

REPORT ON
THE MARKET CONDUCT EXAMINATION
OF
AMERICAN COMMERCE INSURANCE COMPANY

as of

June 30, 2003

State of Rhode Island
Department of Business Regulation
Insurance Division

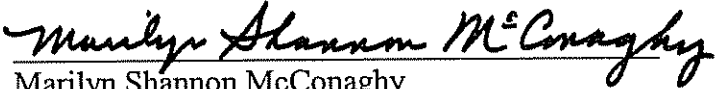
**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION**

The attached Report of Examination as of June 30, 2003 of the market conduct condition and affairs of American Commerce 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 American Commerce Insurance Company and its 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. 04-271

DATED: August 31, 2004

TABLE OF CONTENTS

	Page Number
Salutation	3
Foreword	3
Scope of Examination	4
Profile of Company	4
Claim Practices	6
Private Passenger Automobile	6
Homeowners	7
Cancellations and Nonrenewals	8
Private Passenger Automobile	8
Summary of Recommendations	9
Conclusion	10

Providence, Rhode Island

June 28, 2004

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:

**American Commerce Insurance Company
211 Main Street
Webster, Massachusetts**

hereinafter referred to as the "Company".

The examination was conducted at the administrative office of the Company, which is located at 211 Main Street, Webster, Massachusetts.

FOREWORD

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

SCOPE OF EXAMINATION

Authority for this examination is provided by R. I. Gen. Laws §27-13-1 and §27-13.1-3. The examination covered the period from January 1, 2002, through June 30, 2003, 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: Underwriting, Claims, Cancellations and Nonrenewal Practices. The lines of business examined were private passenger automobile and homeowners.

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

PROFILE OF COMPANY

American Commerce Insurance Company

History

American Commerce Insurance Company is a stock property/casualty insurance company organized under the laws of Ohio. The company was incorporated on September 18, 1946 and commenced business on March 19, 1947. The Company's statutory home office is located in Columbus, Ohio.

The Company is represented exclusively by American Automobile Association (AAA) Club agencies. The Company is licensed in forty four 44 states and writes primarily

private passenger automobile and homeowners insurance in approximately twenty-six (26) states.

The Company is a wholly-owned subsidiary of ACIC Holding Co., Inc., which acquired the Company in 1999. Prior to that acquisition, the Company was known as Automobile Club Insurance Company and was a subsidiary of the American Automobile Association. Currently, The Commerce Insurance Company owns a 95% equity interest in ACIC Holding Co., Inc., and the other 5% is owned by AAA of Southern New England. The Company's ultimate parent is The Commerce Group, Inc., an insurance holding company incorporated in Massachusetts in 1976.

Operations

The Company's Rhode Island direct written premiums for the year 2002 was as follows:

<u>Line of Business</u>	<u>Direct Written Premium (2002)</u>
Other Private Passenger Auto Liability	8,822,625
Private Passenger Auto Physical Damage	5,195,193
Homeowners multiple peril	<u>3,275,408</u>
Total	17,293,226

Management

The management of the American Commerce Insurance Company is under the direction of experienced insurance executives, who have spent the greater part of their business careers in the insurance industry.

At December 31, 2002, the Officers of the Company were as follows: Regan Paul Remillard (President & CEO), Randall Vaughn Becker (Treasurer), James Anthony Ermilio (Secretary).

CLAIM PRACTICES

Private Passenger Automobile

A review of the Company's private passenger automobile claim practices for the period under examination was conducted to determine whether the Company complied with the applicable provisions of its private passenger automobile policy, did not misrepresent policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims and made fair and equitable settlement of claims. In addition, the review was performed to evaluate whether the Company was in compliance with R. I. Gen. Laws §27-7-5, §27-8-12, §27-8-14, §27-9.1-4, §27-10.2-2, §27-29-3, §27-29-16, §27-57-1 and Rhode Island Insurance Regulations 10 and 73.

The Company provided the examiners with a listing of claims closed with and without payment during the period under examination. This population was 3,385, of which 2,264 were paid claims and 1,121 were claims closed without payment. A sample of 50 private passenger automobile claim files was selected for review, which consisted of 33 paid and 17 closed without payment claims.

During our testing, the examiners noted 4 claim files in which the Company did not report salvage declarations to the National Insurance Crime Bureau (NICB) as required by R. I. Gen. Laws §27-8-14. Therefore, the Company was in violation of R. I. Gen. Laws §27-8-14.

Recommendation # 1: It is recommended that the Company review their claim procedures and make appropriate changes in order to ensure compliance with R. I. Gen. Laws §27-8-14.

