

**STATE OF RHODE ISLAND
DEPARTMENT OF INSURANCE
DIRECTOR'S ORDER**

The attached Report of Examination as of December 31, 1993, of the condition and affairs of the Libery Mutual Fire Insurance Company was recently completed by duly qualified examiners, pursuant to the provision of the Rhode Island Insurance Code.

Due consideration has been given to the comments of the examiners regarding the operation of the Company and its market conduct condition, as reflected from the report.

It is therefore ORDERED that said report be, and it is hereby, adopted and filed and made an official record of this department, as of this date.

DEPARTMENT OF INSURANCE

Order No. 95-057



Barry G. Hittner
Director/Insurance Commissioner

DATED: 8/4/95

REPORT ON MARKET CONDUCT EXAMINATION

OF THE

LIBERTY MUTUAL FIRE INSURANCE COMPANY

**175 Berkeley Street
Boston, Massachusetts 02117**

NAIC COMPANY CODE 23035

AS OF

DECEMBER 31, 1993

**DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION
STATE OF RHODE ISLAND**

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PROVIDENCE, RHODE ISLAND

June 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 of the

Liberty Mutual Fire Insurance Company
175 Berkeley Street
Boston, Massachusetts

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

FOREWORD

Our Market Conduct Examination Report is in general, a report by exception. 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, 1991 to December 31, 1993. Performance of the examination was in accordance with procedures established by the National Association of Insurance Commissioners and standards established by the Rhode Island Department of Business Regulation, Insurance Division.

The examination was conducted at the Company's office at Spaulding Turnpike, Portsmouth, New Hampshire, except for the claim portion of the examination which was conducted at the Company's office at 245 Waterman Street in Providence, Rhode Island.

Areas examined include: Certificate of Authority, Consumer or Other Related Complaints, Sales and Advertising, Agent and Broker Licensing, Underwriting and Rating, Cancellations,

Nonrenewals and Claims Practices. The lines of business examined were Homeowners, Personal Automobile Liability and Personal Automobile Physical Damage.

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

COMPANY OVERVIEW

History

The Company, a member of the Liberty Mutual Group, was incorporated on October 31, 1908, under the laws of the Commonwealth of Massachusetts. On November 5, 1908, the Company commenced business as the United Druggist Mutual Fire Insurance Company. In 1918, the Company changed its name to United Mutual Fire Insurance Company, and on December 1, 1949, the Company adopted the name Liberty Mutual Fire Insurance Company.

Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company commonly own the following companies, with holdings of 90% and 10%, respectively: Liberty Northwest Insurance Corporation, Liberty Mutual Property-Casualty Holding Corporation, Liberty Life Assurance Company of Boston, Helmsman Management Services, Inc., and Helmsman Insurance Agency, Inc.

Company Operations

The Company's operations are managed on a strategic business unit basis. The Company's three (3) units are separated into Personal Market, Business Market and International Market units. The Personal Market Unit serves individual insurance needs, including the sale of life insurance products for Liberty Life Assurance Company of Boston. The Business Market unit serves commercial customers through the use of a National Accounts Unit, an Involuntary Market Services Unit, a Middle Market Unit, and various insurance subsidiaries such as Helmsman Management Services, Inc. The International Unit coordinates Liberty Mutual's international commercial products and services outside of the United States.

The Company is licensed in all fifty (50) states, the District of Columbia, and all provinces of Canada. Its 1993 direct written premiums were \$3,338,814,143. The four largest lines of business written by the Company are workers' compensation (37.6%), private passenger automobile liability (20.5%), private passenger automobile physical damage (12.8%), and homeowners multiple peril (8.6%). The Company solicits and services its customers as a direct writer, which is a significant competitive expense advantage for the Company.

The Company withdrew on December 31, 1991, as a servicing carrier for workers' compensation in Rhode Island, which caused its direct written worker's compensation premium to decrease to \$325,333 in 1993, compared with its 1991 and 1992 direct written premiums of \$5,700,477 and \$3,376,157, respectively. The Company reentered the market on December 1, 1994.

