

STATE OF RHODE ISLAND  
DEPARTMENT OF BUSINESS REGULATION  
INSURANCE DIVISION

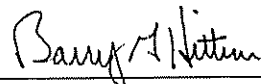
The attached Report of Examination as of June 30, 1996, of the market conduct condition and affairs of Progressive Northern Insurance Company and Progressive Northwestern Insurance Company was recently completed by duly qualified examiners, pursuant to the provision of the Rhode Island Insurance Code.

Due consideration has been given to the comments of the examiners regarding the operations of Progressive Northern Insurance Company and Progressive Northwestern 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.

REGULATION

DEPARTMENT OF BUSINESS



\_\_\_\_\_  
Barry G. Hittner  
Director/Insurance Commissioner

ORDER NO. 97-0102

DATED: November 25, 1997

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DEPARTMENT OF BUSINESS REGULATION  
DIVISION OF INSURANCE  
233 RICHMOND STREET  
PROVIDENCE, RHODE ISLAND 02903-4233**

**CONSENT ORDER**

**IN RE:**

Progressive Northern Insurance Company and Progressive Northwestern Insurance Company

It is hereby stipulated and agreed by and between Barry G. Hittner, Director ("Director") of the Rhode Island Department of Business Regulation ("Department"), and Progressive Northern Insurance Company and Progressive Northwestern Insurance Company ("Progressive") as follows:

**WHEREAS**, Barry G. Hittner as the Director of the Department is charged with administering and enforcing all laws in relation to insurance and insurance companies conducting business in the State of Rhode Island; and

**WHEREAS**, Progressive has been granted certificates of authority ("Certificates of Authority") by the Department to transact the business of insurance in the State of Rhode Island; and

**WHEREAS**, Progressive is subject to the jurisdiction of the Department by virtue of its Certificates of Authority to conduct insurance in the State of Rhode Island; and

**WHEREAS**, the Director conducted a market conduct examination of Progressive for the period January 1, 1994, through June 30, 1996, in accordance with Section 27-13.1-3 of the General Laws of Rhode Island; and

**WHEREAS**, the report on market conduct examination of Progressive has revealed that:

1) Progressive's consumer complaints register did not contain nine (9) of the one hundred and five (105) consumer complaints that had been formally registered with the Department during the period under examination, and did not contain any of the complaints that were registered by the consumer directly with Progressive, in violation of Section 27-29-3 of the General Laws of Rhode Island;

2) Upon a review of policy forms and filings, Progressive did not timely amend its pay plan filings to the Department to include the ten-pay plan required by Section 27-29-14 of the General Laws of Rhode Island. Progressive's application for auto insurance had not been filed with or approved by the Department as required, did not provide insureds with the option of selecting the state mandated ten-pay plan required by Section 27-29-14 of the General Laws of Rhode Island, and Progressive did not begin offering the state mandated ten-pay plan until January 3, 1995, although this law was enacted effective June 27, 1994. Progressive continued to offer a ten-pay plan with installment charges of \$63.00 annually;

3) Fifty-nine (59) of the one hundred and thirty (130) policy files reviewed which did not contain coverage for medical payments, also did not contain evidence that the insured had rejected medical payments coverage as is required by Section 27-7-2.5 of the General Laws of Rhode Island;

4) Ten (10) of the one hundred and thirty (130) policy files reviewed had been assessed a \$20.00 filing fee for a Financial Responsibility Form (SR-22) which was required to be filed with the Department of Motor Vehicles. The \$20.00 filing fee had not been filed with or approved by the Department, in violation of Section 27-9-7 of the General Laws of Rhode Island although the fee was approved in previous and subsequent filings;

5) Four (4) personal automobile policies out of the forty-two (42) canceled policies reviewed indicate that the policies were canceled for reasons other than those allowed by Rhode Island Insurance Regulation XVI;

6) Five (5) of the one hundred and ten (110) nonrenewals selected for review could not be located by Progressive. Six (6) of the remaining one hundred and five (105) nonrenewals were found to have been nonrenewed without providing the thirty (30) days' notice required by Rhode Island Insurance Regulation XVI;

7) A review of one hundred and twenty (120) physical damage claims indicated that Progressive had applied an incorrect deductible to one (1) claim, in violation of Rhode Island Insurance Regulation LXXIII, and Progressive did not contact the National Insurance Crime Bureau as required for one (1) claim, in violation of Section 27-8-14 of the General Laws of Rhode Island;

8) A review of the reinspections of collision damage claims for the period under examination indicated that Progressive did not reinspect a minimum of ten-percent (10%) of these claims as required by Rhode Island Insurance Regulation LXXVI;

