

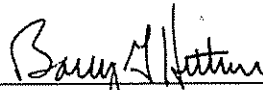
**STATE OF RHODE ISLAND
DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION**

The attached Report of Examination as of September 30, 1995, of the market conduct condition and affairs of Peerless Insurance Company was recently completed by duly qualified examiners, pursuant to Chapters 13 and 13.1 of the Rhode Island Insurance Code.

Due consideration has been given to the comments of the examiners regarding the operation of the Companies and their market conduct condition, as reflected from the report. Due consideration has also been given to Peerless Insurance Company's response to the examination report findings and recommendations.

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



Barry G. Hittner
Director/Insurance Commissioner

ORDER NO. 96-062

DATED: November 13, 1996

REPORT ON

MARKET CONDUCT EXAMINATION

OF

PEERLESS INSURANCE COMPANY

(NAIC COMPANY CODE 24198)

62 MAPLE AVENUE
KEENE, NEW HAMPSHIRE 03431
603-352-3221

AS OF
SEPTEMBER 30, 1995

INSURANCE DIVISION
DEPARTMENT OF BUSINESS REGULATION
STATE OF RHODE ISLAND

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PROVIDENCE, RHODE ISLAND

October 17, 1996

Honorable Barry G. Hittner
Insurance Commissioner
State of Rhode Island

Dear Sir:

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

Peerless Insurance Company
62 Maple Avenue
Keene, New Hampshire 03431

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

FOREWORD

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

SCOPE OF EXAMINATION

We conducted our examination in accordance with Title 27 Chapters 13 and 13.1 of the General Laws of Rhode Island. The examination covers the period from January 1, 1994, through September 30, 1995. Performance of the examination was in accordance with procedures established by the National Association of Insurance Commissioners and standards developed by the Rhode Island Department of Business Regulation, Insurance Division.

The examination was conducted at the Company's Southern New England Regional Office, which is located at 795 Brook Street, Rocky Hill, Connecticut.

Areas examined include: Certificate of Authority, Consumer or Other Related Complaints, Agent and Broker Licensing, Underwriting and Rating, Cancellations and Nonrenewals, and Claim Practices. The lines of business examined were Homeowners and Personal Automobile.

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

COMPANY OVERVIEW

History

The Company, a member of the Netherlands Insurance Companies, was incorporated on March 7, 1901, under the laws of New Hampshire, as a combined stock and mutual enterprise. Operations commenced on November 3, 1903. On April 9, 1909, the Company's organization

was changed to that of a capital stock company. Until its name was changed to Peerless Insurance Company in 1956, the Company was known as Peerless Casualty Company.

Peerless is directly owned by ING U.S. Property & Casualty Corporation, a Delaware Corporation, which is ultimately owned by Internationale Nederlanden Groep, N.V. (The Netherlands). In November, 1974, fifty percent (50%) financial control of Peerless was acquired by N.V. The Netherland Insurance Company, est. 1845 (The Netherlands) from certain member companies of the Mutual Fire Insurance of New England, Inc. and other shareholders. In 1977, this ownership interest was increased to eighty percent (80%), and in 1982 one hundred percent (100%) ownership was established. Direct ownership was also transferred to Nationale-Nederlanden U.S. Property & Casualty Holdings, Inc. which has since been renamed ING U.S. Property & Casualty Corporation.

The Netherlands Insurance Company, an affiliate of the Company, has undertaken certain supervisory and service functions of the Company, through an agreement between the Companies.

Company Operations

The Netherlands Insurance Companies are a group of regionally focused marketing companies that provide personal lines, commercial lines, inland marine coverage, and surety and fidelity bonds to insureds. Other members of the group used by Peerless to provide coverage depending upon the state and line of business involved, are Excelsior Insurance Company and Netherlands Insurance Company.

Peerless writes business as a regional carrier, and operates through a network of over 1700 independent property and casualty agents and 460 fidelity and surety agents. The Company is

licensed in the District of Columbia and all states except Hawaii, Massachusetts, and New Jersey.

