

REPORT ON
THE MARKET CONDUCT EXAMINATION
OF

Peerless Insurance Company
NAIC Company Code: 24198

As of

December 31, 2006

State of Rhode Island
Department of Business Regulation
Insurance Division

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION

The attached Report of Examination as of December 31, 2006 of the market conduct condition and affairs of Peerless Insurance Company was recently completed by duly qualified examiners, pursuant to the provision of the Rhode Island Insurance Code.

Due consideration has been given to the comments of the examiners regarding the operations of Peerless Insurance Company and their market conduct condition as reflected from the examination report.

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

DEPARTMENT OF BUSINESS REGULATION



A. Michael Marques
Director/Insurance Commissioner

ORDER NO. 07-288

DATED: 09-18-2007

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Providence, Rhode Island

July 19, 2007

Honorable A. Michael Marques
Insurance Commissioner
State of Rhode Island

Commissioner:

In accordance with your instructions, and pursuant to the statutes of the State of Rhode Island, a Market Conduct Examination was conducted of the:

Peerless Insurance Company

62 Maple Avenue

Keene, New Hampshire 03431

Hereinafter referred to as the "Company". The examination was conducted at the Company's office, located at 795 Brook Street, Rocky Hill, Connecticut.

FOREWORD

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

SCOPE OF EXAMINATION

Authority for this examination is provided by R.I. Gen. Laws §27-13-1 and §27-13.1-3. The examination covered the period from January 1, 2005 through December 31, 2006, and was conducted 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: Consumer or Other Related Complaints, Underwriting, Claims, Cancellations and Nonrenewals. The lines of business reviewed were Private Passenger Automobile and Homeowners.

The primary purpose of the examination was to evaluate the Company's compliance with Rhode Island General Laws and Insurance Regulations, and to determine whether Rhode Island insureds and claimants were being treated equitably. The test work performed during the examination satisfied this purpose, and forms the basis for the findings and recommendations presented in this report. The examination consisted of verification and evaluation, on a test basis, of information contained in the insurer's files.

PROFILE OF COMPANY

History

The Company was incorporated on March 7, 1901 under the laws of New Hampshire as a combined stock and mutual enterprise. Operations did not commence until November 23, 1903. The original title was Peerless Casualty Company. The form of organization was changed to that of a capital stock carrier April 9, 1909. The name "Peerless Insurance Company" was adopted on January 1, 1956. In 1974, The Netherlands Insurance Company, Est. 1845, of The Hague, Holland became the majority stockholder of the company. On May 10, 1999, direct ownership of the Company was acquired by Liberty Insurance Holdings (LIH) US P&C Corporation. The Company is licensed in 48 states and the District of Columbia. The Company is not licensed in Hawaii or New Jersey.

Operations

The Company's Rhode Island direct written premium for the year 2006 was as follows:

<u>Line of Business</u>	<u>Written Premium</u>
Other Private Passenger Auto Liability	\$ 6,065,617
Private Passenger Auto Physical Damage	4,267,828
Homeowners multiple peril	<u>6,178,565</u>
Total	<u>\$16,512,010</u>

Management

At December 31, 2006, the Directors of the Peerless Insurance Company were as follows: James Francis Dore, John Derek Doyle, Joseph Anthony Gilles, Scott Rhodes Goodby, Gary Richard Gregg and Christopher Charles Mansfield.

The officers at December 31, 2006 were as follows: Gary Richard Gregg (President and Chief Executive Officer), Edmund Campion Kenealy (Secretary), James Francis Dore (Treasurer and Chief Financial officer).

UNDERWRITING

Private Passenger Automobile

A review of the Company's Rhode Island new business Private Passenger Automobile Underwriting for the period under examination was conducted to determine whether new policies underwritten were in compliance with the Company's formal underwriting guideline procedures. The review was also performed to assess the Company's compliance with the following R.I. Gen. Laws §27-7-2.1, §27-7-2.2, §27-9-1 et seq. and §27-44-1 et seq. and Rhode Island Insurance Regulations 10, 53 and 84.

The Company provided the examiners with a listing of 291 private passenger automobile new business policies processed during the period under examination. From this listing, a sample of 50 policies was selected for review. The selection of sample files was based on established NAIC sampling criteria.

Based on the examination work performed, the examiners noted two policies that did not contain the correct territory classification, resulting in one overcharge and one undercharge of premium for the policies.

Recommendation #1: It is recommended that the Company implement procedures to ensure that the correct territory classifications are used in rating physical damage coverage to comply with R.I. Gen. Laws §27-44-5. It is also recommended that the Company refund the premium overcharge immediately, and correct the undercharge at policy renewal.

CLAIMS

Homeowners Paid Claims

A review of the Company's homeowners claim practices was conducted to determine whether actions taken by the Company were in compliance with R. I. Gen. Laws §27-5-3, §27-9.1-4, §27-29, §27-57 and Rhode Island Insurance Regulation 73. The review was also performed to determine whether the Company complied with applicable provisions of its homeowners policy, did not misrepresent the policyholder's rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims and made fair and equitable settlement of claims.

The Company provided the examiners with a listing of 615 homeowner paid claims processed during the period of examination. From this listing, a sample of 102 claim files was selected for review. The selection of sample files was based on established NAIC sampling criteria.

Based on the examination work performed, the examiners noted ten files that did not comply with Rhode Island Insurance Regulation 73, Section 5.D. which requires every insurer, upon receiving notification of a claim from a claimant shall, within 10 business days, acknowledge the receipt of such notice in writing.

