REPORT ON

MARKET CONDUCT EXAMINATION

OF

NATIONWIDE MUTUAL INSURANCE COMPANY
(NAIC COMPANY CODE 23787)

NATIONWIDE MUTUAL FIRE INSURANCE COMPANY
(NAIC COMPANY CODE 23779)

NATIONWIDE PROPERTY & CASUALTY INSURANCE COMPANY
(NAIC COMPANY CODE 37877)

AS OF

SEPTEMBER 30, 1999

INSURANCE DIVISION
DEPARTMENT OF BUSINESS REGULATION
STATE OF RHODE ISLAND

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
233 RICHMOND STREET
PROVIDENCE, RHODE ISLAND 02903

IN THE MATTER OF:	)	
Nationwide Mutual Insurance Company	)	**DBR No.**
Nationwide Mutual Fire Insurance Company	)	
Nationwide Property & Casualty Insurance Company	)	
Respondent.	)	

CONSENT AGREEMENT

It is hereby agreed between the Department of Business Regulation ("Department") and Nationwide Insurance Companies ("Respondent") as follows:

1. Pursuant to R.I. Gen. Laws § 27-13.1-4, the Department initiated a Market Conduct Examination ("Examination") in order to evaluate Respondent's compliance with applicable R. I. Gen. Laws.
2. The Examination was completed and a report was issued on April 24, 2001.
3. On June 6, 2001, pursuant to R.I. Gen. Laws § 27-13.1-5(b), Respondent submitted written comments to the report.
4. On June 28, 2001, the Department issued an Order reopening the Examination for the purpose of obtaining additional data, documentation, and/or information.

WHEREFORE, based on the foregoing, Respondent and the Department have decided to resolve this matter without further administrative proceedings and hereby agree to the following administrative penalty:

Nationwide Mutual Insurance Company	$27,333
Nationwide Mutual Fire Insurance Company	$27,333
Nationwide Property & Casualty Insurance Company	$27,333

Department and Respondent hereby consent and agree to the foregoing on this 2nd day of May ~~April~~, 2006.

Department of Business Regulation
By its Director,

A. Michael Marques

Respondent
By their attorney,

Stephen D. Zubiago

ORDER NO. 06-105

TABLE OF CONTENTS **Page Number**

Providence, Rhode Island April 24, 2001

Honorable Marilyn Shannon McConaghy
Commissioner of Insurance
State of Rhode Island

Dear Commissioner:

In accordance with your instructions and pursuant to R. I. Gen. Laws §27-13-1 et seq. and §27-13.1-1 et seq., a Market Conduct Examination was conducted of 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.

referred to hereinafter as "the Companies." Our report is hereby 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 this 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 R. I. Gen. Laws §27-13-1 et seq. and §27-13.1-1 et seq. The examination covers the period from January 1, 1996 through September 30, 1999. Performance of our examination was in accordance with standards established by the National Association of Insurance Commissioners, and procedures developed by the Rhode Island Department of Business Regulation, Insurance Division.

The examination encompassed a review of the following areas: Certificates of Authority, Consumer or Other Related Complaints, Policy Forms and Endorsements, Underwriting and Rating, Claim Practices, Cancellation Practices and Nonrenewal Practices. The lines of business examined were homeowners and personal automobile.

The purpose of the examination was to evaluate the Companies' compliance with R. I. Gen. Laws and Insurance Regulations, and to determine whether Rhode Island insureds and claimants are being treated equitably. The examination consisted of verification and evaluation on a test basis, of information contained in insured's files, as well as consumer complaints and other pertinent documents produced by the Companies and the Rhode Island Insurance Division.

PROFILE OF COMPANIES

History

Nationwide Mutual Insurance Company

The Nationwide Mutual Insurance Company was incorporated under the laws of the State of Ohio on December 16, 1925, and began business on April 14, 1926. The Company was organized under the auspices of and endorsed by the Ohio Farm Bureau Federation, to provide insurance on automobiles of the members. Operations were conducted under the name of Farm Bureau Mutual Automobile Insurance Company until September 1, 1955, when the present name was adopted.

The Company is licensed and authorized to transact multiple lines of business in forty-eight states, the District of Columbia, Canada and Puerto Rico. The Company became licensed in Rhode Island in April of 1941. Business is produced by approximately 11,400 licensed agents countrywide. The major emphasis in direct writings has been personal automobile, commercial multi-peril and workers' compensation.

Nationwide Mutual Fire Insurance Company

The Nationwide Mutual Fire Insurance Company was incorporated under the laws of the State of Ohio on December 27, 1933, as the Farm Bureau Mutual Fire Insurance Company and began business on April 15, 1934. The Articles of Incorporation were amended on September 1, 1955, to provide for the name change to Nationwide Mutual Fire Insurance Company.

The Company is licensed and authorized to transact multiple lines of business in all states, the District of Columbia, Canada, Puerto Rico and the Virgin Islands. The Company became licensed in Rhode Island in April 1942. Business is produced by approximately 11,400 licensed agents countrywide. The major emphasis in direct writings has been homeowners and personal automobile.

Nationwide Property and Casualty Insurance Company

The Nationwide Property and Casualty Insurance Company was incorporated under the laws of the State of Ohio on November 9, 1979, and began business on July 1, 1981. Sponsored by Nationwide Mutual Insurance Company, the Company was organized to serve a larger share of the automobile insurance market.

The Company is licensed and authorized to transact multiple lines of business in the District of Columbia and all states except Hawaii, Louisiana, Maine, New Jersey and Wyoming. Business is produced by approximately 11,219 licensed agents countrywide.

Management

During the period under examination, the management of Nationwide Mutual Insurance Company, Nationwide Mutual Fire Insurance Company, and Nationwide Property & Casualty Insurance Company was under the direction of Richard Dale Grabtree, President, Dennis William Click, Secretary, Duane Melvin Campbell, Treasurer and Robert Alan Oakley, Executive Vice President.

At December 31, 1998, the members of the Board of Directors of Nationwide Mutual Insurance Company, Nationwide Mutual Fire Insurance Company, and Nationwide Property & Casualty Insurance Company were as follows: Lewis Jackson Alphin, Keith William Eckel, Charles Louis Fuelgraf, Jr., Yvonne Letitia Montgomery, Robert Leonard Stewart, Arthur Irving Bell, Willard James Engel, Dimon Richard McFerson, James Ferry Patterson, Nancy Carol Thomas, Richard Dale Grabtree, Fred Charles Finney, David Owen Miller, Arden Lee Shisler, Harold William Weihl.

1998 RHODE ISLAND DIRECT PREMIUMS WRITTEN

(Personal Automobile and Homeowners)

Nationwide Mutual Insurance Company

Line of Business	Direct Written Premium
Other Private Passenger Auto Liability	$ 29,021,139
Private Passenger Auto Physical Damage	$ 14,028,554
Total	$ 43,049,693

Nationwide Mutual Fire Insurance Company

Line of Business	Direct Written Premium
Homeowners Multiple Peril	$ 12,439,286
Other Private Passenger Auto Liability	$ 5,026,606
Private Passenger Auto Physical Damage	$ 1,510,385
Total	$ 18,976,277

Nationwide Property & Casualty Insurance Company

Line of Business	Direct Written Premium
Other Private Passenger Auto Liability	$ 1,430,858
Private Passenger Auto Physical Damage	$ 591,691
Total	$ 2,022,549

The total 1998 direct written premium for the Companies under review was $ 64,048,519.