The Company's 1994 total direct written premiums by line of business were as follows:

Line of Business	Premiums Written
Fire	\$ 111,916
Allied Lines	89,869
Homeowners Multiple Peril	4,454,634
Commercial Multiple Peril (non-liability)	2,185,207
Commercial Multiple Peril (liability)	1,800,229
Inland Marine	540,668
Earthquake	856
Other Liability	547,707
Products Liability	5,189
Other Private Passenger Auto Liability	10,400,024
Other Commercial Auto Liability	1,379,589
Private Passenger Auto Physical Damage	4,879,273
Commercial Auto Physical Damage	352,833
Fidelity	19,966
Surety	141,744
Glass	125
Burglary and Theft	767
Totals	\$26,910,596

For the nine months ended September 30, 1995, the Company's direct premiums written in Rhode Island were \$19,830,019, which is slightly less than its 1994 direct premiums written in Rhode Island for the same period, which was \$20,252,334.

Management

On September 30, 1995, the Company was managed by the following individuals:

Chairman of the Board	Robert G. Hilliard
President	Richard T. Bell
Chief Executive Officer	Roger L. Jean
Secretary	Joseph P. Tracey
Treasurer	Justin D. Healy
Senior Vice Presidents	Morland E. Berkman
	Richard D. Pagnozzi
	Donald C. Tretler
	William L. McCague
	Christopher C. Smith
	Joseph H. Yeager
	Sandra L. Stack

CERTIFICATE OF AUTHORITY

The Company's Rhode Island Certificate of Authority was reviewed in conjunction with an examination of the Company's Rhode Island operations, in order to determine whether during the period under examination, the Company was in compliance with Section 27-2-11 License, of the General Laws of Rhode Island. In addition, a review was performed to determine whether

the Company was in compliance with its own Certificate of Authority and to assess whether the Company has transacted business through lawfully constituted and licensed agents.

Peerless is licensed in the State of Rhode Island to write all lines of insurance except life, annuities, endowment and title insurance. The review of this area indicated that operations of the Company during the period under examination were in compliance with their Certificate of Authority.

CONSUMER OR OTHER RELATED COMPLAINTS

A review of the Consumer or Other Related Complaints registered for the period under examination was performed to determine whether actions taken by the Company were in compliance with: Section 27-29-4(13) Unfair Competition and Practices, of the General Laws of Rhode Island, and any other applicable Rhode Island Laws and Regulations. The review is also conducted to assess the Company's compliance with their established complaint handling procedures, and all applicable policy contract provisions. This area of examination was also conducted to determine whether complaints were processed and resolved in a timely manner, and if a pattern existed in the types of complaints generated by the Company's operations.

The Company reported a total of twenty-three (23) complaints related to Rhode Island business written during the period under examination. According to the Company's records, twenty-one (21) of the twenty-three (23) complaints were directed to the Rhode Island Insurance Division by the complainant. All complaints involving the Company that were registered with the Rhode Island Insurance Division were included by the Company in their complaint register.

Of the twenty-three (23) registered complaints, seventeen (17) applied to Rhode Island complaints registered for the lines of business under examination. Therefore, these seventeen (17) complaints were selected for review.

The results of our examination of personal lines consumer complaints indicates that during the period under examination, the Company was in compliance with applicable Rhode Island Insurance Laws and Regulations, in addition to all policy contract provisions.

UNDERWRITING AND RATE APPLICATION

Homeowners

A review of the Company's Homeowners Underwriting and Rating for the period under examination was performed to determine whether the Company was: utilizing properly licensed producers to market and sell property and casualty insurance, operating within the scope of their authority, and in compliance with Section 27-2-17 Reciprocal Fees, Nonresident Insurance Producers, Section 27-5 Fire Insurance Policies and Reserves, Section 27-6 Fire and Marine Insurance Rating, Section 27-9-7 Rate Schedules, and Section 27-44-5 Rate Standards, of the General Laws of Rhode Island and Rhode Island Insurance Regulation XXII Reference Filings.

From a population of three thousand six hundred and sixty-four (3,664) policies, one hundred and twenty three (123) files were selected for testing.

The examiners determined that there were a total of nine (9) exceptions, (six for the 1994 policy year and three (3) for the 1995 policy year) which are noted and summarized as follows:

Four (4) of the homeowner files tested for the period under examination contained dwelling limits of insurance that were between 15% and 38% higher than the Company's Dwelling Replacement Cost Estimator.

Therefore, four (4) policies out of the one hundred and twenty-three (123) reviewed, were processed in violation of the Company's New Business Eligibility Guidelines as they relate to

Insurance to Value, as well as the Company's manual of classification rule filed with the Commissioner as required by Section 27-9-7 Rate Schedules, of the General Laws of Rhode Island.