Recommendation #2: It is recommended that the Company monitor homeowner paid claims to ensure compliance with Rhode Island Insurance Regulation 73, Section 5.D. In addition, the Company should advise all personnel involved in the processing of Rhode Island homeowner claims of the requirements of Rhode Island Regulation 73.

Private Passenger Automobile Paid Claims

A review of the Company's private passenger automobile paid claim practices was conducted to determine whether actions taken by the Company was in compliance with R. I. Gen. Laws §27-7-5, §27-8-12, §27-8-14, §27-9.1-4, §27-10.2-2, §27-29-4, §27-29-16, §27-57-1 and Rhode Island Insurance Regulations 10 and 73. The review was also performed to determine whether the Company was in compliance with their own claims procedures, to verify that claim files contained proper documentation, and that claims were paid in accordance with the Company guidelines and the appropriate provisions of the applicable policy contract.

The Company provided the examiners with a listing of 1,165 private passenger automobile paid claims processed during the period under examination. From this listing, a sample of 50 claim files was selected for review. The selection of sample files was based on established NAIC sampling criteria.

Based on the examination work performed, the examiners noted two files that did not comply with Rhode Island Insurance Regulation 73, Section 5.D, which requires every insurer, upon receiving notification of a claim from a claimant shall, within 10 business days, acknowledge

the receipt of such notice in writing.

Recommendation #3: It is recommended that the Company monitor the processing of private passenger automobile paid claims to ensure compliance with Rhode Island Insurance Regulation 73, Section 5.D. In addition, the Company should advise all personnel involved in the processing of Rhode Island private passenger paid claims of the requirements of Rhode Island Insurance Regulation 73.

CANCELLATIONS AND NONRENEWALS

Private Passenger Automobile Cancellations

A review of the Company's private passenger automobile cancellation practices during the period under examination was conducted to determine whether the Company complied with the applicable provisions of its private passenger automobile policies and was in compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

The Company provided the examiners with a listing of 111 private passenger automobile cancellations processed during the period under examination. From this listing, a sample of 57 cancellation files was selected for review. The selection of sample files was based on established NAIC sampling criteria.

Based on the examination work performed, the examiners noted that the Financial Security statement on all 57 policy cancellations was printed in 10-point type face on the cancellation notices, which is not in compliance with R.I. Gen. Laws §31-47-4 and Rhode Island

Insurance Regulation 16, which require the Financial Security statement to be in a type face not smaller than 12 point.

Recommendation #4: It is recommended that the Company monitor their private passenger automobile cancellation processing to ensure compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise all personnel involved in the processing of Rhode Island private passenger automobile cancellations of the requirements of R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

Private Passenger Automobile Nonrenewals

A review of the Company's private passenger automobile nonrenewal practices during the period under examination was conducted to determine whether the Company complied with the applicable provisions of its private passenger automobile policies and was in compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

The Company provided the examiners with a listing of 181 private passenger automobile nonrenewals processed during the period under examination. From this listing, a sample of 50 nonrenewal files was selected for review. The selection of sample files was based on established NAIC sampling criteria.

Based on the examination work performed, the examiners noted that the Financial Security statement on 20 of the policy nonrenewals was printed in 10-point type face on the nonrenewal notices, which is not in compliance with R. I. Gen. Laws §31-47-4 and Rhode

Island Insurance Regulation 16, which require the Financial Security statement to be in a type face not smaller than 12-point.

Recommendation # 5: It is recommended that the Company monitor their private passenger automobile nonrenewal processing to ensure compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise all personnel involved in the processing of Rhode Island private passenger automobile nonrenewals of the requirements of R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

Rec. #	Summary of Recommendations	Page
1	It is recommended that the Company implement procedures to ensure that the correct territory classifications are used in rating physical damage coverage to comply with R.I. Gen. Laws §27-44-5. It is also recommended that the Company refund the premium overcharge immediately, and correct the premium undercharge at policy renewal.	7
2	It is recommended that the Company monitor homeowner paid claims to ensure compliance with Rhode Island Insurance Regulation 73, Section 5.D. In addition, the Company should advise all personnel involved in the processing of Rhode Island homeowner claims of the requirements of Rhode Island Regulation 73.	8
3	It is recommended that the Company monitor the processing of private passenger automobile paid claims to ensure compliance with Rhode Island Insurance Regulation 73, Section 5.D. In addition, the Company should advise all personnel involved in the processing of Rhode Island private passenger paid claims of the requirements of Rhode Island Insurance Regulation 73.	9

Rec. #	Summary of Recommendations	Page
4	It is recommended that the Company monitor their private passenger automobile cancellation processing to ensure compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise all personnel involved in the processing of Rhode Island private passenger automobile cancellations of the requirements of R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.	10
5	It is recommended that the Company monitor their private passenger automobile nonrenewal processing to ensure compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise all personnel involved in the processing of Rhode Island private passenger automobile nonrenewals of the requirements of R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.	11

CONCLUSION

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

Assisting the undersigned in the conduct of this examination was Robert G. Arrow, FLMI, Senior Market Conduct Examiner and Dorothy E. Wendoloski, CFE, Senior Insurance Examiner.

Respectfully submitted,



Ronald R. Radtke
Senior Market Conduct Examiner
Rhode Island Insurance Division