**WHEREAS**, while not admitting any violation of law or regulation, Progressive hereby agrees to take action towards assuring compliance with the statutes and regulations of the State of Rhode Island, and agrees to maintain those corrective actions at all times; and

**WHEREAS**, Progressive does hereby voluntarily and knowingly waive any and all of its rights to certain procedural requirements, including notice and opportunity for a hearing, which may have otherwise applied to the above referenced market conduct examination; and

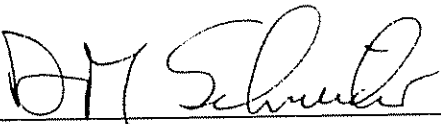
**WHEREAS**, Progressive, after being advised by legal counsel, agrees to the **ORDER OF DIRECTOR** set forth below and as a result of the market conduct examination further agrees voluntarily and knowingly to surrender and forfeit the sum of one hundred and fifty thousand dollars (\$150,000.).

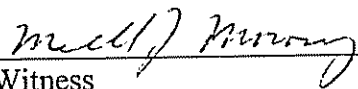
**NOW THEREFORE**, in lieu of the institution by the Director of other sanctions, Progressive does hereby voluntarily and knowingly waive all rights to any hearing in the aforementioned matter, consents to the **ORDER OF THE DIRECTOR** set forth below and forfeits the sum of one hundred and fifty thousand dollars (\$150,000) to the Department.

**CONSENT AS TO FORM AND SUBSTANCE**


I hereby consent to the form and substance of this Consent Order and certify that I have authority to do so on behalf of Progressive.

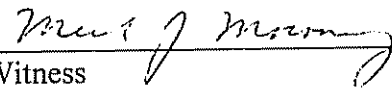
Progressive Northern Insurance Company  
Company

  
\_\_\_\_\_  
David M. Schneider, Secretary

  
\_\_\_\_\_  
Witness  
Michael J. MORAVETZ

Progressive Northwestern Insurance

  
\_\_\_\_\_  
David M. Schneider, Secretary

  
\_\_\_\_\_  
Witness  
Michael J. MORAVETZ

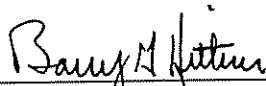
**ORDER OF DIRECTOR**  
**DEPARTMENT OF BUSINESS REGULATION**  
**INSURANCE DIVISION**

Pursuant to authority vested in me by the General Laws of the State of Rhode Island, I do hereby **ORDER** Progressive to implement procedures to place Progressive Northern Insurance Company and Progressive Northwestern Insurance Company in full compliance with those statutes and regulations found to have been violated by Progressive as stated in the above **CONSENT ORDER**.

Furthermore, I accept and agree to the **CONSENT ORDER** and accept the voluntary forfeiture of one hundred and fifty thousand dollars (\$150,000.) as a sufficient means to ensure the compliance by such parties with the statutes and regulations of the State of Rhode Island.

**IT IS SO ORDERED**

**IN WITNESS WHEREOF**, I have hereunto set my hand in Providence, Rhode Island, this 18<sup>th</sup> day of November 1997.

  
\_\_\_\_\_  
**Barry G. Hittner, Director**  
**Department of Business Regulation**  
**State of Rhode Island**

97-0100  
**Order Number**

**REPORT ON**

**MARKET CONDUCT EXAMINATION**

**OF**

**PROGRESSIVE NORTHERN INSURANCE COMPANY  
(NAIC COMPANY CODE 38628)**

**AND**

**PROGRESSIVE NORTHWESTERN INSURANCE COMPANY  
(NAIC COMPANY CODE 42919)**

**6300 Wilson Mills Road  
Mayfield Village, Ohio 44143-2182**

**NAIC GROUP CODE 155**

**AS OF**

**SEPTEMBER 30, 1995**

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

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PROVIDENCE, RHODE ISLAND

April 23, 1997

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 Rhode Island business of:

**Progressive Northern Insurance Company**  
**and**  
**Progressive Northwestern Insurance Company**

6300 Wilson Mills Road  
Mayfield Village, Ohio 44143-2182

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

All areas of the examination, with the exception of claims, were performed at the Companies' northeast business office, which is located at 6055 Parkland Boulevard, Mayfield Heights, Ohio. The examination of claims was conducted at the Companies' claim office at 501 Wampanoag Trail, Suite 201, East Providence, Rhode Island.

Areas examined include: Certificates of Authority, Consumer or Other Related Complaints, Policy Forms, Filings and Approvals, Underwriting and Rating, Cancellations, Nonrenewals, and Claims. The line of business examined was personal automobile, which represents over ninety-nine percent (99%) of the Companies' Rhode Island direct premiums written.

