

REPORT ON
MARKET CONDUCT EXAMINATION

OF THE

THE TRAVELERS CORPORATION (P & C Companies)
ONE TOWER SQUARE
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TELEPHONE (203) 277-2822
NAIC GROUP CODE 189

AS OF

JUNE 30, 1992

DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION
STATE OF RHODE ISLAND

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July 7, 1994

Honorable Michael Bucci
Insurance Commissioner
State of Rhode Island
Providence, Rhode Island 02903

Sir:

In compliance with your instructions, and pursuant to Title 27, Chapter 13 and 13.1 of the Insurance Laws of the State of Rhode Island, a Market Conduct Examination has been performed on the Rhode Island Business of:

The Travelers Corporation (P & C Companies)

One Tower Square

Hartford, Connecticut 06183-9090

Hereinafter, generally referred to as "The P&C Companies", our report is submitted as follows:

FOREWORD

The report of the market conduct examination, in general, is a report by exception. Any additional practices, procedures, and/or files subject to review during the examination may have been omitted from the report if no exceptions and/or improprieties were indicated.

SCOPE OF EXAMINATION

The examination, as stated in the salutation, was conducted in accordance

with Title 27, Chapter 13 and 13.1 of the Insurance Laws of the State of Rhode Island. The examination commenced on September 22, 1992 and covered the period from January 1, 1990 to June 30, 1992 for the following Travelers Corporation companies:

- | | |
|---|-----------------|
| . The Travelers Insurance Company | NAIC Code 39357 |
| . The Travelers Indemnity Company | NAIC Code 25658 |
| . The Travelers Indemnity Company of Illinois | NAIC Code 25674 |
| . The Charter Oak Fire Insurance Company | NAIC Code 25615 |
| . The Travelers Indemnity Company of America | NAIC Code 25666 |
| . The Travelers Indemnity Co. of Rhode Island | NAIC Code 25682 |
| . The Phoenix Insurance Company | NAIC Code 25623 |

The primary purpose of the examination was to determine the P & C Companies' compliance with statutes, regulations, and policy provisions relative to the P & C Companies' property and casualty insurance activities within the State of Rhode Island.

The examination was performed in conformance with procedures as prescribed by the National Association of Insurance Commissioners. Accordingly, certain schedules, reviews, and analyses were prepared and evaluations performed of principal segments of the P & C Companies' operations.

The examination included but was not limited to the following segments: (1) certificates of authority, (2) consumer or other related complaints, (3) sales and advertising, (4) licensing of agents, agencies, and brokers, (5) policy forms, (6) underwriting and rating, and (7) claims practices.

The results of the testing satisfied the primary purpose of the examination and formed the basis for the findings and recommendations presented in this report.

COMPANY OVERVIEW

History

The Travelers Corporation ("The Travelers") was incorporated under the laws of the State of Connecticut on July 26, 1965, using the temporary title of Constitution State Insurance Company, to act as the vehicle for the acquisition of complete and direct ownership of The Travelers Insurance Company and The Travelers Indemnity Company. The reorganization was effected on December 28, 1965 with the adoption of the present title, The Travelers Corporation.

The property and casualty insurance business is written through the Travelers Indemnity Company and its subsidiary and affiliated Property-Casualty Insurance Companies (P & C Companies). With 1991 revenues of \$5.1 billion, The Travelers Indemnity Company is one of the largest stock property and casualty insurance groups in the United States and writes most types of property and casualty insurance, including accident and health insurance and workers compensation insurance.

The Travelers Insurance Company was incorporated in 1863 and is the largest of the life insurance subsidiaries. The Travelers Insurance Company and its

subsidiary and affiliated Life Insurance Company (Life Companies) write individual and group life insurance, annuities and accident and health insurance. With \$218.1 billion of Life Insurance in force as of December 31, 1991, The Travelers Insurance Company is one of the largest stock life insurance groups in the United States.

The Charters of the Travelers Corporation Companies empower them to write most classes of insurance including life insurance in Rhode Island. The Travelers' Home Office is located in Hartford, Connecticut. They use the Independent agency system with approximately one thousand four hundred (1400) licensed agents to market their insurance products.

Company Operations and Management

The insurance and related investment operations of The Travelers account for 98% of its consolidated assets as of December 31, 1991. The Travelers principal insurance market is the United States. The Travelers' subsidiaries also offer pension, investment management, consumer banking services and managed health care programs.

The Travelers operates under three (3) customer oriented marketing groups; (1) the National Accounts Group, (2) The Agency Marketing Group and, (3) Corporate and Other Operations.

