health/Group Life	James Woods McLane
Senior Vice President and General Counsel	Zoë Eliot Baird
Senior Vice President, Finance and Corporate Controller	Robert Ernest Broatch
Vice President and Director of Internal Audit	Lawrence Joseph Harrington
Vice President and Corporate Actuary	Alastair Guy Longley-Cook
Vice President and Senior Corporate Actuary	Brian Edward Scott
Vice President and Corporate Secretary	Jean McMonigle Waggett
Vice President and Corporate Actuary	James Wong Yow

CERTIFICATES OF AUTHORITY

A review of the Companies' Rhode Island Certificates of Authority in conjunction with the Companies' Rhode Island operations was performed to determine whether the Companies were in compliance with Section 27-2-11 of the General Laws of Rhode Island, for the period under examination.

The Companies' Certificates of Authority were compared to its Rhode Island direct premiums written by line of business, as reported in the Companies' 1992, 1993, and 1994 annual statements, and based upon this review no exceptions were noted.

The results of this review indicated that the Companies' writings in the State of Rhode Island are in compliance with their Certificates of Authority, with one exception. The details of this exception are discussed in the homeowners underwriting and rating section of this report.

CONSUMER OR OTHER RELATED COMPLAINTS

The review of the Rhode Island Consumer or Other Related Complaints was performed to determine whether the Companies handled and resolved complaints in accordance with Section 27-29-4 of the General Laws of Rhode Island "Unfair and Deceptive Acts," Rhode Island Insurance Regulation XXVIII Fair Insurance Claim Settlement Practices, and Regulation LXXIII Unfair Property/Casualty Claims Settlement Practices.

For the period under examination, a total of thirty-nine (39) complaints were received by the companies. Eighteen (18) of these were forwarded to the companies by the Rhode Island Department of Business Regulation, Insurance Division, and twenty-one (21) were received directly by the companies from the complainant.

The results of this review indicate that the Companies are handling complaints in compliance with their complaint handling procedures and in accordance the above-mentioned laws and regulations.

HOMEOWNERS - UNDERWRITING AND RATING

The examiners tested one hundred and twenty-four (124) homeowner files for proper rating and underwriting application. Various sample tests were conducted to determine whether the Companies were in compliance with Section 27-5-1 Standard fire policy; Section 27-5-2 Compliance requirements; Section 27-5-3 Standard provisions; Section 27-6-8 Rate schedules; Section 27-2-17 Reciprocal fees; Nonresident agents, and Section 27-44-5 Rate standards, of the General Laws of Rhode Island.

The examination was also conducted to determine whether the Companies were in compliance with their underwriting manual rules, to verify that the Companies were using properly licensed agents and agencies to produce business, and that the agents and agencies are operating within the scope of their authority.

The test work performed resulted in seventeen (17) exceptions as follows:

One (1) file was not provided by The Automobile Insurance Company of Hartford, Connecticut. Since the examiners were unable to properly test this file, The Automobile Insurance Company of Hartford, Connecticut is in violation of Section 27-44-5 of the General Laws of Rhode Island, Rate standards, which states under subsection (f)(4): "Each insurance company shall maintain reasonable records of the information collected or used by it in developing the premium charged for any risk so that the records will be available to enable the director to verify compliance with this section."

In one (1) file reviewed, The Automobile Insurance Company of Hartford, Connecticut issued a policy through a producing agent who was not licensed to write business in Rhode Island. Therefore, The Automobile Insurance Company of Hartford, Connecticut is in violation of Section 27-2-17(c) of the General Laws of Rhode Island, Reciprocal fees; nonresident agents, which states in part: "Whenever insurance companies that are authorized to do business in this state issue, deliver, or make any contract of insurance on a person or property in this state, the companies shall place the business through a licensed resident agent or licensed nonresident agent."

Six (6) of the files tested (four (4) from The Standard Fire Insurance Company and two (2) from The Automobile Insurance Company of Hartford, Connecticut), contained an incorrect territory classification. Five (5) of the territorial misclassifications had no impact on the policy premium, and one (1) territorial misclassification resulted in a premium undercharge. Nine (9) files (six (6) from The Standard Fire Insurance Company and three (3) from The Automobile Insurance Company of Hartford, Connecticut), contained incorrect protection classifications. There was no impact on the policy premium as a result of the nine (9) incorrect protection classifications. However, the Companies are in violation of Section 27-44-5 of the General Laws of Rhode Island, Rate standards, which state under Subsection(f)(3), a misclassification of a risk shall be considered an adjustment without adequate justification.

As a result of the exceptions noted, the following actions are recommended: Management should review existing control procedures applicable to agent licensing, and revise procedures where necessary to ensure compliance with Section 27-2-17 of the General Laws of Rhode Island.

In addition, management should take the necessary action to ensure proper application of all rating factors at the time policies are being rated, to assure compliance with Section 27-44-5 of the General Laws of Rhode Island.