Rhode Island direct written premiums for the Company in 1993 were \$20,503,545, of which seventy-four (74) percent represents private passenger automobile liability and physical damage business, and fifteen (15) percent of which represents homeowners multiple peril. The following schedule outlines the Company's 1993 Rhode Island direct written premiums by lines of business:

<u>Line of Business</u>	<u>1993 Direct Written Premiums</u>
Fire	\$ 120,347
Allied Lines	127,220
Homeowners Multiple Peril	3,107,077
Commercial Multiple Peril (non-liability portion)	593,637
Commercial Multiple Peril (liability portion)	207,629
Ocean Marine	39,080
Inland Marine	143,718
Earthquake	39,112
Workers Compensation	325,333
Other Liability	(197,495)
Products Liability	96,713
Other Private Passenger Automobile Liability	10,320,299
Other Commercial Liability	716,332
Private Passenger Automobile Physical Damage	4,765,233
Commercial Automobile Physical Damage	99,310
Total Rhode Island Direct Written Premiums	\$ 20,503,545

Management

At December 31, 1993, the Company's officers were as follows:

Chairman of the Board and Chief Executive Officer	Gary L. Countryman
President and Chief Operating Officer	Edmund F. Kelly
Vice President and Secretary	Barry S. Gilvar
Vice President and Treasurer	Robert H. Gruhl
Vice Presidents	Antonio C. Ferronato

Vice Presidents (continued)

Anthony A. Fontanes
Therese A. Maloney

Vice President and General Counsel

Christopher C. Mansfield

Comptroller

James P. Condrin, III

CERTIFICATE OF AUTHORITY

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

The results of the review indicate that the Company is licensed in the State of Rhode Island to write all lines of insurance except life and title insurance, and that the Company's operations are in compliance with said Certificate of Authority.

CONSUMER AND OTHER RELATED COMPLAINTS

The Company's procedures for handling consumer and other related complaints were examined to determine whether the Company is in compliance with Section 27-29-3 General Prohibition, and Section 27-29-4 Unfair and Deceptive Acts, of the General Laws of Rhode Island, relative to timely and adequate response to consumer and other related complaints.

A total of twenty-two (22) complaints were received by the Company, all of which were reviewed. Fourteen (14) of the twenty-two (22) complaints were originally received by the Department of Business Regulation, Insurance Division, and forwarded to the company by the Department of Business Regulation for appropriate action.

Based upon the results of the examination work performed in this area, all complaints were processed in compliance with the General Laws of Rhode Island.

SALES AND ADVERTISING

A review of the Company's sales and advertising materials in use for the period under examination, was performed to determine whether the Company was in compliance with the

provisions of Section 27-29-4 of the General Laws of Rhode Island, Unfair and Deceptive Acts.

The Company was asked to provide copies of sales and advertising materials used for the solicitation and marketing of Rhode Island business for the period under examination. A total of eight (8) different types of sales and advertising materials were supplied to and reviewed by the examiners.

Based upon the results of the examination work performed in this area, all materials reviewed were found to be in compliance with Section 27-29-4 of the General Laws of Rhode Island, Unfair and Deceptive Acts.

AGENT AND BROKER LICENSING

The examiners tested one hundred and twenty-three (123) homeowner files and one hundred and twenty-three (123) personal automobile files, in order to determine whether the producing agents were properly licensed, appointed and operating within the scope of their authority. In nine (9) homeowner files tested, the Company was unable to document that the producing agent was properly licensed in Rhode Island.

Therefore, the Company is in violation of Section 27-3-16 of the General Laws of Rhode Island, Foreign agents: license requirements, which requires any person acting as an agent of any insurance company be duly licensed by the State of Rhode Island.

As a result of the above nine (9) exceptions, the examiners recommend that Company management review existing procedures applicable to agent licensing and institute additional written procedures to ensure compliance with Section 27-3-16 of the General Laws of Rhode Island, Foreign agents: license requirements.

UNDERWRITING AND RATING

Homeowners

The examiners tested one hundred and twenty-three (123) homeowner files for proper rating and underwriting application. Various sample tests were conducted to determine whether the Company was in compliance with Section 27-6-8 of the General Laws of Rhode Island, Rate Schedules and Section 27-44-5 of the General Laws of Rhode Island, Rate Standards.