It is recommended that the Company review their insurance to value guidelines and implement written procedures to ensure compliance with their manual of classification rules filed with the Commissioner, as required by Section 27-9-7 Rate Schedules, of the General Laws of Rhode Island.

The examiners noted that one (1) policy application did not indicate the distance of the insured's dwelling to a fire hydrant and the distance of the insured's dwelling to a fire station. This information is required in order to determine the appropriate protection class used in calculating the homeowners policy premium. In addition to not determining the appropriate distance, the Company arbitrarily assigned protection class nine (9) to the policy. Therefore, the examiner was not able to determine whether the correct protection class was applied in rating the policy.

It is recommended that the Company institute procedures requiring all questions on the application for insurance which impact the policy premium, to be answered in full before the policy is rated. This would ensure that the premium charge reflects the actual exposure, thus avoiding any misclassification of a risk.

In one (1) policy file tested, the Company did not reflect the non smoker credit in rating the policy, even though the insured had signed the non smoker statement on the policy application, which is not in compliance with the Company's Homeowners New Business Underwriting Guidelines. The guidelines provide that a five percent (5%) reduction in the total homeowner premium shall be given when the homeowner policy is endorsed with HO-110, stating that no resident of the insured's premises smokes or has smoked within the past twelve (12) months. In this one instance, the Company is not in compliance with its manual of classification rule filed

with the commissioner, as required by Section 27-9-7 Rate Schedules, of the General Laws of Rhode Island.

The Company provided the examiners with evidence after the error was brought to their attention during the examination, that the policy was endorsed with the five percent (5%) non smoker credit from policy inception. Therefore, no further recommendation is required.

In one (1) policy file tested, the insured requested that the silverware limit of insurance be increased from the basic limit of liability of \$2,500 up to \$8,000. However, the Company increased the insured's silverware limit by \$8,000, thereby exceeding the Company's \$10,000 maximum limit of liability for loss by theft of silverware by \$500.

In this one case, the Company is not in compliance with their Homeowners New Business Underwriting Guidelines - Increased Special Limits of Liability - Standard and Preferred Programs, which states the special limit of liability of \$2,500 for loss by theft of silverware, etc. may be increased to a maximum of \$10,000. In addition, the Company is not in compliance with their manual of classification rules filed with the Commissioner as required by Section 27-9-7 Rate Schedules, of the General Laws of Rhode Island

It is recommended that the Company review their homeowners new business underwriting guidelines with respect to increased special limits of liability for silverware, etc. and implement procedures to ensure compliance with their manual of classification rule filed with the Commissioner.

In one (1) file tested, the Company did not reflect the operations identification credit although the policy application included a signed statement by the insured to provide for such endorsement. This credit is a 5% reduction in the total homeowners premium when the policy warrants that

a). At least ten (10) valued items of personal property will be marked with an "Operation ID"

marker or engraver; and b). "Operation ID" decals will be displayed on all outside entrances of the insured's home and garage.

Therefore, in this one instance, the Company is not in compliance with their manual of classification rules filed with the commissioner, as required by Section 27-9-7 Rate Schedules, of the General Laws of Rhode Island.

In one (1) policy file tested, the Company did not show the premium amount for earthquake coverage separately on the declarations page of the policy, as required by Section 27-5-3.5 Earthquake Coverage, of the General Laws of Rhode Island. An inquiry regarding this issue was made, and at that time it was determined that the premium was not listed separately for any of the one hundred and ninety-one (191) package policies written in Rhode Island which contained earthquake coverage. The Company was informed that they are required to separately list the premium for earthquake coverage on the declarations page of each policy which contains earthquake coverage.

The Company indicated that they will comply with Section 27-5-3.5 Earthquake Coverage, of the General Laws of Rhode Island by adding the earthquake premium to the Declarations Page of each of their policies containing earthquake coverage at the next renewal rather than issuing an endorsement. The Company felt that an endorsement may serve to confuse some of their insureds, and that it would be best to wait until renewal.

Since the Company has already taken steps to make the appropriate corrections in this area, no recommendation is required.

