

**Report on  
Market Conduct Examination  
of the**

**NATIONWIDE MUTUAL INSURANCE COMPANY  
NATIONWIDE MUTUAL FIRE INSURANCE COMPANY  
NATIONWIDE PROPERTY & CASUALTY INSURANCE COMPANY  
ONE NATIONWIDE PLAZA  
COLUMBUS, OHIO 43216  
TELEPHONE (614) 249-7111  
NAIC GROUP CODE 140**

**as of**

**DECEMBER 31, 1992**

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

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**PROVIDENCE, RHODE ISLAND**

July 18, 1997

Honorable Barry G. Hittner  
Insurance Commissioner  
State of Rhode Island  
Providence, Rhode Island 02903

Sir:

In compliance with your instructions and pursuant to Title 27, Chapters 13 and 13.1 of the General Laws of the State of Rhode Island, a Market Conduct Examination has been performed on the Rhode Island business of:

**NATIONWIDE MUTUAL INSURANCE COMPANY  
NATIONWIDE MUTUAL FIRE INSURANCE COMPANY  
NATIONWIDE PROPERTY & CASUALTY INSURANCE COMPANY  
ONE NATIONWIDE PLAZA, COLUMBUS, OHIO 43216**

Hereinafter, generally referred to as the P&C Companies, our report is submitted as follows:

**Foreword**

The report of the market conduct examination, in general, is a report by exception. Any additional practices, procedures, and/or files subject to review during the examination may have been omitted from the report if no exceptions and/or improprieties were indicated.

## **Scope of Examination**

The examination was conducted at the P&C Companies' Northeastern Regional Office located in Wallingford, Connecticut. The examination was conducted in accordance with Title 27, Chapters 13 and 13.1 of the General Laws of the State of Rhode Island. The examination commenced on October 12, 1993 and covered the period from January 1, 1990 to December 31, 1992 for the following P&C Companies:

<b>NATIONWIDE MUTUAL INSURANCE COMPANY</b>	<b>NAIC Code 23787</b>
<b>NATIONWIDE MUTUAL FIRE INSURANCE COMPANY</b>	<b>NAIC Code 23779</b>
<b>NATIONWIDE PROPERTY &amp; CASUALTY INSURANCE COMPANY</b>	<b>NAIC Code 37877</b>

The primary purpose of the examination was to determine if the P&C Companies are in compliance with laws, regulations, and policy provisions relative to the P&C Companies' insurance activities within the State of Rhode Island.

The examination was performed in accordance with procedures as prescribed by the National Association of Insurance Commissioners. Accordingly, certain schedules, reviews and analyses were prepared and evaluations performed on principle segments of the P&C Companies. The examination included but was not limited to the following segments: (1) Certificates of Authority; (2) Consumer or Other Related Complaints; (3) Sales and Advertising; (4) Licensing of Agents, Agencies and Brokers; (5) Policy Forms and Rate Filings; (6) Underwriting and Rating; (7) Cancellations and Nonrenewals; and (8) Claims Practices.

The results of the testing satisfied the primary purpose of the examination and formed the basis for the findings and recommendations presented in the report.

## **Company Overview**

### **History**

Nationwide Mutual Insurance Company, the lead member of the Nationwide Group, was founded on December 16, 1925 under the laws of the State of Ohio, and began business on April 14, 1926 under the sponsorship of the Ohio Farm Bureau Federation. The intent was to provide automobile insurance for Farm Bureau members at cost. Operations were conducted under the title Farm Bureau Mutual Automobile Insurance Company until September 1, 1955. On that date, the present corporate title was adopted.

The Nationwide Mutual Fire Insurance Company was incorporated on December 27, 1933 under the laws of the State of Ohio, and began business on April 15, 1934. Operations were conducted under the title Farm Bureau Mutual Fire Insurance Company from inception until September 1, 1955, when the present corporate name was adopted.

Nationwide Property and Casualty Insurance Company was incorporated on November 9, 1979 under the laws of the State of Ohio and began business July 1, 1981.

In 1985, Nationwide Mutual invested \$250,000,000 in Employers Insurance of Wausau, a mutual company and the lead entity in the Wausau Group, in the form of an interest bearing contribution note. During 1988, an additional \$50,000,000 was contributed, bringing the total amount invested to \$300,000,000. Also during 1985, the lead company acquired full control of Beaver Pacific Corporation, which owned Beaver Insurance Company and its wholly owned subsidiary, Valley Insurance Company.

Accompanying the lead company in the group are Nationwide Mutual Fire Insurance Company, incorporated in 1933; Nationwide Life Insurance Company, acquired in 1952; National Casualty Insurance Company, acquired in 1952; Nationwide General Insurance Company, formed in 1957; West Coast Life Insurance Company, controlled since 1964; Nationwide Property and Casualty Company, chartered in 1979; Colonial Insurance Company of California, acquired in 1980; Financial Horizons Life Insurance Company, incorporated in 1981; Scottsdale Insurance Company, formed in 1982; Farmland Mutual Insurance Company, affiliated since 1982; Nationwide Agribusiness Insurance Company and Farmland Life Insurance Company, both acquired in 1982; and Scottsdale Indemnity Company, formed in 1984.

The P&C Companies have been assigned a Best's Rating of A+ (Superior) and also assigned a Financial Size Category of Class XV, which is the Financial Size Category of the pool.

### **Management and Operations**

Operations of the Nationwide Group reflect those of Nationwide Mutual Insurance Company and Nationwide Mutual Fire Insurance Company and all subsidiary property/casualty members of the group. The property/casualty members of the Nationwide group in 1992 had net premiums written of \$5.4 billion. This placed the Nationwide Group among the top ten property/casualty groups in the country.

