

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

Report on the Targeted Market Conduct Examination of Travelers Companies  
(NAIC Group #3548) consisting of:

**FARMINGTON CASUALTY COMPANY (NAIC #41483)**  
**THE CHARTER OAK FIRE INSURANCE COMPANY (NAIC #25615)**  
**THE PHOENIX INSURANCE COMPANY (NAIC #25623)**  
**THE STANDARD FIRE INSURANCE COMPANY (NAIC #19070)**  
**THE TRAVELERS INDEMNITY COMPANY OF AMERICA (NAIC #25666)**  
**THE TRAVELERS INDEMNITY COMPANY OF CONNECTICUT (NAIC #25682)**  
**TRAVELERS CASUALTY AND SURETY COMPANY (NAIC #19038)**

**For the Period January 1, 2007 through March 31, 2008**

September 15, 2009

The Honorable A. Michael Marques  
State of Rhode Island Department of Business Regulation  
1511 Pontiac Avenue, Building 68-2  
Cranston, RI 02920

Dear Director Marques:

Pursuant to your instructions and in accordance with the statutes of the State of Rhode Island, a Targeted Market Conduct Examination (“Examination”) was conducted of The Travelers Companies of Hartford, Connecticut.

As is permissible under Rhode Island General Law (“R.I.G.L.”) § 27-13.1, the Department of Business Regulation (“DBR” “we”, or “us”) retained the services of Eide Bailly LLP (“Eide”) to provide assistance in reviewing information and other data relevant to this matter. The specific procedures performed by Eide were established through discussion with DBR over the course of the Examination and were conducted by Eide under the supervision and control of DBR.

R.I.G.L § 27-13.1 provides authority for this Examination. The Examination was conducted in accordance with standards established by the National Association of Insurance Commissioners (“NAIC”), as well as procedures developed by the Department.

The primary purpose of the Examination was to evaluate The Travelers Companies’ compliance with Rhode Island General Laws, Public Laws, and Insurance Regulations surrounding underwriting and rating decisions for the workers compensation line of business. The work performed during the Examination satisfied this purpose, and forms the basis for DBR’s findings and recommendations presented in this report.

The attached report summarizes the scope of the Examination, the procedures performed, the findings, and recommendations. This report is comprised of six sections as outlined below:

- **Executive Summary** – A high level overview of the Examination’s scope and relevant findings.
- **Examination Approach** – A high level description of the procedures performed in the Targeted Market Conduct Examination.
- **Company Background** – The history of The Travelers Companies, the regulation it is subject to and the corporate structure.
- **Underwriting and Rating** – A detailed description of procedures performed, findings and recommendations.
- **Summary** – The final conclusion of the examination.
- **Acknowledgement** – Certification of qualifications.

## I. EXECUTIVE SUMMARY

This summary is intended to provide a high-level overview of the reported results of the examination of The Travelers Companies (“Travelers” or “Company”). The body of the report provides details on the scope of the examination, tests conducted, findings and conclusions, recommendations, and subsequent Company actions. For the purposes of this report, examiners have utilized the NAIC standard “report by test” model after discussion with Department of Business Regulation (“DBR” or “Department”). DBR considers a substantive issue as one in which corrective action on the part of the Company is deemed advisable, or one in which a “finding”, or violation of Rhode Island Insurance Laws or Regulations was found to have occurred. It is also recommended that Company management evaluate any substantive issues or “findings” for applicability to potential occurrence in other jurisdictions. When applicable, the Company should take corrective action for all jurisdictions and provide a report of any such corrective actions taken to DBR. The Company has stated that there is no indication that there are any failed standards cited that extend to other jurisdictions in which it is licensed to do business, and that it does not foresee the necessity of taking any corrective actions in jurisdictions other than Rhode Island.

The following is a summary of all substantive issues found along with related recommendations and, if applicable, subsequent Company actions taken as part of the comprehensive market conduct examination of Travelers.

### SECTION I – UNDERWRITING & RATING

The following standards were noted as having findings during the examination. See further details in the subsequent sections of this report.

**STANDARD 1** *The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity rating plan.*

**STANDARD 4** *The regulated entity underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations, and regulated entity guidelines in the selection of risks.*

**STANDARD 10** *Credits, debits and deviations are consistently applied on a non-discriminatory basis.*

**STANDARD 14** *Verification of experience modification factors.*

**STANDARD 17** *Underwriting, rating and classification are based on adequate information, developed at or near inception of the coverage rather than near expiration, or following a claim.*

**STANDARD 21** *Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and the documentation adequately supports decisions made.*

## **FINDINGS 1 and 2:**

These findings violated Standards 1, 10, 14 and 17:

1) An experience modification factor (net credit) was applied to this policy. The risk is not included on the NCCI website nor would an experience mod be expected with the low premium value.

2) This policy was selected twice in the sample, once for the 2007 policy and once for the 2008 policy. During the examination it was noted that the experience modification factor used was .77 for 2007, but during the policy year the experience modification factor changed to .79. This change was not reflected in the premium audit or on the renewal of the 2008 policy (which included it as .77). The 2008 premium was written in 2007 with an effective date of 1/1/2008 and thus was included in the sampling.

Observations: Eide noted that the Company normally provides the correct experience modification factor, as evidenced by the 98 policies included in the examination that had the proper experience modification factor or that properly excluded the factor when the risk was not eligible for experience modification.