The primary purpose of the examination was to evaluate the Companies' compliance with Rhode Island Insurance Laws and Regulations. The examination was also performed to determine whether Rhode Island policyholders and claimants were treated equitably and fairly during the period under examination. The test work performed during the examination satisfied these purposes, and forms the basis for the findings and recommendations presented in this report.

## COMPANY OVERVIEW

### **History**

#### **Progressive Northern Insurance Company**

Progressive Northern Insurance Company, "Progressive Northern" was incorporated on August 19, 1980, under the laws of Wisconsin, and began its operations on March 8, 1981.

Progressive Northern is owned by The Progressive Corporation, which is a publicly traded holding Company.

#### **Progressive Northwestern Insurance Company**

Progressive Northwestern Insurance Company, "Progressive Northwestern" was incorporated on September 24, 1982, under the laws of Washington, and began its operations on September 26, 1983. Progressive Northwestern is also wholly owned by The Progressive Corporation.

### **Company Operations**

#### **Progressive Northern Insurance Company**

Progressive Northern is licensed in Rhode Island to write automobile, property liability, general liability, inland marine, and commercial auto insurance. This Company is also licensed in the District of Columbia, and all states except: Alaska, Arizona, California, Delaware, Florida, Hawaii, Illinois, Maine, Massachusetts, Michigan, Missouri, New Jersey, New York, North Dakota, Pennsylvania, Tennessee, Texas and Wyoming.

## **Progressive Northwestern Insurance Company**

Progressive Northwestern is licensed in Rhode Island to write auto liability, auto physical damage, and other liability insurance. This Company is also licensed in the District of Columbia, and all states except: Alaska, Florida, Hawaii, Illinois, Massachusetts, Michigan, New Hampshire, New York, North Carolina, North Dakota, Pennsylvania, Vermont, Wisconsin, and Wyoming.

### **1995 RHODE ISLAND DIRECT PREMIUMS WRITTEN**

#### **PROGRESSIVE NORTHERN INSURANCE COMPANY**

<b>Line of Business</b>	<b>Rhode Island Premiums Written</b>
Inland Marine	\$ 70,323
Other Liability	27,865
Other Private Passenger Auto Liability	20,661,260
Private Passenger Auto Physical Damage	4,343,347
<b>Total Rhode Island Direct Premiums Written</b>	<b>\$ 25,102,795</b>

**PROGRESSIVE NORTHWESTERN INSURANCE COMPANY**

<b>Line of Business</b>	<b>Rhode Island Premiums Written</b>
Other Private Passenger Auto Liability	\$ 31,518,574
Private Passenger Auto Physical Damage	7,220,928
<b>Total Rhode Island Direct Premiums Written</b>	<b>\$ 38,739,502</b>

**MANAGEMENT**

The Companies were managed by the following individuals at December 31, 1995:

**Progressive Northern Insurance Company**

Charles B. Chokel	President and Treasurer
David M. Schneider	Secretary
Kathleen M. Cerny	Assistant Secretary
Janet A. Dolohanty	Assistant Treasurer

**Progressive Northwestern Insurance Company**

Alan R. Bauer	President
Charles B. Chokel	Treasurer
David M. Schneider	Secretary
Kathleen M. Cerny	Assistant Secretary
Janet A. Dolohanty	Assistant Treasurer

## **CERTIFICATES OF AUTHORITY**

The Companies' Rhode Island Certificates of Authority were reviewed in order to determine the lines of business that the Companies have been authorized to write in Rhode Island. They were also reviewed to determine whether during the period under examination, the Companies' writings were in accordance with their certificates of authority, and in compliance with Section 27-2-11 of the General Laws of Rhode Island.

The review indicated that the operations of the Companies during the examination period were in compliance with their respective Certificates of Authority.

## **CONSUMER OR OTHER RELATED COMPLAINTS**

A review of the Consumer or Other Related Complaints register for the period under examination was performed to determine whether actions taken by the Companies were in compliance with Section 27-29-3 and other applicable Rhode Island General Laws and Regulations, the Companies' written complaint handling procedures, and any applicable policy contract provisions. The examination of this area was also conducted to determine whether complaints were processed and resolved in a timely manner, and if any patterns existed in the types of complaints generated by the Companies' operations.