CERTIFICATES OF AUTHORITY

The Companies' Certificates of Authority were reviewed to determine which lines of business the Companies were authorized to write in Rhode Island. The Companies' writings were then compared to their Certificates of Authority, to determine whether the Companies' writings were in accordance with their Rhode Island Certificates of Authority and R. I. Gen. Laws §27-2-11. No exceptions were noted.

CONSUMER OR OTHER RELATED COMPLAINTS

A review of the Companies' consumer or other related complaints for the period under examination was performed to determine whether actions taken by the Companies were in compliance with R. I. Gen. Laws §27-29-3, §27-29-4, Insurance Regulation 73, and other applicable R. I. Gen. Laws and Regulations. The review was also conducted to assess the Companies' compliance with its established complaint handling procedures and any applicable policy contract provisions. In addition, the review was conducted to determine whether complaints were processed and resolved in a timely manner, and to determine whether patterns existed in the types of complaints received by the Companies.

For the period under examination, there were 189 complaints as defined by R. I. Gen. Laws §27-29-4 listed on the Companies' Complaint Register. Eighty-five complaints involving a claim were arbitrarily selected for testing.

Thirty-five of the 85 complaints relative to the Companies' operations, were directed by the complainant to the Rhode Island Insurance Division. All thirty-five of these complaints were listed on the Companies' complaint register, as required by R. I. Gen. Laws §27-29-4.

In addition, there were 26 complaints processed by the Rhode Island Insurance Division and sent to the Companies. Although the Companies responded to these complaints, they failed to list them on their complaint register. Therefore, the Companies were in violation of R. I. Gen. Laws §27-29-4.

Recommendation #1: It is recommended that the Companies take appropriate action to ensure that all complaints received from the Insurance Commissioner are listed on the Companies' complaint register.

During our testing, we noted four files in which the Companies failed to respond to an inquiry from the Department within fifteen days from date of receipt of the inquiry.

Recommendation #2: It is recommended that the Companies take appropriate action to insure that all inquiries received from the Department regarding a complaint, are responded to within fifteen days from the date of receipt, as required by Rhode Island Insurance Regulation 73.

During our testing, we noted one file in which the Companies' reply to an inquiry from the Department regarding a complaint, was not dated, therefore, we were unable to verify the Companies' compliance with Rhode Island Insurance Regulation 73.

A review of this complaint file indicated that the Companies had processed the complaint in accordance with the applicable Rhode Island Insurance Regulation, and therefore, the lack of a date on the Companies' reply letter appeared to be an oversight.

During our testing, we noted one file in which the Companies failed to acknowledge receipt of notification of a claim from a claimant, within ten business days after receipt of such notification.

Recommendation #3: It is recommended the Companies take appropriate action to ensure that upon notification of a claim, an acknowledgement is sent to the claimant as required by Rhode Island Insurance Regulation 73.

During our testing, we noted two files in which the Companies failed to maintain detailed documentation in the claim file in order to permit reconstruction of the Insurer's activities relative to the claim.

Recommendation #4: It is recommended that the Companies take appropriate action to ensure that files are documented in such a manner as to permit reconstruction of the Insurer's activities relative to the claim as required by Rhode Island Insurance Regulation 73.

During our testing, we noted one file in which the Companies failed to reply within ten business days to a pertinent communication from a claimant, which reasonably suggested that a response was expected.

Recommendation #5: It is recommended that the Companies take appropriate action to ensure that pertinent communications from a claimant, which reasonably suggested a response was expected, be answered within ten business days, as required by Rhode Island Insurance Regulation 73.

During our testing, we noted two files in which the Companies failed to attempt in good faith, to effectuate a prompt, fair, and equitable settlement of a claim in which liability had become reasonably clear.

Recommendation #6: It is recommended that the Companies take appropriate action to ensure that adjusters and other company personnel responsible for the settlement of claims, attempt in good faith, to effectuate prompt, fair and equitable claim settlements as required by R. I. Gen. Laws §29-9.1-4.

POLICIES AND ENDORSEMENTS

(Automobile and Homeowners)

The Companies provided the examiners with a listing, and specimen copies of their homeowner and personal automobile policy forms and endorsements in effect during the period under examination. The total included 49 homeowner items and 91 personal automobile items. A subjective sampling of 17 homeowner items and 37 personal automobile items was selected for review. The review was concentrated on the basic

policy contracts and the more frequently used endorsements, with particular emphasis on compliance with regulatory and statutory requirements.

As a result of the review, six exceptions were noted. The Companies' homeowners and personal automobile policies do not comply with R. I. Gen. Laws §27-7-1. This statute requires that every policy written insuring against liability for property damage or personal injuries, or both, and every policy written indemnifying any person by reason of that liability, other than workers compensation. The statute also contains provisions to the effect that the insurer shall be directly liable to the injured party, and in the event of that party's death, to the party entitled to sue therefor, to pay that party the amount of damages for which the insured is liable.

The Companies have indicated they will be revising their endorsement Fire 3198, Mandatory Endorsement – Special Provisions (Rhode Island) to add a new Section II Condition in order to comply with the statute for the homeowner policies. The Companies will also be revising their automobile contracts to have a condition added in order to comply with the statute for personal automobile policies.

The Companies' personal automobile rules and rating manuals do not comply with Rhode Island Insurance Regulation 25, with respect to "chargeable accident." This regulation states that an accident will not be deemed chargeable nor any surcharge assessed against an individual who can show that the owner or operator has received at least 50 percent reimbursement from the other driver involved in the automobile accident, or that the individual has received a judgment in a court of law against the other owner or operator involved in the accident, for at least 50 percent of the loss incurred.

The Companies did file a revision to the rule in August of 1997, which was approved by the Insurance Division, but it appears that the manual page was not reprinted and distributed. The Companies indicated that the manual page would be updated and distributed.

The Companies' personal automobile program was not in compliance with Rhode Island Insurance Regulation 3 for the period prior to 6/16/98, since it made no reference to

waiving the fee for minors, if the financial responsibility was required due solely to age. The Companies are currently in compliance with this regulation.

The Companies were not in compliance with R. I. Gen. Laws §27-9-4(a)(1)(i) which makes provision to exclude from the assignment of surcharge points in personal automobile insurance, any loss or incident that occurred in the course of an individual's employment with respect to certain public, private or commercial employers. The Companies have submitted a filing to the Insurance Division in order to comply with R. I. Gen. Laws §27-9-4(a)(1)(i).

The Companies were not in compliance with Rhode Island Insurance Regulation 10, section 5, which provides for the waiver of the uninsured motorist property damage deductible under certain conditions. The Companies' rate manual states that all uninsured motorist property damage limits are subject to a $200 deductible. However, the Companies' uninsured motorist property damage endorsement contains the appropriate waiver provisions.

