

REPORT ON
MARKET CONDUCT EXAMINATION
OF
PAWTUCKET MUTUAL INSURANCE COMPANY
(NAIC COMPANY CODE 14931)
AND
NARRAGANSETT BAY INSURANCE COMPANY
(NAIC COMPANY CODE 43001)

AS OF

JUNE 30, 1998

INSURANCE DIVISION
DEPARTMENT OF BUSINESS REGULATION
STATE OF RHODE ISLAND

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Providence, Rhode Island

June 1, 2000

Honorable Tom Schumpert
Insurance Commissioner
Providence, Rhode Island

Dear Sir:

In accordance with your instructions and pursuant to the statutes of the State of Rhode Island, a Market Conduct Examination was conducted of:

Pawtucket Mutual Insurance Company
and
Narragansett Bay Insurance Company
25 Maple Street
Pawtucket, Rhode Island 02860-2104

hereinafter referred to as the "Companies."

The examination was conducted at the administrative office of the Companies on 25 Maple Street, Pawtucket, Rhode Island. Our report is hereby submitted as follows:

FOREWORD

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

SCOPE OF EXAMINATION

Authority for this examination is provided by R. I. Gen. Laws §27-13 and §27-13.1. The examination covered the period from January 1, 1996 through June 30, 1998, 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 a review of the following areas: Certificates of Authority, Consumer or Other Related Complaints, Policy Forms and Endorsements, Underwriting and Rating, Claim Practices, Cancellation and Nonrenewal Practices. The lines of business examined were homeowners and personal automobile.

The purpose of the examination was to evaluate the Companies' compliance with R. I. Gen. Laws and Insurance Regulations, and to determine whether Rhode Island insureds and claimants were being treated equitably. The examination consisted of verification and evaluation on a test basis of information contained in insureds' files, as well as consumer complaints and other pertinent documents produced by the Companies and the Rhode Island Insurance Division. The test work performed during the examination satisfied this purpose, and forms the basis for the findings and recommendations presented in this report.

PROFILE OF COMPANIES

History

Pawtucket Mutual Insurance Company

Pawtucket Mutual was incorporated in May of 1848 and began business in February of 1849 under the title Pawtucket Mutual Fire Insurance Company. The present name was adopted on April 25, 1952. The company is licensed to write business in Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont, and is currently represented by approximately 480 independent agents.

Narragansett Bay Insurance Company

Narragansett Bay was incorporated under the laws of Rhode Island on June 10, 1981 and began business on April 1, 1982. Paid-in capital of \$1,240,000 consists of 12,400 shares of common stock at a par value of \$100 each. The company has 100,000 shares of common stock authorized. All outstanding shares are held by Pawtucket Mutual Insurance Company. Narragansett Bay Insurance Company is licensed in Connecticut, Delaware, Massachusetts and Rhode Island and is currently represented by approximately 240 independent agents.

Operations

The Companies' Rhode Island direct written premiums for the year 1997 were as follows:

Pawtucket Mutual Insurance Company

<u>Lines of Business</u>	<u>Direct Written Premium (1997)</u>
Private Passenger Auto	\$6,362,486
Homeowners	\$3,663,849

Commercial Lines	\$1,561,917
Other Lines	<u>\$1,476,879</u>
Total	\$13,065,131

Narragansett Bay Insurance Company

<u>Lines of Business</u>	<u>Direct Written Premium (1997)</u>
Private Passenger Auto	\$5,615,760
Homeowners	\$2,247,032
Other Lines	<u>\$91,262</u>
Total	\$7,954,054

Management

As of December 31, 1997, the officers of the Companies were as follows:

James John Hennessey, President, Chairman and Chief Executive Officer
 Vincent L. Del Nero, Chief Financial Officer, Executive Vice President, and Treasurer
 Leslie M. Harnish, Senior Vice President, and Secretary
 Wayne A. Wunschel, Controller

At December 31, 1997, the members of the Companies' Board of Directors were as follows:
 Edward W. Barlow, Russell A. Boss, James J. Hennessey, Dale L. Bennett, Vincent L. Del Nero,
 Eliot S. Lawrence, Gilbert R. Bodell, Jr, Jonathan K. Farnum, and Kenneth W. Washburn.