The test work performed resulted in eight (8) exceptions being noted, all of which involved the misclassification of risks and are summarized as follows: One (1) policy contained an incorrect construction classification; One (1) policy contained an incorrect occupancy classification; One

(1) policy contained an incorrect territory code and Five (5) policies contained incorrect protection class codes.

Therefore, the Company is in violation of Section 27-44-5 of the General Laws of Rhode Island, Rate Standards, which states the misclassification of a risk shall be considered an adjustment without adequate justification.

As a result of the eight (8) exceptions noted above, the examiners recommend Company management take the necessary action to ensure the proper application of all rating factors at the time the policies are being rated. In the one (1) instance where the exception resulted in an overcharge, the company agreed to correct the rating error and reimburse the insured for the overcharge in premium.

Personal Automobile

The examiners reviewed and tested one hundred and twenty-three (123) personal automobile files in order to 1) verify the Company's adherence to its underwriting guidelines, 2) validate annual premium charges using the Company's approved rate filing data and 3) determine whether the Company was in compliance with Rhode Island Insurance Laws and Regulations summarized as follows:

The test work performed resulted in two (2) exceptions being noted. One (1) policy contained an incorrect age and territory classification, in rating the personal automobile policy and One (1) policy contained an incorrect territory classification, in rating the personal automobile policy.

Therefore the Company was in violation of Section 27-44-5 of the General Laws of Rhode Island, Rate Standards, which states that a misclassification of a risk shall be considered an adjustment without adequate justification.

Since the rating errors resulted in an undercharge to the insureds in two (2) of the files tested, the Company has agreed to correct the rating errors and waive the additional premium charge for the prior policy periods.

As a result of the exceptions noted above, the examiners recommend that the Company's management review their existing procedures and institute additional procedures to ensure the correct application of rating factors as they apply to personal automobile rating.

Although all the personal automobile files tested provided automobile medical payments coverage of at least twenty five hundred dollars (\$2,500), the Company's personal automobile form AUTO 3044R7 does not provide the insured with the opportunity to reject medical payments coverage entirely.

Therefore, the Company was in violation of Section 27-7-2.5 of the General Laws of Rhode Island, Medical Payments Coverage, which requires that the Company allow the insured to reject medical payments coverage.

The examiners recommended during the examination, that the Company take appropriate action to revise their forms and manual page. The Company agreed to take appropriate action, and to notify the Market Conduct Examination Unit at the time the revisions are made, by sending a photocopy of their filing letter(s).

The Company's personal automobile form AUTO 3044R7, does not provide insureds with minimum bodily injury limits to reduce uninsured motorists bodily injury insurance coverage to zero.

Therefore, the Company is in violation of Section 27-7-2.1 of the General Laws of Rhode Island, Uninsured Motorists Coverage, that requires the Company to allow insureds with minimum bodily injury limits to reject uninsured motorist coverage.

The examiners recommend that the Company revise their personal automobile form AUTO 3044R7 and manual rule 41A.3 on page 01 of Section E, to comply with the provisions outlined above. The Company has indicated that such revisions would be made. Once the changes are complete, the Company should notify the Market Conduct Examination Unit of those changes.

While there were no exceptions involving the experience period in testing the sample policies selected, seven (7) pages in the Company's rating and underwriting manuals refer to a forty (40) month experience period which does not comply with Rhode Island Regulation XXV, Automobile Insurance Merit Rating Plan Section VIII, Duration of assessments, which states, the additive assessments resulting from the adoption of this regulation shall be included on new and renewal policies issued by companies doing business in the State of Rhode Island for a maximum of three policy years (using the anniversary date of the original coverage as the starting point of such experience measuring period or a period not to exceed 45 days in advance of such time) following the date of accident, conviction, pleading or a suspension of license.

The Company's rating manual Rule 29 regarding Certified Risks, Financial Responsibility, provides for a surcharge to a minor even though he/she may be a clean risk.