Claims have been, and are currently being settled by the Companies in compliance with the endorsement, and the Companies have indicated that they will correct this error in their manual.

The Companies were not in compliance with R. I. Gen. Laws §27-9-4(a)(5) relative to personal automobile insurance, which provides that any individual 65 years of age or older, who has not had any chargeable accidents or moving violations within the three years preceding the establishment of the rate of insurance or classification, shall not be penalized solely by reason of their age. The first step in determining the automobile premium in the Companies' Colonial rating manual is to assign class points for bodily injury and property damage liability coverage for insureds aged 65 and older, solely on the basis of age, before considering any other factors.

Recommendation #7: It is recommended that the Companies' revise the Colonial automobile rate manual to comply with the R. I. Gen. Laws §27-9-4(a)(5). It is also recommended that any individual aged 65 or older, who was surcharged points solely on

the basis of their age, be reimbursed from the inception date of their policy throughout the period that the policy was in effect, with the incorrect surcharge.

UNDERWRITING AND RATING

Homeowners

An examination of the Underwriting and Rating of homeowners insurance for the period under examination, was performed to determine whether the handling, processing and actions taken by the Companies with respect to their underwriting and rating procedures were in compliance with R. I. Gen. Laws: §27-2-17, §27-5-1 et seq., §27-6-1 et seq., §27-7-1, §27-9-7, §27-29-4.1, §27-44-5.

In addition, the examination was conducted to ensure that new business submissions were underwritten and rated in compliance with the Companies' underwriting guidelines and procedures.

The Companies provided the examiners with a listing of homeowners new business written for the period under examination, the population of which was 13,237 policies. Based on sampling criteria established by the NAIC, (National Association of Insurance Commissioners), the examiners selected 123 Homeowners new business files for review. The files were reviewed, and based on the results of the examination work performed, 12 exceptions were noted.

During our testing, we noted 12 files in which the Companies assigned an incorrect protection classification in rating the policy, which resulted in nine overcharges, and three undercharges of premium. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5 (f)(3), which states, "A misclassification of a risk shall be considered an adjustment without adequate justification." In addition to the 12 noted exceptions, there were an additional ten files in which the Companies assigned an incorrect protection classification for which no premium errors were noted.

During our testing, we noted one file in which the Companies assigned an incorrect territory classification in rating the policy, which resulted in a premium undercharge. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5. (f)(3), which states, "A misclassification of a risk shall be considered an adjustment without adequate justification." There were an additional four files that were assigned an incorrect territory classification for which no premium errors were noted.

The findings noted above are significant, since 22% of the items reviewed were assigned incorrect rating factors. It should be noted that 11% of the items reviewed contained errors that resulted in either an overcharge or undercharge of premium to the policyholders.

Recommendation #8: It is recommended that the Companies' review their procedures pertaining to verification of factors submitted on new business applications. If no verification procedure is in place, it should be instituted immediately. A verification procedure on new business submitted will ensure that the correct premium is being charged to the policyholder.

Recommendation #9: It is also recommended that the Companies verify that all rating factors are correct as they relate to the risk insured. The Company should refund overcharges of premium from the inception date of the policy to the date of correction. Undercharges should be adjusted at policy renewal.

Personal Automobile

A review of the underwriting of automobile policies was performed on new automobile policies written by the Companies during the period under examination. This review was conducted to determine whether the new policies were underwritten in accordance with the Companies' formal underwriting guidelines and procedures. The review was also performed to assess the Companies' compliance with the following R. I. Gen. Laws: §27-2-17, §27-7-2.1, §27-7-2.5, §27-8-1, §27-10.1-10, §27-44-5, and §31-47-1. The Companies' adherence to the following Rhode Island Insurance Regulations was also assessed: 53, 77, and 80.

During the period under examination, the Companies issued 34,025 personal automobile policies to Rhode Island residents. From this number, 123 files were selected for examination. The Companies were unable to provide the examiners with three of the 123 files selected for review.

Recommendation #10: It is recommended that the Companies review their file retention and retrieval procedures to ensure that all files can be located as needed for examination by market conduct examiners, or for use by company personnel.

During our testing, we noted that 11 files did not contain a completed personal automobile application, therefore, we had no source document to refer to in testing those items. In addition, we were unable to verify that the policies were issued for the coverages and policy limits requested by the insured.

Recommendation #11: It is recommended that the Companies review their record retention procedures to ensure that applications are retained in the policy file to support the underwriting and rating of personal automobile policies.

During our testing, we noted that one file contained a personal automobile application wherein the coverage and limits of liability section of the application was not completed. Therefore, we were unable to verify that the policy was issued for the coverages and policy limits requested by the insured.

Recommendation #12: It is recommended that the Companies review underwriting procedures to ensure that applications are completed in full to support the underwriting and rating of personal automobile policies.

During our testing, we noted that one policy did not provide medical payments coverage. From the manner in which the rejection form was completed, it was not clear whether the insured rejected medical payments coverage. The medical payments rejection section of the form was not completed and the form was not signed by the insured. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-7-2.5.

During our testing, we noted that two policies did not provide medical payments coverage. There was no documentation in the policy files verifying that the insured rejected medical payments coverage. Therefore, we were unable to verify whether the Companies were in compliance with R. I. Gen. Laws §27-7-2.5.

Recommendation #13: It is recommended that the Companies review their procedures pertaining to automobile underwriting, particularly with regard to medical payments coverage, and implement procedures to ensure that, whenever a policy is issued without medical payments coverage, a completed and signed rejection form is retained in the policy file. It is further recommended that the Companies contact the previously mentioned insureds to obtain the required completed and signed rejection forms.

During our testing, we noted that one policy provided bodily injury liability limits of 100,000/300,000 and uninsured motorist bodily injury limits of 25,000/50,000. However, the policy file did not contain a signed advisory notice requesting a reduction in uninsured motorist bodily injury limits, as required by R. I. Gen. Laws §27-7-2.1.

During our testing, we noted that one policy provided bodily injury liability limits of 50,000/100,000 and uninsured motorist bodily injury limits of 25,000/50,000. However, the policy file did not contain a signed advisory notice requesting a reduction in uninsured motorist bodily injury limits, as required by R. I. Gen. Laws §27-7-2.1.

Recommendation #14: It is recommended that the Companies implement controls to ensure that whenever a policy is issued with reduced uninsured motorist bodily injury liability limits, a completed and signed advisory form is retained in the policy file. It is further recommended that the Companies correct this situation by contacting the insured and obtaining completed and signed advisory forms.

During our testing we noted that one policy provided property damage liability limits of 100,000 and uninsured motorist property damage limits of 50,000. However, the policy file does not contain a signed uninsured motorist property damage option form

authorizing limits lower than 100,000, as required by the Companies' underwriting guidelines and R. I. Gen. Laws §27-7-2.1.

Recommendation #15: It is recommended that the Companies review their policies and procedures pertaining to automobile underwriting, particularly with regard to reduced limits under uninsured motorist property damage coverage. It is also recommended that the Companies implement controls to ensure that completed and signed advisory forms are retained in the policy files whenever coverage is provided at a reduced limit. In addition, the Companies should contact the insured and obtain the required completed and signed advisory forms.