Recommendations: Eide recommends that the Company reiterate to the underwriters that they verify the experience modification factor prior to issuing a policy.

Company Response: The Company agrees that the experience modification factor for 2007 was inadvertently applied, as described in Finding 1, and that the mod should have been updated for the 2008 policy as described in Finding 2. The Company will communicate to their field offices regarding the importance of verifying accurate experience modification factors.

## **FINDING 3**

This finding violated Standards 4 and 17:

3) In the notes to the underwriting file, the underwriter states that they will need a “no loss letter” for the last three years. This document was not presented in the underwriting file.

Observations: Eide noted that the Company normally documents and includes adequate information to formulate the underwriting decision as evidenced by the policies included in the examination that had the proper support.

Recommendations: Eide recommends the Company reiterate to the underwriters the Company’s policy of adequately documenting the underwriting file to support the underwriting decision.

Company Response: The Company agrees that the “no loss letter” was not provided by the agent. The Company stipulates that the loss information was provided by the agency on the application and accepted as documentation to underwrite the policy.

## **FINDING 4, 5 and 6**

These findings violated Standards 4, 10 and 17

Findings 4, 5 and 6: Company Placement. In reviewing the underwriting rules and defined risk categories at Travelers, we noted the following deviations from the standard application of the underwriting rules without adequate supporting documentation for the deviation.

4) A jewelry manufacturer that has had 1-3 losses every year, according to the Company's manual, as a manufacturer they are an unfavorable risk. The insured performed safety inspections that may justify a modification factor. The insured was placed in Standard Fire Insurance Company which bears a 40% discount (for very favorable risks) and they received a 25% scheduled modification that appears aggressive under the Company's underwriting guidelines.

5) Under Company guidelines it would appear that this policy should have been placed under Travelers Indemnity Company of Connecticut (10% discount from the standard rates), but it was placed under Travelers Property Casualty Company of America (standard rates). Given their lack of losses and the fact that they have been in business for 10 years, it appears that this insured would be eligible to be placed in the discounted Company under the guidelines.

6) Under the Company guidelines this risk should have been placed in a company with a 10% premium on standard rates instead of Charter Oak Insurance, which has a 20% discount. The agent requested loss history also, but it was not included in the file.

Observations: Eide noted that the Company normally documents and includes adequate information to formulate the underwriting decision as evidenced by the 97 policies included in the examination that had the proper support for company placement.

Recommendations: Eide recommends the Company reiterate to the underwriters the Company's policy of adequately documenting the underwriting file to support the underwriting decision.

### Company Response:

Finding 4: The underwriter considered many factors, as documented in the loss control report and from the information received from the agent, to determine the appropriate pricing for this account. The documentation indicated this insured has a formal safety program including a part time safety manager, a favorable financial status, good controls, updated equipment, and its management is highly cooperative on safety issues. We ask our underwriters to make final pricing decisions after taking into account the broad view of the class and the risk specific information developed in the underwriting process. We feel that was done in this instance.

Findings 5 and 6: We agree the documentation of these accounts is not complete in supporting the underwriter's pricing decision. As per the recommendation noted above we will reinforce with the underwriters our documentation requirements.

## **FINDING 7**

This finding violated Standard 21:

7) From the sample of 100 policies selected, 6 policies did not have applications submitted in the file.

Observations: Eide noted that the Company relies on the agent to maintain the signed applications and information from these applications is submitted to the Company through a paperless transaction in their system processes.

Recommendations: Eide recommends the Company reiterate to the agents the Company's record retention policy.

Company Response: Section 9 of the standard Travelers agency contract states that the agent "will retain original applications, supplemental applications and related policy documents for policies you upload electronically to us. You will retain these documents for the longer of the period of time that we specify or is required by law. You will promptly provide us with these documents upon request." For the significant majority of the policies selected for review, our agents have followed this contractual requirement and the applications were in the file. Having said that, we note the exception and we will communicate to our agents the importance of retaining applications and other file documentation.

## II. EXAMINATION APPROACH

The Department conducted a targeted market conduct examination of Travelers Companies Inc. (“Travelers” or “Company”) for the period January 1, 2007 through March 31, 2008. The examination was called pursuant to authority in Rhode Island state law. The current market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Department. Representatives from the firm of Eide Bailly, LLP (“Eide”) were engaged to complete certain agreed-upon procedures.

A tailored audit approach was developed to perform the examination of Travelers using the guidance and standards of the *National Association of Insurance Commissioners Market Conduct Examiners Handbook* (“Handbook”), the market conduct examination standards of the Department, and the state of Rhode Island insurance laws, regulations and bulletins. All procedures were performed under the management and control of the market conduct examination staff of the Department. All sampling techniques utilized in the examination are in accordance with the sampling guidelines outlined in the Handbook. The following describes the procedures performed and the findings for the work plan steps thereon.

The basic business areas that were reviewed under this examination were:

- I. Underwriting and Rating - Related to workers’ compensation risks written in Rhode Island during the period of examination.

## III COMPANY BACKGROUND

### Farmington Casualty Company

Farmington Casualty Company was incorporated on August 24, 1982 and commenced business on October 1, 1982 under the laws of Connecticut. The company is wholly-owned by Travelers Casualty and Surety Company, which is a wholly-owned subsidiary of Travelers Insurance Group Holdings Inc., a wholly-owned subsidiary of Travelers Property Casualty Corp.

