

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

The attached Report of Examination as of December 31, 1996, of the market conduct condition and affairs of:

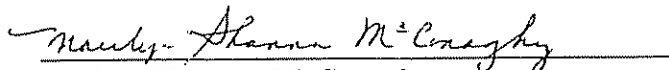
**The Automobile Insurance Company of Hartford, Connecticut  
The Phoenix Insurance Company  
The Standard Fire Insurance Company  
The Travelers Indemnity Company  
The Travelers Indemnity Company of America  
Travelers Property Casualty Insurance Company**

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 the above-mentioned companies 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

  
Marilyn Shannon McConaghy  
Director/Insurance Commissioner

ORDER NO. 02-064

DATED: June 27, 2002

REPORT ON

THE MARKET CONDUCT EXAMINATION

OF

**THE TRAVELERS INSURANCE GROUP**

*as of*

*December 31, 1996*

State of Rhode Island  
Department of Business Regulation  
Insurance Division

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Providence, Rhode Island

February 20, 2002

Honorable Marilyn Shannon McConaghy

Insurance Commissioner

State of Rhode Island

Dear 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 Travelers Insurance Group**

**One Tower Square**

**Hartford, Connecticut**

hereinafter referred to as the "Companies." The Companies are comprised of the following:

- **The Automobile Insurance Company of Hartford, Connecticut**
- **The Phoenix Insurance Company**
- **The Standard Fire Insurance Company**
- **The Travelers Indemnity Company**
- **The Travelers Indemnity Company of America**
- **Travelers Property Casualty Insurance Company\***

\* The former Aetna Insurance Companies which were acquired by Travelers Group

The examination was conducted at the administrative office of the Companies located at City Place Plaza, Hartford, Connecticut.

## **FOREWORD**

The 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 and §27-13.1. The examination covered the period from January 1, 1994 through December 31, 1996 and was conducted in accordance with standards established by the National Association of Insurance Commissioners, as well as procedures developed by the Rhode Island Department of Business Regulation, Insurance Division.

The examination encompassed the review of the following areas: Certificates of Authority, Consumer or Other Related Complaints, Underwriting and Rating, Claim Practices, Cancellation Practices, Nonrenewal Practices, Rhode Island Automobile Insurance Reports and Reinspection of Collision Damage Claims. The lines of business examined were homeowners and personal automobile.

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

## PROFILE OF COMPANIES

### History

Travelers Property Casualty Corporation, formerly Travelers/Aetna Property Casualty Corporation (Corporation) is a property and casualty insurance holding company engaged, through its subsidiaries, principally in two business segments: (1) Commercial Lines, which includes Specialty Accounts; and (2) Personal Lines. The Corporation provides a wide range of commercial and personal property and casualty insurance products and services to businesses, government units, associations, and individuals.

### Operations

The Companies' Rhode Island direct written premiums for the year 1996 were as follows:

Line of Business	The Automobile Insurance Company of Hartford, Ct	The Phoenix Insurance Company	The Standard Fire Insurance Company	The Travelers Indemnity Company	The Travelers Indemnity Company of America	Travelers Property Casualty Insurance Company	Total of all Companies	Percentage of Total
Homeowners Multi-Peril	\$1,491,819	\$1,132,026	\$3,624,116	\$ 685,248	\$ 460,046	\$ 0	\$7,393,255	17.4%
Private Passenger Auto Liability	\$ 0	\$3,510,731	\$ 0	\$2,819,936	\$2,303,052	\$7,038,665	\$15,672,384	36.8%
Private Passenger Auto Physical Damage	\$ 0	\$1,449,737	\$ 0	\$ 656,349	\$1,024,551	\$3,103,014	\$ 6,233,651	14.7%
<b>Total Written Premium for Lines Examined</b>	<b>\$1,491,819</b>	<b>\$6,092,494</b>	<b>\$3,624,116</b>	<b>\$4,161,533</b>	<b>\$3,787,649</b>	<b>\$10,141,679</b>	<b>\$29,299,290</b>	<b>68.9%</b>
Other Miscellaneous Premium Written	\$1,056,922	\$ 318,076	\$2,263,756	\$5,480,985	\$4,125,653	\$ 0	\$13,245,392	31.1%
<b>Total Direct Written Premium</b>	<b>\$2,548,741</b>	<b>\$6,410,570</b>	<b>\$5,887,872</b>	<b>\$9,642,518</b>	<b>\$7,913,302</b>	<b>\$10,141,679</b>	<b>\$42,544,682</b>	<b>100.0%</b>

## Management and Control

The By-Laws state that the property, business, and affairs of the Companies shall be managed by the Board of Directors, which may exercise all the powers of the Corporation, except as may be otherwise provided by law, by the Certificate of Incorporation or the By-Laws.