The Companies reported a total of ninety-six (96) complaints related to Rhode Island business written during the period under examination. According to their records, all ninety-six (96) complaints were first directed to the Rhode Island Insurance Division by the complainant. An additional nine (9) complaints involving the Companies that were registered with the Rhode Island Insurance Division, were not included by the Companies in their complaint register. Six (6) of the nine (9) complaints were located by the Companies once they were informed of the

complaints, all of which should have been listed on the complaint register in order to comply with Section 27-29-3 of the General Laws of Rhode Island.

A review of twenty (20) complaints received by the Rhode Island Insurance Division was performed to assess whether or not a pattern existed in the types of complaints being made against the Companies. Since this review did not indicate that a pattern existed, and since all of these complaints had previously been handled by the Insurance Division, a cursory review of the remaining complaint files from the Insurance Division was performed, which indicated that many of the complaints were not valid, but were due to a lack of knowledge of Rhode Island General Law or the applicable insurance policy contract, on the part of the insured or claimant.

A review of the complaints received directly by the Companies could not be performed, since the Companies have not kept a complete complaint register as required by Section 27-29-4 (13) of the General Laws of Rhode Island. In addition to causing the examination of this area to be limited in scope to complaints already processed by the Rhode Island Insurance Division, this practice is in violation of Section 27-29-3 of the General Laws of Rhode Island, and is defined by this section as an unfair and deceptive act.

It is recommended that the Companies institute control procedures to ensure compliance with Section 27-29-3 of the General Laws of Rhode Island. This action should include ensuring that a complete record of all complaints received is maintained by the Companies for all complaints as required by Section 27-29-4(13) of the General Laws of Rhode Island.

## POLICY FORMS, FILINGS AND APPROVALS

### **Progressive Northern and Progressive Northwestern Ten-Pay Premium Installment Plan**

During the examination of underwriting and rate application, it was noted that the Companies were in violation with Section 27-29-14 of the General Laws of Rhode Island, which requires the insurer to provide all policyholders on twelve (12) month policies, "the option of paying any policy premiums in installment payments provided that the insurance may require a payment of fifteen percent (15%) of the annual premium at time of issuance with the balance to be paid in nine (9) subsequent equal monthly installments thereafter. The insurer may levy a service charge of up to three dollars (\$3.00) per installment period against those policyholders who choose this option" (prior to December 31, 1994, the installment payment maximum was \$2.00).

The reasons that the Companies were in violation of Section 27-29-14 of the General Laws of Rhode Island are as follows: 1) the Companies did not amend their pay plan filings to include the state mandated ten-pay plan, although they are using the plan in some cases; 2) the Companies' applications for auto insurance have not been filed or approved by the Rhode Island Insurance Division, and did not provide the insured with the option to select the state mandated ten-pay plan; 3) the Companies did not immediately begin offering the state mandated ten-pay plan at the inception date of Section 27-29-14; and 4) the Companies were offering their own ten-pay plan with installment charges of \$7.00, which offers no benefits or convenience to the insured for the extra \$36.00 in fees annually (\$63.00 versus \$27.00).

In order to determine how many policies during the period under examination were processed using the Company's ten-pay premium installment plan, a listing of all policies with this pay plan was requested from the Companies. The listing contained 1,848 policies.

An estimate of overcharges for installment premiums was calculated using the assumption that it costs only \$27.00 per year for the state mandated ten-pay plan, but it costs \$63.00 per year for the Companies' ten-pay plan. If 1,848 policies were overcharged by \$36.00 each (\$63.00 less the state mandated \$27.00), the Companies overcharged their policyholders by at least \$66,528. Section 27-29-14 of the General Laws of Rhode Island was amended effective 1/1/95, therefore, any installment payment fees for policies written from July 1, 1994 to December 31, 1994, were set at a maximum of two dollars (\$2.00). The calculation of overcharges does not factor in the additional \$9.00 in overcharges which were billed to all policies written in 1994 (\$27.00 versus \$18.00 for prior to 1995).

All 1,848 policies that were billed for installment fees in excess of the maximums allowed by Rhode Island Law were billed in violation of Section 27-29-14 of the General Laws of Rhode Island. Any insured with a twelve month policy who was informed of the state mandated ten-pay plan would have selected this plan because it is the most advantageous to the insured. An insured would not select a pay plan that costs more without any associated benefit to the insured, unless the insured was not made aware of the cost of the options available.

The Companies stated that they have discontinued offering twelve month policies during 1995, which means that they are no longer required to offer the state mandated ten-pay plan, which only applies to twelve month policies.

If the Companies decide to offer twelve month policies in the future, it is recommended that they file amended pay plan filings to include the state mandated ten-pay plan. It is also recommended that the Companies file amended auto insurance applications and obtain the appropriate approvals of their applications from the Rhode Island Insurance Division.