Overall operations of the group are directed by John E. Fisher, General Chairman and Chief Executive Officer. Mr. Fisher began his career with Nationwide in 1951 as an underwriter and has been in his present position since 1981.

The Nationwide Mutual Insurance Company and its affiliate, Nationwide Mutual Fire Insurance Company, own 95.3% and 4.7%, respectively, of the outstanding common shares of the Nationwide Corporation, a holding company. Carriers related to the group, via stock ownership through the holding company are: Nationwide Life Insurance Company, Columbus, Ohio; West Coast Life Insurance Company, San Francisco, California; and National Casualty Company, Saint Louis, Missouri. With regard to the Nationwide Property and Casualty Insurance Company, all of the outstanding capital is owned by the parent company, Nationwide Mutual Insurance Company, Columbus, Ohio.

Virtually all kinds of insurance for urban and rural residents and commercial or business risks are offered by the P&C Companies. All policies are issued on a non-assessable basis. Business is written on the advance premium plan, but several installment premium plans are available to insureds. Renewal premiums are collected by mail.

Regional offices are maintained in Annapolis, Maryland; Canton and Columbus, Ohio; Butler and Harrisburg, Pennsylvania; Gainesville, Florida; Wallingford, Connecticut; Raleigh, North Carolina; Syracuse, New York; Portland, Oregon; Hato Rey, Puerto Rico; Lynchburg, Virginia; Memphis, Tennessee; Visalia, California; and San Antonio, Texas. These offices issue and service policies, collect premiums and pay claims in their respective territories. The Nationwide Insurance Group markets their business through approximately 4,780 agents as of year end 1992.

The Nationwide Mutual Insurance Company is licensed to write business in the District of Columbia, Puerto Rico, Virgin Islands and all states except New Jersey. It operates on a surplus lines or non-admitted basis in New Jersey. It is authorized for reinsurance in Canada and in the provinces of British Columbia and Ontario.

In relation to The Nationwide Property and Casualty Insurance Company, facilities are maintained for the handling of all property and casualty lines. Initial operations, which commenced in mid 1981, have primarily included the writing of automobile coverage at independently filed rates and are higher than those of the parent company. The Property and Casualty Insurance Company is licensed in DC and all states except Hawaii, Louisiana, Maine, New Hampshire, New Jersey and Wyoming.

## Nationwide Mutual Insurance Company Board of Directors

Fred C. Finney	John E. Fisher
Peter F. Frenzer	Charles L. Fuellgraf, Jr.
Henry S. Holloway	D. Richard McFerson
David O. Miller	W. Barton Montgomery
James F. Patterson	John K. Pfahl
Robert H. Rickel	Arden L. Shisler
Vaughn O. Sinclair	Robert L. Stewart
Nancy C. Thomas	Harold W. Weihl

### Officers

John E. Fisher	General Chairman
D. Richard McFerson	Chief Executive Officer, President Nationwide Property & Casualty Insurance Companies
Peter F. Frenzer	President and Chief Operating Officer, Nationwide Life and Financial Horizons Life Insurance Companies; Executive Vice President, Investments
Thomas E. Kryshak	Executive Vice President, Finance
Gordon E. McCutchan	Executive Vice President, General Counsel and Secretary

The P&C Companies' 1992 total direct written premiums, for the lines of business listed below, were \$2,728,904,279. Rhode Island's portion of those premiums amounted to \$41,438,674 or 1.51%. The following schedule outlines the P&C Companies direct written premiums for the lines of business under examination in the State of Rhode Island for 1992:

P&C COMPANIES LINES OF BUSINESS:	DIRECT WRITTEN PREMIUM
HOMEOWNER MULTI PERIL	\$8,109,343
COMMERCIAL MULTI PERIL (FIRE & ALLIED PORTION)	385,278
COMMERCIAL MULTI PERIL (LIABILITY PORTION)	202,639
EARTHQUAKE	14,365
OTHER PRIVATE PASSENGER AUTO LIABILITY	23,024,546
PRIVATE PASSENGER AUTO PHYSICAL DAMAGE	<u>9,702,503</u>
<b>TOTAL P&amp;C COMPANIES' LINES OF BUSINESS</b>	<b>\$41,438,674</b>

The source of the figures presented in the schedule above, were obtained from the 1992 Annual Statements of the P&C Companies.

### **Certificates of Authority**

A review of the Certificates of Authority issued to the P&C Companies by the Department of Business Regulation, Insurance Division, was performed to determine the P&C Companies' compliance with Rhode Island General Law 27-2-11.

The examiners determined from the results of their review, that the P&C Companies are properly licensed in the State of Rhode Island to write property and casualty lines of insurance and that the P&C Companies' writings are consistent with the authority granted by their Rhode Island certificates. Therefore, the examiners noted no exceptions in this segment of the examination

### **Policyholder Treatment**

#### **Consumer or Other Related Complaints**

The P&C Companies' Consumer Or Other Related Complaints procedures and documentation were examined to determine the P&C Companies' compliance with applicable Rhode Island General Laws and Insurance Regulations.

The P&C Companies' Controls and Services administrator provided the examiners with a computer listing of all complaints on record at the P&C Companies for the period under examination. The examiners' initial review of the listing determined that the P&C Companies recorded receipt of ninety-six (96) complaints.