At December 31, 1996, the members of the Companies' Board of Directors were as follows:

Directors Name	The Automobile Ins Co of Hartford, Ct	The Phoenix Insurance Co	The Standard Fire Insurance Co	The Travelers Indemnity Ins Co	The Travelers Indemnity Co of America	Travelers Property Casualty Ins. Co
Charles J. Clark, Exec. VP	✓	✓	✓	✓	✓	✓
Jay S. Fishman, Vice Chairman & Chief Administrative Officer	✓	✓	✓	✓	✓	✓
Ronal E. Foley, Jr. Exec. VP	✓	✓	✓	✓	✓	✓
William P. Hannon, Exec. VP & Chief Financial Officer	✓	✓	✓	✓	✓	✓
Joseph P. Kiernan, Exec. VP	✓	✓	✓	✓	✓	✓
Robert I. Lipp	✓	✓	✓	✓	✓	✓
Stanton F. Long, Vice Chairman #	✓	✓	✓	✓	✓	✓
James M. Michener, Sr. VP, General Counsel & Corp. Sec.	✓	✓	✓	✓	✓	✓
Robert P. Restrepo, Jr. Exec. VP	✓	✓	✓	✓	✓	✓

✓ = Board Member

# = Elected to Board in 1996



## **CERTIFICATES OF AUTHORITY**

The Companies' Rhode Island Certificates of Authority were reviewed in order to determine whether, during the period under examination, the Companies were in compliance with R. I. Gen. Laws §27-2-11.

The Companies' writings were compared to the lines authorized per their Certificate of Authority. No exceptions were noted.

## **CONSUMER OR OTHER RELATED COMPLAINTS**

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

For the period January 1, 1994 through December 31, 1996, 35 complaints, as defined by R. I. Gen. Laws §27-29-49(13), were received by the Companies. Nine of the complaints were not examined since they involved workers compensation, commercial insurance, or the complaint involved Companies not covered under the writ of examination. Of the remaining 26 complaints which were examined, 17 appeared to be in compliance with the applicable Rhode Island statute (i.e. either the complaint was not valid, or the Companies resolved the complaint). Eight complaints appeared to be valid, but involved disputes that needed to be resolved by litigation or arbitration. One complaint is currently in litigation.

In addition, a review was performed to ascertain whether all the complaints recorded by the Department of Business Regulation, Insurance Division were also recorded on the Companies' complaint register. It was noted that of the 30 complaints that were received by the Insurance

Division and forwarded to the Companies, 29 were either properly recorded on the Companies register or not within the scope of the examination. One of the complaints was forwarded to and administered at the Companies' service center, but was never forwarded to the Companies' central compliance center. Therefore, this complaint was not entered in the Companies' complaint register.

**Recommendation #1:** It is recommended that the Companies forward all complaints to its home office so that complaints are properly entered in the consumer complaint register.

All complaints reviewed during this examination were found to have been processed in compliance with applicable Rhode Island General Laws and Insurance Regulations, and in an equitable manner.

## UNDERWRITING AND RATING

### Homeowners

A review of the Companies' Rhode Island homeowners underwriting and rating practices was performed on new homeowners policies written during the period under examination. This review was conducted to determine whether the new policies were underwritten and rated in accordance with the Companies' formal underwriting and rating guidelines and procedures. The review was also performed to assess the Companies' compliance with R. I. Gen. Laws §27-2.3-3, §27-5-1 et seq., §27-6-1 et seq., §27-7-1, §27-9-7 et seq., §27-44-1 et seq., and Rhode Island Insurance Regulation XXII.

During the period under examination, the Companies issued 3,569 new homeowners policies to Rhode Island residents. From this population, 119 policy files were selected for underwriting and rating review.

During our testing, we noted three files in which the Companies used an incorrect protection class in rating the policies. The errors did not affect the premium charged to the insured. The Companies, therefore, were not in compliance with R. I. Gen. Laws §27-44-5(f)(3), which refers to misclassification of a risk.

**Recommendation #2:** It is recommended that the Companies take appropriate action to ensure that the proper application of all rating factors is used.

During our testing, we noted three policies that were eligible for larger protective device credits than were applied. By not applying the proper discounts, the Companies were in violation with R. I. Gen. Laws §27-44-5(a), which states that rates shall not be excessive, inadequate or unfairly discriminatory.

**Recommendation #3:** It is recommended that the Companies review their rating procedures to ensure that premium rates, including all applicable discounts, are correctly applied. It is also recommended that the Companies correct the previously mentioned errors, and refund the appropriate premium to the insureds for the period during which the errors occurred.