It is also recommended that the Companies refund all overcharges stemming from noncompliance with Section 27-29-14 of the General Laws of Rhode Island to their insureds.



The overcharges should be calculated using a maximum charge of \$2.00 per installment for policies written from July 1, 1994 through December 31, 1994, and a maximum charge of \$3.00 per installment for policies written from January 1, 1995 through December 31, 1995.

One (1) of the Progressive Northwestern policies tested (in the underwriting and rating area) was issued using a ten-pay premium plan which was not the plan mandated by Section 27-29-14 of the General Laws of Rhode Island. Progressive Northwestern's plan required twenty-five percent (25%) of the premium as a down payment, and the installment payments each required a seven dollar (\$7.00) installment fee.

Progressive Northwestern has responded to this finding by stating that the Rhode Island mandated ten-pay plan is on their "disk", and that the option to select the Rhode Island mandated plan is given to the insured by the agent while the agent is inputting the information into the computer.

Progressive Northwestern discontinued the use of their own ten-pay plan prior to the completion of this examination, and is not currently writing twelve month policies.

It is recommended that Progressive Northwestern fully disclose in writing, the costs associated with each pay plan and the associated benefits, prior to requiring each new insured to select an installment payment plan.

### **PERSONAL AUTOMOBILE UNDERWRITING AND RATING**

An examination of the Companies' Personal Automobile Underwriting and Rating practices was conducted to assess whether, during the period under examination, the Companies have complied with the following Rhode Island General Laws and Rhode Island Insurance Regulations: 27-2-

17, 27-7-2.1, 27-7-2.5, 27-9-1 et. seq., 27-10.1-10, 27-29-14, 27-44-1 et. seq., Regulation III, Regulation X, Regulation XXII, Regulation XXV, Regulation XLV (Superseded 5/28/94 by Regulation LXXXIV), Regulation LIII, Regulation LXXX, Regulation LXXVII, Regulation LXXXIV (Supersedes Regulation XLV Eff. 5/28/94). The examination was also conducted to assess the Companies' compliance with its' own underwriting guidelines and manual.

The Companies provided a listing of 70,362 new business policies written in Rhode Island during the examination period. From the new business population of 70,362 new business policies, a sample of 130 policies was selected for review.

As a result of the work performed, seventy-three (73) exceptions were noted as follows:

Fifty-nine (59) of the 130 policy files reviewed (15 Progressive Northern policies and 44 Progressive Northwestern policies) did not provide medical payments coverage, and did not contain evidence that the insured had rejected medical payments coverage, as is required by Section 27-7-2.5 of the General Laws of Rhode Island.

The Companies acknowledged that they did not have signed rejection forms for Medical Payments Coverage, and agreed to take steps to resolve this deficiency by adopting a rejection form similar to the form they utilize for the selection or rejection of Uninsured Motorists Coverage.

It is recommended that the Companies take the appropriate steps to provide for a form for Medical Payments Coverage, which should be filed with the Rhode Island Insurance Division. Once the form is approved, the Companies should require that it be completed as part of the application process for automobile insurance.

Ten (10) of the policy files reviewed (all Progressive Northwestern) contained a \$20.00 filing fee for filing a Financial Responsibility Form (SR-22) with the Department of Motor Vehicles. At the time, the \$20.00 charge was not filed with or approved by the Rhode Island Insurance Division, and therefore charging such a fee was in violation of Section 27-9-7 Rate Schedules. Rhode Island Law requires insurers to file every manual of classification, rule, rate, rating plan, rating system, and modification of any of the foregoing which the Companies propose to use.

Progressive Northwestern made a filing on January 5, 1995, which included the \$20.00 fee for a Financial Responsibility Filing (SR-22), which was approved for use on April 20, 1995, however, the ten (10) policies noted herein were written prior to the filing.

It is recommended that Progressive Northwestern refund the \$20.00 to each of the ten (10) insureds, and all other insureds who were charged this fee during the period from June 2, 1994, when Progressive Northwestern began writing business, until April 20, 1995, when the approval for this filing fee took effect. The letter accompanying the refund should contain a statement that the reimbursement is the result of a market conduct examination conducted by the Rhode Island Insurance Division.

Two (2) of the policy files selected for review could not be located by Progressive Northwestern.

It is recommended that Progressive Northwestern management institute controls to ensure that all policy files are retrievable as necessary, for examination by the Rhode Island Insurance Division.

One (1) of the Progressive Northern policy files examined did not contain a declaration page and the Company could not provide a copy to verify coverage and policy limits. The declaration page is required to verify that the coverage provided to the insured by Progressive Northern is the coverage that was requested by the insured.