For the same period, the examiners were provided by the Rhode Island Department of Business Regulation, Insurance Division, with a listing of thirty-seven (37) complaints that the division received, recorded and subsequently sent to the P&C Companies. In comparing the P&C Companies' listing with the listing maintained by the Rhode Island Department of Business Regulation, Insurance Division, the examiners noted no exceptions.

Upon completion of the above, the examiners performed a review and evaluation of all the complaints recorded on the P&C Companies listing. No exceptions were noted.



## **Licensing**

### **Licensing of Agents, Agencies and Brokers**

This portion of the examination was performed to determine the P&C Companies' compliance with Rhode Island General Laws 27-3-2, 27-3-6, and 27-3-16.

In comparing the P&C Companies' listing of agents, agencies and brokers, with the listing maintained by the Department of Business Regulation, Insurance Division, the examiners noted no exceptions.

### **Policy Forms and Rate Filings**

For the period under examination, the policy forms and rate filings used by the P&C Companies were reviewed to determine if the P&C Companies were in compliance with Rhode Island General Laws 27-6-8, 27-6-9, 27-9-7, and 27-9-8, as well as Rhode Island Insurance Regulation XXII, specifically, and various other Rhode Island General Laws and Regulations, where applicable.

The examiners tested a statistical sample of sixty (60) policy forms and rate filings, to determine if the P&C Companies were in compliance with the Rhode Island General Laws and Regulations stated above.

As a result of the testing, the examiners noted no exceptions.

## **Underwriting and Rating**

### **General-Underwriting and Rating**

For the period under examination, the P&C Companies' underwriting and rating practices for Homeowners, Private Passenger Automobile, and Commercial Multi-Peril policies were reviewed. Various sample tests were conducted to determine the P&C Companies' compliance with Rhode Island General Laws 27-6-4, 27-44-5, 27-6-8, and 27-9-7, specifically, and various other Rhode Island General Laws and Regulations where applicable, for the following lines of business:

#### **Homeowner**

The examiners reviewed and tested sixty (60) homeowner files to verify the P&C Companies' adherence to its underwriting guidelines and to validate annual premium charges using their approved rate filing data.

As a result of the testing, the examiners had no exceptions to report.

### **Private Passenger Automobile**

The examiners reviewed and tested thirty-nine (39) private passenger automobile files to verify the P&C Companies' adherence to its underwriting guidelines and to validate annual premium charges using their approved rate filing data.

As a result of the testing, the examiners had no exceptions to report.

However, while the examiners were performing the testing, they discovered that the P&C Companies' private passenger automobile manual provides for medical payments coverage limits of \$2,000, \$5,000, \$10,000 and \$25,000 for each individual and permits the insured or applicant to reject medical payments coverage entirely or select a limit as scheduled above.

The offering of a \$2,000 minimum medical payments limit by the P&C Companies is a violation of Rhode Island General Law 27-7-2.5, which states in part that "...(a) No policy insuring against loss resulting from liability imposed by law, or for injuries caused by a motor vehicle collision or for injuries arising out of the ownership, maintenance, or use of a motor vehicle, shall be delivered or issued in this state unless coverage is provided therein for medical payments in an amount of not less than twenty-five hundred dollars (\$2,500) for each individual and five thousand dollars (\$5,000) aggregate for the protection of persons injured regardless of the fault of the person so injured, provided, however, that the named insured shall have the right to reject that coverage."

As a result of this exception, the examiners make the following recommendations:

1. The P&C Companies' management revise all their Rhode Island private passenger automobile manuals to reflect a minimum automobile medical payment limit of \$2,500 for each individual; and
2. The P&C Companies should examine their automobile medical payment filing and submit a revised one for proper approval.

### **Commercial Multi Peril**

The examiners reviewed and tested ninety-two (92) commercial multi-peril files to verify the P&C Companies' adherence to its underwriting guidelines and to validate annual premium charges using their approved rate filing data. As a result of the underwriting testing, the examiners had no exceptions to report.

However, in testing the accuracy of the annual premiums charged by the P&C Companies, the examiners identified twenty-three (23) exceptions.

All twenty-three (23) exceptions dealt with improper rate applications. Of the twenty-three exceptions, one (1) amounted to a twenty-thousand (\$20,000) dollar undercharge of premium. To compound the rating error, the policy was renewed, using the same improper rate from its inception until noted by the examiners. The other twenty-two (22) exceptions were incorrect rate applications of a lesser magnitude.

Therefore, the P&C Companies are in violation of Rhode Island General Law 27-44-5, which states in part that "...rates shall not be excessive, inadequate, or unfairly discriminatory."

As a result of the twenty-three (23) exceptions, the examiners provide the following recommendations:

1. The P&C Companies' management review existing procedures and, where necessary, institute additional written procedures to ensure correct rate application as it applies to Commercial Multi-Peril rating.
2. All appropriate personnel should receive a copy of the written procedures; verify in writing their receipt and awareness of the contents; and acknowledge that they are adhering to the procedures.
3. The P&C Companies should reimburse their insureds for all premium overcharges.

## **Cancellations and Non-Renewals**

### **General-Cancellations and Non-Renewals**

For the period under examination, the examiners performed a review of the P&C Companies' cancellation and non-renewal practices for Homeowner, Private Passenger Automobile and Commercial Multi-Peril policies. The review was performed to determine the P&C Companies' compliance with Rhode Island General Law 27-5-9.1, Rhode Island Insurance Regulation XVI and Rhode Island Insurance Regulation XXXVIII, specifically, and various other Rhode Island General Laws and Regulations.