During our testing, we noted four files which were processed by the Companies, that did not provide evidence that the producers were duly licensed by the Rhode Island Insurance Division.

**Recommendation #4:** It is recommended that the Companies review existing procedures applicable to producer licensing, and implement procedures to ensure that all insurance business is obtained through properly licensed producers in the State of Rhode Island, in accordance with R. I. Gen. Laws §27-2.3-3(a).

During our testing, we noted four policies for which the Companies could not locate the application. Consequently, we were unable to verify certain rating factors because of the lack of an application.

**Recommendation #5:** It is recommended that the Companies review their record retention procedures to ensure that applications are retained to support the underwriting and rating of homeowners policies.

During our testing, we noted one file in which the Companies provided additional replacement cost protection, even though this coverage was not requested by the insured. The Companies indicated that the coverage has been continued upon renewals.

**Recommendation #6:** It is recommended that the Companies contact the insured to determine if they would like to keep the policy coverage as presently provided, or remove the additional replacement cost provision and refund any overcharges.

During our testing, we noted one file in which there was a discrepancy between the coverages requested on the application and the coverages provided in the policy.

**Recommendation #7:** It is recommended that the Companies contact the insured to confirm the desired coverages, and if necessary refund any overcharges.

During the review of the Companies' policies used during the period of examination, it was determined that they were not in compliance with R. I. Gen. Laws §27-5-3 for policy years 1995 and 1996. The Companies' homeowner policies state that suits or actions against them must be commenced within 12 months after inception of the loss, whereas the aforementioned statute provides 24 months. Subsequently, the Companies filed Special Provision Endorsements that put them in compliance with the above statute.

It was also determined that the Companies were not in compliance with R. I. Gen. Laws §27-7-1. The Companies' policy provisions do not provide for direct liability of the insurer as required by the statute.

**Recommendation #8:** It is recommended that the Companies amend their policies to comply with the R. I. Gen. Laws §27-7-1.

## Personal Automobile

A review of the Companies' Rhode Island automobile underwriting and rating practices was performed on new automobile policies written by the Companies during the period under examination. This review was conducted to determine whether the new policies were underwritten and rated in accordance with Companies' formal underwriting and rating guidelines and procedures. The review was also performed to assess the Companies' compliance with R. I. Gen. Laws §27-2.3-3(a), §27-7-2.1, §27-7-2.5, §27-8-1, §27-9-1 et seq., §27-10.1-10, §27-29-14, and §27-44-1 et seq. The Companies' adherence to the following Rhode Island Insurance Regulations was also reviewed: Regulation III, X, XXII, XXV, XLV (superseded effective 5/28/94 by Regulation LXXXIV), LIII, LXXVII, and LXXX.

It was noted that the Companies' Personal Auto Policy Part A - Liability Coverage - Insuring agreement reads in part as follows: " We will pay damages for bodily injury or property damage for which any covered person becomes legally responsible because of an auto accident". R. I. Gen. Laws §27-7-1 states as follows: " Every policy written insuring against liability for property damage or personal injuries or both, and every policy written indemnifying any person by reason of that liability, other than the payment of compensation under chapters 29 to 38, inclusive, of title 28, shall contain provisions to the effect that the insurer shall be directly liable to the injured party and, in the event of that party's death, to the party entitled to sue therefor, to pay that party the amount of damages for which the insured is liable". Therefore, the Companies' Part A Liability insuring agreement is in violation of R. I. Gen. Laws §27-7-1.

**Recommendation #9:** It is recommended that the Companies amend the language of their Personal Auto Policy Part A Liability insuring agreement to comply with R. I. Gen. Laws §27-7-1 and file the amended insuring agreement with the Rhode Island Department of Business Regulation, Insurance Division.

During the period under examination, the Companies issued 5,952 new business personal automobile policies to Rhode Island residents. A sample of 121 policy files was selected from this population for underwriting and rate review.

During our testing, we noted that four files did not contain a completed personal automobile application. We were, therefore, unable to verify that these policies were issued in accordance with the terms and conditions requested by the insured.

**Recommendation #10:** It is recommended that the Companies review their record retention procedures to ensure that applications are retained to support the underwriting and rating of personal automobile policies.

During our testing, we noted two policies that did not provide medical payments coverage, however, the respective policy files did not contain completed and signed election/rejection forms. As a result, we were unable to determine whether the insureds were offered this coverage by the Companies, as required by R. I. Gen. Laws §27-7-2.5.

**Recommendation #11:** It is recommended that the Companies implement controls to ensure that all automobile policies issued without medical payment coverage, contain a completed and signed election/rejection form.