CERTIFICATES OF AUTHORITY

The Companies' Rhode Island Certificates of Authority were reviewed in order to determine whether, during the period under examination, the Companies were in compliance with R. I.

Gen. Laws §27-2-11.

Pawtucket Mutual Insurance Company is licensed in the State of Rhode Island to write all lines of insurance with the exception of life, title, workers' compensation, and accident & health. Narragansett Bay Insurance Company is licensed in the State of Rhode Island to write all lines of insurance with the exception of life, annuities, title, mortgage guaranty, workers' compensation, and accident & health. A review of the Companies' operations indicated that for the period under examination, the Companies operated in compliance with their Certificates of Authority.

CONSUMER OR OTHER RELATED COMPLAINTS

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

For the period under examination, 41 complaints, as defined by R. I. Gen. Laws §27-29-4(13) were received by the Companies. Thirty-nine (39) of the complaints were processed through the Rhode Island Insurance Division, and the remaining two were directly processed by the Companies. All but one of the 39 complaints directed by the complainant to the Rhode Island Insurance Division were listed on the Companies complaint register, as required by R. I. Gen. Laws §27-29-4(13). A review of this one complaint file indicated that the Companies had processed the complaint in accordance with applicable R. I. Gen. Laws, and therefore, the exclusion of this complaint from the Companies' complaint register appeared to be an oversight.

The 40 complaints on the Companies' complaint register were reviewed, and were found to have been handled in accordance with the Companies' established complaint handling procedures, and R. I. Gen. Laws and Insurance Regulations.

POLICY FORMS AND ENDORSEMENTS – AUTOMOBILE AND HOMEOWNERS

A review of the Companies' homeowners and personal automobile policy forms and endorsements in effect during the period under examination was performed. This review was conducted to assess whether the Companies' policy forms and endorsements were in compliance with certain statutory requirements. A subjective sampling of the basic policy forms and endorsements was reviewed with particular emphasis on cancellation/non-renewal and standard provisions including UMPD coverage relative to automobile policies.

As a result of the review, the findings were as follows:

1. R. I. Gen. Laws §27-7-1 (Direct liability of insurer)

This statute requires every policy written insuring against liability for property damage or personal injuries, or both, to contain provisions to the effect that the insurer shall be directly liable to the injured party.

- a. Homeowners Policy: This condition was provided by Homeowners Endorsement HO 01 38 08 97 which was filed with the R. I. Insurance Division and approved with an effective date of 9/1/97. Therefore, for the period under examination, from 1/1/96 through 8/31/97, this condition was missing.
- b. Personal Automobile Policy: There was no similar condition in the automobile policies or endorsements. Consequently, the Companies were not in compliance with R. I. Gen. Laws §27-7-1 for the entire period under examination (i.e. 1/1/96 through 6/30/98).

2. R. I. Gen. Laws §27-8-1 (9) requires liability property damage to a rented vehicle for a period not to exceed forty-five (45) consecutive days. Personal Automobile: The

Companies' Endorsement PP 01 89 06 94, which was adopted with an effective date of 6/1/96, provided this condition. This would indicate that the Companies were not in compliance with the statute for the period under examination from 1/1/96 through 5/31/96.

3. R. I. Gen. Laws §27-5-3 Form of Standard Policy (lines 157 through 161) provides that suit against the company must be commenced within twenty-four months next after inception of the loss. Homeowners Policy: The Companies' Endorsement HO 01 38 08 97, which complied with the statute, was filed and approved with an effective date of 9/1/97. This would indicate that the Companies were not in compliance with the statute for the period under examination from 1/1/96 through 8/31/97.