### **Homeowner Cancellations**

The examiners tested a sample of seventy (70) homeowner cancellation files for proper issuance and refunds, from which the examiners identified sixteen (16) exceptions as follows:

In ten (10) of the seventy (70) files tested, the P&C Companies issued notice of cancellation more than sixty (60) days after the inception date of the policy, without providing provision for date and reason, which is in violation of Insurance Regulation XVI, Section 2.

In four (4) of the seventy (70) files tested, the P&C Companies failed to provide reason for cancellation as required by the policy filed and approved by the Rhode Island Department of Business Regulation, Insurance Division.

In two (2) of the seventy (70) files tested, an improper form was used to effect the cancellation. In both cases, an automobile cancellation form was used rather than a homeowner form.

The two (2) exceptions noted above, are in violation of Rhode Island General Law 27-5-3, lines sixty (60) through sixty-seven (67) which states that "...this policy may be canceled at any time by this company by giving to the insured a five (5) days' written notice of cancellation with or without tender of the excess of paid premium above the pro rata premium for the expired time, which excess, if not tendered, shall be refunded on demand. Notice of cancellation shall state that said excess premium (if not tendered) will be refunded on demand."

As a result of the above sixteen (16) exceptions, the examiners provide the following recommendation:

The P&C Companies' management review homeowner cancellation procedures with the appropriate staff, to ensure that cancellation notices are handled in accordance with the terms of the policies approved by the Insurance Division.

## **Homeowner Non-Renewals**

The examiners tested a sample of one hundred-eleven (111) homeowner nonrenewal files for proper issuance, from which the examiners identified seven (7) exceptions as follows:

In six (6) of the files tested, the P&C Companies did not provide the minimum thirty (30) day notice of nonrenewal as required by the policy contract as filed with and approved by the Rhode Island Department of Business Regulation, Insurance Division.

In one (1) of the files tested, an improper form was used by the P&C Companies to effect the non-renewal. An automobile nonrenewal form was used to nonrenew a homeowners policy, rather than a homeowner form.

The seven (7) exceptions noted above, are not in compliance with Rhode Island General Law 27-5-9.1 as they relate to the provisions of their respective contracts. These requirements as well as the Law were violated in each of the seven (7) cases.

As a result of the above seven (7) exceptions, the examiners provide the following recommendation:

The P&C Companies' management review homeowner non-renewal procedures with the appropriate staff, to ensure that non-renewal notices are handled in accordance with the terms of the policies approved by the Insurance Division.

## **Private Passenger Automobile Cancellations**

The examiners tested a sample of forty-eight (48) private passenger automobile cancellation files for proper issuance and refunds, if applicable, from which the examiners identified twelve (12) exceptions as follows:

In three (3) of the files tested, the P&C Companies failed to provide a proper reason for cancellation.

In three (3) of the files tested, the P&C Companies failed to provide the required thirty (30) days' notice of cancellation prior to the effective date of cancellation.

The six (6) exceptions noted above, are in violation of Rhode Island Insurance Regulation XVI. In the first three (3) exceptions, the P&C Companies violated Rhode Island Regulation XVI, Section 2. The regulation states in part, that "...effective sixty (60) days after the inception date of a policy, the company shall not exercise its right to cancel the policy unless it is based on one of the following reasons: (A) non-payment of premium; (B) the driver's license or motor vehicle registration of the named insured or any other operator who either resides in the same household or customarily operates an automobile insured under the policy has been under suspension or revocation or cancellation during the policy period."

In the latter three (3) exceptions, the P&C Companies violate Section 3(B) of Rhode Island Insurance Regulation XVI, which states that "...no insurer shall exercise its right to cancel a policy unless a written notice of cancellation is mailed or delivered to the named insured, at the address shown in the policy, at least thirty (30) days prior to the effective date of cancellation, except that when cancellation is for non-payment of premium, such notice shall be mailed or delivered to the named insured at the address in the policy at least ten (10) days prior to the effective date of cancellation and shall include or be accompanied by a statement of the reason therefore."

In three (3) of the files tested, the P&C Companies failed to provide the required statement regarding financial security. Therefore the P&C Companies are in violation of Rhode Island General Law 31-47-4 which requires that "...no contract of insurance or renewal thereof, shall be terminated by cancellation or failure to renew by the insurer until at least thirty (30) days after mailing to the named insured at the address shown on the policy a notice of termination or cancellation by certificate of mailing. Time of the effective date and hour of termination stated in the notice shall become the end of the policy period. Every such 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 such financial security shall subject the violator to a mandatory suspension of license and registration."

In one (1) of the files tested, the notice of cancellation issued by the P&C Companies only provided for a time of cancellation (i.e., 12:01 a.m.), however, they failed to provide a date of cancellation.

In one (1) of the files tested, the P&C Companies failed to provide documentation in the file to show that a cancellation notice was issued. The P&C Companies stated that "no contract existed because of lack of consideration by the applicant."

The two (2) exceptions noted above, are in violation of Rhode Island General Law 27-9-7. The law states in part that "...every filing shall state the proposed effective date thereof and shall indicate the character and extent of the coverage contemplated."

In one (1) of the files tested, the P&C Companies were unable to provide the examiners with a copy of the cancellation letter.

As a result of the above twelve (12) exceptions, the examiners provide the following recommendations:

1. Management should provide appropriate personnel with copies of Rhode Island General Law 27-9-7; Rhode Island Related Law 37-47-4; and Rhode Island Insurance Regulation XVI.
2. Management should review policy cancellation procedures with appropriate staff to ensure that cancellation practices are handled in accordance with Rhode Island General

Laws and Regulations and the terms of the policy contract on file with the Rhode Island Department of Business Regulation, Insurance Division.