Therefore, the company is in violation of Rhode Island Insurance Regulation III, Automobile Liability Insurance: Minors: Filing Certificate Of Financial Responsibility On Behalf Of Minor, No Surcharge For Minors On Clean Risks, prohibits a company from applying a surcharge for the filing, if the risk is clean.

The Company has prepared a revision to the rating page to rectify the situation and will file the change with the Rhode Island Department of Business Regulation, Insurance Division, and provide the Market Conduct Examination Unit with documentation of the revised filing.

The Company's Rate manual Rule 27 (Anti-Lock Braking System Discount) Section D page 01 fails to reflect the appropriate 10% Discount for Medical Payments in addition to the 10% for Liability coverage. The Company inadvertently failed to file the revised rule page but the revision was programmed correctly in the Company's rating systems so that policies are being discounted properly.

The Company has stated that the revised page will be filed with other up-dates as soon as the market conduct examination is completed, and they will provide the Market Conduct Examination Unit with documentation of the revised filing.

The Company was unable to provide the examiners with two (2) of the one hundred and twenty-three (123) files selected for testing.

It is recommended by the examiners that Company management review its record retention and retrieval practices and implement any changes to ensure that files can be located as needed for examination by market conduct examiners, or for use by company personnel.

CANCELLATIONS

Homeowners

For the period under examination, the Company's cancellation practices for homeowners were reviewed. The examination was conducted to determine whether the Company was in compliance with Section 27-5-3, Standard Provisions and Section 27-5-3.4, Notice of Cancellation or Nonrenewal and Section 27-5-9.1, Simplified Policies, of the General Laws of Rhode Island.

The Company provided the examiners with a total of five (5) company generated homeowner cancellation files, all of which were reviewed with no exceptions noted.

Personal Automobile

For the period under examination, the Company's cancellation practices for personal automobile were reviewed. The examination was conducted to determine whether the Company was in compliance with Section 31-47-4 of the General Laws of Rhode Island, Notice of termination or cancellation and Rhode Island Insurance Regulation XVI, Auto Insurance Policies Cancellation and Renewal Provisions.

The Company provided the examiners with a total of twenty-two (22) company generated personal automobile cancellation files, all of which were reviewed with no exceptions noted.

NONRENEWALS

Homeowners

For the period under examination, the Company's homeowner nonrenewal practices were reviewed. The examination was conducted to determine whether the company was in compliance with Section 27-5-3, Standard Provisions and Section 27-5-3.4, Notice of Cancellation or Nonrenewal and Section 27-5-9.1, Simplified Policies, of the General Laws of Rhode Island.

The Company provided the examiners with a total of thirty-one (31) company generated homeowner nonrenewal files, all of which were reviewed with no exceptions noted.

Personal Automobile

For the period under examination, the Company's personal automobile nonrenewal practices were reviewed. The examination was conducted to determine whether the company was in compliance with Title 31 Chapter 47 Motor Vehicle Repairs Act and Rhode Island Insurance Regulation XVI Automobile Insurance Policies Cancellation and Renewal Provisions.

A sample of sixty-two (62) Company generated automobile nonrenewal files were reviewed. Based on the test work performed, it was noted that four (4) policies were nonrenewed by the Company for loss occurrence only, however, the loss occurrence listed was not during the annual policy year.

Therefore, the Company is in violation of Regulation XVI Automobile Insurance Policies; Cancellation and Renewal Provisions, Section 4(B) Notice of nonrenewal, which states that no insurance company shall fail to renew a private passenger automobile policy because of a loss occurrence only, unless a chargeable loss occurrence or more than two non-chargeable loss occurrences, involving insureds, have taken place within the annual policy year.

The examiners recommend that the Company review their nonrenewal procedures to assure that all Rhode Island nonrenewals processed are in compliance with Rhode Island Insurance Regulation XVI Automobile Insurance Policies; Cancellation and Renewal Provisions.

In addition, the Company was unable to produce documentation to substantiate that they properly notified the insured of their nonrenewal intent for one (1) file tested.