Personal Automobile

A review of the Personal Automobile Underwriting and Rating for the period under examination was performed to determine whether the Company was: utilizing properly licensed producers to market and sell property and casualty business operating within the scope of their authority, and in compliance with Section 27-2-17 Reciprocal Fees; Nonresident Insurance Producers, Section 27-7-2.1 Uninsured Motorist Coverage, Section 27-7-2.5 Medical Payments Coverage, Section 27-9 Casualty Insurance Rating, Section 27-29-14 Installment Payment Option, and Section 27-44-5 Rate Standards of the General Laws of Rhode Island; in addition to Rhode Island Insurance Regulation III Automobile Liability Insurance Filing Certificate of Financial Responsibility, Regulation XXII Reference Filing, Regulation XXV Automobile Insurance Merit Rating Plan, Regulation XLV Anti-Theft Device, Regulation LIII Automobile Insurance Minimum Liability Coverage Limits and Regulation LXXXIV Automobile Insurance Premium Reduction for Anti-Theft Devices.

From a population of two thousand six hundred and sixty-four (2,664) policies, one hundred and twenty-one (121) files were selected for testing.

As a result of the test work performed, two (2) exceptions were noted and are summarized as follows:

In one (1) file tested, the Company received and processed a personal automobile application although the application was not signed by the producer of record. This practice is in violation of the Company's Personal Automobile Manual Rule, which requires that every personal automobile application must be signed by the producer of record. In addition, the signature of the producer of record is necessary in order to document that the Company accepted business from a duly licensed producer as required by Section 27-2-17 Reciprocal Fees; Nonresident Insurance Producers, of the General Laws of Rhode Island.

It is recommended that the Company take the necessary steps to ensure that all personal automobile applications received by the Company contain the signature of the producer of record.

In one (1) file tested, the Company applied the incorrect primary classification to the risk, resulting in a higher premium charge, which is in violation of Section 27-44-5(f)(3) Rate Standards, of the General Laws of Rhode Island, which states that "a misclassification of a risk shall be considered an adjustment without adequate justification."

Once notified of the error, the Company issued an endorsement correcting the misclassification, and has furnished evidence that the proper credit has been applied to the insured's account to correct the overcharge. Therefore no further recommendation is required.

CANCELLATIONS AND NONRENEWALS

Homeowners Cancellations and Nonrenewals

The Company's Homeowners Policy Cancellation and Nonrenewal Practices for the period under examination were reviewed. The review was conducted to determine whether the Company was in compliance with Section 27-5 Fire Insurance Policies and Reserves, Section 3.4 Notice of Cancellation or Nonrenewal of the General Laws of Rhode Island. The examination is also conducted to assess the Company's compliance with the cancellation and nonrenewal provisions of its homeowner policy contracts.

From the population of eight hundred and ninety-eight (898) company initiated homeowner cancellations and nonrenewals (five hundred and seventy-three (573) were cancellations and three hundred and twenty-five (325) were nonrenewals), a sample of ninety (90) cancellations

and nonrenewals (ten percent of the population) was selected for review (fifty-seven (57) were cancellations and thirty-three (33) were nonrenewals).

As a result of the test work performed, the examiners noted that the Company failed to notify the two (2) listed mortgagees of their intent to nonrenew in one (1) policy file, which is in violation of Section 27-5-3.4 Notice of Cancellation or Nonrenewal, which states that if a policy is made payable to a mortgagee, notice shall be given to the payee as well as to the named insured.

It is recommended that the Company institute control procedures to ensure that any and all mortgagees are notified of all nonrenewals as applicable.

Personal Automobile Cancellations

The Company's Personal Automobile Policy Cancellation Practices for the period under examination were reviewed. The review was conducted to determine whether the Company was in compliance with Section 31-47-4 Notice of Termination or Cancellation of the General Laws of Rhode Island, and Rhode Island Insurance Regulation XVI Auto Insurance Policies Cancellation and Renewal Provisions.

From the population of four hundred and seventy-eight (478) company initiated personal automobile cancellations, a sample of forty-eight (48) cancellations (ten percent of the population) was selected for review.

All of the personal automobile policy cancellations examined during this review demonstrated that the Company's automobile policy cancellation practices were in compliance with their automobile policy contract and all applicable Rhode Island General Laws.

Personal Automobile Nonrenewals

A review of the Company's Personal Automobile Nonrenewals for the period under examination was performed to determine whether the Company was in compliance with the applicable provisions of its personal automobile policy, Section 31-47 Notice of Termination or Cancellation, of the General Laws of Rhode Island and Rhode Island Insurance Regulation XVI Automobile Insurance Policies; Cancellation and Renewal Provisions, Section 4 Notice of Nonrenewal.

For the period under examination, the examiners tested a total of thirty (30) personal automobile nonrenewed policy files (ten percent (10%) of the population) out of a population of two hundred and ninety-eight (298).