3. All appropriate personnel should verify in writing their receipt and awareness of the contents and acknowledge that they are adhering to the procedures.

### **Private Passenger Automobile Non-Renewals**

The examiners tested a sample of one hundred ninety-three (193) private passenger automobile non-renewal files for proper issuance from which the examiners identified thirty-six (36) exceptions as follows:

In eighteen (18) of the one hundred-ninety-three (193) files tested, the P&C Companies failed to provide the required statement regarding financial security. Therefore, the P&C Companies are in violation of Rhode Island Related Law 31-47-4 (Motor Vehicle Reparations Act) which states in part that "...no contract of insurance or renewal thereof shall be terminated by cancellation or failure to renew by the insurer until at least thirty (30) days after mailing to the named insured at the address shown on the policy a notice of termination or cancellation by certificate of mailing. Time of the effective date and hour of termination stated in the notice shall become the end of the policy period. Every such 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 such financial security shall subject the violator to a mandatory suspension of license and registration."

In thirteen (13) of the one hundred ninety-three (193) files tested, the P&C Companies issued non-renewal notices listing accident/occurrences that did not occur within the annual policy year.

In four (4) of the one hundred ninety-three (193) files tested, the P&C Companies issued non-renewal notices listing an accident that was not a chargeable accident.

In one (1) of the one hundred ninety-three (193) files tested, the P&C Companies issued a non-renewal notice where less than three (3) non-chargeable loss occurrences were listed.

Therefore, as a result of the above eighteen (18) exceptions, the P&C Companies, are in violation of Section 27-9-4 (b) of the General Laws of Rhode Island and Insurance Regulation XVI, Section 4 which states in part "...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."

As a result of the above thirty-six (36) exceptions, the examiners provide the following recommendations:

1. Management should provide appropriate personnel with copies of Rhode Island Related Law 31-47-4 and Rhode Island Insurance Regulation XVI.
2. All appropriate personnel should verify in writing, receipt of the Rhode Island Related Law and Regulation stated above, that they are aware of its contents, and are reinforcing their adherence with respect to non-renewal practices.

### **Commercial Multi-Peril Cancellations**

For the period under examination, the P&C Companies issued thirty-nine (39) commercial multi-peril cancellations. Due to the small volume of cancellations, the examiners tested all thirty-nine (39) files corresponding to those cancellations. The examiners' test of those files identified four (4) exceptions as follows:

In one (1) of the files tested, the P&C Companies issued a seven (7) day notice of cancellation and in one (1) of the files tested the P&C Companies issued a cancellation notice for non-payment of premium, however, there is no documentation in the file to substantiate the P&C Companies' action.

Therefore, as a result of the two (2) exceptions noted above, the P&C Companies are in violation of Rhode Island Insurance Regulation XXXVIII, Sections 3A and 3B, which state in part that "...notice of cancellation based on non-payment of premium shall be given, mailed or delivered at least thirty (30) days prior to the effective date of cancellation. The notice shall state the effective date of cancellation."

In two (2) of the files tested, the P&C Companies failed to provide sufficient documentation to justify the reason for cancellation. The P&C Companies are in violation of Section 27-13.1-4(B) of the General Laws of Rhode Island which states in part that "...every company or person from whom information is sought, its officers, directors, and agents must provide to the examiner appointed under subsection (D) timely, convenient and free access at all reasonable hours at its offices to all books, records, accounts, papers, documents and any or all other recordings relating to the property, assets, business and affairs of the company being examined."

As a result of four (4) exceptions noted above, the examiners recommend the following:

1. The P&C Companies' management take immediate action to ensure that the appropriate personnel fully understand Rhode Island Insurance Regulation XXXVIII to ensure that in the future, all commercial insurance cancellations will be issued in compliance with the Regulation.
2. The P&C Companies' management take immediate action to ensure that appropriate personnel fully understand Section 27-13.1-4(B) of the General Laws of Rhode Island.

In six (6) of the files tested, the P&C Companies appeared to have improperly voided the policies as of their effective date. According to the P&C Companies, the policies were voided for non-



payment of the initial premiums. In each case, premium payment checks were returned to the P&C Companies due to either non-sufficient funds, closed account, or stop payment.

Each policyholder received a letter from the P&C Companies stating that "Since we did not receive valid payment on the account, there is no legal contract between you and Nationwide Mutual Insurance Company. The policy number that was assigned to your application has been voided. Therefore, the application signed is declared null and void, and there has been no coverage provided since that day." The P&C Companies provided support for their position by reference to Regulation XXXVIII relative to the cancellation of new business resulting from non-payment of premium.

Recognizing that a company's right to rescind policies may be subject to different legal interpretations, the P&C Companies have established the following guideline: If the reason for cancellation during the first sixty (60) days is non-payment of the initial premium, they may rescind the policy if the first-named insured and any third party lenders, as identified on the insurance application, are provided ten (10) day written notices of the company's intent, and the first-named insured fails to make the required premium payment by the end of the tenth day.

The P&C Companies have also stated, when referencing their "Nationwide Corporate Procedures," the following: In general, for commercial non-pay situations on new business, the P&C Companies provide the insured with written notice as required by the applicable state statute or regulation. If payment is not received, the P&C Companies' action depends upon whether a claim has been submitted. If a claim is presented, the P&C Companies will honor the claim and pursue recovery against the insured for the premium due. If no claim is submitted, the policy is canceled retroactive to the initial effective date according to the above mentioned guideline.