Therefore, the Company is in violation of Rhode Island Insurance Regulation XVI, Automobile Insurance Policies; Cancellation and Renewal Provisions, Section 4(A), Notice of nonrenewal, which requires that thirty days prior to the policy anniversary date, the Company either mail or deliver to the insured, written notice of nonrenewal.

The examiners recommend that the Company review their personal automobile nonrenewal procedures to assure that all Rhode Island nonrenewals processed are in compliance with Rhode Island Insurance Regulation XVI Automobile Insurance Policies; Cancellation and Renewal Provisions.

CLAIMS PRACTICES

For the period under examination, the examiners performed a review of the Company's claims practices for the following types of claims: Homeowners Closed Claims, Homeowners Closed Without Payment Claims, Personal Automobile Liability Closed Claims, Personal Automobile Physical Damage Closed Claims and Personal Automobile Physical Damage Total Loss Closed Claims.

The review was performed to determine whether the Company was in compliance with Section 27-5-3 Standard Provisions, Section 27-9.1-4 Prohibited Practices, Section 27-8-12 Subrogation, Section 27-8-14 Lost and Salvage Vehicle Reporting and Section 27-10.2-2 Claims Adjusting, of the General Laws of Rhode Island, Rhode Island Insurance Regulation XXVIII Fair Insurance Claim Settlement Practices, and Regulation X Automobile Liability Insurance; Uninsured And Underinsured Motorist Coverage; Rates For Property Damage Caused By Collision, Section 5 Waiver of statutory deductible.

Homeowners Closed Claims

For the period under examination, the examiners tested ninety-one (91) homeowners closed claim files. In the settlement of one (1) claim, the Company failed to apply the policy deductible to the total amount of the loss.

Therefore, the Company is in violation of the deductible provision of the Company's homeowner policy and Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 1 claim settlement in general, which requires that companies engaged in providing protection to Rhode Islanders conduct business in a fair and equitable manner.

The examiners recommend that Company management instruct all appropriate personnel to adhere to the policy provisions of the insurance contract in the settlement of a loss.

Homeowners Closed Without Payment Claims

For the period under examination, the examiners tested twenty-five (25) homeowner closed without payment claims. The test work performed resulted in ten (10) exceptions being noted, two (2) of which are summarized as follows: 1) One (1) claim file contained a notation stating that a denial letter was being dictated to the insured setting forth the reasons for denying the claim. However, the file did not contain a copy of the denial letter 2) One (1) file contained a

notation that a first party claim was verbally denied. The Company failed to notify the insured in writing, explaining the basis for such denial.

Therefore, the Company is in violation of Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 8a which states that any denial of a first party claim must be given to a claimant in writing and the claim file of the insurer shall contain a copy of the denial.

In addition, during the course of the examination the Company was unable to provide the examiners with eight (8) homeowner closed without payment claim files.

Therefore, the Company is in violation of Rhode Island Insurance Regulation XXVIII Fair Insurance Claim Settlement Practices Section 4 File and record documentation, which states that the insurer's claim files shall be subject to examination by the director or by his duly appointed designees and such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events shall be reconstructed.

As a result of the ten (10) exceptions noted above, the examiners recommend that Company management review Rhode Island Insurance Regulation LXXIII Unfair Property/Casualty Claim Settlement Practices Regulation, (The Regulation took effect February 14, 1994 and supersedes Regulation XXVIII Fair Insurance Claim Settlement Practices) and Title 27 of Chapter 9 Unfair Claim Settlement Practices Act, which took effect on February 22, 1993. In addition, the Company should implement written procedures to assure compliance with the law and regulation stated above.

Personal Automobile Liability Closed Claims

For the period under examination, the examiners tested a total of one hundred and six (106) personal automobile liability closed claims. During the course of the examination, the Company was unable to provide the examiners with three (3) personal automobile liability closed claim files.

Therefore, the Company is in violation of Rhode Island Insurance Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 4 File and record documentation, which states that the insurer's claim files shall be subject to examination by the director or by his duly appointed designees and such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events shall be reconstructed.

