

Report on
Market Conduct Examination
of the

PAWTUCKET MUTUAL INSURANCE COMPANY
25 MAPLE STREET
PAWTUCKET, RHODE ISLAND

NAIC Co. Code # 14931

By Representatives of the
Rhode Island Department of Business Regulation
Insurance Division

as of
May 31, 1992

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September 30, 1992

Honorable Sheldon Whitehouse
Insurance Commissioner
State of Rhode Island
Providence, Rhode Island

Commissioner Whitehouse:

In accordance with your instructions and pursuant to the statutes of the State of Rhode Island, a Market Conduct Examination has been made of the

Pawtucket Mutual Insurance Company
25 Maple Street
Pawtucket, Rhode Island

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

FOREWORD

The report on the Market Conduct Examination is, in general, 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 errors and/or improprieties were indicated.

SCOPE OF EXAMINATION

This Examination was conducted in accordance with Title 27-1-11 of the General Laws of the State of Rhode Island. The Examination commenced in May, 1992 and covered Rhode Island business only for the period of January 1, 1990 to May 31, 1992.

The Examination was performed in accordance with procedures established by the National Association of Insurance Commissioners and standards established by the Department of Business Regulation.

We performed testing in the areas of Sales and Advertising, Agent Licensing, Underwriting, Rating, Consumer Complaints, Cancellations, Nonrenewals and Claims Practices. The objective of

our Examination was to evaluate the Company's compliance with applicable laws and regulations and to determine whether or not policyholders and claimants are being treated fairly.

COMPANY OVERVIEW

History And Profile

Pawtucket Mutual Insurance Company, chartered in 1848 by the Rhode Island General Assembly, started doing business in 1849. The charter has been amended several times since then by acts of the General Assembly.

The Company operates in twelve states including Rhode Island, where the home office is located in Pawtucket, Rhode Island. The Company is a mutual organization and writes non-assessable policies both directly and through independent agents. The Company develops new business through its independent agents and through referrals and recommendations from existing policyholders. The entire business operation is conducted from the home office.

Pawtucket Mutual Insurance Company
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Company Operations

Direct written premiums in 1990 for Rhode Island business were \$11,392,446 representing about 22% of the Company's total direct written premiums of \$52,414,789. In 1991, direct written premiums in Rhode Island were \$12,496,066, representing about 25% of the Company's total direct written premiums of \$50,111,229.

The following Rhode Island direct written premiums and loss ratios were taken from the Company's 1990 and 1991 Annual Statement:

<u>Line of Business</u>	<u>Direct Written Premiums</u>	
	<u>1990</u>	<u>1991</u>
Private Passenger Auto	\$5,820,933	\$6,467,940
Homeowners	3,675,579	3,885,672
Commercial Lines	830,439	947,461
Other Lines	<u>1,065,496</u>	<u>1,194,993</u>
Total	<u>\$11,392,446</u>	<u>\$12,496,066</u>
Loss Ratio	51.14%	69.44%

Certificate of Authority

Business written in Rhode Island by the Company in 1990, 1991 and through May, 1992 was in compliance with the Certificate of Authority issued by the State of Rhode Island.

CONSUMER OR OTHER RELATED COMPLAINTS

The Company's procedures for handling consumer or other related complaints were examined to verify the Company's compliance with Rhode Island Statutes 27-29-3&4, "Unfair and Deceptive Acts" relative to timely and adequately responding to complaints.

All complaint letters (the "Complaints") whether submitted to the Company indirectly by the Department of Business Regulation, Insurance Division or directly by the complainant, and corresponding files were reviewed for the period under examination. There were twenty-eight (28) complaints in total. The composition of the twenty-eight (28) complaints were made up of four (4) Underwriting and twenty-four (24) Claims related complainants.

Upon review of the 28 complaint files, it was determined that three (3) were issued untimely responses and three (3) had the following deficiencies:

- A) Claim #PA11121 dealt with an auto theft claim and the calculation of the loss contrary to the Company's normal method of calculation, as well as, the conditions of the policy.

- B) Claim #PH30262 displayed no evidence of what transpired in handling the complaint or a response in its final disposition.

- C) Underwriting Policy #DW038954847-02 exposed a contradiction as to the reason for non-renewal of the policy between the holder and the Company without evidence of a resolution.

In addition to the above, the examiner noted an internal administrative control weakness in the receipt of the complaints by the Company. The Company lacked a central control register for the recording and controlling of all complaints. Without such a register it is difficult to determine that all complaints can be accounted for and properly responded to. This matter was discussed with Senior Management and it was agreed that a complaint register would be developed and maintained similar to the format recommended by the NAIC.

It is recommended that the Company improve its procedures to ensure timely responses to complaints, uniform application of loss calculations and complete documentation of all complaint files.

MARKETING

Sales and Advertising

A review of all sales and advertising material used during the period of examination was performed. The Company limits this to annual reports, rating analysis brochures, and agent recruitment advertising in trade publications. No concerns were noted in this area.