During our testing, we noted a file which contained a completed and signed supplemental automobile application in which medical payments coverage was not rejected by the applicant. In issuing the policy, the Companies failed to provide medical payments coverage on the policy. Therefore, the Companies are in violation of R. I. Gen. Laws §27-7-2.5.

During our testing, we noted that one file contained a completed and signed application in which the insured requested medical payments coverage. In issuing the policy, the Companies failed to provide medical payments coverage. Therefore, the Companies are in violation of R. I. Gen. Laws §27-7-2.5.

**Recommendation #12:** It is recommended that the Companies review their policies and procedures pertaining to automobile underwriting, particularly with regard to medical payments coverage, and implement procedures to ensure that similar omissions do not occur in the future. It is also recommended that the Companies contact the insured, in order to satisfy the insured's intention to purchase medical payments coverage. Furthermore, this coverage should be effective from the inception date of the policy.

During our testing, we noted that one policy file contained a supplemental automobile application, signed by the applicant, in which uninsured motorist property damage coverage was not rejected by the applicant. The Companies, however, issued the policy without providing uninsured motorist property damage coverage. Therefore, the Companies are in violation of R. I. Gen. Laws §27-7-2.1.

**Recommendation #13:** It is recommended that the Companies review their policies and procedures pertaining to automobile underwriting, particularly with regard to uninsured motorist coverage, and implement procedures to ensure that similar omissions do not occur in the future. It is also recommended that the Companies contact the insured in order to determine whether it was the insured's intention to purchase uninsured motorist property damage coverage. Furthermore, this coverage should be effective from the inception date of the policy.

During our testing, we noted 12 files that did not contain documentation of pre-inspection requirements of private passenger motor vehicles as set forth in Rhode Island Insurance Regulation LXXVII §8.

**Recommendation #14:** It is recommended that the Companies evaluate their pre-inspection procedures and institute the necessary changes in order to comply with the aforementioned Regulation.

During our testing, we noted two files in which the Companies were unable to verify the name of the producer of record. Therefore, we were unable to confirm whether or not the Companies were in compliance with R. I. Gen. Laws §27-2.3-3(a).

During our testing, we noted two files in which the Companies were not in compliance with R. I. Gen. Laws §27-2.3-3(a). In one case, the producer was not licensed to write personal automobile insurance. In the other case, the producer was not licensed to write personal automobile insurance at the time the application was taken.

**Recommendation #15:** It is recommended that the Companies review existing procedures applicable to producer licensing and implement procedures to ensure that all insurance business is obtained through properly licensed producers in the State of Rhode Island in accordance with R. I. Gen. Laws §27-2.3-3(a).

During our testing, we noted one file in which a driver training credit was applied to the policy rating. The policy file does not contain satisfactory evidence that the vehicle operator successfully completed a driver education course, as required by the Companies' personal automobile manual of rules. Therefore, we were unable to verify whether or not the Companies are in compliance with R. I. Gen. Laws §27-44-5 (f)(3), which states a misclassification of a risk shall be considered an adjustment without adequate justification.

**Recommendation #16:** It is recommended that the Companies ensure that all information necessary to satisfy the aforementioned Rhode Island General Law, as well as the Companies' manual of rules, be included in the policy files.

During our testing, we noted, while re-rating the property damage section of all six combined single limit liability policies reviewed, an error in the Companies' increased limit factor table. It would appear that the error had an impact on all combined single limit liability policies issued by the Companies during the period of our examination. Therefore, the Companies were in violation of R. I. Gen. Laws §27-44-5(a), which states that rates shall not be excessive, inadequate, or unfairly discriminatory. This error continued until February 16, 1998, the date the Companies effected the correction in the increased limit factor table.



**Recommendation #17:** It is recommended that the Companies re-rate the premiums of all combined single limit liability policies issued by the Companies from January 1, 1994 to February 16, 1998, and refund the premium overcharge to each insured affected by this error.

During our testing, we noted one file where the Companies charged a one point surcharge for a chargeable motor vehicle accident in which the damage to the insured's vehicle amounted to three thousand dollars (insured struck a tree). The Companies' personal automobile manual of rules reads as follows: "Assign two points for each motor vehicle accident involving an amount paid or held as a loss reserve totaling more than five hundred dollars if the accident occurred as a result of damage to property, bodily injury or death". By applying a one point surcharge to the premium computation rather than a two point surcharge, the Companies are in violation of R. I. Gen. Laws §27-44-5(a) which states that rates shall not be excessive, inadequate, or unfairly discriminatory.

**Recommendation #18:** It is recommended that the Companies implement policies and procedures to ensure that correct rating factors are applied in the underwriting process so that policies are rated in a fair and consistent manner.