Travelers Property Casualty Corp., a direct, wholly-owned subsidiary of The Travelers Companies, Inc., is a property-casualty insurance holding company engaged, through its subsidiaries, in two business segments: Commercial Lines and Personal Lines.

### The Charter Oak Fire Insurance Company

The Charter Oak Fire Insurance Company was incorporated on April 29, 1931 and commenced business on October 14, 1935 under the laws of Connecticut. The company is wholly-owned by The Travelers Indemnity Company, which is a wholly-owned subsidiary of Travelers Insurance Group Holdings Inc., a wholly-owned subsidiary of Travelers Property Casualty Corp.

Travelers Property Casualty Corp., a direct, wholly-owned subsidiary of The Travelers Companies, Inc., is a property-casualty insurance holding company engaged, through its subsidiaries, in two business segments: Commercial Lines and Personal Lines.

### **The Phoenix Insurance Company**

The Phoenix Insurance Company was incorporated in June 1850 and commenced business in July 1850 under the laws of Connecticut. The company is wholly-owned by The Travelers Indemnity Company, a wholly-owned subsidiary of Travelers Insurance Group Holdings Inc., a wholly-owned subsidiary of Travelers Property Casualty Corp.

Travelers Property Casualty Corp., a direct, wholly-owned subsidiary of The Travelers Companies, Inc., is a property-casualty insurance holding company engaged, through its subsidiaries, in two business segments: Commercial Lines and Personal Lines.

### **The Standard Fire Insurance Company**

The Standard Fire Insurance Company was incorporated on July 6, 1905 and commenced business on March 26, 1910 under the laws of Connecticut. The company is wholly-owned by Travelers Insurance Group Holdings Inc., a wholly-owned subsidiary of Travelers Property Casualty Corp.

Travelers Property Casualty Corp., a direct, wholly-owned subsidiary of The Travelers Companies, Inc., is a property-casualty insurance holding company engaged, through its subsidiaries, in two business segments: Commercial Lines and Personal Lines.

### **The Travelers Indemnity Company of America**

The Travelers Indemnity Company of America was incorporated on January 2, 1946 and commenced business on May 1, 1946 under the laws of Georgia. The company redomesticated to the State of Connecticut effective July 1, 1997. The company is wholly-owned by The Phoenix Insurance Company, a wholly-owned subsidiary of The Travelers Indemnity Company, a wholly-owned subsidiary of Travelers Insurance Group Holdings Inc., a wholly-owned subsidiary of Travelers Property Casualty Corp.

Travelers Property Casualty Corp., a direct, wholly-owned subsidiary of The Travelers Companies, Inc., is a property-casualty insurance holding company engaged, through its subsidiaries, in two business segments: Commercial Lines and Personal Lines.

### **The Travelers Indemnity Company of Connecticut**

The Travelers Indemnity Company of Connecticut was incorporated in May 1859 and commenced business in September 1860 under the laws of Rhode Island. The company redomesticated to the State of Connecticut effective December 31, 1994 and was formerly known as The Travelers Indemnity Company of Rhode Island. The company is wholly-owned by The Phoenix Insurance Company, a wholly-owned subsidiary of The Travelers Indemnity Company, a wholly-owned subsidiary of Travelers Insurance Group Holdings Inc., a wholly-owned subsidiary of Travelers Property Casualty Corp.



Travelers Property Casualty Corp., a direct, wholly-owned subsidiary of The Travelers Companies, Inc., is a property-casualty insurance holding company engaged, through its subsidiaries, in two business segments: Commercial Lines and Personal Lines.

**Travelers Casualty and Surety Company**

Travelers Casualty and Surety Company was incorporated in May 1883 and commenced business in May 1907 under the laws of Connecticut. The company was formerly known as The Aetna Casualty and Surety Company. The company is wholly-owned by Travelers Insurance Group Holdings Inc., a wholly-owned subsidiary of Travelers Property Casualty Corp.

Travelers Property Casualty Corp., a direct, wholly-owned subsidiary of The Travelers Companies, Inc., is a property-casualty insurance holding company engaged, through its subsidiaries, in two business segments: Commercial Lines and Personal Lines.

#### IV. UNDERWRITING AND RATING

**Standard I** *The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity rating plan.*

**Rhode Island General Law § 27-7.1-5.1**

Objective: This Standard is concerned with ensuring that the rates charged by the Company are filed and approved with the Department.

Pursuant to R.I.G.L. § 27-7.1-5.1 (a), every insurer shall file with the director every manual, minimum premium, class rate, rating schedule, or rating plan and every other rating rule, and every modification of any of the foregoing which it proposes to use... Every filing shall state the proposed effective date of the filing. Every insurer shall file or incorporate by reference material which has been approved by the director, at the same time as the filing of the rate, and all supplementary rating and supporting information to be used in support of or in conjunction with a rate...

Testing Procedures:

- Verify all rating factors;
- If no source document application exists, review what procedures the regulated entity has in place to determine the accuracy of the information that was given to issue the policy;
- Calculate the policy premium to verify it is in accordance with filed rates;
- Verify that the proper rules are being used;
- Verify that the filed implementation date is used uniformly, including at different branches;
- Confirm that rates in use were filed and approved prior to use, where required;
- Verify the basis of premium is correct;
- Verify that the rating rules are properly utilized.