It is recommended that Progressive Northern institute controls as necessary, to ensure that all policy files contain complete documentation, or that complete documentation is available and retrievable as necessary, for examination.

One (1) of the Progressive Northern policy files examined did not contain a sports and high performance vehicle surcharge, although the vehicle insured was on Progressive Northern's listing of vehicles which are considered sports or high performance vehicles. The result of this error was an undercharge to the insured, which is in violation of Section 27-44-5 of the General Laws of Rhode Island, which states that a misclassification of a risk shall be considered an adjustment without adequate justification.

Progressive Northern corrected this rating error once notified, by issuing an endorsement correcting the premium undercharge. Therefore, no further recommendation is considered necessary.

### **PERSONAL AUTOMOBILE CANCELLATIONS**

The companies' personal automobile policy cancellation practices for the period under examination were reviewed. The review was conducted to determine whether the Companies were in compliance with Regulation XVI and Section 31-47-4 of the Rhode Island General Laws. The examination was also conducted to assess the Companies' compliance with the cancellation provisions of its' personal automobile policy contracts.

A listing of all personal automobile policy cancellations initiated by the Companies during the examination period was requested. The Companies provided a listing of forty-two (42) cancellations, and all were reviewed for compliance with the aforementioned Rhode Island Laws and Regulations.

All but four (4) of the personal automobile policy cancellations examined during this review demonstrated that the Companies' automobile policy cancellation practices during the period under examination were in compliance with their automobile policy contract and all applicable Rhode Island General Laws and Regulations. The four (4) policies reviewed (three Progressive Northern and one Progressive Northwestern) were found to have been canceled for reasons other than those allowed under Rhode Island Insurance Regulation XVI.

Progressive Northern canceled three (3) renewal personal automobile policies for reasons other than non-payment of premium, or suspension or revocation or cancellation of the driver's license or motor vehicle registration of the named insured or any other operator who resides in the same household or customarily operates an automobile insured under the policy, which are the only legal reasons for which a company may initiate a cancellation of a renewal automobile policy in Rhode Island in accordance with Regulation XVI.

Progressive Northwestern canceled one (1) new policy which had been in effect for more than sixty (60) days, for a reason other than those allowed by Regulation XVI.

It is recommended that the Companies institute control procedures which would ensure that cancellations of renewal policies, or policies which have been in effect for more than sixty (60) days, are not processed unless the cancellation is for either non-payment of premium, or suspension of driver's license or motor vehicle registration, as specified in Regulation XVI.

### **PERSONAL AUTOMOBILE NONRENEWALS**

A review of the Companies' personal automobile nonrenewals for the period under examination was performed to determine whether the Companies have complied with the applicable

provisions of their automobile policy contracts, Section 31-47-4 of the General Laws of Rhode Island, and Rhode Island Insurance Regulation XVI.

The examiners selected a sample of one hundred and ten (110) nonrenewals from the population of eight hundred and sixty-one (861) personal automobile nonrenewals processed by the Companies during the period under examination.

The Companies could not locate five (5) of the files selected for review, three (3) of which were Progressive Northern nonrenewal files and two (2) of which were Progressive Northwestern nonrenewals). Therefore, the Companies could not document that these nonrenewals were processed in accordance with Section 31-47-4 of the General Laws of Rhode Island or Rhode Island Insurance Regulation XVI.

It is recommended that the Companies institute procedures to ensure that documentation is maintained and is retrievable as necessary, to prove that each Rhode Island nonrenewal processed by the Companies was processed in accordance with the requirements of Section 31-47-4 of the General Laws of Rhode Island and Rhode Island Insurance Regulation XVI.

The remaining one hundred and five (105) files in the sample were examined. The results of this review indicate that Progressive Northern nonrenewed six (6) policies without providing the insured with thirty (30) days' notice as required by Rhode Island Insurance Regulation XVI.

It is recommended that Progressive Northern institute control procedures to ensure that all nonrenewals of Rhode Island personal automobile policies are processed in compliance with Section 31-47-4 of the General Laws of Rhode Island and Rhode Island Insurance Regulation XVI, which requires the insurer, at least thirty (30) days in advance of the end of the policy

period, to mail or deliver to the named insured at the address shown on the policy, notice of its intention not to renew the policy, together with a statement of its reasons therefore.

## **PERSONAL AUTOMOBILE CLAIMS**

### **Physical Damage Claims**

A review of the Companies' personal automobile physical damage claims closed during the period under examination was conducted to determine whether the Companies have complied with applicable provisions of their personal automobile policies, acknowledged pertinent communications regarding claims, and made prompt investigations of claims.