PERSONAL AUTOMOBILE - UNDERWRITING AND RATING

The Companies' underwriting and rating practices for personal automobile insurance were reviewed. The review was conducted to determine whether the Companies were in compliance with Section 27-44-5 Rate standards; Section 27-9 Casualty Rating; Section 27-7-2.1 Uninsured Motorist Coverage; and Section 27-7-2.5 Medical Payment of the General Laws of Rhode Island.

In addition, compliance was verified with the following Rhode Island Insurance Regulations: III Automobile Liability - Financial Responsibility Filings; XXII Reference Filings; XXV Automobile Insurance Merit Rating Plan; XLV Anti-Theft Devices; LIII Automobile Insurance Minimum Liability Coverage Limits; and LXXXIV Automobile Insurance Premium Reductions for Anti theft Devices.

The examiners reviewed one hundred and twenty-five (125) files. As a result of this review, seventeen (17) exceptions were noted. These exceptions are as follows:
Six (6) files (five (5) from The Standard Fire Insurance Company and one (1) from The Automobile Insurance Company of Hartford, Connecticut) contained incorrect risk classifications. Four (4) of the misclassifications resulted in a premium undercharge. Two (2) of the misclassifications resulted in a premium overcharge. Due to these errors, the companies violated Section 27-44-5(f)(3) of the General Laws of Rhode Island.

It is recommended that the Companies institute control procedures to ensure compliance with Section 27-44-5(f)(3) of the General Laws of Rhode Island. In addition, it is recommended that the two insureds in our sample who were overcharged be reimbursed for any overcharge in premium.

Eleven (11) files (eight (8) from The Standard Fire Insurance Company, two (2) from The Automobile Insurance Company of Hartford, Connecticut and one (1) from the Aetna Insurance Company) provided to the examiners by the Companies did not comply with Rhode Island law regarding coverage for Uninsured Motorist Bodily Injury or Uninsured Motorist Property Damage. Due to these findings it was determined that the Companies are in violation of Section 27-7-2.1 of the General Laws of Rhode Island.

It is recommended that the Companies institute control procedures to ensure that they either provide or exclude uninsured motorist coverage as requested by the insured in accordance with Section 27-7-2.1 of the General Laws of Rhode Island.

PERSONAL AUTOMOBILE - CANCELLATION AND NONRENEWAL

The Companies' practices and procedures for processing personal automobile cancellations and nonrenewals were examined to evaluate their compliance with Section 31-47-4 of the General

Laws of Rhode Island, Notice of termination or cancellation and Rhode Island Insurance Regulation XVI Automobile Insurance Policies: Cancellation and Renewal Provisions, Sections 2, 3, and 4.

The examiners reviewed fifty-three (53) personal automobile files to verify that the cancellations were processed in accordance with applicable Rhode Island General Laws and Insurance Regulations.

Fifteen (15) personal automobile cancellation notices were in violation of Section 31-47-4 of the General Laws of Rhode Island, Notice of termination or cancellation, which states: "Every notice of termination for any cause whatsoever sent to the insured shall include in type of which the face shall not be smaller than twelve (12) point, a statement that financial security is required to be maintained continuously throughout the registration period and that failure to maintain financial security shall subject the violator to mandatory suspension of license and registration." Five (5) of the violations pertained to The Automobile Insurance Company of Hartford, Connecticut, and ten (10) to The Standard Fire Insurance Company.

It is recommended that the Companies immediately implement control procedures to assure compliance with Section 31-47-4 of the General Laws of Rhode Island, Notice of termination or cancellation.

The examiners requested nineteen (19) personal automobile nonrenewal files. The Automobile Insurance Company of Hartford, Connecticut was unable to provide one (1) file. The Standard Fire Insurance Company was unable to provide one (1) file. The examiners tested the remaining seventeen (17) files for which no exceptions were noted.

It is recommended that the Companies examine their record retention and retrieval systems, and if necessary, institute procedures to assure that necessary documentation for market conduct examinations can be retrieved by the Companies.

HOMEOWNERS - CLAIM PRACTICES

The review of the Companies' homeowners claim practices for the period under examination was conducted to determine whether the Companies were in compliance with Section 27-5-3 Standard Provisions, Section 27-9.1-4 Prohibited Practices of the General Laws of Rhode Island, Regulation XXVIII Fair Insurance Claim Settlement Practices, and Regulation LXXIII Unfair Property/Casualty Claims Settlement Practices (effective 2/14/94).

The examiners reviewed one hundred and twenty-five (125) closed homeowner claims. Based upon the results of the examination work performed, one (1) exception was noted in which The Standard Fire Insurance Company failed to respond to a claimant within ten business (10) days regarding their dissatisfaction with the settlement of the claim. Therefore, The Standard Fire Insurance Company is in violation of Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 6 Failure to acknowledge pertinent communications, Paragraph (c) which

states: "An appropriate reply shall be made within ten (10) working days on all other pertinent communications from a claimant which reasonably suggest that a response is expected." The Standard Fire Insurance Company did communicate with this claimant after the ten (10) days, and resolved the claim to the insured's satisfaction.