In 1989, The Travelers sold Keystone Group, Inc., Keystone Custodian Funds, Inc., Travelers Mortgage Services, Inc., and Keystone Provident Life

Insurance Company. The sale of these operations was made to strengthen the capital base of its core business. In 1992, approval was given by the Travelers Board of Directors for Primerica Corporation to obtain 27% ownership of the Travelers.

CERTIFICATES OF AUTHORITY

A review of the Certificates of Authority in conjunction with the operations of the P & C Companies was performed to determine the P & C Companies compliance with Rhode Island Insurance Laws 27-1-37, Domestic Insurance Companies - Compliance by domestic insurers and 27-2-11, Foreign Insurance Companies - License.

The examiners determined from the results of the review that the P & C Companies are properly licensed in the State of Rhode Island to write property and casualty lines of insurance and that the Certificates were in compliance with the authority granted them.

Therefore, no violations of Rhode Island Insurance Laws 27-1-37 and 27-2-11 were noted.

POLICYHOLDER TREATMENT

Consumer Or Other Related Complaints

The P & C Companies' Consumer or Other Related Complaints procedures and

documentation were examined to determine the P & C Companies' compliance with various Rhode Island Insurance Statutes and Regulations.

The P & C Companies' Consumer Affairs Administrator provided the examiners with a computer listing of all complaints on record at the P & C Companies for the period under examination. According to the Administrator, all written complaints presented to the P & C Companies were recorded and tracked on a computerized tracking system known as Cores. Cores is an on-line system which is capable of being accessed at the P & C Companies home office, as well as, field offices. Cores information is available to all levels of management to provide them with a means to quickly identify and correct the cause of customer problems and improve complaint handling effectiveness.

The examiners initial review of the listing determined that the P & C Companies had recorded receipt of twenty-two (22) complaints for the period under examination. For the same period, the examiners were provided by the R.I. Insurance Division with a listing of twenty-six (26) complaints which they had received, recorded, and subsequently sent to the P & C Companies. However, upon comparison of the two listings by the examiners, only eight (8) complaints could be matched up exactly. Therefore, the listing maintained by the P & C Companies was determined to be unreliable.

Based on the above results, the examiners requested the forty (40) complaint files corresponding to the combined total of the two listings taking the duplicate complaints under consideration. The P & C Companies were unable to produce fourteen (14) of the complaint files requested. Ten (10) of the

missing fourteen complaint files relate to complaints originally forwarded to the P & C Companies by the R.I. Insurance Division. The P & C Companies' inability to provide such files as well as to maintain a reliable listing is in violation of Rhode Island Insurance Laws 27-1-11, Domestic Insurance Companies - Examination of companies and 27-2-19, Foreign Insurance Companies - Examinations.

In addition to the above, the P & C Companies were unable to produce documentation that a response was made within fifteen (15) working days to an inquiry from the R.I. Director of Business Regulation regarding a claims complaint. This violates Section 6(b) of Rhode Island Insurance Regulation XXVIII, Fair Insurance Claims Settlement Practices.

The inability of the P & C Companies to produce complaint files and specific documents, coupled with the unreliability of their complaint register, impacts seriously on the P & C Companies ability to identify and resolve the cause of customer problems. It is therefore recommended that:

- 1) The P & C Companies' management take immediate action to ensure that procedures already in place are sufficient to adequately manage the overall handling of consumer or other related complaints.
- 2) All appropriate personnel should be reissued complaint handling procedures and verify in writing that they have received their reissued copy, are aware of its contents, and are presently

reinforcing adherence to the procedures.

MARKETING

Sales And Advertising

The review of the P & C Companies' Sales and Advertising material for the period under examination was performed to determine the P & C Companies' compliance with Rhode Island Insurance Law: 27-29-4, Unfair Competition and Practices - "Unfair and Deceptive Acts."

The review resulted in no exceptions noted.

Licensing Of Agents, Agencies And Brokers

The examination of the P & C Companies' license and termination procedures of agents, agencies and brokers was conducted to substantiate the P & C Companies' compliance with Rhode Island Insurance Laws 27-3-2, 27-3-6 and 27-3-16, Agents, Brokers, Solicitors - License requirement, Limited licenses and Foreign agents: license requirement.

Upon performing a reconciliation of the P & C Companies' records with a list of licensed agents from the Insurance Division of the Rhode Island Department of Business Regulation, Insurance Division, forty-four (44) exceptions were noted as follows: 1) Twenty-three (23) terminated agents have not been

removed from the P & C Companies' list of licensed agents and 2) the P & C Companies were unable to provide documentation that one individual writing business in Rhode Island held a valid Rhode Island agent's license.