The examination was also conducted to assess whether the Companies have made fair and equitable settlements of claims in compliance with the following Rhode Island General Laws and Insurance Regulations: 27-10-6, 27-10.1-1, 27-8-12, 27-8-14, 27-9.1-4, (Effective 6/22/93) Regulation XXVIII (Superseded Effective 2/14/94 by Regulation LXXIII); Regulation LXXIII (Effective 2/14/94).

During the period under examination the Companies processed a total of 3,826 physical damage claims. From this population, a sample of one hundred and twenty (120) files, sixty-eight (68) paid claims, and fifty-two (52) closed without payment claims, was selected for review.

The review of this area indicated that an incorrect deductible was applied to one (1) claim, which is in violation of Rhode Island Insurance Regulation LXXIII, Section 5, which states in part that no insurer shall fail to fully disclose to first party claimants all pertinent benefits, coverages, or other provisions of a policy under which a claim is presented.

Progressive Northwestern was notified of their failure to properly apply the deductible in this case, and forwarded a check in the proper amount to the claimant. Since the error has already been corrected, no further action is necessary regarding this particular claim.

In addition, the review indicated that Progressive Northern did not notify the National Insurance Crime Bureau of a theft claim, which is in violation of Section 27-8-14 of the General Laws of Rhode Island.

It is recommended that Progressive Northern institute control procedures as necessary to ensure that all vehicle thefts are reported to the National Insurance Crime Bureau as required by Section 27-8-14 of the General Laws of Rhode Island.

### **Reinspection of Collision Damage Claims**

A review of the Companies' reinspection of collision damage claims was performed to evaluate whether or not the Companies performed reinspections in compliance with Section 27-10.1-9 of the General Laws of Rhode Island and Rhode Island Insurance Regulation LXXVI, Reinspection of Collision Damage Claims, which requires that at least ten percent (10%) of all collision damage claims be reinspected after they have been repaired.

A total of seventy-seven (77) reinspections were performed by the Companies, which is below the ten percent (10%) required by Regulation LXXVI. Therefore the Companies are not in compliance with Regulation LXXVI for the period under examination.

It is recommended that the Companies institute control procedures to ensure that sufficient numbers of reinspections are performed to maintain compliance with Regulation LXXVI.



## Property Damage Liability Claims

A review of the Companies' personal automobile property damage liability claims closed during the period under examination was conducted to determine whether the Companies have complied with applicable provisions of their personal automobile policies, not misrepresented policyholders' and claimants' rights, acknowledged pertinent communications regarding claims, made prompt investigations of claims, and utilized properly licensed claim adjusters.

The examination was also conducted to assess whether the Companies have made fair and equitable settlements of claims in compliance with the following Rhode Island General Laws and Insurance Regulations: 27-7-5, 27-10-6, 27-10.1-1, 27-9.1-4 (Effective 6/22/93), Regulation X, Regulation XXVIII (Superseded Effective 2/14/94 by Regulation LXXIII), and Regulation LXXIII (Effective 2/14/94).

During the period under examination, the Companies processed a total of 7,727 property damage liability claims which included 4,630 paid claims and 3,097 closed without payment claims. From a population of 7,727, a sample of 122, seventy-four (74) paid claims and forty-eight (48) closed without payment claims, was selected for review.

Seven (7) of the paid claims reviewed six, (6) Progressive Northern and one (1) Progressive Northwestern, did not contain sufficient information in the claim file to ascertain that the National Insurance Crime Bureau was notified of the salvaged vehicles retained by the claimant or sold by the Companies.

In these seven (7) instances, the Companies are in violation of Section 27-8-14 of the General Laws of Rhode Island, which requires all insurers licensed to do business in Rhode Island to report all salvage declarations to the National Insurance Crime Bureau.

As a result of these findings, the Companies have developed a National Insurance Crime Bureau Salvage Report Form. The Companies have designated an individual in the claims area to act as an NICB Coordinator, responsible for reporting all salvage vehicles to the NICB. The claim offices will retain a copy of the report in the associated claim file. Therefore, no additional recommendation is considered necessary.

In the review of claims closed without payment, three (3) Progressive Northern claims were denied without a notice in the denial letter stating that the claimant had the option to discuss the Company's position on the denial or contact the Rhode Island Insurance Division's complaint section.