Testing Results:

Findings

Finding 1: This policy was selected twice in the sample, once for the 2007 policy and once for the 2008 policy. During the examination it was noted that the experience modification factor used was .77 for 2007, but during the policy year the experience modification factor changed to .79. This change was not reflected in the premium audit or on the renewal of the 2008 policy (which included it as .77).

Finding 2: An experience modification factor (net credit) was applied to this policy. The risk is not included on the NCCI website, nor would an experience mod be expected with the low premium value.

Observations: Eide noted that in accordance with the first standard, the rates charged for the policy coverage must be in accordance with filed rates or the regulated entity's rating plan.

Recommendations: Eide recommends the company reiterate to the underwriters that they verify the experience modification factors prior to issuing a policy.

Company Response: The Company agrees that the experience modification factor for 2007 was inadvertently applied on Finding 1 and that the mod should have been updated for the 2008 policy for Finding 2. The Company will communicate to their field offices regarding the importance of verifying accurate experience modification factors.

**Standard 3 Regulated entity does not permit illegal rebating, commission cutting or inducements.**

**Rhode Island General Laws § 27-29-4(8)  
Rebating and Inducements**

*Objective:* This Standard is concerned with ensuring that the Company does not permit illegal rebating, commission cutting or inducements; and that producer commissions adhere to the commission schedule.

Pursuant to R.I.G.L. § 27-29-4(8), the following is identified as an unfair method of competition and an unfair and deceptive act or practice in the business of insurance: except as otherwise expressly provided by law, knowingly permitting or offering to make or making any policy or agreement as to the policy other than as plainly expressed in the policy issued on it, or paying or allowing or giving or offering to pay, allow, or give, directly or indirectly, as inducement to the policy, any rebate of premiums payable on the policy, or any special favor or advantage in the dividends or other benefits on the policy, or any valuable consideration or inducement not specified in the policy, or giving, selling, or purchasing or offering to give, sell, or purchase as inducement to the policy, or in connection with the policy, any stocks, bonds, or other securities of any insurance company or other corporation, association, or partnership, or any dividends or profits accrued on the security, or anything of value not specified in the policy.

*Testing Procedures:*

- Check commission schedule for inappropriate variances;
- Verify that commissions paid match producer compensation agreements for a sub sample of items tested;
- Determine that producer commissions adhere to the commission schedule and, if not, that the file documented reflects reasons for the variance;
- Check billings and invoices for varying commission percentages;
- Check regulated entity advertising for indications of illegal commission cutting or inducements.

*Testing Results:*

*Findings:* During our testing of a sample of 100 policies, we found no exceptions to the above standard.

**Standard 4 The regulated entity underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations, and regulated entity guidelines in the selection of risks.**

**Rhode Island General Laws § 27-7.1-4.1  
Bulletin 2007-11**

*Objective:* This Standard is concerned with whether unfair discrimination is occurring in the application of premium discounts and surcharges.

Pursuant to R.I.G.L. § 27-7.1-4.1, rates shall not be excessive, inadequate, or unfairly discriminatory. Due consideration shall be given to past and prospective loss experience, a reasonable margin for profits and contingencies, dividends and savings, past and prospective expenses both country wide and within

Rhode Island, provisions for special assessments, and all other relevant factors within and outside of Rhode Island. In determining the reasonableness of the profit, consideration shall be given to investment income.

Pursuant to Bulletin 2007-11, insurers that cede or otherwise grant underwriting authority and/or pricing authority to their agents/producers, including the application of scheduled credits and debits, are responsible for all underwriting, binding and pricing decisions and/or actions of those agents/producers. Insurers are therefore reminded that they are responsible for assuring that the policy is written in accordance with their underwriting guidelines and criteria, as well as in accordance with filings approved by the Department (including but not limited to policy forms, rules, rates, loss costs and scheduled rating). In addition, the Department will hold any insurance producer who knowingly quotes or binds business outside filed and approved programs accountable for such actions.

Testing Procedures:

- Review relevant underwriting information to ensure that no unfair discrimination is occurring according to the state's definition of unfair discrimination;
- Determine if the regulated entity is following its underwriting guidelines, and whether the guidelines conform to the state laws and are not unfairly discriminatory;
- Review interoffice memoranda for evidence of anti-competitive behavior;
- Review underwriting files for inconsistent handling of rating or underwriting practices which result in unfair discrimination, including requests for supplemental information;
- Review agent produced business by agency to determine that any underwriting actions taken are within the Company's underwriting manual requirements;
- Review underwriting files to ensure that similar risks are being priced according to the underwriting manual.

Testing Results:

Finding 3: In the notes to the underwriting file, the underwriter states that they will need a "no loss letter" for the last three years. The "no loss letter" was not present in the underwriting file.

Finding 4, 5, and 6: These findings relate to the placement of risks into companies with lower loss cost multipliers without proper supporting documentation. See Standard 10 on page 14 for a full description.

Observations: Eide noted the regulated entity's underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules, regulations and guidelines in the selection of risks.

Recommendations: Eide recommends the Company reiterate to their underwriters the importance of adequate documentation of the underwriting decision.

Company Response: The Company agrees that the "no loss letter" was not provided by the agent. The Company stipulates that the loss information was provided by the agency on the application and accepted as documentation to underwrite the policy.