The examiners, upon further investigation of records retained at the Rhode Island Department of Business Regulation, Insurance Division, were able to ascertain that the agent in question was in fact licensed. Although the examiners were able to substantiate the agent's license, the P & C Companies inability to provide the examiners with such documentation is a violation of Rhode Island Laws 27-1-11, Domestic Insurance Companies - Examination of companies and 27-2-19, Foreign Insurance Companies - Examinations.

As a result of these findings, it is recommended that:

- 1) The P & C Companies' license and termination procedures for agents, agencies, and brokers be put in writing and become part of the P & C Companies' procedures manual.
- 2) The P & C Companies' department responsible for the appointment and termination of agents, agencies and brokers be given a copy of the written procedures for immediate implementation.
- 3) The P & C Companies' licensing manager/coordinator should confirm in writing to the Rhode Island Department of Business Regulation, Insurance Division that the written procedures have been implemented.

UNDERWRITING AND RATING

Policy Forms And Rate Filings

Policy forms and rate filings used by the P & C Companies for the period under examination were tested for compliance with Rhode Island Insurance Laws: 27-6-9 Filing requirement (Fire and Marine Rating), 27-9-7 Rate schedules, 27-9-8 Filing requirements (Casualty Insurance Rating), and Rhode Island Insurance Regulation XXII Reference Filings, specifically, and various other Rhode Island Insurance Laws and Regulations, where applicable.

A review of the P & C Companies' personal property policy forms determined that the P & C Companies are not in compliance with Rhode Island General Law 45-47-1 through 45-47-10 entitled Municipal Liens on Fire Insurance Proceeds and Rhode Island Insurance Regulation XXXI-Municipal Liens on Fire Insurance Proceeds Regulation, Section I, II, III.

Rhode Island General Law 45-47-4 and Rhode Island Insurance Regulation XXXI require that all Fire Policies issued after January 1, 1983 include a summary of Chapter 47 of Title 45, the Municipal Liens on Fire Insurance Proceeds law. During the course of the examination the P & C Companies acknowledged that Rhode Island Law 45-47-4 did impact on certain policy forms utilized by them which do not currently include the required provision. The P & C Companies advised the examiner that corrective action would be taken by making a filing at the time of their next form filing revision which was

scheduled for the third quarter of 1993. It is recommended that a copy of the filing be provided to the Chief Insurance Examiner in order to confirm that corrective action has been taken by the P & C Companies.

The P & C Companies' account billing and installment premium payment plan was not filed with the Rhode Island Department of Business Regulation - Insurance Division as required by Rhode Island Insurance Regulation XXII - Reference Filings.

During the course of the examination, the examiners brought to the attention of the P & C Companies' management the requirement that the P & C Companies file their account billing or installment premium payment plan with the Rhode Island Department of Business Regulation, Insurance Division. The P & C Companies, while not agreeing with the examiners' position, did make a filing on February 24, 1993 for the P & C Companies' account billing or installment premium payment plan as required by Rhode Island Insurance Regulation XXII - Reference Filings.

The P & C Companies' private passenger automobile manual provides for Medical Payment Coverage limits of \$500; \$1000; \$3000; \$5000 and \$10,000 and permits the insured or applicant for insurance to reject Medical Payments Coverage entirely or to select a limit as scheduled above. By the P & C Companies offering limits of \$500 and \$1000 they are in violation of Rhode Island Insurance Law 27-7-2.5 Medical Payments Coverage, in as much that the minimum automobile medical payment limit in Rhode Island is \$2500.

As a result of the above exception, it is recommended that:

- 1) The P & C Companies revise all their Rhode Island automobile manuals to reflect a minimum automobile medical payment limit of \$2500 for each individual. In addition, the P & C Companies should check their automobile medical payment filing, and if necessary, submit a revised filing to comply with Rhode Island Insurance Law 27-7-2.5.
- 2) The P & C Companies' management instruct all company personnel responsible for submitting filings to the Department of Business Regulation, Insurance Division, that they completely familiarize themselves with Rhode Island Insurance Regulation XXII - Reference Filings to ensure timely filing in the future.

General - All Lines of Business

For the period under examination, the P & C Companies' Underwriting and Rating practices for all lines of business written in the State of Rhode Island were reviewed. This review was conducted to determine the P & C Companies' compliance with Rhode Island Insurance Laws: 27-6-4. Ratemaking standards (Fire and Marine Insurance Rating) and 27-44-5 Rate standards (Casualty, Liability and Fire and Marine Insurance Rating), specifically, and various other Rhode Island Insurance Laws and Regulations, where applicable, with respect to the following lines of business:

Homeowners And Personal Umbrella

At the time of the examination, the P & C Companies were unable to provide support documentation that one of the producing agents was licensed by the State of Rhode Island, Department of Business Regulation, Insurance Division. The examiners, upon further investigation of records retained at the Insurance Division, were able to ascertain that the producing agent in question was in fact licensed. Although the examiners were able to substantiate the producing agent's license, the inability of the P & C Companies to provide the examiners with such documentation is a violation of Rhode Island Laws: 27-1-11, Domestic Insurance Companies - Examination of companies and 27-2-19, Foreign Insurance Companies - Examinations.