Since rescission procedures have not been specifically addressed in the Rhode Island Laws and Regulations, the P&C Companies' position has been accepted for this examination. We do, however, recommend that the P&C Companies fully document the procedures used when dealing with first-named insured and any third party lenders of rescinded or canceled policies. The documentation should be retained in the appropriate policy file as support of the procedures performed.

### **Commercial Multi-Peril Non-Renewals**

For the period under examination, the P&C Companies issued thirty-one (31) commercial multi-peril non-renewals. The examiners tested the thirty-one (31) non-renewal files, for proper issuance of non-renewal notices.

In two (2) of the thirty-one (31) files tested, the P&C Companies failed to provide sufficient documentation to justify the reason for non-renewal. The P& C Companies are in violation of Section 27-13.1-4(B) General Laws of Rhode Island.

The examiners recommend that the P&C Companies' management take immediate action to ensure that appropriate personnel fully understand Section 27-13.1-4(B) General Laws of Rhode Island to ensure future compliance to this Insurance Law.

## **Claim Practices**

### **General - Claim Practices**

For the period under examination, the examiners performed a review of the P&C Companies' claim practices for the following types of claims: Homeowner Closed Claims; Homeowner Closed Without Payment Claims; Private Passenger Automobile Physical Damage Closed Claims; and Commercial Multi-Peril closed Claims. The review was performed to determine the P&C Companies' compliance with Insurance Regulation XXVIII, Fair Insurance Claim Settlement Practices, specifically, and other Rhode Island General Laws and Regulations, where applicable.

### **Homeowner Closed Claims**

The examiners tested a statistical sample of one hundred twenty-three (123) homeowner closed claim files for compliance with Insurance Regulation XXVIII and other Rhode Island General Laws and Regulations, where applicable. The examiners identified twenty-three (23) exceptions as follows:

In eight (8) of the files tested, the P&C Companies' files did not contain sufficient documentation that would allow the examiners to reconstruct the loss. The P&C Companies are in violation of Regulation XXVIII, Section 4 which states in part that "...the insurer's claim 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."

In four (4) of the files tested, the P&C Companies' adjuster applied the policy deductible twice in determining the amount of the loss.

In two (2) of the files tested, the P& C Companies paid a loss that was not covered under the policy.

In two (2) of the files tested, the P&C Companies' adjuster incorrectly calculated the amount of the loss resulting in an overpayment to the insured.

In one (1) of the files tested, the P&C Companies' adjuster paid an amount in excess of the policy limit.

As a result of the above nine (9) exceptions, the P&C Companies are in violation of Section 1 of Insurance Regulation XXVIII which states that "The adjustment and appraising of insurance claims requires that companies engage in providing protection to Rhode Islanders, do business in such a way as to constitute fair and equitable actions, and practices in the business of insurance."

In three (3) of the files tested, the P&C Companies' adjuster failed to communicate the denial of the first party claim to the insured in writing.

The P&C Companies are in violation of paragraphs (a) and (b) of Section 8 of Insurance Regulation XXVIII which states that " (a). 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 and (b). No insurer shall deny a first party claim unless a reasonable explanation of the basis for such denial is included in the written denial. Specific reference to a policy provision, condition or exclusion shall be made when a denial is based on such provision, condition or exclusion."

In one (1) of the one hundred twenty-three (123) files tested, the P&C Companies' adjuster failed to communicate the denial of the first party claim to the insured in writing.

The P&C Companies are in violation of paragraphs (a) and (b) of Section 8 of Insurance Regulation XXVIII which states that "... (a) 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 and (b) No insurer shall deny a first-party claim unless a reasonable explanation of the basis for such denial is included in the written denial. Specific reference to a policy provision, condition or exclusion shall be made when a denial is based on such provision, condition or exclusion."

In one (1) of the files tested, the P&C Companies' adjuster failed to respond within ten (10) working days to an inquiry. The P&C Companies are in violation of Section 6(c) of Insurance Regulation XXVIII which states that "...an appropriate reply shall be made within ten (10) working days on all other pertinent communications from a claimant that reasonably suggest that a response is expected."

In one (1) of the files tested, the P&C Companies' adjuster failed to pay a loss within the required sixty (60) required by Section 27-5-3 of the General Laws of Rhode Island. The adjuster exceeded the rule by one hundred two (102) days, therefore, the P&C Companies are in violation of Section 27-5-3 of the General Laws of Rhode Island which states in part that "...amount of loss for which this company may be liable shall be payable sixty (60) days after proof of loss, as herein provided, is received by this company and ascertainment of the loss is made either by agreement between the insured and this company expressed in writing or by the filing with this company of an award as herein provided."

In one (1) of the files tested, the P&C Companies failed to respond within fourteen (14) days of receipt of a request for the policy limits from an attorney representing an injured third party. The P&C Companies are in violation of Section 27-7-5 General Laws of Rhode Island which states that "Any insurance company doing business in this state shall reveal to an injured party making a claim against an insured, the amount of the limits of liability coverage upon receiving a request in writing for that information from the injured party or his or her attorney. A reply shall be made within fourteen (14) days of receiving such a request."