During our testing, the examiners noted eleven claim files in which the Company did not forward a written acknowledgement of the claim within 10 days of notification of loss, as required by Rhode Island Insurance Regulation R27-73-005.D. Therefore, the Company was in violation of Rhode Island Insurance Regulation R27-73-005.D. It should be noted

that the Company advised the examiners that no written acknowledgements were forwarded as required by the above referenced law.

Recommendation # 2: It is recommended that the Company review their claim procedures and make appropriate changes in order to ensure compliance with Rhode Island Insurance Regulation R27-73-005D.

Homeowners

A review of the Company's homeowner claim practices for the period under examination was conducted to determine whether the Company complied with the applicable provisions of its homeowner policy, did not misrepresent policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims and made fair and equitable settlement of claims. In addition, the review was performed to evaluate whether the Company was in compliance with R. I. Gen. Laws §27-5-3, §27-9.1-4, §27-29-3, §27-57-1 and Rhode Island Insurance Regulation 73.

The Company provided the examiners with a listing of claims closed with and without payment during the period under examination. This population was 731, of which 412 were paid claims and 319 were claims closed without payment. A sample of 50 homeowner claim files was selected for review, which consisted of 28 paid and 22 closed without payment claims.

During our testing, the examiners noted twenty claim files in which the Company did not forward a written acknowledgement of the claim within 10 days of notification of loss, as required by Rhode Island Insurance Regulation R27-73-005.D. Therefore, the Company was in violation of Rhode Island Insurance Regulation R27-73-005.D. It should be noted that the Company advised the examiners that no written acknowledgements were forwarded as required by the above referenced law.

Recommendation # 3: It is recommended that the Company review their claim procedures and make appropriate changes in order to ensure compliance with Rhode Island Insurance Regulation R27-73-005D

CANCELLATIONS & NONRENEWALS

Private Passenger Automobile

A review of the Company's private passenger automobile cancellation and nonrenewal practices was conducted to determine whether the Company complied with the applicable provisions of its private passenger automobile policy and R. I. Gen. Laws §31-47-4 and Insurance Regulations 8 and 16.

The Company provided the examiners with a listing of private passenger automobile cancellations and nonrenewals processed during the period under examination. This population was 192, of which 160 were nonrenewals and 32 were cancellations. A sample of 75 policies was selected for review which consisted of 62 nonrenewals and 13 cancellations.

During our testing, the examiners noted four (4) policies which were nonrenewed for loss occurrences only, which were outside the annual policy year and therefore in violation of Rhode Island Insurance Regulation R27-16-004.B.

Recommendation # 4: It is recommended that the Company review their nonrenewal procedures and make appropriate changes in order to ensure compliance with Rhode Island Insurance Regulation R27-16-004.B.

During our testing, the examiners noted that in all of the cancellation and nonrenewal notices reviewed, the Company did not include the hour of termination as required by Rhode Island Gen. Laws §31-47-4(b). Therefore, the Company was in violation of R.I. Gen. Laws §31-47-4(b). It should be noted that the Company advised the examiners that the hour of termination was not included in any of their cancellation or nonrenewal notices.

Recommendation # 5: It is recommended that the Company review their nonrenewal and cancellation procedures and make appropriate changes in order to ensure compliance with Rhode Island Gen. Laws §31-47-4(b).

Summary of Recommendations

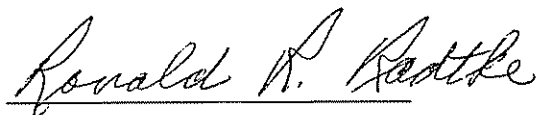
No.		Page #
1	It is recommended that the Company review their claim procedures and make appropriate changes in order to ensure compliance with R. I. Gen. Laws §27-8-14.	6
2	It is recommended that the Company review their claim procedures and make appropriate changes in order to ensure compliance with Rhode Island Insurance Regulation R27-73-005D	7
3	It is recommended that the Company review their claim procedures and make appropriate changes in order to ensure compliance with Rhode Island Insurance Regulation R27-73-005D	8
4	It is recommended that the Company review their nonrenewal procedures in order to ensure compliance with Rhode Island Insurance Regulation R27-16-004.B.	8
5	It is recommended that the Company review their nonrenewal and cancellation procedures and make appropriate changes in order to ensure compliance with Rhode Island Gen. Laws §31-47-4(b).	9

CONCLUSION

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

Assisting the undersigned in the conduct of this examination, was Robert G. Arrow, FLMI, Senior Market Conduct Examiner.

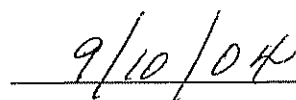
Respectfully submitted,



Ronald R. Radtke

Senior Market Conduct Examiner

Rhode Island Insurance Division



Date