AGENT LICENSING

A license issued by the State of Rhode Island is required for all agents with binding coverage authority. Also, each agent must enter into a contract with the Company. Agents solicit and negotiate business and are bound by the contract with the Company. The home office has a licensing supervisor who is responsible for handling agent license activity and files. The appointment and terminations of agents is facilitated by the use of a forms kit that includes recruiting procedures, contracts, and termination procedures and forms.

On April 1, 1992 the Company was issued 185 agent and 75 agency licenses in Rhode Island that are valid for three years. A list of

these licensed agents and agencies for Rhode Island was provided by the Company and reconciled with a list of active licenses issued through the Rhode Island Insurance Division. No concerns were noted in this area. (See R.I. Insurance law Section Title 27-Chapter 3).

UNDERWRITING AND RATING

For the period under examination, the Company's underwriting procedures for all lines of business within the State of Rhode Island were reviewed. The review was conducted to determine the Company's compliance with the statutes and regulations of the State of Rhode Island, especially as they relate to collusive underwriting practices and discriminatory risk selection.

Policy Forms and Filings

Rates for private passenger automobile, homeowners, allied lines, personal umbrella, and commercial lines of business written in Rhode Island are filed by the Insurance Service Office (ISO) for the Company. In addition, the Company has made the proper filings to deviate from the published rates. These deviations are based upon risk management and I.R.P.M. credits for competitive rating. No concerns were noted in this area.

Personal Automobile

Underwriting and rating practices for the Company's automobile insurance were reviewed to evaluate compliance to Company underwriting guidelines, rate filings, and the proper use of forms and endorsements. Twenty-seven (27) randomly selected policies were reviewed and re-rated. All policy files (except R.I. Automobile Insurance Plan policies) contained applications which were signed by the insured, and a motor vehicle report.

Our testing revealed one error that was the omission of a multi-car discount. The Company corrected this error immediately upon our notification. No other concerns were noted in this area.

Homeowners

Thirty-eight (38) randomly selected homeowner policies were re-rated to verify compliance with rate filings. Although the Company does not have any written underwriting guidelines for homeowners business, underwriting practices were reviewed for the above sample. This was done to verify proper use of policy forms and endorsements and the proper licensing of agents. The Company issues premium credit and discounts for fire protection devices, new homes, non-smokers, and various deductibles. No concerns were noted in this area.

Other Lines

The Company's underwriting and rating procedures for other lines (commercial, inland marine, umbrella, dwelling) were reviewed for the period of examination. This was done through review of sixteen (16) randomly selected policies. These were checked to evaluate compliance with Company underwriting guidelines and the proper use of forms and endorsements. Compliance with rate filings was also reviewed by recalculating premiums on a subset of policies in the test sample.

Of the four (4) dwelling policies included in our testing all were in violation of Rhode Island General Law 27-5-2.1 and Regulation XXXV. This law requires the completion of an anti-arson application, together with the application for dwelling insurance.

With regard to this violation the Company is required to take the following action:

- 1) Immediately begin denying coverage on any new dwelling policy application that does not include a completed anti-arson application.
- 2) Upon renewal, obtain a completed anti-arson application for all existing dwelling policies with changes as described in

the above statute and regulation. In addition, a completed application must be obtained for any dwelling policies for which this has not previously been received.

Note: Owner occupied property used predominantly for residential purposes, and consisting of not more than four (4) dwelling units is exempt from this requirement.

Cancellations/Declinations

A review of the Company's cancellation/declination practices was performed to evaluate compliance with applicable statutes, regulations, and the Company's internal rules and guidelines. A total of 138 cancellations and declinations that occurred during the examination period were reviewed. This sample included all lines of business.

Our testing found three (3) exceptions due to lack of proper notice on automobile insurance. No other specific findings were noted.

It is recommended that the Company ensure that proper notice on all policy cancellations and declinations is provided.

Return Premiums

A separate sample of thirty (30) canceled policies involving return premiums was tested to verify the accuracy and timeliness of the return premiums. No exceptions were noted in this area.

Non-Renewals

A sample of fifteen (15) non-renewed policies were reviewed to verify that the Company complied with appropriate statutes regarding notification and reason for non-renewal. No exceptions were noted in this area.

CLAIM PRACTICES

The Company's procedures for handling claims were reviewed to evaluate the Company's treatment of claimants and settlement of claims based on the Rhode Island Insurance Statutes 27-10-1 thru 14 (Claims Adjusters), 27-10.1 thru 8 (Motor Vehicle Damage Appraisers) and 27-8-12 (Subrogation). The bases for the review also included compliance with the Rhode Island Insurance Regulations XXIV (Claims Adjusters) and XXVIII (Fair Insurance Claim Settlement Practices).

A review of eighty (80) randomly selected claim files for the examination period was performed, to evaluate the proper treatment of claimants and the fair settlement of claims. The sample consisted for forty (40) paid claims, twenty (20) outstanding claims, and twenty (20) claims closed without payment.

The sample testing results determined that, of the claim files tested, a significant number lacked the supporting records and/or documents needed to verify compliance with the timely issuance of various correspondence. The examiners, therefore, were unable to determine from the files in question whether issuance of several acknowledgements of the notice of loss, replies to pertinent communications from claimants or their representatives, as well as forty-five day follow-up letters to first party claimants were sent out within the time requirements promulgated by the applicable Rhode Island Insurance Statutes and Regulations.

