

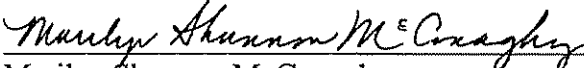
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DEPARTMENT OF BUSINESS REGULATION  
INSURANCE DIVISION

The attached Report of Examination as of June 30, 2003 of the market conduct condition and affairs of Casco Indemnity 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 Casco Indemnity 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. 04-325

DATED: September 30, 2004

REPORT ON  
THE MARKET CONDUCT EXAMINATION  
OF  
CASCO INDEMNITY COMPANY

*as of*

**June 30, 2003**

State of Rhode Island  
Department of Business Regulation  
Insurance Division

## TABLE OF CONTENTS

	<b>Page Number</b>
Salutation	3
Foreword	3
Scope of Examination	4
Profile of Company	4
Underwriting Practices	5
Private Passenger Automobile	5
Claim Practices	7
Private Passenger Automobile	7
Summary of Recommendations	9
Conclusion	10

Providence, Rhode Island

June 25, 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:

**Casco Indemnity Company (25950)**  
**42 Industrial Park Road**  
**Saco, Maine 04072**

hereinafter referred to as the "Company".

The examination was conducted at the administrative office of the Company, which is located at 42 Industrial Park Road, Saco, Maine.

#### **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 line of business examined was private passenger automobile.

The primary purpose of the examination was to evaluate the Company's compliance with Rhode Island Insurance 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, resolutions 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**

### **Casco Indemnity Company**

#### **History**

On June 27, 1985, Casco Indemnity Company was incorporated under the laws of the State of Maine and on July 8, 1985 they commenced the writing of business with a Certificate of Authority being granted by the State of Maine. Later, certificates of authority were issued in the remaining New England states.

At the end of their first full year of operation, Casco was represented by less than a dozen independent agents, employed six full time people and had total writings of \$93,000 of

personal automobile business. The Company as of the end of 2002 was represented by 140 independent agents throughout New England, employed 27 people and wrote \$23,000,000 of automobile premium.

In 1994, the Company received an initial AM Best rating of B+ and has been able to enhance that rating to a B++ since 1997.

### **Operations**

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

<u>Line of Business</u>	<u>Direct Written Premium (2002)</u>
Other Private Passenger Auto Liability	6,290,106
Private Passenger Auto Physical Damage	<u>3,671,176</u>
Total	<u>9,961,282</u>

### **Management**

The management of Casco Indemnity 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: William Swetland (President & CEO), John Donilan (Senior Vice President & Treasurer), Tom Beidleman (Vice President Underwriting & Marketing) and Dave Hardy (Secretary).

## **UNDERWRITING PRACTICES**

### **Private Passenger Automobile**

A review of the Company's private passenger automobile underwriting was performed on new business written by the Company during the period under examination. This review was conducted to determine whether the new policies were underwritten in accordance with the Company's underwriting guidelines and procedures. The review was also performed to assess the Company's compliance with the following R. I. Gen. Laws: §27-

7-2.1, §27-7-2.5 §27-9-1 et seq., §27-44-1 et seq. and the Company's adherence to Rhode Island Insurance Regulations: 10, 53, and 84.

During the period under examination, the Company issued 1,483 Rhode Island private passenger automobile policies. From this population, a sample of 114 policy files was selected for examination.

During our testing, we noted five files in which the Company applied incorrect physical damage symbols. Two of the files noted resulted in an overcharge, and the remaining three resulted in undercharges. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(f)(3).

During our testing, we noted four files in which the Company did not apply a 30% passive restraint credit for which the insured's vehicle was eligible. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(f)(3).

During our testing, we noted three files in which the Company processed the application of the anti-lock brake credit in error. Two of the files received the credit for which the insured's vehicle was ineligible. The remaining vehicle was eligible for the credit but it was not applied. Therefore, the Company was not in compliance with R. I. Gen. Laws §27-44-5(f)(3).

**Recommendation # 1:** It is recommended that the Company review their underwriting procedures and make appropriate changes in order to ensure compliance with R. I. Gen. Laws §27-44-5(f)(3).

## 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, has not misrepresented 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 et seq., §42-28-47 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 691, of which 8 were claims closed without payment. A sample of 113 private passenger automobile claim files was selected for review, which consisted of 105 paid and 8 closed without payment claims.

During our testing, the examiners noted 7 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 # 2:** 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 4 files in which the Company did not advise the third party claimant in writing that a rental vehicle may be available for their use, as required by Rhode Island Insurance Regulation R27-73-005.E. Therefore, the Company was in violation of Rhode Island Insurance Regulation R27-73-005.E.



**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 R27-73-005E.

During our testing, the examiners noted 6 files in which the Company did not provide written notice to the claimant at the same time of a liability payment of \$5,000 or more made to their attorney as required by R. I. Gen. Laws §27-29-16. Therefore, the Company was in violation of R. I. Gen. Laws §27-29-16.

**Recommendation # 4:** It is recommended that the Company review their claim procedures and make appropriate changes in order to ensure compliance with R. I. Gen. Laws §27-29-16.

During our testing, the examiners noted 3 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.

**Recommendation # 5:** 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.

### Summary of Recommendations

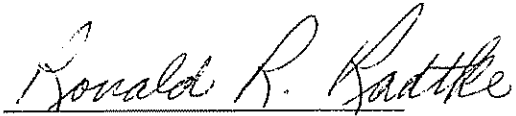
<b>No.</b>		<b>Page #</b>
<b>1</b>	It is recommended that the Company review their underwriting procedures and make appropriate changes in order to ensure compliance with R. I. Gen. Laws §27-44-5(f)(3).	<b>6</b>
<b>2</b>	It is recommended that the Company review their claim procedures and make appropriate changes in order to ensure compliance with R. I. Gen. Laws §27-8-14.	<b>7</b>
<b>3</b>	It is recommended that the Company review their claim procedures and make appropriate changes in order to ensure compliance with Rhode Island Insurance Regulation R27-73-005E.	<b>8</b>
<b>4</b>	It is recommended that the Company review their claim procedures and make appropriate changes in order to ensure compliance with R. I. Gen. Laws §27-29-16.	<b>8</b>
<b>5</b>	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	<b>8</b>

## 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

8/10/04  
Date