As a result of the above twenty-three (3) exceptions, the examiners provide the following recommendations:

1. The P&C Companies' management review Rhode Island Insurance Regulation LXXIII, and all other Rhode Island Insurance Laws and Regulations relating to claims settlement practices.
2. The P&C Companies' management should implement written procedures to ensure compliance with Regulation LXXIII and all other Rhode Island General Laws and Regulations relating to claims settlement practices.
3. All appropriate personnel should receive a copy of the written procedures relating to claims settlement practices, verify in writing that they have received the written procedures, are aware of their contents, and are presently implementing adherence.
4. The P&C Companies reimburse the claimants for the amount underpaid in the homeowner closed claim files noted above and confirm such payment to the Rhode Island Department of Business Regulation, Insurance Division.

### **Homeowner Closed Without Payment Claims**

For the period under examination, the P&C Companies recorded seven (7) homeowner closed without payment claims. The examiners tested the seven (7) files for compliance with Regulation LXXIII. The examiners identified two (2) exceptions as follows:

In one (1) of the seven (7) files tested, the P&C Companies' file did not contain sufficient documentation that would allow the examiners to reconstruct the loss. The P&C Companies are in violation of Section 4 of Insurance Regulation XXVIII which states in part that "...the insurer's claim 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."

In one (1) of the seven (7) files tested, the P&C Companies' adjuster failed to respond to the insured's inquiry prior to closing out the file.

The P&C Companies are in violation of Sections 4 and 6(c) of Insurance Regulation XXVIII. Section 4 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." Section 6(c) states that "...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."

As a result of the two (2) exceptions, the examiners provide the following recommendations:

1. The P&C Companies management review Rhode Island Insurance Regulation LXXIII, and all other Rhode Island Insurance Laws and Regulations relating to claims settlement practices.

2. The P&C Companies' management should implement written procedures to comply with Insurance Regulation LXXIII relating to claims settlement practices.
3. All appropriate personnel should receive a copy of the written procedures relating to claims settlement practices, verify in writing that they have received the written procedures, are aware of their contents, and are presently implementing adherence.

### **Private Passenger Auto Physical Damage Closed Claims**

The examiners tested a statistical sample of fifty-two (52) private passenger automobile physical damage closed claims for compliance with Insurance Regulation LXXIII. The examiners identified five (5) exceptions as follows:

In two (2) of the fifty-two (52) files tested, there was insufficient documentation within the file that would enable the examiner to reconstruct pertinent events and the dates of such events. The P&C Companies are in violation of Section 4 of Insurance Regulation XXVIII 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."

In two (2) of the fifty-two (52) files tested, the examiners determined that the documentation on the damage assessment reports included the use of after market parts, however, the file documentation did not contain the identity and/or country or origin of the after market parts manufacturer. The P&C Companies are in violation of Section 27-10.2-2 General Laws of Rhode Island which states in part that "...whenever an insurance company, in adjusting a first-party claim for motor vehicle physical damage, intends to specify the use of after market parts, it shall so notify the insured in writing. The notice shall identify the manufacturer and the country of manufacture of the proposed after market parts."

In one (1) of the fifty-two (52) files tested, the examiners determined that the P&C Companies failed to pay a first-party collision claim within an adequate period of time after the necessary documentation was received. The P&C Companies are in violation of Section 1 of Insurance Regulation XXVIII which states that "The adjustment and appraising of insurance claims requires that companies engage in providing protection to Rhode Islanders in such a way as to constitute fair and equitable actions and practices in the business of insurance."

As a result of the above five (5) exceptions, the examiners provide the following recommendations:

1. The P&C Companies' management review Rhode Island Insurance Regulation LXXIII and all other Rhode Island Insurance Laws and Regulations relating to claims settlement practices.

2. The P&C Companies' management instruct all appropriate personnel responsible for the settlement of Private Passenger Automobile Physical Damage Claims to familiarize themselves with Section 27-10.2-2 of the General Laws of Rhode Island.
3. The P&C Companies' management implement written procedures to ensure compliance with Section 27-10.2-2 General Laws of Rhode Island and Regulation XXVIII.
4. All appropriate personnel should receive a copy of the written procedures; verify that they have received the written procedures; are aware of their contents; and are presently implementing adherence.

### **Commercial Multi-Peril Claims**

For the period under examination, the P&C Companies recorded forty-three (43) commercial multi-peril claims. The examiners tested the forty-three (43) commercial multi-peril claim files for compliance with Regulation XXVIII and other Rhode Island General Laws and Regulations where applicable. The examiners identified two (2) exceptions as follows:

In one (1) of the files tested, there was no documentation in the file to substantiate payment made to the insured. The P&C Companies are in violation of Section 1 of Insurance Regulation XXVIII which states that "The adjustment and appraising of insurance claims requires that companies engage in providing protection to Rhode Islanders do business in such a way as to constitute fair and equitable actions and practices in the business of insurance."

In one (1) of the forty-three (43) files tested, the P&C Companies' adjuster log did not contain sufficient documentation which would allow the examiners to reconstruct the loss. The P&C Companies are in violation of Section 4, of Insurance Regulation XXVIII that 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 above two (2) exceptions, the examiners provide the following recommendations:

1. The P&C Companies' management review Rhode Island Insurance Regulation LXXIII Unfair Property/Casualty Claims Settlement Practices Regulation, (the Regulation took effect February 14, 1994, and supersedes Rhode Island Insurance Regulation XXVIII, Fair Insurance Claim Settlement Practices) and all other Rhode Island Insurance Laws and Regulations relating to claims settlement practices.
2. The P&C Companies' management implement written procedures to ensure compliance with the above Rhode Island Insurance Regulation.

3. All appropriate personnel should receive a copy of the written procedures, verify that they have received the written procedures, are aware of their contents, and are presently implementing adherence.