As a result of the three (3) exceptions noted above, the examiners recommend that Company management review Rhode Island Insurance Regulation LXXIII Unfair Property/Casualty Claim Settlement Practices Regulation, (The Regulation took effect February 14, 1994 and supersedes Rhode Island Regulation XXVIII Fair Insurance Claim Settlement Practices) and Title 27 of Chapter 9 Unfair Claim Settlement Practices Act, which took effect on February 22, 1993. In addition, the Company should implement written procedures to assure compliance with the law and regulation stated above.

Personal Automobile Physical Damage Closed Claims

For the period under examination, the examiners tested a total of eighty-eight (88) personal automobile physical damage closed claim files. The test work performed resulted in fourteen (14) exceptions being noted, one (1) of which, was that the Company collected a casualty loss through subrogation from a third party. However, the Company failed to reimburse the insured for the deductible portion of the casualty loss.

Therefore, the Company is 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.

In four (4) files, the examiners determined that the Company, adjusted first party claims for personal automobile physical damage, which involved the use of aftermarket parts, but failed to notify the insured in writing of the intended use of aftermarket parts in the repair of the vehicle.

Therefore, the Company is in violation of Section 27-10.2-2 of the General Laws of Rhode Island, Claims Adjusting, which provides that whenever the company contemplates the use of aftermarket parts in the repair of the insured's vehicle, the company is required to notify the insured in writing of the intended use of aftermarket parts prior to the actual repair of the vehicle.

In two (2) files, the examiners determined that the Company failed to document that they notified the National Insurance Crime Bureau (NICB) in losses involving the theft of the insured's vehicle.

Therefore, the Company is in violation of Section 27-8-14 of the General Laws, Lost and salvage vehicle reporting, which states all casualty insurers licensed to do business in Rhode Island shall report all vehicle thefts within thirty (30) days of the theft and all salvage declarations to the National Insurance Crime Bureau (NICB).

In addition, during the course of the examination, the company was unable to provide the examiners with seven (7) personal automobile physical damage closed claim files.

Therefore, the Company is in violation of Rhode Island Insurance Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 4 File and record documentation, which states that the insurer's claim files shall be subject to examination by the director or by his duly appointed designees such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events shall be reconstructed.

As a result of the fourteen (14) exceptions listed above, the examiners recommend that Company management review Section 27-8-12 Subrogation, Section 27-10.2-2 Claims Adjusting and Section 27-8-14 Lost and salvage vehicle reporting, of the General Laws of

Rhode Island, and Regulation LXXIII Unfair Property /Casualty Claim Settlement Practices Regulation (This Regulation took effect February 14, 1994 and supersedes Rhode Island Regulation XXVIII Fair Insurance Claim Settlement Practices). In addition, the Company should implement procedures to assure compliance with the laws and regulation stated above.

Personal Automobile Physical Damage Total Losses

For the period under examination, the examiners tested forty-eight (48) personal automobile physical damage total loss claim files. During the course of the examination, the Company was unable to provide the examiners with sixteen (16) personal automobile physical damage total loss claim files.

Therefore, the Company is in violation of Rhode Island Insurance Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 4 File and record documentation, which states that the insurer's claim files shall be subject to examination by the director or by his duly appointed designees and such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events shall be reconstructed. On February 14, 1994, Rhode Island Insurance Regulation LXXIII - Unfair Property/Casualty Claim Settlement Practices Regulation, took effect which supersedes Regulation XXVIII.

As a result of the significant number of exceptions noted above (sixteen), the examiners recommend that Company management review their record retention policy and make changes to assure future compliance with Regulation LXXIII.