During our testing, we noted one file in which a 25% anti-theft credit was not included in the proper rating sequence, and the Companies neglected to charge the subsidy fee. Therefore, the Companies are in violation of R. I. Gen. Laws §27-44-5(a), which states that rates shall not be excessive, inadequate, or unfairly discriminatory.

**Recommendation #19:** It is recommended that the Companies implement policies and procedures to ensure that premium calculations and fees, including all applicable discounts, are fairly and consistently applied to all automobile policies. It is also recommended that the Companies correct the above referenced errors.

## CLAIM PRACTICES

### Homeowners

A review of the Companies' Rhode Island Homeowners Paid Claims and Closed without Payment Claims, for the period under examination, was performed to determine whether the Companies have complied with all applicable provisions of its homeowners policies, properly represented insured's rights, acknowledged pertinent communications regarding claims, made prompt investigations of claims, used properly licensed claim adjusters, and made fair and equitable settlements of claims in compliance with Rhode Island Insurance Regulation LXXIII and R. I. Gen. Laws §27-5-3, §27-8-12, §27-9.1-4, §27-10-1, §27-10-6, and §27-10-8.

During the period under examination, the Companies processed 1,927 homeowners claims closed with payment and 106 claims closed without payment. From these populations, 116 closed claims with payment and 55 closed claims without payment were selected for review. The Companies could not locate one file from the sample selected for claims closed with payment.

During our review of closed without payment claim files, we noted six files in which the Companies' denial letter did not contain the language as required in Rhode Island Insurance Regulation LXXIII §7H. This regulation states that any notice rejecting a claim in whole or in part shall 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" (the telephone number at the Rhode Island Insurance Division has been changed to 401-222-2223).

**Recommendation #20:** It is recommended that the Companies implement policies and procedures to ensure that denial letters include language required by Rhode Island Insurance Regulation LXXIII §7H.

During our review of closed claim files without payment, we noted four files in which the Companies did not send a letter denying the claim to the named insured. Rhode Island Insurance Regulation LXXIII §7A states that “within 15 days after receipt by the insurer of properly executed proofs of loss, the first party claimant shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy provision, condition, or exclusion unless reference to such provision, condition, or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain documentation of the denial as required by Section 4”.

**Recommendation #21:** It is recommended that the Companies implement policies and procedures to ensure that they are in compliance with standards for prompt, fair, and equitable settlements as promulgated by Rhode Island Insurance Regulation LXXIII §7. Accordingly, the Companies should ensure that denial letters are mailed to the insured in a timely manner, as required by Rhode Island Insurance Regulation LXXIII §7A.

### **Personal Automobile**

A review of the Companies’ Rhode Island Personal Automobile Paid Claims and Claims Closed without Payment, for the period under examination, was performed to determine whether the Companies have complied with the applicable provisions of its personal automobile policy contracts, properly represented insured’s rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims, used properly licensed claim adjusters, and made fair and equitable settlement of claims in compliance with R. I. Gen. Laws §27-7-5, §27-8-12, §27-8-14, §27-9.1-4, §27-10-1, §27-10-6, §27-10-8, §27-10.1-1 and §42-28-47. The Companies adherence to Rhode Island Insurance Regulations X §5, XXIV, XXVIII, and LXXIII was also reviewed.

The population of private passenger automobile claims closed with payment was 2,512 and the claims closed without payment was 247. From these populations, 118 closed claims with

payment and 82 closed claims without payment were selected for review, totaling 200 closed claims.

Based on our review, all of the files in the sample selected were in compliance with the aforementioned laws and regulations of the State of Rhode Island relating to personal automobile claims practices.

## **CANCELLATIONS AND NONRENEWALS**

### **Homeowners Cancellations And Nonrenewals**

A review of the Companies' homeowners cancellation and nonrenewal practices, for the period under examination, was conducted to determine whether the Companies were in compliance with R. I. Gen. Laws §27-5-3.4. The examination was also conducted to determine if the Companies were in compliance with the cancellation and nonrenewal provisions of their homeowners policy.

The population of homeowners' cancellations and nonrenewals processed for the period under examination was 801. From this population, the examiner selected 107 sample items for review.

In 84 homeowner cancellations and nonrenewals, the Companies were unable to provide proof of mailing as evidenced by a certified mail return receipt (56 to the insured and 28 to the mortgagee).

In three homeowner cancellations and nonrenewals, the Companies were unable to provide the notice of cancellation or nonrenewal to the named insured.

In 30 homeowner cancellation and nonrenewals, the Companies were unable to produce the return receipt from a certified mail or notice of cancellation or nonrenewal (25 to the policyholder and 5 to the mortgagee). In all the cases mentioned above, the Companies were in violation of R. I. Gen. Laws §27-5-34.