During our testing, we noted two policy files which each contained a completed and signed uninsured motorist bodily injury and uninsured motorist property damage rejection form. However, the Companies issued the policy providing uninsured motorist bodily injury and property damage coverage, in violation of R. I. Gen. Laws §27-7-2.1.

Recommendation #16: It is recommended that the Companies implement controls to ensure that insurance be provided for only those coverages requested on the application. It is further recommended that the Companies correct this error by providing the insured with the option of retaining coverage as issued or deleting coverage from policy inception, with a refund of premium from the inception date of the policy.

During our testing, we noted that one policy was placed in the Companies' preferred rating plan. Based on the Companies' personal automobile risk selection guidelines, the risk was not eligible for the Companies' preferred rating plan. Therefore, the Companies were in violation of R. I. Gen. Laws §27-44-5, which states that rates shall not be excessive, inadequate, or unfairly discriminatory.

Recommendation #17: It is recommended that the Companies review this policy to determine the reason why it was placed in the incorrect rating program, and implement changes to ensure that this does not occur in the future.

During our testing, we noted seven files that did not contain documentation of pre-inspection, as set forth in Rhode Island Insurance Regulation 77.

Recommendation #18: It is recommended that the Companies review their pre-inspection procedures to ensure that they are in compliance with the aforementioned regulation.

During our testing, we noted one file in which the agent did not sign the application. Therefore, we were unable to verify that the agent was properly licensed as required by R. I. Gen. Laws §27-2-17.

During our testing, we noted one file in which a page was missing from the application. Since the missing page provided a space for the agent's signature, we were unable to verify that the agent was properly licensed as required by R. I. Gen. Laws §27-2-17.

During our testing, we noted one policy with an inception date of April 12, 1996. The agent of record's license expired on June 30, 1995. Therefore, the Companies were in violation of R. I. Gen. Laws §27-2-17.

Recommendation #19: It is recommended that the Companies review their file documentation procedures to ensure that all applications are completed and signed by properly licensed agents, in accordance with R. I. Gen. Laws §27-2-17.

During our testing, we noted one file in which an anti-theft device credit was given in rating comprehensive coverage. The Companies were unable to provide the examiners with proper documentation to justify the credit. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5 (f)(2)(ii), which states that the Companies' files should contain adequate documentation of the facts supporting any adjustment to the full manual premium.

Recommendation #20: It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of appropriate discounts, and the documentation of such discounts. In addition, the

Companies should verify whether the anti-theft credit was applicable to the above referenced policy and correct the premium undercharge upon policy renewal, if applicable.

During our testing, we noted one file in which the Companies used the incorrect vehicle symbol in rating collision coverage, resulting in a premium overcharge. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5 (a), which states that rates shall not be excessive, inadequate or unfairly discriminatory.

Recommendation #21: It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of vehicle symbols, as they apply to the rating of collision coverage. In addition, the Companies should re-rate the aforementioned policy, and refund the overcharge to the insured.

During our testing, we noted one file in which the Companies were unable to provide documentation verifying that the insured was eligible for a home-car discount credit. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5 (f)(2)(ii), which states that the Companies' files should contain adequate documentation of the facts supporting any adjustment to the full manual premium.

Recommendation #22: It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of appropriate discounts, and the documentation of such discounts. In addition, the Companies should verify whether the home-car credit was applicable, and if so, correct the premium undercharge upon policy renewal.

During our testing, we noted one file in which the Companies failed to apply a surcharge for a chargeable accident. This error resulted in a premium undercharge. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5 (a), which states that rates shall not be excessive, inadequate or unfairly discriminatory.

Recommendation #23: It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of surcharges. In addition, the Companies should re-rate the aforementioned policy and correct the premium undercharge upon policy renewal.

During our testing, we noted one file in which the Companies classified the insured as commuting to work with annual mileage greater than 8,000 miles. The vehicle is used for pleasure with annual mileage less than 8,000 miles. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5 (a), which states that rates shall not be excessive, inadequate or unfairly discriminatory

Recommendation #24: It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of vehicle use and annual mileage as they apply to policy rating. In addition, the Companies should re-rate the aforementioned policy, and refund the overcharge to the insured.

During our testing, we noted one file in which the insured had only one vehicle insured with the Companies. The Companies applied a multi-car discount in rating the policy. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5 (a), which states that rates shall not be excessive, inadequate or unfairly discriminatory.

Recommendation #25: It is recommended that the Companies review their procedures pertaining to the proper application of multi-car discounts, as they apply to policy rating. In addition, the Companies should correct the premium undercharge upon policy renewal.

During our testing, we noted one file in which the Companies applied the wrong territory code, which resulted in the incorrect amount of points being applied in the rating of the policy. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5 (a), which states that rates shall not be excessive, inadequate or unfairly discriminatory.

Recommendation #26: It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of point

charges, as they apply to policy rating. In addition, the Companies should re-rate the aforementioned policy, and refund any overcharge to the insured.

During our testing, we noted one file in which the Companies were unable to provide documentation verifying the application of a surcharge applied to the policy rating. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5 (f)(2)(ii), which states that the Companies' files should contain adequate documentation of the facts supporting any adjustment to the full manual premium.

Recommendation #27: It is recommended that the Companies review their procedures pertaining to automobile rating to ensure that before a policy is assessed a surcharge, the Companies have full documentation supporting any adjustment to the full manual premium. In addition, the Companies should refund the amount of the assessed surcharge to the insured.

During our testing, we noted two files in which the Companies were unable to provide documentation verifying that the insured was eligible for a homeownership discount credit applied in the rating of the policy. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5 (f)(2)(ii), which states that the Companies' files should contain adequate documentation of the facts supporting any adjustment to the full manual premium.

Recommendation #28: It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of appropriate discounts, and the documentation of such discounts. In addition, the Companies should verify whether the homeownership credit was applicable, and if so, make the appropriate correction at policy renewal.

CLAIM PRACTICES

Homeowners

A review of the Companies' homeowners claim practices for the period under examination was conducted to determine whether the Companies complied with the applicable provisions of its homeowners policy, did not misrepresent policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims, used properly licensed claim adjusters, and made fair and equitable settlement of homeowners claims. In addition, the review was performed to evaluate whether the Companies were in compliance with R. I. Gen. Laws §27-3-5.1, §27-5-3, §27-9.1-4, §27-10-3, §27-29-1 et seq., §27-57-1 et seq. and Rhode Island Insurance Regulation 73.

Paid Claims

The Companies provided the examiners with a listing of all homeowner claims paid during the period under examination. From the population of 6,645 homeowner claims paid during the period under examination, the examiners selected 121 files for testing.

During our testing, we noted four files in which the claim file did not contain sufficient documentation, i.e. notice of loss, coverage information, adjuster's description of damage or adjustment forms, and repair or replacement invoices. Rhode Island Insurance Regulation 73 requires that each relevant document within the claim file shall be noted as to date received, date processed, or date mailed.