PERSONAL AUTOMOBILE - CLAIM PRACTICES

Testing of the Companies' Personal Automobile Claim Practices was performed to assess the Companies' compliance with Section 27-5-7 Disclosure of policy limits; Section 27-10.2-2 Claims adjusting; Section 27-8-12 Subrogation; Section 27-8-14 Lost and Salvage Vehicle Reporting; Section 27-9.1-4, Prohibited Practices of the General Laws of Rhode Island as well as Regulation X, Section 5 Waiver of Statutory Deductible; Regulation XXVIII Fair Insurance Claim Settlement Practices; and Regulation LXXIII, Unfair Property/Casualty Claims Settlement Practices Regulation (effective 2/14/94).

The examiners reviewed one hundred and twenty-three (123) personal automobile claim files. A total of one hundred and thirty (130) files were requested by the examiners. The Companies were not able to provide seven (7) of the files requested. Failure to provide the seven claim files requested is a violation of Regulation LXXIII §4 File and Record Documentation, which requires an insurer to maintain detailed documentation in order to permit reconstruction of the insurer's activities relative to each claim.

It is recommended that the Companies examine their record retention and retrieval systems for claims, and if necessary, institute procedures to assure that claim files are retrievable as necessary.

The test work performed on the one hundred and twenty-three (123) files resulted in two (2) exceptions. Details of these exceptions are as follows:

Two (2) files reviewed demonstrated that The Automobile Insurance Company of Hartford, Connecticut, did not properly refund to the insured the correct amount due through its subrogation efforts. Therefore the Companies are in violation of Section 27-8-12 of the General Laws of Rhode Island, Subrogation, which states: Whenever, through subrogation an insurance company or its agent collects a casualty loss from a third party, the company or agent shall from the funds collected, first pay to the insured the deductible portion of the casualty loss less the prorated share of subrogation expenses and only thereafter retain any funds in excess of the deductible portion of the recovery.

It is recommended that The Automobile Insurance Company of Hartford, Connecticut institute control procedures to ensure that all future personal automobile subrogation recoveries are in compliance with Section 27-8-12 Subrogation, of the General Laws of Rhode Island.

It is also recommended that The Automobile Insurance Company of Hartford, Connecticut refund the correct amount of the subrogation proceeds to the two (2) insureds as required by Section 27-8-12 of the General Laws of Rhode Island.

SUMMARY OF RECOMMENDATIONS

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As a result of the exceptions noted, the following actions are recommended: Management should review existing control procedures applicable to agent licensing, and revise procedures where necessary to ensure compliance with Section 27-2-17 of the General Laws of Rhode Island.

In addition, management should take the necessary action to ensure proper application of all rating factors at the time policies are being rated, to assure compliance with Section 27-44-5 of the General Laws of Rhode Island.

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It is recommended that the Companies institute control procedures to ensure compliance with Section 27-44-5(f)(3) of the General Laws of Rhode Island. In addition, it is recommended that the two insureds in our sample who were overcharged be reimbursed for any overcharge in premium.

It is recommended that the Companies institute control procedures to ensure that they either provide or exclude uninsured motorist coverage as requested by the insured in accordance with Section 27-7-2.1 of the General Laws of Rhode Island.

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It is recommended that the Companies immediately implement control procedures to assure compliance with Section 31-47-4 of the General Laws of Rhode Island, Notice of termination or cancellation.

It is recommended that the Companies examine their record retention and retrieval systems, and if necessary, institute procedures to assure that necessary documentation for market conduct examinations can be retrieved by the Companies.

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It is recommended that the Companies examine their record retention and retrieval systems for claims, and if necessary, institute procedures to assure that claim files are retrievable as necessary.

It is recommended that The Automobile Insurance Company of Hartford, Connecticut institute control procedures to ensure that all future personal automobile subrogation recoveries are in compliance with Section 27-8-12 Subrogation, of the General Laws of Rhode Island.

SUMMARY OF RECOMMENDATIONS (Continued)

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It is recommended that The Automobile Insurance Company of Hartford, Connecticut refund the correct amount of the subrogation proceeds to the two (2) insureds as required by Section 27-8-12 of the General Laws of Rhode Island.

ACKNOWLEDGMENT

Acknowledgment is made of the courteous cooperation extended by the Companies' officers and employees during the course of the examination.

Assisting the undersigned in the conduct of this examination, were John Carr, CPCU, AIE, Principal Market Conduct Examiner; Robert G. Arrow, FLMI, AIE, Senior Market Conduct Examiner; Ronald R. Radtke, Senior Market Conduct Examiner; and Deborah A. Bradford, Market Conduct Examiner.



Sharon K. Gordon, CPA, AFE
Insurance Examiner-In-Charge
Rhode Island Insurance Division