It is therefore recommended that:

- 1) The P & C Companies' management take immediate action to implement written procedures to ensure proper record retention procedures as they relate to the documents substantiating the license of the producing agents.
- 2) All appropriate personnel should receive a copy of the licensing procedures, and verify in writing that they have received their written procedures, are aware of its contents, and are presently implementing the procedures.

Private Passenger Automobile

From our test sample of fifty-three (53) Private Passenger Automobile files, the examiners determined that three (3) private passenger automobile policies were rated incorrectly. These rating errors violate Rhode Island Insurance Law 27-44-5 Rate standards (Casualty, Liability and Fire and Marine Insurance Rating).

In addition, the P & C Companies were unable to provide support documentation for two (2) of the files tested, relating to the producing agents' licenses. The examiners, upon further investigation of records retained at the Rhode Island Department of Business Regulation, Insurance Division, were able to ascertain that the producing agents in question were in fact licensed. Although the examiners were able to substantiate the producing agents' licenses, the inability to provide such documentation is a violation of Rhode Island Insurance Laws 27-1-11, Domestic Insurance Companies - Examination of companies, and 27-2-19, Foreign Insurance Companies - Examinations.

As a result of the above exceptions, it is recommended that:

- 1) The P & C Companies correct their rating with respect to the three (3) private passenger automobile policies and refund the excess premium charge to the insureds.
- 2) The P & C Companies' management take immediate action to implement written procedures to ensure proper record retention procedures as

they relate to the documents substantiating the license of the producing agents.

- 3) All appropriate personnel should receive a copy of the licensing procedures, and verify in writing that they have received their written procedures, are aware of its contents, and are presently implementing the procedures.

Commercial Property And Liability

From our test sample of eighty-six (86) Commercial Property and Liability files, the P & C Companies were unable to provide the examiners with thirteen (13) files in their entirety. This inability to provide the requested files is a violation of Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.

In addition, from those files as provided by the P & C Companies, eight (8) files lacked the supporting documentation relative to the licenses of the producing agents. The examiners, upon further investigation of records retained at the Rhode Island Department of Business Regulation, Insurance Division, were able to ascertain that the producing agents in question were in fact licensed. Although the examiners were able to substantiate the producing agents' licenses, the inability of the P & C Companies to provide such documentation is a violation of Rhode Island Insurance Laws 27-1-11, Domestic Insurance Companies - Examination of companies, and 27-2-19, Foreign

Insurance Companies - Examinations.

It is therefore recommended that:

- 1) Due to the lack of sufficient controls relative to record retention and retrieval of files, the P & C Companies' management should review their record retention and retrieval procedures and implement corrective measures to ensure compliance with Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.

- 2) Due to the missing documentation relative to the license of the producing agent, it is recommended that:
 - A) The P & C Companies' management take immediate action to implement written procedures to ensure proper record retention procedures as they relate to the documents substantiating the licenses of the producing agents.

 - B) All appropriate personnel should receive a copy of the licensing procedures, and verify in writing that they have received their written procedures, are aware of its contents, and are presently implementing the procedures.

Cancellations And Non-Renewals

A testing of the P & C Companies' cancellation and non-renewal practices was performed to determine compliance with Rhode Island Insurance Regulation XVI - Notice of Non-Renewal and Rhode Island Insurance Regulation XXXVIII - Commercial Insurance Cancellation, Non-Renewal and Premium or Coverage Changes, specifically, and various other Rhode Island Insurance laws and regulations, where applicable, for the following lines of business:

Homeowners And Personal Umbrella

From our test sample of thirty-three (33) Homeowners cancellation files and two (2) Personal Umbrella cancellation files, it was determined by the examiners that the P & C Companies were in compliance with Rhode Island Insurance Laws and Regulations. Therefore, no exceptions were noted for this section by the examiners.

Private Passenger Automobile

From our random sampling of seventy-eight (78) Private Passenger Automobile cancellation files, various exceptions were noted.

First, in three (3) of the seventy-eight (78) files tested, the examiners determined that the P & C Companies were in violation of Section 4(B) of

Rhode Island Regulation XVI - Notice of non-renewal. The regulation states that no insurance company shall fail to renew a private passenger automobile policy because of loss occurrence only, unless a chargeable loss occurred or more than two (2) non-chargeable loss occurrences involving insureds, have taken place within the annual policy year. The three (3) files tested had no chargeable losses or non-chargeable loss occurrences that took place within the annual policy year.