SUMMARY OF VIOLATIONS OF RHODE ISLAND INSURANCE LAWS AND REGULATIONS

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Therefore, the Company is in violation of Section 27-3-16 of the General Laws of Rhode Island, Foreign agents: license requirements, which requires any person acting as an agent of any insurance company be duly licensed by the State of Rhode Island.	8
Therefore, the Company is in violation of Section 27-44-5 of the General Laws of Rhode Island, Rate Standards, which states the misclassification of a risk shall be considered an adjustment without adequate justification.	9
Therefore, the Company was in violation of Section 27-7-2.5 of the General Laws of Rhode Island, Medical Payments Coverage, which requires that the Company allow the insured to reject medical payments coverage.	9
Therefore, the Company is in violation of Section 27-7-2.1 of the General Laws of Rhode Island, Uninsured Motorists Coverage, that requires the Company to allow insureds with minimum bodily injury limits to reject uninsured motorist coverage.	10
While there were no exceptions involving the experience period in testing the samples selected, seven (7) pages in the Company's rating and underwriting manuals refer to a forty (40) month experience period which does not comply with Rhode Island Regulation XXV, Automobile Insurance Merit Rating Plan Section VIII, Duration of assessments, which states, the additive assessments resulting from the adoption of this regulation shall be included on new and renewal policies issued by companies doing business in the State of Rhode Island for a maximum of three policy years (using the anniversary date of the original coverage as the starting point of such experience measuring period or a period not to exceed 45 days in advance of such time) following the date of accident, conviction, pleading or a suspension of license.	10
Therefore, the company is in violation of Rhode Island Insurance Regulation III, Automobile Liability Insurance: Minors: Filing Certificate Of Financial Responsibility On Behalf Of Minor, No Surcharge For Minors On Clean Risks, prohibits a company from applying a surcharge for the filing, if the risk is clean.	10

Therefore, the Company is in violation of Regulation XVI Automobile Insurance Policies; Cancellation and Renewal Provisions, Section 4(B) Notice of nonrenewal, which states that no insurance company shall fail to renew a private passenger automobile policy because of a loss occurrence only, unless a chargeable loss occurrence or more than two non-chargeable loss occurrences, involving insureds, have taken place within the annual policy year. **12**

Therefore, the Company is in violation of Rhode Island Insurance Regulation XVI, Automobile Insurance Policies; Cancellation and Renewal Provisions, Section 4(A), Notice of nonrenewal, which requires that thirty days prior to the policy anniversary date, the Company either mail or deliver to the insured, written notice of nonrenewal. **12**

Therefore, the Company is in violation of the deductible provision of the Company's homeowner policy and Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 1 claim settlement in general, which requires that companies engaged in providing protection to Rhode Islanders, conduct business in a fair and equitable manner. **13**

Therefore, the Company is in violation of Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 8a which states that any denial of a first party claim must be given to a claimant in writing and the claim file of the insurer shall contain a copy of the denial. **14**

Therefore, the Company is in violation of Rhode Island Insurance Regulation XXVIII Fair Insurance Claim Settlement Practices Section 4 File and record documentation, which states that the insurer's claim files shall be subject to examination by the director or by his duly appointed designees and such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events shall be reconstructed. **14**

Therefore, the Company is in violation of Rhode Island Insurance Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 4 File and record documentation, which states that the insurer's claim files shall be subject to examination by the director or by his duly appointed designees and such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events shall be reconstructed. **14**

Therefore, the Company is 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. 15

Therefore, the Company is in violation of Section 27-10.2-2 of the General Laws of Rhode Island, Claims Adjusting, which provides that whenever the company contemplates the use of aftermarket parts in the repair of the insured's vehicle, the company is required to notify the insured in writing of the intended use of aftermarket parts prior to the actual repair of the vehicle. 15

Therefore, the Company is in violation of Section 27-8-14 of the General Laws, Lost and salvage vehicle reporting, which states all casualty insurers licensed to do business in Rhode Island shall report all vehicle thefts within thirty (30) days of the theft and all salvage declarations to the National Insurance Crime Bureau (NICB). 15

Therefore, the Company is in violation of Rhode Island Insurance Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 4 File and record documentation, which states that the insurer's claim files shall be subject to examination by the director or by his duly appointed designees such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events shall be reconstructed. 15