Recommendation #29: It is recommended that the Companies review their claim handling procedures to ensure that all claim files contain complete documentation as required by Rhode Island Insurance Regulation 73.

During our testing, we noted one file in which the claim file did not contain sufficient documentation, i. e. notice of loss, coverage information, adjuster's description of damage or adjustment forms, and repair or replacement invoices. Rhode Island Insurance

Regulation 73 requires that all Insurers shall maintain claim files in a form that can be duplicated and reduced to print paper copy.

Recommendation #30: It is recommended that the Companies review their claim handling procedures to ensure that all claim files contain complete documentation as required by Rhode Island Insurance Regulation 73.

During our testing, we noted one file in which the adjuster made no attempt in good faith to effectuate prompt, fair, and equitable settlement of the insured's claim in which liability had become reasonably clear, as described in R. I. Gen. Laws §27-9.1-4. In addition, when the adjuster finally settled the claim, he failed to apply the policy deductible to the settlement.

Recommendation #31: It is recommended that the Companies take appropriate action to ensure adjusters and other company personnel responsible for the settlement of homeowner claims, attempt in good faith to effectuate prompt, fair and equitable settlement of homeowner claims in which liability is reasonably clear. The proper application of policy deductibles should also be reviewed with claim personnel.

During our testing, we noted one file in which the claims adjuster was not properly licensed in accordance with R. I. Gen. Laws §27-10-3.

Recommendation #32: It is recommended that the Companies review their licensing procedures to ensure compliance with R. I. Gen. Laws §27-10-3.

Claims Closed Without Payment

During the period under examination, the Companies processed 2,318 closed without payment homeowner claims. From this number, 117 claims were selected for examination. The Companies were unable to provide the examiners with three of 117 claim files selected for testing.

Recommendation #33: It is recommended that the Companies review their record retention and retrieval procedures, and implement changes to ensure that files can be located as needed, for examination by market conduct examiners, or by company personnel.

During our testing, we noted 14 files in which neither the claim file nor the adjuster's logs, evidenced that proper notice declining the insured's claim as required by Rhode Island Insurance Regulation 73, was not provided to the insureds. The required notice must contain the following statement: "We will be available to you to discuss the position we have taken. Should you, however, wish to contact the Rhode Island Insurance Division regarding this matter, it maintains a section to investigate complaints at 233 Richmond Street, Providence, RI 02903. The Rhode Island Insurance Division can be contacted at 401-277-2223." (Note: the current telephone number for the Rhode Island Insurance Division is 401-222-2223).

Recommendation #34: It is recommended that the Companies reinforce, with their claims staff, the notice requirement as set forth in Rhode Island Insurance Regulation 73.

During our testing, we noted three claim files in which the denial letters sent to insureds were not in compliance with Rhode Island Insurance Regulation 73. The required notice must contain the following statement: "We will be available to you to discuss the position we have taken. Should you, however, wish to contact the Rhode Island Insurance Division regarding this matter, it maintains a section to investigate complaints at 233 Richmond Street, Providence, RI 02903. The Rhode Island Insurance Division can be contacted at 401-277-2223." (Note: the current telephone number for the Rhode Island Insurance Division is 401-222-2223).

Recommendation #35: It is recommended that the Companies reinforce, with their claims staff, the notice requirement as set forth in Rhode Island Insurance Regulation 73.

Personal Automobile

A review of the Companies' personal automobile claim practices for the period under examination, was conducted to determine whether the Companies complied with applicable provisions of its personal automobile policies, did not misrepresent policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims, used licensed claim adjusters, and made fair and equitable settlements of personal automobile claims. In addition, the review was performed to evaluate whether the Companies were in compliance with R. I. Gen. Laws §27-3-51, §27-7-5, §27-8-1(9), §27-8-12, §27-8-14, §27-8.1-2.1, §27-9.1-4, §27-10-1 et seq., §27-10.1-1 et seq., §27-10.2-2, §27-29-4(15), §27-57-1 et seq., §42-28-47 and Rhode Island Insurance Regulations 10, and 73.

The Companies provided the examiners with two listings, one showing claims closed with payment and the other for claims closed without payment. The population of personal automobile claims closed with payments for the period under examination was 21,060. The population of personal automobile claims closed without payment for the period under examination was 9,886. The examiners selected 127 claims closed with payment and 126 claims closed without payment for testing.

Paid Claims

There were a total of 67 exceptions out of 127 items tested. Seven of the files tested did not comply with R. I. Gen. Laws §27-3-51 which requires an insurer upon payment of $5,000 or more in a liability settlement, to cause written notice of the payment to be mailed to the claimant, at the same time payment is made to the claimant's attorney.

Recommendation #36: It is recommended that the Companies review their procedures to ensure that they process claim payments in accordance with R. I. Gen. Laws §27-3-51.

Seven of the files tested did not comply with R. I. Gen. Laws §27-57-1 which requires insurers within 30 days prior to making any payment of $10,000 or more for personal injury, to check with the Child Support Enforcement Division to determine if any past-

due child support is outstanding, and if applicable, to withhold such payment and proceeds as set forth in the statute.

Recommendation #37: It is recommended that the Companies institute immediate procedures to ensure compliance with R. I. Gen. Laws §27- 57-1.

Three of the files tested did not comply with R. I. Gen. Laws §27-9.1-4(3), which states that failure to adopt and implement reasonable standards for the prompt investigation and settlement of claims may constitute an unfair claims practice.

Recommendation #38: It is recommended that the Companies review their claims procedures to ensure that claims are investigated promptly, and settlement is made without unnecessary delay.

One file tested did not comply with R. I. Gen. Laws §27-9.1-4(2), which states that failure to acknowledge and act with reasonable promptness upon pertinent communications with respect to claims, may constitute an unfair claims practice.

Recommendation #39: It is recommended that the Companies review their claims procedures to ensure that pertinent communications are acknowledged and acted upon with reasonable promptness.

Two of the files tested did not comply with R. I. Gen. Laws §27-7-5, which requires insurers to disclose the insured's policy limits within 14 days upon receiving a written request from the claimant or the claimant's attorney.

Recommendation #40: It is recommended that the Companies review their procedures and take any steps necessary to ensure that any appropriate written requests for the disclosure of policy limits are responded to within 14 days.

One of the files tested did not comply with R. I. Gen. Laws §27-8-14, which requires insurers to report all salvage declarations to the National Insurance Crime Bureau (NICB).

Recommendation #41: It is recommended that the Companies reinforce their procedures to ensure that the appropriate personnel report any salvage declarations to the NICB.

Twenty of the files tested did not comply with Rhode Island Insurance Regulation 73.

Ten of the files were not in compliance with Section 4.C. of the regulation, which requires each relevant document within the claim file to be noted as to date received, date processed, or date mailed.

Five of the files were not in compliance with Section 8.I. of the regulation, which requires insurers in all property damage liability claims to inform the claimant or the claimant's representative, that coverage may exist for the rental of a comparable automobile to the claimant's vehicle at a reasonable price for a reasonable time until the claimant's automobile is repaired.