As a result of the test work performed, two (2) exceptions were noted. The first exception resulted because the Company did not notify the loss payees of the nonrenewal by certificate of mailing (or certified mail) as required by Section 31-47-4 Notice of Nonrenewal of the General Laws of Rhode Island.

The second exception was due to the Company's noncompliance with Rhode Island Insurance Regulation XVI, Section 4(B), which states that no insurance company shall fail to renew a private passenger automobile policy because of loss occurrence only, unless a chargeable loss occurrence or more than two non-chargeable loss occurrences, involving the insured, have taken place within the annual policy year. The violation occurred because the Company nonrenewed a personal automobile policy for two (2) chargeable losses, both of which had occurred outside of the policy period.

It is recommended that the Company institute procedures to ensure that all notices of nonrenewal are forwarded to the loss payee as prescribed by Rhode Island General Law 31-47, Section 4 Notice of Nonrenewal.

It is also recommended that the Company review their nonrenewal procedures to ensure that all Rhode Island nonrenewals processed are in compliance with Rhode Island Insurance Regulation XVI Automobile Insurance Policies; Cancellation and Renewal Provisions.

CLAIM PRACTICES

Homeowners

A review of the Homeowners Paid Claims and Closed Without Payment Claims was performed to determine whether during the period under examination, the Company has: complied with all applicable provisions of its homeowners policies, not misrepresented policyholder's rights, acknowledged pertinent communications regarding claims, made prompt investigations of claims, used properly licensed claim adjusters, and has made fair and equitable settlement of claims in compliance with Section 27-5-3 Standard Provisions, Section 27-9 1-4 Prohibited Practices, Section 27-10-1 Insurance Claim Adjusters, Section 27-10-6 Examinations, and Section 27-10-8 Temporary Licenses, of the General Laws of Rhode Island, and Rhode Island Insurance Regulations XXVIII Fair Insurance Claims Settlement Practices (superseded 2/14/94 by Regulation LXXIII Unfair Property/Casualty Claims Settlement Practices.

The company processed a total of two thousand and ninety-one (2,091) Rhode Island homeowner claims, including one thousand seven hundred and seven (1,707) Paid Homeowner Claims and three hundred and eighty-four (384) Homeowner Claims Closed Without Payment. A sample of one hundred and twenty (120) claims was selected for review. The sample consisted of one hundred and one (101) Paid Homeowner Claims, and nineteen (19) Homeowner Closed Without Payment Claims.

The results of this review indicate that five (5) paid homeowner claim files did not provide detailed information explaining how the depreciation deduction was derived, and one (1) claim file did not provide detailed information to explain whether the useful life was discussed between the adjuster handling the loss and the vendor who sold the item, in an effort to develop a reasonable cash value figure that would include depreciation. All six (6) of these files are in violation of Rhode Island Insurance Regulation LXXIII §8f, which states that "when the amount claimed is reduced because of betterment or depreciation, all information for such reduction shall be contained in the claim file. Such deductions shall be itemized and specified as to dollar amount."

It was also noted during the review, that one (1) homeowner paid claim file did not provide detailed information to explain the methodology utilized to resolve the claim. The file also lacked documentation indicating when the insured was notified by the company, when information was obtained by the Company to determine the extent of the damages and to allow for payment of the loss, which is in violation of Rhode Island Regulation LXXIII, Section 4 File and Record Documentation (effective 2/14/94), which states detailed documentation shall be contained in each claim file in order to permit reconstruction of the insurer's activities relative to each claim.

In addition, the Company was not able to locate one (1) homeowner paid claim file for the examiners. The Company recreated the claim file using information retained by the company, however, the recreated claim file did not provide enough detailed information for the examiner to establish the date on which the company obtained information sufficient to determine and pay the loss. Therefore, the Company is in violation of Rhode Island Insurance Regulation LXXIII Unfair Property/Casualty Claims Settlement Practices, Section 4 File and Record Documentation, which states that the insurer shall maintain claim data that is accessible and

retrievable for examination, and that detailed documentation shall be contained in each claim file in order to permit reconstruction of the insurer's activities relative to each claim.

Regarding the eight (8) exceptions noted for this area of examination, it is recommended that the Company institute control procedures to ensure that proper documentation is maintained to properly document each claim, and that all claim files are retrievable as necessary to comply with Rhode Island Insurance Regulation LXXIII.