**Standard 5** *All policy forms, classification of risks and premium rates are filed with the Division of Insurance, if applicable.*

**Rhode Island General Laws § 27-7.1-2**

*Objective:* This standard is concerned with the Company filing all policy forms, classifications of risk and rating tables with the Division of Insurance.

Pursuant to R.I.G.L. § 27-7.1-2 (a), every insurance company issuing workers' compensation insurance policies covering the payment of compensation and benefits provided for in this chapter shall file with the director: 1) A copy of the form of the policies. A policy may not be issued until the director has approved the form; and (2) Its classification of risks and their premium rates and any subsequent proposed classifications and premium rates, which may not take effect until the expiration of sixty (60) days from the date the director has approved them. (b) Premium rates less than those approved may be used and filed with the director. If the director has reason to believe that the filing produces rates that are inadequate or unfairly discriminatory, the director may disapprove them. (c) Any policy forms, subject to this chapter and filed by an insurer or rating organization on behalf of its members or subscribers with the director, shall be deemed public information at the time of the filing; and the director shall furnish the policy forms and all pertinent information as to the policy forms, upon written request, to any insured, to any authorized representative of an insured, to any insurance company trade association, or to any trade association of insurance producers.

*Testing Procedures:*

- Determine if the forms and endorsements have been filed. Where required, determine that either prior approval has been obtained or that applicable waiting periods following the filing have been met;
- Determine if the regulated entity lists all forms that constitute a part of the contract on the summary page;
- Determine, through review of underwriting files, that all scheduled debits and credits applied are included in the file and match the rating table filed and approved by the Department;
- Ensure debits and credits were not applied prior to filing with the Department.

*Testing Results:*

*Findings:* During our testing of a sample of 100 policies, we found no exceptions to the above standard.

**Standard 10 Credits, debits and deviations are consistently applied on a non-discriminatory basis.**

**RI General Laws § 27-7.1-2  
Bulletin 2007-5**

*Objective:* This Standard is concerned with Company's compliance with reporting information to the NCCI. The NCCI uses this information to identify trends in the insurance industry. This standard also supports Standard 5 regarding filing debits and credits with the state and applying them consistently.

Pursuant to R.I.G.L § 27-7.1-2, every insurance company issuing workers' compensation insurance policies covering the payment of compensation and benefits provided for in this chapter shall file with the director: 1) A copy of the form of the policies. A policy may not be issued until the director has approved the form; and (2) Its classification of risks and their premium rates and any subsequent proposed classifications and premium rates, which may not take effect until the expiration of sixty (60) days from the date the director has approved them. Premium rates less than those approved may be used and filed with the director. If the director has reason to believe that the filing produces rates that are inadequate or unfairly discriminatory, the director may disapprove them. Any policy forms, subject to this chapter and filed by an insurer or rating organization on behalf of its members or subscribers with the director, shall be deemed public information at the time of the filing; and the director shall furnish the policy forms and all pertinent information as to the policy forms, upon written request, to any insured, to any authorized representative of an insured, to any insurance company trade association, or to any trade association of insurance producers.

Pursuant to Bulletin 2007-5, all scheduled debits and credits applied to any insured's account must be based on evidence that is contained in the underwriting file of the insurer in accordance with the insurer's scheduled rating table filed and approved by the Department. The effective date of any scheduled debit or credit shall not be any date prior to the receipt in the insurer's office of the evidence supporting the debit or credit.

*Testing Procedures:*

- Review underwriting files to determine whether credits and debits applied match the rating table filed with the Department;
- Determine through review of underwriting files if credits and debits are applied consistently;
- Determine if the reasons for use of credits and other deviations are documented within the underwriting file;
- Verify proper handling of "consent to rate" or "excess rate" forms where applicable.

*Testing Results:*

*Findings:* Company Placement. In reviewing the underwriting rules and defined risk categories at Travelers, we noted the following deviations from the standard application of the underwriting rules without supporting documentation for the deviation.

Finding 1 and 2: See the summary of the finding under Standard 1.

Finding 4: A jewelry manufacturer that has had 1-3 losses every year, according to the Company's manual, as a manufacturer they are an unfavorable risk. The insured performed safety inspections that may justify a modification factor. Overall, the insured was placed in Standard Fire Insurance Company which bears a 40% discount (for very favorable risks) and the insured received a 25% schedule credit, which appears aggressive under the Company's underwriting guidelines.

Finding 5: Under Company guidelines, it would appear that it should be placed under Travelers Indemnity Company of Connecticut (10% discount from the standard rates) but it is placed under Travelers Property Casualty Company of America (standard rates). Given the lack of loss history and that it has been in business for 10 years, it appears that this policy would be eligible to be placed in the discounted Company under the guidelines.

Finding 6: Under the Company guidelines, this risk should have been placed in a company with a 10% premium on standard rates instead of Charter Oak Insurance which has a 20% discount. The agent requested loss history also but it was not included in the file.

Observations: Eide noted deviations in the sample with respect to the above five debit and credit practices.

Recommendations: Eide recommends the regulated entity reiterate to the underwriters the Company policy that they clearly document their underwriting decisions prior to issuing a policy.

Company Response:

Finding 1 and 2: See the Company Response for these findings under Standard 1 beginning on page 10 of this document.