Four of the files were not in compliance with Section 6.C. of the regulation which requires an insurer to make an appropriate reply within 10 days on all other pertinent communications from a claimant, which reasonably suggest that a response is expected.

One of the files was not in compliance with Section 7.F. of the regulation which requires an insurer to tender payment within 30 days of affirmation of liability, if the amount of the claim is determined and not in dispute.

Recommendation #42: It is recommended that the Companies review their procedures with their claims staff/personnel in order to ensure compliance with Regulation 73.

During our testing, we noted nine files that did not contain proper documentation to support the payment of the claim.

Recommendation #43: It is recommended that the Companies review their claim documentation procedures to ensure that appropriate invoices, estimates, or other supporting materials are contained in the file.

During our testing, we noted five files in which an overpayment of the claim was made. On four of the files, an overpayment resulted from the application of an incorrect deductible amount. On one of the files, the payment for a rental vehicle exceeded the policy limit for Loss of Use Coverage.

Recommendation #44: It is recommended that the Companies review their claim payment procedures to ensure the proper application of policy deductibles and policy limits.

During our testing, we noted two files in which the Companies made payment on the claim for which there was no coverage under the policy.

Recommendation #45: It is recommended that the Companies review policy coverages before payment of a claim, to ensure that payments are made in accordance with the insurance contract.

During our testing, we noted one file in which the Companies underpaid a comprehensive claim by omitting an appearance allowance.

Recommendation #46: It is recommended that the Companies reimburse the insured for the underpayment.

During our testing, we noted one file in which the Companies failed to pay an at fault property damage liability claim. The Companies have been advised of this oversight, and have indicated that payment will be made.

During our testing, we noted one file which did not contain documentation to permit reconstruction of the insurer's activities relative to the claim, as required by Rhode Island Insurance Regulation 73.

Recommendation #47: It is recommended that the Companies review their claim procedures to ensure that all files contain detailed documentation in order to permit reconstruction of the claim.

The Companies were unable to provide the examiners with eight of the claim files selected for testing.

Recommendation #48: It is recommended that the Companies review their file retention and retrieval procedures to ensure that all files are retrievable as necessary for examination.

Claims Closed Without Payment

There were a total of 11 exceptions out of 126 items tested. One of the files tested did not comply with R. I. Gen. Laws §27-7-5, which requires insurers to disclose the insured's policy limits within 14 days upon receiving a written request from the claimant or the claimant's attorney.

Recommendation #49: It is recommended that the Companies review their procedures, and take any steps necessary to ensure that any written requests for the disclosure of policy limits are responded to within 14 days.

One of the files tested did not comply with R. I. Gen. Laws §27-9.1-4(3), which states that failure to adopt and implement reasonable standards for the prompt investigation and settlement of claims may constitute an unfair claims practice.

Recommendation #50: It is recommended that the Companies review their claims procedures to ensure that claims are investigated promptly and settlement is made without unnecessary delay.

Nine of the files tested did not comply with Rhode Island Insurance Regulation 73.

Three of the files were not in compliance with Section 6.C. of Regulation 73 which requires an insurer to make an appropriate reply within 10 days on all pertinent communications from a claimant, which reasonably suggest that a response is expected.

Six of the files were not in compliance with Section 7.H. of Regulation 73, which requires certain language in the letter of denial.

Recommendation #51: It is recommended that the Companies review their procedures with the claims staff in order to ensure full compliance with Regulation 73.

CANCELLATIONS AND NONRENEWALS

Homeowners Cancellations and Nonrenewals

An examination of the Companies' Rhode Island homeowners cancellation and nonrenewal practices was conducted to assess whether, during the period under examination, the Companies were in compliance with R. I. Gen. Laws §27-5-3.4. The examination was also performed to assess the Companies' compliance with the cancellation and nonrenewal provisions of its homeowners contracts.

The examiners requested a listing of homeowner cancellations and nonrenewals processed by the Companies during the period under examination. The Companies provided listings of 5,336 cancellations, and 179 nonrenewals. The examiners combined the cancellations and nonrenewals for a population of 5,515, from which 121 sample files were selected. The sample selection was based on criteria established by the National Association of Insurance Commissioners.

The Companies provided the examiners with 94 cancellations and 15 nonrenewals. There were 12 sample items that the Companies were unable to locate.

Recommendation #52: It is recommended that the Companies' management review its record retention and retrieval procedures, and implement the changes necessary to ensure that files can be located as needed for examination purposes.

During our testing, we noted 76 cancellations for nonpayment, in which the Companies mailed the notice by Certificate of Mailing, which is not in compliance with R. I. Gen. Laws §27-5-3.4(a). This law states, "A return receipt from the United States postal service showing receipt of the notice at the address of the insured stated in the policy shall be sufficient proof of notice. If the company does not receive a return receipt from the United States postal service within ten (10) days, then the company may forward such notice by first class mail and maintain proof of mailing of the notice to the insured in the ordinary course of the insurer's business, and such proof of mailing shall be sufficient proof of notice." It should be noted that of the 76 nonpayment cancellation exceptions noted above, 73 failed to provide the mortgagee with notification as required by R. I. Gen. Laws §27-5-3.4(b).

During our testing, we noted 15 cancellations for reasons other than nonpayment of premium, in which the Companies did not mail notice to the mortgagee in the manner prescribed by R. I. Gen. Laws §27-5-3.4(b).

During our testing, we noted 15 nonrenewals in which the Companies did not mail notice to the mortgagee in the manner prescribed by R. I. Gen. Laws §27-5-3.4(b).

Recommendation #53: It is recommended that the Companies make appropriate changes to their cancellation and nonrenewal procedures as they relate to notification to insureds and mortgagees, in order to be in compliance with R. I. Gen. Laws §27-5-3.4.

Personal Automobile Cancellations

An examination of the Companies' personal automobile cancellation practices for the period under examination was conducted to assess whether the Companies were in compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

The Companies provided the examiners with a computer listing of personal automobile cancellations for the examination period, the population of which was 26,055. There were 2,098 cancellations for reasons other than nonpayment of premium and 23,957 cancellations for nonpayment of premium. The examiners selected for testing, 116

cancellations for reasons other than nonpayment of premium, and 50 cancellations for nonpayment of premium.

During our testing, the examiners determined that 41 cancellation files were in violation of R. I. Gen. Laws §31-47-4, which requires insurers to notify the policyholder in at least 12 point type, that financial security is required to be maintained continuously throughout the registration period and that failure to maintain financial security shall subject the violator to a mandatory suspension of license and registration. In addition, 39 of the 41 previously referenced exceptions were also in violation of Rhode Island Insurance Regulation 16 §(5). These violations were due to the Companies not notifying the insureds of their possible eligibility for insurance through the Rhode Island Insurance Plan.

During our testing, the examiners determined that 34 cancellation files for nonpayment of premiums, were in violation of R. I. Gen. Laws §31-47-4. The violations were due to the Companies not providing notification, in at least 12 point type, that financial security is required to be maintained continuously throughout the registration period, and that failure to maintain financial security shall subject the violator to a mandatory suspension of license and registration.