Second, the P & C Companies were unable to provide the examiner with four (4) files in their entirety. The P & C Companies' inability to provide the requested files is a violation of Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-1-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.

Third, from those files as provided by the P & C Companies, two (2) files lacked the supporting documentation relative to the license of the producing agent. The examiners, upon further investigation of records retained at the Rhode Island Department of Business Regulation, Insurance Division, were able to ascertain that the producing agents' in question were in fact licensed. Although the examiners were able to substantiate the producing agents' licenses, the inability to provide such documentation is a violation of Rhode Island Insurance Laws 27-1-11, Domestic Companies - Examination of Companies, and 27-2-19, Foreign Companies - Examinations.

Finally, the P & C Companies were unable to produce documentation confirming that cancellation notices were sent to the lienholder (loss payee) on two (2)

files tested, resulting in a violation of the P & C Companies' Private Passenger Automobile filing.

As a result of the above exceptions it is recommended that:

- 1) The P & C Companies' management take immediate action to ensure that the appropriate personnel study Section 4B - Notice of nonrenewal of Rhode Island Insurance Regulation XVI - Automobile Insurance Policies; Cancellation and Renewal Provisions - to ensure that in the future all Private Passenger Automobile Nonrenewal Notices will be issued in compliance with Regulation XVI.
- 2) Due to the lack of sufficient controls relative to record retention and retrieval of files, the P & C Companies' management should review their record retention and retrieval procedures and implement corrective measures to ensure compliance with Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.
- 3) For the missing documentation relative to the license of the producing agent, it is recommended that:
 - A) The P & C Companies' management take immediate action to implement written procedures to ensure proper record retention as they relate to the documents substantiating the licenses of

producing agents.

- B) All appropriate personnel should receive a copy of the licensing procedures, and verify in writing that they have received their written procedures, are aware of its contents, and are presently implementing the procedures.

- 4) The appropriate P & C Companies' personnel be made aware of the policy provision as well as the policy filing which states that cancellation notices are to be sent to the lienholder (loss payee) at the time a policy is cancelled.

Commercial Property Insurance

From our test sample of eighty-two (82) Commercial Property Insurance Cancellation files, the P & C Companies were unable to provide the examiners with eleven (11) files in their entirety. This inability to provide the requested files is a violation of Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.

In addition, in five (5) files tested it was determined that the P & C Companies were unable to produce support documentation that the producing agent was licensed by the State of Rhode Island Department of Business Regulation - Insurance Division. The examiners, upon further investigation of records retained at the Rhode Island Department of Business Regulation,

Insurance Division, were able to ascertain that the producing agents' in question were in fact licensed. Although the examiners were able to substantiate the producing agents' licenses, the P & C Companies' lack of documentation is a violation of Rhode Island Laws 27-1-11, Domestic Insurance companies - Examination of Companies, and 27-2-19, Foreign Insurance Companies - Examinations.

Finally, in three (3) files tested, it was determined that the P & C Companies were unable to produce documentation confirming that cancellation notices were sent to the insureds as required by Rhode Island Insurance Regulation XXXVIII - 3B Notification of cancellation.

As a result of the above exceptions it is recommended that:

- 1) Due to the lack of sufficient controls relative to record retention and retrieval of files, the P & C Companies' management should review their record retention and retrieval procedures and implement corrective measures to ensure compliance with Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.
- 2) The P & C Companies' management take immediate action to implement written procedures to ensure proper record retention as they relate to the documents substantiating the licenses of the producing agents.

- 3) All appropriate personnel should receive a copy of the licensing procedures, and verify in writing that they have received their written procedures, are aware of its contents, and are presently implementing the procedures.

- 4) The P & C Companies' management take immediate action to ensure that the appropriate personnel study Rhode Island Regulation XXXVIII - Commercial Insurance Cancellation, Non-Renewal and Premium or Coverage Changes, Section 3B Notification of cancellation in order to ensure compliance with Rhode Island Insurance Regulation XXXVIII on future cancellations.