In these three (3) instances Progressive Northern is in violation of Rhode Island Insurance Regulation LXXIII, Unfair Property and Casualty Claims Settlement Practices, Section 7H, Standards for Prompt, Fair and Equitable Settlements Applicable To All Insurers, which requires any notice rejecting a claim in whole or in part to 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, Rhode Island 02903. The Rhode Island Insurance Division can be contacted by telephone at (401) 277-2223."

As a result of this finding, the Company has revised their claim handling procedures to ensure compliance with Section 7H of Regulation LXXIII. Therefore, no recommendation regarding this issue is necessary.

## SUMMARY OF RECOMMENDATIONS

### Page 9

It is recommended that the Companies institute control procedures to ensure compliance with Section 27-29-3 of the General Laws of Rhode Island. This action should include ensuring that a complete record of all complaints received is maintained by the Companies for all complaints as required by Section 27-29-4(13) of the General Laws of Rhode Island.

### Page 11

If the Companies decide to offer twelve month policies in the future, it is recommended that they file amended pay plan filings to include the state mandated ten-pay plan. It is also recommended that the Companies file amended auto insurance applications and obtain the appropriate approvals of their applications from the Rhode Island Insurance Division.

It is also recommended that the Companies refund all overcharges stemming from noncompliance with Section 27-29-14 of the General Laws of Rhode Island to their insureds. The overcharges should be calculated using a maximum charge of \$2.00 per installment for policies written from July 1, 1994 through December 31, 1994, and a maximum charge of \$3.00 per installment for policies written from January 1, 1995 through December 31, 1995.

### Page 12

It is recommended that Progressive Northwestern fully disclose in writing, the costs associated with each pay plan and the associated benefits, prior to requiring each new insured to select an installment payment plan.

## SUMMARY OF RECOMMENDATIONS (Continued)

### Page 13

It is recommended that the Companies take the appropriate steps to provide for a form for Medical Payments Coverage, which should be filed with the Rhode Island Insurance Division. Once the form is approved, the Companies should require that it be completed as part of the application process for automobile insurance.

### Page 14

It is recommended that Progressive Northwestern refund the \$20.00 to each of the ten (10) insureds, and all other insureds who were charged this fee during the period from June 2, 1994, when Progressive Northwestern began writing business, until April 20, 1995, when the approval for this filing fee took effect. The letter accompanying the refund should contain a statement that the reimbursement is the result of a market conduct examination conducted by the Rhode Island Insurance Division.

It is recommended that Progressive Northwestern management institute controls to ensure that all policy files are retrievable as necessary for examination by the Rhode Island Insurance Division.

### Page 15

It is recommended that Progressive Northern institute controls as necessary, to ensure that all policy files contain complete documentation, or that complete documentation is available and retrievable as necessary, for examination.

## SUMMARY OF RECOMMENDATIONS (Continued)

### Page 16

It is recommended that the Companies institute control procedures which would ensure that cancellations of renewal policies, or policies which have been in effect for more than sixty (60) days, are not processed unless the cancellation is for either non-payment of premium, or suspension of driver's license or motor vehicle registration, as specified in Regulation XVI.

### Page 17

It is recommended that the Companies institute procedures to ensure that documentation is maintained and is retrievable as necessary, to prove that each Rhode Island nonrenewal processed by the Companies was processed in accordance with the requirements of Rhode Island Insurance Regulation XVI, Section 4 Notice of Nonrenewal.

It is recommended that Progressive Northern institute control procedures to ensure that all nonrenewals of Rhode Island personal automobile policies are processed in compliance with Rhode Island Insurance Regulation XVI, Section 4 Notice of Nonrenewal, which requires the insurer at least thirty (30) days in advance of the end of the policy period, to mail or deliver to the named insured at the address shown on the policy, notice of its intention not to renew the policy, together with a statement of its reasons therefore.

### Page 19

It is recommended that Progressive Northern institute control procedures as necessary to ensure that all vehicle thefts are reported to the NICB as required by Section 27-8-14 of the General Laws of Rhode Island.

**SUMMARY OF RECOMMENDATIONS (Continued)**

**Page 19**

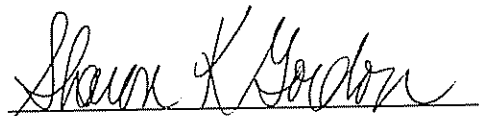
It is recommended that the Companies institute control procedures to ensure that sufficient numbers of reinspections are performed to maintain compliance with Regulation LXXVI.

## 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.

Assisting the undersigned in the conduct of this examination from the Rhode Island Insurance Division 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 Carr, CPCU, AIE, Principal Market Conduct Examiner.

Respectfully submitted,



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Insurance Examiner-In-Charge  
State of Rhode Island