Recommendation #54: It is recommended that the Companies review their cancellation procedures pertaining to personal automobile policies, and implement controls to ensure that the Companies are in compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

During our testing, it was noted that the Companies were unable to provide 43 of the cancellation files requested by the examiners.

Recommendation #55: Due to the high percentage of files that the Companies were unable to provide, it is recommended that the Companies review their record retention and retrieval procedures to ensure that files can be obtained for examination or other administrative purposes.

During our testing, it was noted that 10 of the cancellation files did not contain documentation of mailing by Certificate of Mailing. In addition, there were 2 files listed as cancellations that were, in fact, nonrenewals.

Recommendation #56: It is recommended that the Companies' management institute controls to ensure that all cancellation files contain proof of mailing documentation and that the Companies properly classify all nonrenewals in its database.

Personal Automobile Nonrenewals

An examination of the Companies' personal automobile nonrenewal practices was conducted to assess whether the Companies were in compliance with R. I. Gen. Laws §27-9-4, §31-47-4, and Rhode Island Insurance Regulation 16. The examination was also conducted to determine if the Companies were in compliance with the cancellation and nonrenewal provisions of its personal automobile policy contract.

The Companies provided a listing of 391 personal automobile nonrenewals processed for the period under examination. From the listing, a sample of 93 personal automobile nonrenewal files was selected for review. The Companies provided the examiners with 82 of the sample files requested, while the remaining eleven files could not be located by the Companies.

Recommendation #57: It is recommended that the Companies review their record retention and retrieval procedures, to ensure that all files are retrievable as necessary for examination.

During our testing, we noted 11 files in which the policies were nonrenewed for loss occurrences only. Rhode Island General Laws §27-9-4(b) states: "No insurance company shall fail to renew a private passenger automobile policy because of loss occurrence only, unless a chargeable loss occurrence of five hundred dollars ($500) or more than two (2) nonchargeable loss occurrences involving the insureds, have taken place within the annual policy year." The 11 files tested did not meet the criteria as established for

nonrenewal for loss occurrence only, and therefore were in violation of R. I. Gen. Laws §27-9-4(b) and Rhode Island Insurance Regulation 16.

Recommendation #58: It is recommended that the Companies review their nonrenewal procedures pertaining to personal automobile policies, and implement changes to ensure compliance with Regulation 16.

During our testing, we noted three files in which the Companies' notice of nonrenewal did not contain the statement, in at least 12 point type, the 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 as required in R. I. Gen. Laws §31-47-4. In addition, the notice did not contain the statement regarding possible eligibility for insurance through the Rhode Island Insurance Plan, as required by Rhode Island Insurance Regulation 16.

Recommendation #59: It is recommended that the Companies' management institute controls and procedures to ensure that all nonrenewal notices contain a statement on the need to maintain financial security, and that nonrenewal notices for reasons other than nonpayment of premium, contain the statement indicating possible eligibility for insurance through the Rhode Island Insurance Plan.

During our testing, we noted 13 files in which there was no documentation of a certificate of mailing.

Recommendation #60: It is recommended that the Companies review their file documentation procedures to ensure that all files are properly documented with respect to nonrenewal of personal automobile policies.

SUMMARY OF RECOMMENDATIONS

No.	Recommendation	Page Number
1.	It is recommended that the Companies take appropriate action to ensure that all complaints received from the Insurance Commissioner are listed on the Companies' complaint register.	8
2.	It is recommended that the Companies take appropriate action to insure that all inquiries received from the Department regarding a complaint, are responded to within fifteen days from the date of receipt, as required by Rhode Island Insurance Regulation 73.	8
3.	It is recommended the Companies take appropriate action to ensure that upon notification of a claim, an acknowledgement is sent to the claimant as required by Rhode Island Insurance Regulation 73.	8
4.	It is recommended that the Companies take appropriate action to ensure that files are documented in such a manner as to permit reconstruction of the Insurers activities relative to the claim as required by Rhode Island Insurance Regulation 73.	9
5.	It is recommended that the Companies take appropriate action to ensure that pertinent communications from a claimant, which reasonably suggested a response was expected, be answered within ten business days, as required by Rhode Island Insurance Regulation 73.	9

6. It is recommended that the Companies take appropriate action to ensure that adjusters and other company personnel responsible for the settlement of claims, attempt in good faith, to effectuate prompt, fair and equitable claim settlements as required by R. I. Gen. Laws §29-9.1-4. 9

7. It is recommended that the Companies' revise the Colonial automobile rate manual to comply with the R. I. Gen. Laws §27-9-4(a)(5). It is also recommended that any individual aged 65 or older, who was surcharged points solely on the basis of their age, be reimbursed from the inception date of their policy throughout the period that the policy was in effect, with the incorrect surcharge. 11

8. It is recommended that the Companies' review their procedures pertaining to verification of factors submitted on new business applications. If no verification procedure is in place, it should be instituted immediately. A verification procedure on new business submitted will ensure that the correct premium is being charged to the policyholder. 13

9. It is also recommended that the Companies verify that all rating factors are correct as they relate to the risk insured. The Company should refund overcharges of premium from the inception date of the policy to the date of correction. Undercharges should be adjusted at policy renewal. 13

10. It is recommended that the Companies review their file retention and retrieval procedures to ensure that all files can be located as needed for examination by market conduct examiners, or for use by company personnel. 14

11. It is recommended that the Companies review their record retention procedures to ensure that applications are retained in the policy file to support the underwriting and rating of personal automobile policies. 14

12. It is recommended that the Companies review underwriting procedures to ensure that applications are completed in full to support the underwriting and rating of personal automobile policies. 14

13. It is recommended that the Companies review their procedures pertaining to automobile underwriting, particularly with regard to medical payments coverage, and implement procedures to ensure that, whenever a policy is issued without medical payments coverage, a completed and signed rejection form is retained in the policy file. It is further recommended that the Companies contact the previously mentioned insureds to obtain the required completed and signed rejection forms. 15

14. It is recommended that the Companies implement controls to ensure that whenever a policy is issued with reduced uninsured motorist bodily injury liability limits, a completed and signed advisory form is retained in the policy file. It is further recommended that the Companies correct this situation by contacting the insured and obtaining completed and signed advisory forms. 15

15. It is recommended that the Companies review their policies and procedures pertaining to automobile underwriting, particularly with regard to reduced limits under uninsured motorist property damage coverage. It is also recommended that the Companies implement controls to ensure that completed and signed advisory forms are retained in the policy files whenever coverage is provided at a reduced limit. In addition, the Companies should contact the insured and obtain the required completed and signed advisory forms. 16

16. It is recommended that the Companies implement controls to ensure that insurance be provided for only those coverages requested on the application. It is further recommended that the Companies correct this 16

error by providing the insured with the option of retaining coverage as issued or deleting coverage from policy inception, with a refund of premium from the inception date of the policy.