## Summary of Recommendations

### Page 10

1. The P&C Companies' management revise all their Rhode Island private passenger automobile manuals to reflect a minimum automobile medical payment limit of \$2,500 for each individual; and
2. The P&C Companies should examine their automobile medical payment filing and submit a revised one for proper approval.

### Page 11

1. The P&C Companies' management review existing procedures and, where necessary, institute additional written procedures to ensure correct rate application as it applies to Commercial Multi-Peril rating.
2. All appropriate personnel should receive a copy of the written procedures, verify in writing their receipt and awareness of the contents, and acknowledge that they are adhering to the procedures.
3. The P&C Companies should reimburse their insureds for all premium overcharges.

### Page 12

The P&C Companies' management, review homeowner cancellation procedures with the appropriate staff, to ensure that cancellation notices are handled in accordance with the terms of the policies approved by the Insurance Division.

### Page 13

The P&C Companies' management review homeowner non-renewal procedures with the appropriate staff, to ensure that non-renewal notices are handled in accordance with the terms of the policies approved by the Insurance Division.

### Page 14

1. Management should provide the appropriate personnel with copies of Rhode Island General Law 27-9-7; Rhode Island Related Law 37-47-4 and Rhode Island Insurance Regulation XVI.

2. Management should review policy cancellation procedures with appropriate staff to ensure that cancellation practices are handled in accordance with Rhode Island General Laws and Regulations and the terms of the policy contract on file with the Rhode Island Department of Business Regulation, Insurance Division.
3. All appropriate personnel should verify in writing their receipt and awareness of the contents and acknowledge that they are adhering to the procedures.

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1. Management should provide the appropriate personnel with copies of Rhode Island Related Law 31-47-4 and Rhode Island Insurance Regulation XVI.
2. All appropriate personnel should verify in writing receipt of the Rhode Island Related Law and Regulation stated above that they are aware of its contents, and are reinforcing their adherence with respect to nonrenewal practices.

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1. The P&C Companies' management take immediate action to ensure that the appropriate personnel fully understand Rhode Island Insurance Regulation XXXVIII to ensure that in the future, all commercial insurance cancellations will be issued in compliance with the Regulation.
2. The P&C Companies' management take immediate action to ensure that the appropriate personnel fully understand Section 27-13.1-4(B) of the General Laws of Rhode Island.

Page 17

The P&C Companies' management take immediate action to ensure that the appropriate personnel fully understand Section 27-13.1-4(B) of the General Laws of Rhode Island.

Page 19

1. The P&C Companies' management review Rhode Island Insurance Regulation LXXIII and all other Rhode Island Insurance Laws and Regulations relating to claims settlement practices.
2. The P&C Companies' management should implement written procedures to ensure compliance with Regulation LXXIII and all other Rhode Island Insurance Laws and Regulations relating to claims settlement practices.

3. All appropriate personnel should receive a copy of the written procedures relating to claims settlement practices, verify in writing that they have received the written procedures, are aware of their contents, and are presently implementing adherence.
4. The P&C Companies reimburse the claimants for the amount underpaid on the three (3) homeowner closed claims and confirm such payment to the Rhode Island Department of Business Regulation, Insurance Division.

Page 20

1. The P&C Companies' management review Rhode Island Insurance Regulation LXXIII and all other Rhode Island Insurance Laws and Regulations relating to claims settlement practices.
2. The P&C Companies' management should implement written procedures to comply with Regulation LXXIII and all other Rhode Island Insurance Laws and Regulations relating to claims settlement practices.
3. All appropriate personnel should receive a copy of the written procedures relating to claims settlement practices, verify in writing that they have received the written procedures, are aware of their contents, and are presently implementing adherence.

Page 21

1. The P&C Companies' management review Rhode Island Insurance Regulation LXXIII and all other Rhode Island Insurance Laws and Regulations relating to claims settlement practices.
2. The P&C Companies' management instruct all appropriate personnel responsible for the settlement of Private Passenger Automobile Physical Damage Claims to familiarize themselves with Section 27-10.2-2 of the General Laws of Rhode Island.
3. The P&C Companies' management implement written procedures to ensure compliance with Section 27-10.2-2 General Laws of Rhode Island and Regulation XXVIII.
4. All appropriate personnel should receive a copy of the written procedures; verify that they have received the written procedures; are aware of their contents; and are presently implementing

Page 22

1. The P&C Companies' management review Rhode Island Insurance Regulation LXXIII Unfair Property/Casualty Claims Settlement Practices Regulation, (the Regulation took effect February 14, 1994, and supersedes Rhode Island Insurance Regulation XXVIII, Fair Insurance Claim Settlement Practices) and all other Rhode Island Insurance Laws and Regulations relating to claims settlement practices.
2. The P&C Companies' management implement written procedures to ensure compliance with the above Rhode Island Insurance Regulation.
3. All appropriate personnel should receive a copy of the written procedures, verify that they have received the written procedures, are aware of their contents, and are presently implementing adherence.

## **Conclusion**

We have applied verification procedures to the data contained in this report using both subjective and statistical sampling techniques as deemed appropriate. While sampling techniques do not give complete assurance that all errors and irregularities will be detected, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of any other error or irregularity which could have a material effect on the market conduct condition of the company as presented in this report.

In addition to the undersigned, John Carr, CPCU, Principal Market Conduct Examiner; Ronald Radtke, Senior Market Conduct Examiner; and Deborah A. Bradford, Market Conduct Examiner, participated in the examination, as well as, the preparation of the report.

Respectfully submitted,

John J. Kearney, CPA  
Insurance Examiner-In-Charge  
State of Rhode Island