The Company countered the examiners' position by stating that those files were handled by outside claims adjusters who maintain their own files. Therefore, according to the Company, the examiners should review the outside claims adjusters' records and documents to determine the timely compliance of the issuance of various correspondence associated with those claims. The examiners would acquiesce to the Company's contention except for the fact that, according to Rhode Island Regulation XXVIII, Section 4, the

insurer's files are to contain all notes and workpapers pertaining to a claim in such detail that pertinent events and the dates of such events can be reconstructed. With this in mind, the Company is in violation of the regulation and should adjust their recordkeeping accordingly.

Another area of concern, reviewed during the course of the examination, dealt with the viewing of damaged vehicles within seven (7) days of notification of the claim in accordance with Rhode Island Regulation XXVIII, Section 9.d. There were several cases where the Company failed to comply with the Regulation. The Company defended their position of noncompliance by stating that they were physically hindered from such examinations due to the Company's inability to contact the insured and/or gain access to viewing the vehicle. The only difficulty the examiners had in accepting such explanations occurred when documentation supporting such explanations was missing in the claim file. With such explanations missing, the examiners can only conclude that the Company was in violation of the Regulation.

The claims review also revealed two (2) cases where individuals without valid adjusters licenses provided adjusting services in the Company's behalf resulting in the violation of the Rhode Island Insurance Statute 27-10-1, 2, 3 and 8, as well as Regulation XXIV, Sections 5.5, 5.6 and 6.1. In addition, there were three (3) cases

involving delays in returning the insured's deductible upon subrogation recovery in violation of Rhode Island Insurance Statute 27-8-12 and Regulation XXVIII 8.d and four (4) cases in which the lienholder who was a party to the policy contract was not noted on the loss payment check as required by the policy contract and in violation of the lienholder's contractual rights.

Finally, it was determined during the examination that two licensed outside claims adjusters were directly related to a senior officer of the Company. Senior management of the Company acknowledged awareness of the situation but represented that in their view no conflict of interest existed. The examiners assert that although no evidence was attained during the examination to refute the senior managements' opinion, the appearance to the contrary still exists. The Company has a procedure whereby its officers are required to sign a conflict of interest statement as part of an ongoing operating procedure. It is here that the officer should make mention of the relationship, thereby providing full disclosure of the situation to all concerned parties.

Therefore, it is recommended that the Company:

- 1) Implement procedures to comply with all of the Statutes and Regulations of the State of Rhode Island Insurance Laws for which infractions were noted in the Claims Practices section of this report.

- 2) Review the Company's present procedure for handling of loss payments involving a lienholder to assure compliance with the lienholder's contractual rights relative to the policy.
- 3) Should have the officer involved in the direct relationship with the licensed outside claims adjusters, as mentioned in the findings, so note the relationship in the officer's conflict of interest statement so as to provide for its full disclosure to all concerned parties.

SUMMARY OF RECOMMENDATIONS

Page No. It is recommended that the Company:

- 6 Improve its procedures to ensure timely responses to complaints, uniform application of loss calculations, and complete documentation of all complaint files.

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- 10 Immediately begin denying coverage on any new dwelling policy application that does not include a completed anti-arson application.
- 10 Upon renewal, obtain a completed anti-arson application for all existing dwelling policies with changes as described in the above statute

and regulation. In addition, a completed application must be obtained for any dwelling policies for which this has not previously been received.

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- 11 The Company ensure that proper notice on all policy cancellations and declinations is provided.

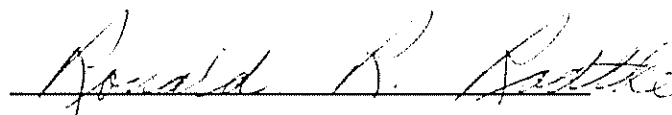
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- 15 Implement procedures to comply with all of the Statutes and Regulations of the State of Rhode Island Insurance Laws for which infractions were noted in the Claims Practices section of this report.
- 16 Review the Company's present procedure for handling of loss payments involving a lienholder to assure compliance with the lienholder's contractual rights relative to the policy.

- 16 Should have the officer involved in the direct relationship with the licensed outside claims adjusters, as mentioned in the findings, so note the relationship in the officer's conflict of interest statement so as to provide for its full disclosure to all concerned parties.

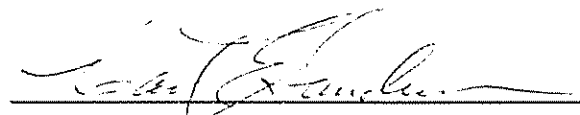
In addition to the undersigned, David A. Paolantonio, Senior Insurance Examiner for the Rhode Island Insurance Division, participated in this examination and the preparation of this report.

Respectfully submitted,



Ronald R. Radtke

Senior Market Conduct Examiner
Rhode Island Insurance Division



Carl E. Sanderson

Market Conduct Examiner
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