17. It is recommended that the Companies review this policy to determine the reason why it was placed in the incorrect rating program, and implement changes to ensure that this does not occur in the future. 16

18. It is recommended that the Companies review their pre-inspection procedures to ensure that they are in compliance with the aforementioned regulation. 17

19. It is recommended that the Companies review their file documentation procedures to ensure that all applications are completed and signed by properly licensed agents, in accordance with R. I. Gen. Laws §27-2-17. 17

20. It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of appropriate discounts, and the documentation of such discounts. In addition, the Companies should verify whether the anti-theft credit was applicable to the above referenced policy and correct the premium undercharge upon policy renewal, if applicable. 17

21. It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of vehicle symbols, as they apply to the rating of collision coverage. In addition, the Companies should re-rate the aforementioned policy, and refund the overcharge to the insured. 18

22. It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of appropriate discounts, and the documentation of such discounts. In 18

addition, the Companies should verify whether the home-car credit was applicable, and if so, correct the premium undercharge upon policy renewal.

23. It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of surcharges. In addition, the Companies should re-rate the aforementioned policy and correct the premium undercharge upon policy renewal. 19

24. It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of vehicle use and annual mileage as they apply to policy rating. In addition, the Companies should re-rate the aforementioned policy, and refund the overcharge to the insured. 19

25. It is recommended that the Companies review their procedures pertaining to the proper application of multi-car discounts, as they apply to policy rating. In addition, the Companies should correct the premium undercharge upon policy renewal. 19

26. It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of point charges, as they apply to policy rating. In addition, the Companies should re-rate the aforementioned policy, and refund any overcharge to the insured. 19

27. It is recommended that the Companies review their procedures pertaining to automobile rating to ensure that before a policy is assessed a surcharge, the Companies have full documentation supporting any adjustment to the full manual premium. In addition, the Companies should refund the amount of the surcharge to the insured. 20

28. It is recommended that the Companies review their procedures pertaining to automobile rating, particularly with regard to the proper application of appropriate discounts, and the documentation of such discounts. In addition, the Companies should verify whether the homeownership credit was applicable, and if so, make the appropriate correction at policy renewal. 20

29. It is recommended that the Companies review their claim handling procedures to ensure that all claim files contain complete documentation as required by Rhode Island Insurance Regulation 73. 21

30. It is recommended that the Companies review their claim handling procedures to ensure that all claim files contain complete documentation as required by Rhode Island Insurance Regulation 73. 22

31. It is recommended that the Companies take appropriate action to ensure adjusters and other company personnel responsible for the settlement of homeowner claims, attempt in good faith to effectuate prompt, fair and equitable settlement of homeowner claims in which liability is reasonably clear. The proper application of policy deductibles should also be reviewed with claim personnel. 22

32. It is recommended that the Companies review their licensing procedures to ensure compliance with R. I. Gen. Laws §27-10-3. 22

33. It is recommended that the Companies review their record retention and retrieval procedures, and implement changes to ensure that files can be located as needed, for examination by market conduct examiners, or by company personnel. 23

34.	It is recommended that the Companies reinforce, with their claims staff, the notice requirement as set forth in Rhode Island Insurance Regulation 73.	23
35.	It is recommended that the Companies reinforce, within their claims staff, the notice requirement as set forth in Rhode Island Insurance Regulation 73.	23
36.	It is recommended that the Companies review their procedures to ensure that they process claim payments in accordance with R. I. Gen. Laws §27-3-51.	24
37.	It is recommended that the Companies institute immediate procedures to ensure compliance with R. I. Gen. Laws §27-57-1.	25
38.	It is recommended that the Companies review their claims procedures to ensure that claims are investigated promptly, and settlement is made without unnecessary delay.	25
39.	It is recommended that the Companies review their claims procedures to ensure that pertinent communications are acknowledged and acted upon with reasonable promptness.	25
40.	It is recommended that the Companies review their procedures and take any steps necessary to ensure that any appropriate written requests for the disclosure of policy limits are responded to within 14 days.	25
41.	It is recommended that the Companies reinforce their procedures to ensure that the appropriate personnel report any salvage declarations to the NICB.	26
42.	It is recommended that the Companies review their procedures with their claims staff/personnel in order to ensure compliance with Regulation 73.	26

43. It is recommended that the Companies review their claim documentation procedures to ensure that appropriate invoices, estimates, or other supporting materials are contained in the file. 27

44. It is recommended that the Companies review their claim payment procedures to ensure the proper application of policy deductibles and policy limits. 27

45. It is recommended that the Companies review policy coverages before payment of a claim, to ensure that payments are made in accordance with the insurance contract. 27

46. It is recommended that the Companies reimburse the insured for the underpayment. 27

47. It is recommended that the Companies review their claim procedures to ensure that all files contain detailed documentation in order to permit reconstruction of the claim. 28

48. It is recommended that the Companies review their file retention and retrieval procedures to ensure that all files are retrievable as necessary for examination. 28

49. It is recommended that the Companies review their procedures, and take any steps necessary to ensure that any written requests for the disclosure of policy limits are responded to within 14 days. 28

50. It is recommended that the Companies review their claims procedures to ensure that claims are investigated promptly and settlement is made without unnecessary delay. 28

51. It is recommended that the Companies review their procedures with the claims staff in order to ensure full compliance with Regulation 73. 29

52. It is recommended that the Companies' management review its record retention and retrieval procedures, and implement the changes necessary to ensure that files can be located as needed for examination purposes. 29

53. It is recommended that the Companies make appropriate changes to their cancellation and nonrenewal procedures as they relate to notification to insureds and mortgagees, in order to be in compliance with R. I. Gen. Laws §27-5-3.4. 30

54. It is recommended that the Companies review their cancellation procedures pertaining to personal automobile policies, and implement controls to ensure that the Companies are in compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. 31

55. Due to the high percentage of files that the Companies were unable to provide, it is recommended that the Companies review their record retention and retrieval procedures to ensure that files can be obtained for examination or other administrative purposes. 31

56. It is recommended that the Companies' management institute controls to ensure that all cancellation files contain proof of mailing documentation and that the Companies properly classify all nonrenewals in its database. 32

57. It is recommended that the Companies review their record retention and retrieval procedures, to ensure that all files are retrievable as necessary for examination. 32

58. It is recommended that the Companies review their nonrenewal procedures pertaining to personal automobile policies, and implement changes to ensure compliance with Regulation 16. 33

59. It is recommended that the Companies' management institute controls and procedures to ensure that all nonrenewal notices contain a statement on the need to maintain financial security, and that nonrenewal notices for reasons other than nonpayment of premium, contain the statement indicating possible eligibility for insurance through the Rhode Island Insurance Plan. 33

60. It is recommended that the Companies review their file documentation procedures to ensure that all files are properly documented with respect to nonrenewal of personal automobile policies. 33

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, and did not become aware of any other error or irregularity that could have a material effect on the market conduct condition of the Companies as presented in this report.

Rhode Island Insurance Division examiners assisting the undersigned in the conduct of this examination were Joseph Seow, Market Conduct Examiner, Ronald R. Radtke, Senior Market Conduct Examiner, and Robert G. Arrow, FLMI, Senior Market Conduct Examiner.

Respectfully submitted,

John P. Carr / JPC

John P. Carr, CPCU
Principal Market Conduct Examiner
Rhode Island Insurance Division

4/24/01
Date