CLAIM PRACTICES

General - All Claims Practices

Claims practices, in general, are tested in order that the examiners may evaluate the P & C Companies' treatment of policyholders and claimants and compliance with Rhode Island Insurance Laws and Regulations with respect to the following classification of claims:

Closed Claims

From our test sample of one hundred eleven (111) closed claims, seven (7) exceptions were noted. The exceptions are as follows:

In five (5) of the closed claims files tested, it was determined by the examiner that the P & C Companies were unable to provide support documentation that the producing agent was licensed by the State of Rhode Island Department of Business Regulation - Insurance Division. The examiners, upon further investigation of records retained at the Rhode Island Department of Business Regulation, Insurance Division, were able to ascertain that the producing agents in question were in fact licensed. Although the examiners were able to substantiate the producing agents' licenses, the P & C Companies' lack of documentation is in violation of Rhode Island Insurance Laws 27-1-11, Domestic Insurance Companies - Examination of companies, and 27-2-19, Foreign Insurance Companies - Examinations.

The P & C Companies were unable to provide the examiners with fourteen (14) closed claim files. Fourteen (14) substitute files were selected and the P & C Companies were unable to provide the examiners with nine (9) substitute files. This inability to produce files is in violation of Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.

In two (2) of the Personal Automobile Physical Damage Claim files tested, it was determined by the examiner that the P & C Companies' adjuster failed to advise the insureds that after market parts were being used in the repair of their damaged vehicle prior to the vehicle being repaired. This is in violation of Rhode Island Insurance Law 27-10.2-2 Motor Vehicle Body Replacement Parts - Claims Adjusting.

In one (1) Personal Automobile Physical Damage Claim file tested, it was determined by the examiner that the P & C Company failed to pay the insured's loss within fifteen (15) working days after determination of a total loss, resulting in a violation of Rhode Island Insurance Regulation XXVIII-Fair Insurance Claim Settlement Practices, Section 9(c) and failed to provide the insured with the name and address of the auto salvage company, resulting in a violation of Rhode Island Insurance Regulation XXVIII Fair Insurance Claim Settlement Practices, Section 9(g) and failed to report the theft of the insured's vehicle to the National Automobile Theft Bureau (currently identified as the National Insurance Crime Bureau) as required by Rhode Island Insurance Law 27-8-14-Lost and salvage vehicle reporting.

In one (1) Personal Automobile Physical Damage Claim file tested, it was determined by the examiner that the P & C Companies' adjuster failed to view the insured's damaged vehicle within seven (7) working days of notification to the insurer of the claim resulting in a violation of Rhode Island Regulation XXVIII-Fair Insurance Claim Settlement Practices, Section 9(d).

In one (1) Personal Automobile Physical Damage Claim file tested, it was determined by the examiner that there was no documentation in the claim file to substantiate a payment which was made as required by Rhode Island Regulation XXVIII-Fair Insurance Claim Settlement Practices, Section (4).

In one (1) Commercial Automobile Liability Claim file tested, it was determined by the examiners that the P & C Companies were unable to verify the insured's coverage until eighty-five (85) days after receiving their

first notice of claim. As a result, the insured's claim was not paid until coverage was confirmed. Therefore, the P & C Companies are in violation of Section 1 - Claim settlements in general, of Rhode Island Insurance Regulation XXVIII - Fair Insurance Claim Settlement Practices.

As a result of the above exceptions it is recommended that:

- 1) The P & C Companies' management take immediate action to implement written procedures to ensure proper record retention procedures as they relate to the documents substantiating the licenses of the producing agents.
- 2) All appropriate personnel should receive a copy of the licensing procedures, and verify in writing that they have received their written procedures, are aware of its contents, and are presently implementing the procedures.
- 3) Due to the lack of sufficient controls relative to record retention and retrieval of files, the P & C Companies' management should review their record retention and retrieval procedures and implement corrective measures to ensure compliance with Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.
- 4) The P & C Companies' management instruct all adjusters responsible

for the settlement of Rhode Island losses that they completely familiarize themselves with Rhode Island Insurance Regulation XXVIII-Fair Insurance Claim Settlement Practices, specifically and other Rhode Island Laws and regulations relating to claims practices.

Closed Without Payment Claims

From our test sample of eighty-five (85) closed without payment claims, three (22) exceptions were noted. The exceptions are as follows:

- 1) In four (4) of the closed without payment files tested, it was determined by the examiner that the P & C Companies were unable to provide support documentation that the producing agent was licensed by the State of Rhode Island Department of Business Regulation - Insurance Division. The examiners, upon further investigation of records retained at the Rhode Island Department of Business Regulation, Insurance Division, were able to ascertain that the producing agents in question were in fact licensed. Although the examiners were able to substantiate the producing agents' licenses, the P & C Companies' lack of documentation is in violation of Rhode Island Insurance Laws 27-1-11, Domestic Insurance Companies - Examination of companies, and 27-2-19, Foreign Insurance Companies - Examinations.