**Recommendation #22:** It is recommended that the Companies perform a review of their record retention and retrieval practices as they relate to homeowners cancellations and nonrenewals. The Companies should retain a copy of the notice of cancellation or nonrenewal sent to the insured, and mortgagee, if any, and the proof of mailing of such notice(s). The proof of mailing should be documented by the return receipt that accompanies the certified mailing.

### **Personal Automobile Cancellations**

A review of the Companies' personal automobile cancellation practices, for the period under examination, was conducted to determine whether the Companies were in compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation XVI. The examination was also conducted to determine if the Companies were in compliance with the cancellation and nonrenewal provisions of its personal automobile policy contracts.

The population of personal automobile cancellations processed for the period under examination was 1,461. From this population, the examiner selected a total of 114 items for review.

During our testing, we noted nine files in which the Companies canceled a policy for reasons other than nonpayment of premium. In all nine files, the Companies failed to send the written notice of cancellation at least 30 days prior to the effective date of the cancellation, as required by Rhode Island Insurance Regulation XVI §3.

**Recommendation #23:** It is recommended that the Companies review their procedures which relate to the mailing of the cancellation notices, and make the changes necessary to ensure that notices are mailed in accordance with Rhode Island Insurance Regulation XVI § 3.

During our testing, we noted that the Companies were unable to provide any supporting documentation (cancellation notices, proofs of mailing, and statements of the need to maintain financial security and the insured's possible eligibility through the Rhode Island Insurance Plan) for four of the files requested. Also, in one file, the Companies were unable to provide the

cancellation notice, the requisite statement of the need to maintain financial security, or the statement relating to the possible eligibility through the Rhode Island Insurance Plan. In one file, the Companies were unable to provide proof of mailing for the cancellation. Finally, in one file, the Companies were unable to provide the statement regarding the need to maintain financial security and the possible eligibility through the Rhode Island Insurance Plan.

**Recommendation #24:** It is recommended that the Companies review their record retention and retrieval procedures and practices as they relate to personal automobile cancellations, and make changes as necessary to ensure that files contain all supporting documentation required by the Rhode Island statutes and regulations.

### **Personal Automobile Nonrenewals**

A review of the Companies' personal automobile nonrenewal practices, for the period under examination, was conducted to determine whether the Companies were in compliance with Rhode Island Insurance Regulation XVI §4 and §5, and R. I. Gen. Laws §27-9-4(b) and §31-47-4. The examination was also conducted to determine if the Companies were in compliance with the cancellation and nonrenewal provisions of their personal automobile policy.

The population of personal automobile nonrenewals processed for the period under examination was 167. From this population, the examiner selected 70 items for review. The Companies provided the examiners with all the files requested.

In one file, the Companies nonrenewed a policy for only one nonchargeable loss occurrence within the annual policy year. This nonrenewal was in violation of R. I. Gen. Laws §27-9-4(b) and Insurance Regulation XVI §4, which require that no insurance company shall fail to renew a private passenger automobile policy because of a loss occurrence only, unless a chargeable loss occurrence of \$500 or more, or more than two non-chargeable loss occurrences, involving insureds, have taken place within the annual policy year.

In one file, the Companies nonrenewed the policy for a loss occurrence of less than \$500, in violation of R. I. Gen. Laws §27-9-4(b) and Insurance Regulation XVI §4.

In three files, the Companies nonrenewed the policy for loss occurrence(s) that occurred outside the annual policy year, in violation of R. I. Gen. Laws §27-9-4(b) and Insurance Regulation XVI §4.

**Recommendation #25:** It is recommended that the Companies review their underwriting procedures pertaining to nonrenewal of personal automobile policies and implement changes to ensure that the Companies are in adherence to R. I. Gen. Laws §27-9-4(b) and Insurance Regulation XVI §4.

In three files, the Companies were unable to provide any of the supporting documentation (nonrenewal notices, statements on the need to maintain financial responsibility and the possible eligibility through the Rhode Island Insurance Plan, and the proof of mailing) needed for the examiner to determine whether the Companies were in compliance with R. I. Gen. Laws §31-47-4 and Insurance Regulation XVI §4 and §5.

In one file, the Companies were unable to provide the notice of the need to maintain financial responsibility and the notice of possible eligibility through the Rhode Island Insurance Plan, and the proof of mailing needed for the examiner to determine whether the Companies were in compliance with R. I. Gen. Laws §31-47-4 and Insurance Regulation XVI §4 and §5.

In one file, the Companies were unable to provide the notice of the need to maintain financial responsibility and the notice of possible eligibility through the Rhode Island Insurance Plan. Therefore, we cannot verify whether the Companies were in compliance with R. I. Gen. Laws § 31-47-4 and Insurance Regulation XVI §5.