Recommendation #1: It is recommended that the Companies initiate the necessary action to comply with R. I. Gen. Laws §27-7-1 for their Personal Automobile Policies.

UNDERWRITING AND RATING

Homeowners

An examination of the Homeowners Underwriting and Rating practices for the period under examination was conducted to determine whether the handling, processing and actions taken by the Companies relating to underwriting and rating practices were in compliance with R. I. Gen. Laws §27-2.3-3, §27-5-1 et seq., §27-6-1 et seq., §27-7-1, §27-9-7-1 et seq., §27-44-5, and Rhode Island Insurance Regulation XXII.

The Companies provided the examiners with a listing of Homeowners new business written for the period under examination. The population of Homeowners new business for the period under examination was 3,159 policies. Based on sampling criteria established by the NAIC, (National Association of Insurance Commissioners) the examiners selected 119 Homeowners new business

files for review. The files were reviewed, and based on the results of the examination work performed, three exceptions were noted.

One exception was noted due to overinsurance of the homeowner's risk. The Companies issued a policy in which the risk was insured for \$227,000. A review of the file demonstrated that the replacement cost of the property insured was \$100,224. In the event of a loss, the Companies will never pay more than replacement cost of the property at the time of loss. A premium of \$740.00 was being charged for this policy during the period under examination. Based on the documented replacement cost of the risk insured, it appears that the premium should have been \$359.00.

Recommendation #2: It is recommended that the Companies immediately establish the correct replacement cost for the risk referenced above. Once the correct replacement cost is determined, the Companies should contact the agent and insured to discuss the procedures for amending the policy to reflect the true amount at risk. In addition, the Companies should refund the excess premium charged from the date of inception.

Two exceptions relating to licensing of non-resident agents were noted. On two of the files reviewed, out of state agents wrote Rhode Island risks and did not possess a Rhode Island Non-Resident insurance license as required by R. I. Gen. Laws §27-2.3-3(a).

Recommendation #3: It is recommended that the Companies perform a review of their procedures applicable to non-resident producer licensing, and implement measures to ensure that producers do not write insurance business for which they are not properly licensed.

Personal Automobile

A review of the underwriting and rating of automobile policies was performed on new automobile policies written by the Companies during the period under examination. This review was conducted to determine whether the new policies were underwritten and rated in accordance

with Companies' formal underwriting and rating guidelines and procedures. The review was also performed to assess the Companies' compliance with the following sections of the R. I. Gen. Laws: §27-2.3-3, §27-7-2.1, §27-7-2.5, §27-8-1, §27-9-1 et seq., §27-10.1-10, §27-29-14, and §27-44-5. The Companies adherence to the following Rhode Island Insurance Regulations was also assessed: Regulation III, X, XXII, XXV, LIII, LXXVII, and LXXXIV.

During the period under examination, the Companies issued 3,996 personal automobile policies to Rhode Island residents. From this number, a sample of 120 policy files was selected for examination. The examination of these items resulted in the following exceptions:

During our testing, we noted two files that did not contain documentation of pre-inspection as required by Rhode Island Insurance Regulation LXXVII.

Recommendation #4: It is recommended that the Companies evaluate their pre-inspection procedures to ensure that they are in compliance with Regulation LXXVII.

During our testing, we noted one file in which the Companies applied the wrong territory code in rating the policy, which resulted in an overcharge of premium to the insured. Therefore, the Companies were not in compliance with R. I. Gen. Laws §27-44-5(a), which states that rates shall not be excessive, inadequate or unfairly discriminatory.

Recommendation #5: It is recommended that the Companies review their procedures pertaining to automobile rating and implement procedures to ensure that similar errors do not occur in the future. It is also recommended that the Companies correct the territory code error and refund the premium overcharge to the insured.

During our testing, we noted one file in which the Companies applied the incorrect primary classification in rating the policy, resulting in an undercharge of premium to the insured. The Companies classified the vehicle use as driven to work less than 15 miles, even though it was driven to work over 15 miles. Therefore, the Companies were not in compliance with R. I. Gen.