- 2) The P & C Companies were unable to provide the examiners with seventeen (17) closed without payment files in violation of Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.
- 3) In one (1) commercial auto physical damage file tested, the examiner was unable to verify the policy term from the documentation in the file, in violation of Rhode Island Insurance Regulation XXVIII-Fair Insurance Claim Settlement Practices Section (4).

As a result of the above exceptions, it is recommended that:

- 1) The P & C Companies' management take immediate action to implement written procedures to ensure proper record retention procedures as they relate to the documents substantiating the licenses of the producing agents.
- 2) All appropriate personnel should receive a copy of the licensing procedures, and verify in writing that they have received their written procedures, are aware of its contents, and are presently implementing the procedures.
- 3) Due to the lack of sufficient controls relative to record retention and retrieval of files, the P & C Companies' management should review their record retention and retrieval procedures and

implement corrective measures to ensure compliance with Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.

- 4) The P & C Companies' management instruct all adjusters responsible for the settlement of Rhode Island losses that they completely familiarize themselves especially with Rhode Island Regulation XXVIII-Fair Insurance Claim Settlement Practices and other Rhode Island Laws and regulations relating to claims practices.

Open Claims

From our test sample of fifty-one (51) open claims, four (4) exceptions were noted. The exceptions are as follows:

The P & C Companies were unable to provide the examiners with one (1) open claim file, resulting in violation of Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.

The P & C Companies were unable to provide the examiner with one (1) Personal Automobile Physical Damage claim file relative to an automobile glass loss. The P & C Companies destroy all automobile glass loss files six (6) months

from the date of loss payment. The details of the loss can be retrieved on the computer printout. However, the hard copy file is destroyed. This violates Rhode Island Regulation XXVIII-Fair Insurance Claim Settlement Practices, Section (4).

In one (1) open Commercial Property Claim file tested, it was determined that the P & C Company failed to follow up on the open claim as required by Rhode Island Regulation XXVIII-Fair Insurance Claim Settlement Practices Section 8(d).

In one (1) open Commercial Property Claim tested, it was determined that the P & C Company had full documentation of the claim, including the estimate of damages to the property. However, the claim remained unpaid at the time the file was examined, resulting in violation of Rhode Island Insurance Regulation XXVIII-Fair Insurance Claim Settlement Practices, Section 8(d).

As a result of the above exceptions, it is therefore recommended that:

- 1) Due to the lack of sufficient controls relative to record retention and retrieval of files, the P & C Companies management should review their record retention and retrieval procedures and implement corrective measures to ensure compliance with Rhode Island Insurance Laws 27-13-1 Revocation and Suspension of License - Examinations and 27-13.1-4(B) Examinations - Appointment of examiners; conduct of examination.

- 2) The P & C Companies' management instruct all adjusters responsible for the settlement of Rhode Island losses that they completely familiarize themselves especially with Rhode Island Insurance Regulation XXVIII-Fair Insurance Claim Settlement Practices and other Rhode Island Laws and Regulations relating to claims practices.

Denied Claims

The P & C Companies' computers are not programmed to provide the examiners with a separate printout of denied claims. The denied claims are included in the closed and closed without payment computer printouts. The testing of one hundred eleven (111) closed claims and eighty-five (85) closed without payment claims resulted in one (1) finding with respect to denied claims as follows:

In the testing of one (1) Commercial Automobile Physical Damage Claim file, it was determined that the P & C Companies failed to advise the insured in writing of the denial of a first party claim in violation of Rhode Island Insurance Regulation XXVIII-Fair Insurance Claim Settlement Practices, Section 8(a).

As a result of the above exception, the examiners recommend the following:

- 1) The P & C Companies' management instruct all adjusters

responsible for the settlement of Rhode Island losses that they completely familiarize themselves especially with Rhode Island Insurance Regulation XXVIII-Fair Insurance Claim Settlement Practices and other Rhode Island Laws and Regulations relating to claims practices.

SUMMARY OF RECOMMENDATIONS

Pages

- 7 1) The P & C Companies' management take immediate action to ensure that procedures already in place are sufficient to adequately manage the overall handling of consumer or other related complaints.
- 7 2) All appropriate personnel should be reissued complaint handling procedures and verify in writing that they have received their reissued copy, are aware of its contents, and are presently reinforcing adherence to the procedures.
- 9 1) The P & C Companies' license and termination procedures for agents, agencies, and brokers be put in writing and become part of the P & C Companies' procedures manual.
- 9 2) The P & C Companies' department responsible for the appointment and termination of agents, agencies, and brokers

be given a copy of the written procedures for immediate implementation.