In one file, the Companies were unable to provide the notice of the need to maintain financial responsibility. Therefore, we cannot verify whether the Companies were in compliance with R. I. Gen. Laws §31-47-4.

**Recommendation #26:** It is recommended that the Companies institute controls to ensure that all nonrenewal files contain a copy of the nonrenewal notice, the statement regarding the need to maintain financial responsibility, the statement relating to the insured's possible eligibility through the Rhode Island Insurance Plan, and the proof of mailing.

Two of the files received contained the Connecticut version of the statement regarding eligibility through the state insurance plan and the statement of the need to maintain financial responsibility. Therefore, the Companies were not in compliance with R. I. Gen. Laws §31-47-4 and Insurance Regulation XVI §5.

**Recommendation #27:** It is recommended that the Companies implement controls to ensure that nonrenewal files contain the correct state version of the statements on the need to maintain financial responsibility, and the notice of the insured's possible eligibility through the state insurance plan as required by R. I. Gen. Laws §31-47-4 and Insurance Regulation XVI §5.

## **RHODE ISLAND AUTOMOBILE INSURANCE ANNUAL REPORTS**

A review of the Rhode Island Automobile Insurance Reports was performed to determine whether the Companies were in compliance with R. I. Gen. Laws §27-9-55 and Insurance Regulation LXXIV. Regulation LXXIV §4 states that "Every insurer shall file an annual report with the Director, by May 15 of each year for the previous twelve (12) month period ending December 31st.

The Companies provided the annual reports for 1994, 1995, and 1996 that were filed with the Department of Business Regulation, Insurance Division. These reports were filed within the time period allowed by Rhode Island Insurance Regulation LXXIV. An exception was noted as it relates to Section 4(5) of the above referenced regulation. The Companies did not list in the annual report for 1994, 1995, and 1996 all expenses of the insurer attributable to automobile



insurance, including but not limited to loss adjustment, commissions, taxes, and general expenses.

**Recommendation #28:** It is recommended that the Companies review their practices and procedures as they relate to the filing of annual reports to ensure compliance to Rhode Island Insurance Regulation LXXIV.

### **REINSPECTION OF COLLISION DAMAGE CLAIMS**

A review of the Companies' reinspection of Rhode Island collision damage claims was performed to determine whether the Companies were in compliance with R. I. Gen. Laws §27-10.1-9 and Insurance Regulation LXXVI. This regulation requires that the Companies "reinspect ten percent (10%) of all automobile insurance claims after collision damage is repaired".

It was noted during our review of collision damage reinspection documentation for the years 1994 and 1995, that the Companies could not provide proper documentation to verify compliance with the requirements of the aforementioned regulation.

In 1996, the Companies instituted procedures to ensure compliance with R. I. Gen. Laws §27-10.1-9 and Insurance Regulation LXXVI.

No.	SUMMARY OF RECOMMENDATIONS	Page No.
1	It is recommended that the Companies forward all complaints to its home office so that complaints are properly entered in the consumer complaint register.	9
2	It is recommended that the Companies take appropriate action to ensure that the proper application of all rating factors is used.	10
3	It is recommended that the Companies review their rating procedures to ensure that premium rates, including all applicable discounts, are correctly applied. It is also recommended that the Companies correct the previously mentioned errors, and refund the appropriate premium to the insureds for the period during which the errors occurred.	10
4	It is recommended that the Companies review existing procedures applicable to producer licensing, and implement procedures to ensure that all insurance business is obtained through properly licensed producers in the State of Rhode Island, in accordance with R. I. Gen. Laws §27-2.3-3(a).	10
5	It is recommended that the Companies review their record retention procedures to ensure that applications are retained to support the underwriting and rating of homeowners policies.	11
6	It is recommended that the Companies contact the insured to determine if they would like to keep the policy coverage as presently provided, or remove the additional replacement cost provision and refund any overcharges.	11
7	It is recommended that the Companies contact the insured to confirm the desired coverages, and if necessary refund any overcharges.	11