Finding 4: The underwriter considered many factors, as documented in the loss control report and from the information received from the agent, to determine the appropriate pricing for this account. The documentation indicated this insured has a formal safety program including a part time safety manager, a favorable financial status, good controls, updated equipment, and its management is highly cooperative on safety issues. We ask our underwriters to make final pricing decisions after taking into account the broad view of the class and the risk specific information developed in the underwriting process and we feel that was done in this instance.

Finding 5 and Finding 6: We agree the documentation of these accounts is not complete in supporting the underwriter's pricing decision. As per the recommendation noted above we will reinforce with the underwriters our documentation requirements.



***Standard 11 Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.***

**RI General Laws § 27-7.1-5.1  
Bulletin 2007-5**

Objective: This standard is concerned with whether unfair discrimination occurs in the sale of insurance.

Pursuant to R.I.G.L. § 27-7.1-5.1, every insurer shall file with the director every manual, minimum premium, class rate, rating schedule, or rating plan and every other rating rule, and every modification of any of the foregoing which it proposes to use. Every filing shall state the proposed effective date of the filing. Every insurer shall file or incorporate by reference material which has been approved by the director, at the same time as the filing of the rate, and all supplementary rating and supporting information to be used in conjunction with a rate.

Pursuant to Bulletin 2007-5, all scheduled debits and credits applied to any insured's account must be based on evidence that is contained in the underwriting file of the insurer in accordance with the insurer's scheduled rating table filed and approved by the Department. The effective date of any scheduled debit or credit shall not be any date prior to the receipt in the insurer's office of the evidence supporting the debit or credit.

Test Procedures:

- Verify that the application of the plan complies with limitations imposed by the State;
- Verify that changes in the amounts of credit or debit contained in the underwriting file are supported by documentation or an explanation that is consistent with the change. Also that the basis for use is appropriate (i.e., based on objective criteria, not on perceived competitive pressures);
- Determine if the regulated entity is adjusting individual premiums to target premium levels for competitive reasons.

Test Results:

Findings: During our testing of a sample of 100 policies, we found no exceptions to the above standard.

**Standard 12** *Verification of use of the filed expense multipliers; the regulated entity should be using a combination of loss cost and expense multipliers filed with the Division of Insurance.*

**Rhode Island General Law § 27-7.1-5.1**

*Objective:* This Standard is concerned with whether loss cost and expense multipliers are filed with the Department for approval.

Pursuant to R.I.G.L. § 27-7.1-5.1, every insurer shall file with the director every manual, minimum premium, class rate, rating schedule, or rating plan and every other rating rule, and every modification of any of the foregoing which it proposes to use. Every filing shall state the proposed effective date of the filing. Every insurer shall file or incorporate by reference material which has been approved by the director, at the same time as the filing of the rate, and all supplementary rating and supporting information to be used in conjunction with a rate.

*Testing Procedures:*

- Obtain from the regulated entity the filed expense multipliers, which were applicable at the inception of the policy. (This filing should be stamped either “Approved” or “Filed” by the Department);
- Obtain the filed expense multipliers from the Department;
- Perform a comparison of filed expense multipliers from the Company to those on file with the Department noting any differences in what expense multipliers are being used in the underwriting of risks;
- Obtain the regulated entity’s table of rates for each classification code. Check the sample’s premium audit data against the table of rates, which includes the NCCI loss costs and the filed expense multiplier, to verify accuracy.

*Test Results:*

*Findings:* During our testing of a sample of 100 policies, we found no exceptions to the above standard.

**Standard 14** *Verification of experience modification factors.*

**Rhode Island General Laws § 27-7.1-9.1**

*Objective:* This Standard is concerned with submitting relevant information to advisory boards for proper statistical analysis and utilizing appropriate modification factors during the underwriting decision process.

Pursuant to R.I.G.L. § 27-7.1-9.1, the director shall appoint one or more advisory organizations licensed in accordance with § 27-9-22 to assist the director in gathering, compiling, and reporting relevant statistical information. Every workers' compensation insurer shall record and report its workers' compensation experience to the advisory organization as set forth in the uniform statistical plans submitted by the advisory organization to the director. Each workers' compensation insurer shall be a member of an advisory organization. Each workers' compensation insurer may adhere to the policy terms filed by the advisory organization. Every workers' compensation insurer shall adhere to the

uniform classification system and uniform experience rating plan as submitted to the director and which is presently in effect. The experience rating plan shall be the exclusive means of providing prospective premium adjustments based upon measurement of the loss-producing characteristics of an individual insured. The advisory organization shall not adopt any rule that would prohibit or regulate the payment of dividends, savings, or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members, or subscribers. A plan for the payment of dividends, savings, or unabsorbed premium deposits allowed or returned by insurers to their policyholders is not considered a rating plan or system.

Testing Procedures:

- Review the experience modifier issued by the NCCI (and similar advisory organizations) to ensure they reflect the information reported to the NCCI (or similar advisory organization) using the unit statistical reports. Experience modifiers should be reconciled to what is reported on the unit statistical reports and what is shown on the workers' compensation experience modification rating sheets;
- Through inquiry of Company personnel, determine if any additional areas or lack of information should be tested further.

Testing Results:

Findings: During our testing of a sample of 100 policies, we found two policies that did not apply the correct modification factor. See Standard 1 on page 10 for Findings 1 and 2.

Observations: Eide noted that the Company adhered to filing their statistical information to the reporting agency.

Recommendations: See Standard 1 on page 10 for the recommendations related to Findings 1 and 2.