- 9 3) The P & C Companies' licensing manager/coordinator should confirm in writing to the Rhode Island Department of Business Regulation, Insurance Division, that the written procedures have been implemented.
- 12 1) The P & C Companies revise all their Rhode Island automobile manuals to reflect a minimum automobile medical payment limit of \$2500 for each individual. In addition, the P & C Companies should check their automobile medical payment filing, and if necessary, submit a revised filing to comply with Rhode Island Insurance Law 27-7-2.5.
- 12 2) The P & C Companies' management instruct all company personnel responsible for submitting filings to the Department of Business Regulation, Insurance Division, that they completely familiarize themselves with Rhode Island Insurance Regulation XXII - Reference Filing, to ensure timely filing in the future.
- 13 1) The P & C Companies' management take immediate action to implement written procedures to ensure proper record retention as they relate to the documents substantiating the licenses of the producing agents.

- 13 2) All appropriate personnel should receive a copy of the
licensing procedures, and verify in writing that have received
their written procedures, are aware of its contents, and are
presently implementing the procedures.
- 14 1) The P & C Companies correct their rating with respect to the
three (3) private passenger automobile policies and refund the
excess premium charge to the insureds.
- 14 2) See Pg. 13, 1.
- 15 3) See Pg. 13, 2.
- 16 1) Due to the lack of sufficient controls relative to record
retention and retrieval of files, the P & C Companies'
management should review their record retention and retrieval
procedures and implement corrective measures to ensure
compliance with Rhode Island Insurance Laws 27-13-1 Revocation
and Suspension of License - Examinations and 27-13.1-4(B)
Examinations - Appointment of examiners; conduct of
examination.
- 16 2A) See Pg. 13, 1.
- 16 2B) See Pg. 13, 2.
- 19 1) The P & C Companies' management take immediate action to
ensure that the appropriate personnel study Section 4B -
Notice of nonrenewal of Rhode Island Insurance Regulation XVI
- Automobile Insurance Policies; Cancellation and Renewal
Provisions - to ensure that in the future all Private
Passenger Automobile Nonrenewal Notices will be issued in
compliance with Regulation XVI.

- 19 2) See Pg. 16, 1.
- 19 3A) See. Pg. 13, 1.
- 20 3B) See Pg. 13, 2.
- 20 4) The appropriate P & C Companies' personnel be made aware of the policy provision as well as the policy filing which states that cancellation notices are to be sent to the lienholder (loss payee) at the time the policy is cancelled.
- 21 1) See Pg. 16, 1.
- 21 2) See Pg. 13, 1.
- 22 3) See Pg. 13, 2.
- 22 4) The P & C Companies' management take immediate action to ensure that the appropriate personnel study Rhode Island Insurance Regulation XXXVIII - Commercial Insurance Cancellation, Non-Renewal and Premium or Coverage Changes, Section 3B Notification of cancellation in order to ensure compliance with Rhode Island Regulation XXXVIII on future cancellations.
- 25 1) See Pg. 13, 1.
- 25 2) See Pg. 13, 2.
- 25 3) See Pg. 16, 1.
- 25 4) The P & C Companies' management instruct all adjusters responsible for the settlement of Rhode Island losses that they completely familiarize themselves with Rhode Island Insurance Regulation XXVIII - Fair Insurance Claim Settlement Practices, specifically and other Rhode Island laws and

regulations relating to claims practices.

- 27 1) See Pg. 13, 1.
- 27 2) See Pg. 13, 2.
- 27 3) See Pg. 16, 1.
- 28 4) See Pg. 25, 4.
- 29 1) See Pg. 16, 1.
- 30 2) See Pg. 25, 4.
- 30 1) See Pg. 25, 4.

CONCLUSION

As a result of a substantial number of findings of a similar nature, it is the judgement of the examiners that there exists serious problems in the area of record retention and record retrieval; and in the monitoring of the licensing of the P & C Companies' agency force, especially non-resident agents.

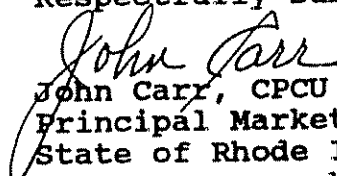
In the Claims Practices section of the examination, there were ten (10) findings which violated Rhode Island Insurance Regulation XXVIII. This too, in the judgement of the examiners, is a major area of concern.


It is imperative that the P & C Companies' management address the serious problems described above and report their solutions to the Rhode Island Department of Business Regulation - Insurance Division.

Acknowledgement is made of the courteous cooperation extended by the P & C Companies' officers and employees during the course of the examination.

In addition to the undersigned, Ron Radtke, Senior Market Conduct Examiner and Carl Sanderson, Market Conduct Examiner participated in the examination, as well as, the preparation of the report.

Respectfully submitted,


John Carr, CPCU
Principal Market Conduct Examiner
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