- 8 It is recommended that the Companies amend their policies to comply with R. I. Gen. Laws §27-7-1. 11
- 9 It is recommended that the Companies amend the language of their Personal Auto Policy Part A Liability insuring agreement to comply with R. I. Gen. Laws §27-7-1 and file the amended insuring agreement with the Rhode Island Department of Business Regulation, Insurance Division. 12
- 10 It is recommended that the Companies review their record retention procedures to ensure that applications are retained to support the underwriting and rating of personal automobile policies. 13
- 11 It is recommended that the Companies implement controls to ensure that all automobile policies issued without medical payment coverage, contain a completed and signed election/rejection form. 13
- 12 It is recommended that the Companies review their policies and procedures pertaining to automobile underwriting, particularly with regard to medical payments coverage, and implement procedures to ensure that similar omissions do not occur in the future. It is also recommended that the Companies contact the insured, in order to satisfy the insured's intention to purchase medical payments coverage. Furthermore, this coverage should be effective from the inception date of the policy. 14
- 13 It is recommended that the Companies review their policies and procedures pertaining to automobile underwriting, particularly with regard to uninsured motorist coverage, and implement procedures to ensure that similar omissions do not occur in the future. It is also recommended that the Companies contact the insured in order to determine whether it was the insured's intention to purchase uninsured motorist property damage coverage. Furthermore, this coverage should be effective from the inception date of the policy. 14

- 14 It is recommended that the Companies evaluate their pre-inspection procedures and institute the necessary changes in order to comply with the aforementioned Regulation. 14
- 15 It is recommended that the Companies review existing procedures applicable to producer licensing and implement procedures to ensure that all insurance business is obtained through properly licensed producers in the State of Rhode Island in accordance with R. I. Gen. Laws §27-2.3-3(a). 15
- 16 It is recommended that the Companies ensure that all information necessary to satisfy the aforementioned Rhode Island General Law, as well as the Companies' manual of rules, be included in the policy files. 15
- 17 It is recommended that the Companies re-rate the premiums of all combined single limit liability policies issued by the Companies from January 1, 1994 to February 16, 1998, and refund the premium overcharge to each insured affected by this error. 16
- 18 It is recommended that the Companies implement policies and procedures to ensure that correct rating factors are applied in the underwriting process so that policies are rated in a fair and consistent manner. 16
- 19 It is recommended that the Companies implement policies and procedures to ensure that premium calculations and fees, including all applicable discounts, are fairly and consistently applied to all automobile policies. It is also recommended that the Companies correct the above referenced errors. 16
- 20 It is recommended that the Companies implement policies and procedures to ensure that denial letters include language required by Rhode Island Insurance Regulation LXXIII §7H. 17

- 21 It is recommended that the Companies implement policies and procedures to ensure that they are in compliance with standards for prompt, fair, and equitable settlements as promulgated by Rhode Island Insurance Regulation LXXIII §7. Accordingly, the Companies should ensure that denial letters are mailed to the insured in a timely manner, as required by Rhode Island Insurance Regulation LXXIII §7A. 18
- 22 It is recommended that the Companies perform a review of their record retention and retrieval practices as they relate to homeowners cancellations and nonrenewals. The Companies should retain a copy of the notice of cancellation or nonrenewal sent to the insured, and mortgagee, if any, and the proof of mailing of such notice(s). The proof of mailing should be documented by the return receipt that accompanies the certified mailing. 20
- 23 It is recommended that the Companies review their procedures which relate to the mailing of the cancellation notices, and make the changes necessary to ensure that notices are mailed in accordance with Rhode Island Insurance Regulation XVI § 3. 20
- 24 It is recommended that the Companies review their record retention and retrieval procedures and practices as they relate to personal automobile cancellations, and make changes necessary to ensure that files contain all supporting documentation required by the Rhode Island statutes and regulations. 21
- 25 It is recommended that the Companies review their underwriting procedures pertaining to nonrenewal of personal automobile policies and implement changes to ensure that the Companies are in adherence to R. I. Gen. Laws §27-9-4(b) and Insurance Regulation XVI §4. 22
- 26 It is recommended that the Companies institute controls to ensure that all nonrenewal files contain a copy of the nonrenewal notice, the statement regarding the need to maintain financial responsibility, the statement relating to the insured's possible eligibility through the Rhode Island Insurance Plan, and the proof of mailing. 23

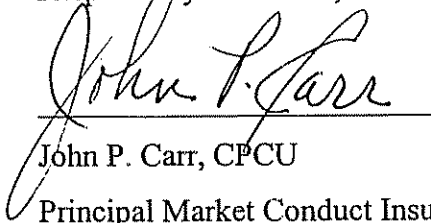
- 27 It is recommended that the Companies implement controls to ensure that nonrenewal files contain the correct state version of the statements on the need to maintain financial responsibility, and the notice of the insured's possible eligibility through the state insurance plan as required by R. I. Gen. Laws §31-47-4 and Insurance Regulation XVI §5. 23
- 28 It is recommended that the Companies review their practices and procedures as they relate to the filing of annual reports to ensure compliance to Rhode Island Insurance Regulation LXXIV 24

## 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 Companies as presented in this report.

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

Respectfully submitted,



John P. Carr, CPCU

Principal Market Conduct Insurance Examiner  
Rhode Island Insurance Division

6-27-02

Date