**Standard 17** *Underwriting, rating and classification are based on adequate information, developed at or near inception of the coverage rather than near expiration, or following a claim.*

**Rhode Island General Laws § 27-7.1-5.1**

*Objective:* This standard is concerned with whether underwriting, rating, and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

Pursuant to R.I.G.L. §27-7.1-5.1, every insurer shall file with the director every manual, minimum premium, class rate, rating schedule, or rating plan and every other rating rule, and every modification of any of the foregoing which it proposes to use. Every filing shall state the proposed effective date of the filing. Every insurer shall file or incorporate by reference material which has been approved by the director, at the same time as the filing of the rate, and all supplementary rating and supporting information to be used in conjunction with a rate.

*Testing Procedures:*

- Verify that underwriting decisions were based on information that reasonably should have been developed at the inception of the policy or during initial underwriting and not, through audit or other means, after policy has expired;
- Determine if the initial underwriting of a policy is based on the information obtained after a claim is submitted.

*Testing Results:*

*Findings:* During our testing of a sample of 100 policies, we found violations of other standards that violated this standard as well.

*Observations:* Eide noted that 98 of the 100 policies examined correctly utilized information available at the inception of the policies however, 2 policies were written with incorrect experience modification factors at inception as noted in Standard 1 and were determined to be isolated errors. Eide Noted 99 policies that had adequate supporting documentation for the file and noted 1 policy that did not include a no loss letter even though the underwriter had required it for the file. Eide noted 97 policies that were correctly placed in underwriting companies in accordance with the Company underwriting guidelines.

*Findings, Response and Recommendations:* See Standard 1 on page 10 for Findings 1 and 2 related to experience modifications as well as the Company Responses and Eide Recommendations. See Standard 4 on page 12 for Finding 3 related to the no loss letter as well as the Company Response and Eide Recommendations. See Standard 10 on page 15 for Finding 4, 5, and 6 related to the placement of risks into companies with lower loss cost multipliers without proper supporting documentation as well as the Company Response and Eide Recommendations.

**Standard 19 *The regulated entity does not engage in collusive or anti-competitive underwriting practices.***

**Rhode Island General Law § 27-7.1-12.1**

*Objective:* This Standard is concerned with whether the Company has engaged in any collusive or anti-competitive underwriting practices.

Pursuant to R.I.G.L. § 27-7.1-12.1, no insurer or Advisory Organization may: monopolize, attempt to monopolize, or combine or conspire with any other person or persons to monopolize the business of insurance of any kind, subdivision, or class; agree with any other insurer or the advisory organization to charge or adhere to any rate or rating plan other than the uniform experience rating plan or rating rule except as needed to comply with the requirements of § 27-7.1-10; make an agreement with any other insurer, the advisory organization, or other person to unreasonably restrain trade or substantially lessen competition in the business of insurance of any kind, subdivision, or class; or make any agreement with any other insurer or the advisory organization to refuse to deal with any person in connection with the sale of insurance.

The fact that two (2) or more insurers, whether or not members or subscribers to the advisory organization, use consistently or intermittently the same rating plans, rating schedules, rating rules, policy forms, rate classification, underwriting rules, surveys, inspections, or similar materials is not sufficient in itself to support a finding that an agreement exists.

The advisory organization and any member or subscriber of it may not interfere with the right of any insurer to make its rates independently of the advisory organization. Except as required by § 27-7.1-10, the advisory organization may not have or adopt any rule or exact any agreement or formulate or engage in any program which would require any member, subscriber, or other insurer to utilize some or all of its service; adhere to its rates, rating plan, rating systems, or underwriting rules or prevent any insurer from acting independently.

*Testing Procedures:*

- Through inquiry of Company personnel, review of agency information and review of underwriting files, determine if the Company is engaging in collusive underwriting practices that may inhibit competition;
- Through review of agency actions and underwriting files, determine if the Company entered into a pricing strategy to penetrate a market or business class through improper application of underwriting guidelines or scheduled debit and credits.

*Testing Results:*

*Findings:* During our testing of a sample of 100 policies, we found no exceptions to the above standard.

**Standard 20 *All policies are correctly coded***

**RI General Laws § 27-7.1-9.1**

Objective: This Standard is concerned with the accuracy of statistical coding.

Pursuant to R.I.G.L. § 27-7.1-9.1, the director shall appoint one or more advisory organizations charged with compiling, and reporting relevant statistical information. Every workers' compensation insurer shall record and report its workers' compensation experience to the advisory organization as set forth in the uniform statistical plans submitted by the advisory organization to the director. Except for corporations organized under chapter 7.2 of this title, each workers' compensation insurer shall be a member of an advisory organization. Each workers' compensation insurer may adhere to the policy terms filed by the advisory organization. Every workers' compensation insurer shall adhere to the uniform classification system and uniform experience rating plan as submitted to the director and which is presently in effect. The experience rating plan shall be the exclusive means of providing prospective premium adjustments based upon measurement of the loss-producing characteristics of an individual insured.

Testing Procedures:

- Determine that the regulated entity confirms the coding as reported by the producer is correct and current;
- Determine that the regulated entity promptly updates all coding manuals and programs;
- Determine that the regulated entity correctly codes all policies according to current codes;
- Determine that regulated entity reviews data errors and subsequently changes are made.

Testing Results:

Findings: During our testing of a sample of 100 policies, we found no exceptions to the above standard.