Personal Automobile

The review of the Company's Personal Automobile Paid Claims and Claims Closed Without Payment for the period under examination was performed to determine: whether the Company has complied with the applicable provisions of its personal automobile policies, has not misrepresented policyholders' rights, has acknowledged pertinent communications regarding claims; has made prompt investigations of claims, and has provided fair and equitable settlement of claims in compliance with Section 27-9.1-4 Prohibited Practices, Section 27-10-1 Insurance Claim Adjusters, Section 27-10-6 Examinations, and Section 27-10-8 Temporary Licenses, of the General Laws of Rhode Island, and Rhode Island Insurance Regulations XXVIII Fair Insurance Claims Settlement Practices (superseded 2/14/94 by Regulation LXXIII Unfair Property/Casualty Claims Settlement Practices.

For the period under examination, the examiners tested a total of one hundred and twenty three (123) personal automobile claim files out of a population of three thousand one hundred and seventy-eight (3,178). Ninety-seven (97) of the files reviewed were for claims that were closed with payment and twenty-six (26) were for claims closed without payment.

As a result of the test work performed, the examiners noted one (1) exception. The exception occurred when the Company collected a casualty loss through subrogation from a third party, but

did not reimburse the insured for the insured's deductible, less the prorated share of the subrogation expenses.

Therefore, in this one instance, the Company is in violation of Section 27-8-12 of the General Laws of Rhode Island, Subrogation, which states that whenever, through subrogation, an insurance company or its agent collects a casualty loss from a third party, the company or agent shall, from the funds collected, first pay to the insured the deductible portion of the casualty loss less the prorated share of subrogation expenses and only thereafter retain any funds in excess of the deductible portion of the recovery.

The Company was informed of this violation and provided documentation of the corrective action taken, which included a copy of the check and letter sent to the insured affected by this error. Therefore, no recommendation is necessary.

SUMMARY OF RECOMMENDATIONS

Page 10

It is recommended that the Company review their insurance to value guidelines and implement written procedures to ensure compliance with their manual of classification rules filed with the Commissioner, as required by Section 27-9-7 Rate Schedules, of the General Laws of Rhode Island.

It is recommended that the Company institute procedures requiring all questions on the application for insurance which impact the policy premium, to be answered in full before the policy is rated. This would ensure that the premium charge reflects the actual exposure, thus avoiding any misclassification of a risk.

Page 11

It is recommended that the Company review their homeowners new business underwriting guidelines with respect to increased special limits of liability for silverware, etc. and implement procedures to ensure compliance with their manual of classification rule filed with the Commissioner.

Page 14

It is recommended that the Company take the necessary steps to ensure that all personal automobile applications received by the Company contain the signature of the producer of record.

SUMMARY OF RECOMMENDATIONS (continued)

Page 15

It is recommended that the Company institute control procedures to ensure that any and all mortgagees are notified of all nonrenewals as applicable.

Page 17

It is recommended that the Company institute procedures to ensure that all notices of nonrenewal are forwarded to the loss payee as prescribed by Rhode Island General Law 31-47, Section 4 Notice of Nonrenewal.

It is also recommended that the Company review their nonrenewal procedures to ensure that all Rhode Island nonrenewals processed are in compliance with Rhode Island Insurance Regulation XVI Automobile Insurance Policies; Cancellation and Renewal Provisions.

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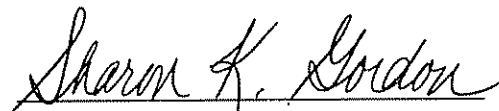
Regarding the eight (8) exceptions noted for this area of examination, it is recommended that the Company institute control procedures to ensure that proper documentation is maintained to properly document each claim, and that all claim files are retrievable as necessary to comply with Rhode Island Insurance Regulation LXXIII.

CONCLUSION

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

Rhode Island Insurance Division examiners assisting the undersigned in the conduct of this examination were Deborah A. Bradford, Market Conduct Examiner, Ronald R. Radtke, Senior Market Conduct Examiner, Robert G. Arrow, FLMI, AIE, Senior Market Conduct Examiner, and John P. Carr, CPCU, AIE, Principal Market Conduct Examiner.

Respectfully submitted,

A handwritten signature in cursive script that reads "Sharon K. Gordon". The signature is written in black ink and is positioned above the printed name and title.

Sharon K. Gordon, CPA, AFE

Insurance Examiner-In-Charge

State of Rhode Island