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SUMMARY OF RECOMMENDATIONS

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As a result of the above nine (9) exceptions, the examiners recommend that Company management review existing procedures applicable to agent licensing and institute additional written procedures to ensure compliance with Section 27-3-16 of the General Laws of Rhode Island, Foreign agents: license requirements.	8
As a result of the eight (8) exceptions noted above, the examiners recommend Company management take the necessary action to ensure the proper application of all rating factors at the time the policies are being rated. In the one (1) instance where the exception resulted in an overcharge, the company agreed to correct the rating error and reimburse the insured for the overcharge in premium.	9
As a result of the exceptions noted above, the examiners recommend that the Company's management review their existing procedures and institute additional procedures to ensure the correct application of rating factors as they apply to personal automobile rating.	9
The examiners recommended during the examination, that the Company take appropriate action to revise their forms and manual page. The Company agreed to take appropriate action, and notify the Market Conduct Examination Unit at the time the revisions are made, by sending a photocopy of their filing letter(s).	10
The examiners recommend that the Company revise their personal automobile form AUTO 3044R7 and manual rule 41A.3 on page 01 of Section E, to comply with the provisions outlined above. The Company has indicated that such revisions would be made. Once the changes are complete, the Company should notify the Market Conduct Examination Unit of those changes.	10
It is recommended by the examiners that Company management review its record retention and retrieval practices and implement any changes to ensure that files can be located as needed for examination by market conduct examiners, or for use by company personnel.	11
The examiners recommend that the Company review their nonrenewal procedures to assure that all Rhode Island nonrenewals processed are in compliance with Rhode Island Insurance Regulation XVI Automobile Insurance Policies; Cancellation and Renewal Provisions.	12

The examiners recommend that the Company review their personal automobile nonrenewal procedures to assure that all Rhode Island nonrenewals processed are in compliance with Rhode Island Insurance Regulation XVI Automobile Insurance Policies; Cancellation and Renewal Provisions. **13**

The examiners recommend that Company management instruct all appropriate personnel to adhere to the policy provisions of the insurance contract in the settlement of a loss. **13**

As a result of the ten (10) exceptions noted above, the examiners recommend that Company management review Rhode Island Insurance Regulation LXXIII Unfair Property/Casualty Claim Settlement Practices Regulation, (The Regulation took effect February 14, 1994 and supersedes Regulation XXVIII Fair Insurance Claim Settlement Practices) and Title 27 of Chapter 9 Unfair Claim Settlement Practices Act, which took effect on February 22, 1993. In addition, the Company should implement written procedures to assure compliance with the law and regulation stated above. **14**

As a result of the three (3) exceptions noted above, the examiners recommend that Company management review Rhode Island Insurance Regulation LXXIII Unfair Property/Casualty Claim Settlement Practices Regulation, (The Regulation took effect February 14, 1994 and supersedes Rhode Island Regulation XXVIII Fair Insurance Claim Settlement Practices) and Title 27 of Chapter 9 Unfair Claim Settlement Practices Act, which took effect on February 22, 1993. In addition, the Company should implement written procedures to assure compliance with the law and regulation stated above. **14**

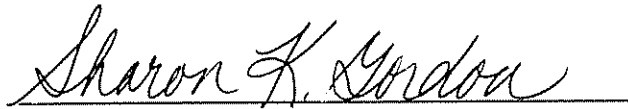
As a result of the fourteen (14) exceptions listed above, the examiners recommend that Company management review Section 27-8-12 Subrogation, Section 27-10.2-2 Claims Adjusting and Section 27-8-14 Lost and salvage vehicle reporting, of the General Laws of Rhode Island, and Regulation LXXIII Unfair Property /Casualty Claim Settlement Practices Regulation (This Regulation took effect February 14, 1994 and supersedes Rhode Island Regulation XXVIII Fair Insurance Claim Settlement Practices). In addition, the Company should implement procedures to assure compliance with the laws and regulation stated above. **15**

As a result of the significant number of exceptions noted above (sixteen), the examiners recommend that Company management review their record retention policy and make changes to assure future compliance with Regulation LXXIII. **16**

ACKNOWLEDGMENT

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

Assisting the undersigned in the conduct of this examination, all from the Rhode Island Insurance Division were John Carr, CPCU, Principal Market Conduct Examiner, Ronald R. Rattke, Senior Market Conduct Examiner, Robert Arrow, FLMI, AIE, Senior Market Conduct Examiner, and Deborah A. Bradford, Market Conduct Examiner.

A handwritten signature in cursive script that reads "Sharon K. Gordon". The signature is written in black ink and is positioned above a horizontal line.

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