**Standard 21 Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and the documentation adequately supports decisions made.**

Objective: This Standard is concerned with ensuring that all forms are completed fully and all information obtained supports the underwriting decision made.

Testing Procedures:

- Applications should be complete and signed, where required (includes electronic signatures);
- Determine that the underwriting file contains necessary information to tell the regulated entity what exposure exists;
- Determine when and under what conditions the regulated entity required physical inspection, motor vehicle report (MVR), inspection report, credit report or other underwriting information to confirm exposure or premium basis;
- Verify that when a policy is issued on a basis other than applied for, that notice of adverse underwriting decision is provided in accordance with applicable state statutes and regulations.

Testing Results:

Findings: During our testing of a sample of 100 policies, we found 6 that did not have an application included in the file.

Recommendation: Eide recommends that the Company reiterate to their agents that applications must be retained in the policy file.

Company Response: Section 9 of the standard Travelers agency contract states that the agent “will retain original applications, supplemental applications and related policy documents for policies you upload electronically to us. You will retain these documents for the longer of the period of time that we specify or is required by law. You will promptly provide us with these documents upon request.” For the significant majority of the policies selected for review, our agents have followed this contractual requirement and the applications were in the file. Having said that, we note the exception and we will communicate to our agents the importance of retaining applications and other file documentation.

## **SUMMARY**

Based upon the procedures in this limited scope engagement, Eide has reviewed and tested Company Underwriting and Rating as set forth in the Handbook and the Rhode Island insurance laws and regulations. Eide has made recommendations to address various concerns related to Standards 1,4,10, 14, 17 and 21.

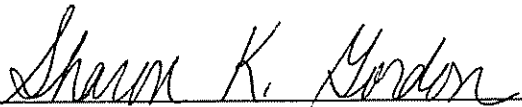
The cooperation and assistance that the officers and employees of The Travelers Companies and employees of the Department extended during the course of this review is hereby acknowledged.

## ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Eide Bailly LLP, applied certain agreed-upon procedures to the corporate records of the Company in order for the Department of the State of Rhode Island to perform a Targeted Market Conduct Examination (“Targeted Examination”) of the Companies.

The undersigned’s participation in this targeted examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the National Association of Insurance Commissioners (NAIC) and the *NAIC Market Conduct Examiners’ Handbook*. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of this targeted examination report.

The cooperation and assistance of the officers and employees of the Company extended to all examiners during the course of the examination is hereby acknowledged.



Sharon K. Gordon, CPA, CFE  
Chief Insurance Examiner  
State of Rhode Island  
Department of Business Regulation  
Insurance Division



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DEPARTMENT OF BUSINESS REGULATION  
INSURANCE DIVISION  
1511 Pontiac Ave. – Bldg. 69-2  
Cranston, RI 02920

IN THE MATTER OF:

)

DBR No. 09-237

FARMINGTON CASUALTY COMPANY - #41483 )  
THE CHARTER OAK FIRE INSURANCE COMPANY - # 25615 )  
THE PHOENIX INSURANCE COMPANY - #25623 )  
THE STANDARD FIRE INSURANCE COMPANY - #19070 )  
THE TRAVELERS INDEMNITY COMPANY OF AMERICA - #25666 )  
THE TRAVELERS INDEMNITY COMPANY OF CONNECTICUT - #25682 )  
TRAVELERS CASUALTY AND SURETY COMPANY - 19038 )

Respondent. )

CONSENT AGREEMENT

It is hereby agreed between the Department of Business Regulation (“Department”) and the Travelers Companies (“Respondent”) as follows:

1. Pursuant to R.I. Gen. Laws § 27-13.1-4, the Department initiated a Market Conduct Examination (“Examination”) in order to evaluate Respondent’s compliance with applicable R. I. Gen. Laws.
2. The Examination was completed and a report was issued on September 15, 2009.

WHEREFORE, based on the foregoing, Respondent and the Department have decided to resolve this matter without further administrative proceedings, and hereby agree to the following resolution:

The Examination concluded that Respondent failed to comply with Rhode Island Gen. Laws §27-7.1-5.1, §27-7.1-2, §27-7.1-9.1 and R.I. Department of Business Regulation Insurance Bulletin 2007-5, for the use of incorrect experience modification factors in

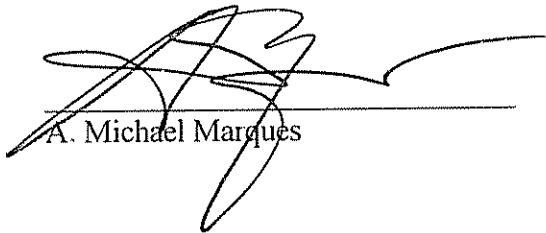
rating workers compensation policies, and for failing to maintain adequate documentation to support underwriting and pricing decisions.

For violations relating to underwriting and rating, Respondent is ordered to pay an administrative penalty of twenty-five thousand dollars (\$25,000).

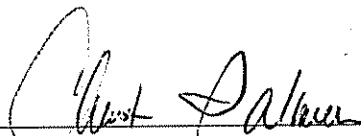
Department and Respondent hereby consent and agree to the foregoing on this 16<sup>th</sup> day of October 2009.

Department of Business Regulation  
By its Director,

Respondent,



A. Michael Marques



Signature

Christina Palmieri

Name (Print)

2<sup>nd</sup> Vice President

Title (Print)