Laws §27-44-5 (f)(3), which states a misclassification of a risk shall be considered an adjustment without adequate justification.

Recommendation #6: It is recommended that the Companies implement policies and procedures to ensure that correct rating classifications are applied to ensure that policies are rated in a fair and consistent manner. It is also recommended that the Companies correct the classification upon renewal.

During our testing, we noted one file in which the Companies applied the incorrect secondary classification factor in the rating of a multi-vehicle risk, which resulted in an overcharge of premium to the insured. By not applying the correct secondary classification, the Companies were in violation of R. I. Gen. Laws §27-44-5(f)(3) which states in part that a misclassification of a risk shall be considered an adjustment without adequate justification.

Recommendation #7: It is recommended that the Companies implement policies and procedures to ensure that all rating classifications, including applicable secondary rating classifications on personal automobile policies, are fairly and consistently applied to all insureds. It is also recommended that the Companies correct the secondary classification factor error and refund the premium overcharge to the insured.

During our testing, we noted one file in which the Companies surcharged a policy even though the insured did not have any convictions, or accidents, nor were there any inexperienced drivers on the policy. Therefore, the Companies were in violation of R. I. Gen. Laws §27-44-5(a) which states that rates shall not be excessive, inadequate or unfairly discriminatory.

Recommendation #8: It is recommended that the Companies implement policies and procedures to ensure that the Companies follow their Safe Driver Insurance Plan rules for surcharging premiums. It is also recommended that the Companies correct the surcharge error upon renewal and refund the premium overcharge to the insured.

CLAIM PRACTICES

Homeowners

A review of the Companies' homeowners claim practices for the period under examination was conducted to determine whether the Companies complied with applicable provisions of its homeowners policy, misrepresented policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims, used properly licensed claim adjusters and made fair and equitable settlement of homeowners claims. In addition, the review was performed to evaluate whether the Companies were in compliance with R. I. Gen. Laws §27-5-3, §27-8-12, §27-9.1-4, §27-10-1 et seq., and Rhode Island Insurance Regulation LXXIII.

The Companies provided the examiners with two computer printouts, one showing claims closed with payment and the other for claims closed without payment. The population of the homeowners claims closed with payments for the period under examination was 2,044. The population of homeowners claims closed without payments for the period under examination was 537. The examiners selected a sample of 116 claims closed with payment and 100 claims closed without payment files.

Paid Claims

The Companies' procedures for handling homeowners claims closed with payment were examined to determine whether the Companies were in compliance with applicable R. I. Gen. Laws and Insurance Regulations and the Companies' Homeowners contract.

A sample of 116 claim files was selected for review of this area of the examination. In one instance, the adjuster pro-rated a \$1,849 loss, which amounts to 1.5% of the insurance amount on the dwelling. According to the loss settlement clause of the Companies' Homeowners policy, there should be no pro-ration for losses that are 1) less than 5% of the amount of insurance on the

building, and 2) less than \$2,500. Therefore, the adjuster improperly pro-rated the loss in violation of the Companies' policy provision.

Recommendation # 14: It is recommended that the Companies correct their incorrect pro-rating of a loss by reimbursing the insured the amount of underpayment.

Claims Closed Without Payment

The Companies' procedures for handling homeowners claims closed without payment were examined to determine whether the Companies were in compliance with applicable R. I. Gen. Laws and Insurance Regulations and the Companies' Homeowners contract.

A sample of 100 claim files was selected for this area of review and based on the results of the examination work performed, it was determined that the Companies were in violation of Rhode Island Insurance Regulation LXXIII, Section 7.H. on six of the files reviewed. The exceptions related to the Companies' failure to provide the required language in their denial notice to the claimant. The required notice must contain the following statement: "We will be available to you to discuss the position we have taken. Should you, however, wish to contact the Rhode Island Insurance Division regarding this matter, it maintains a section to investigate complaints at 233 Richmond Street, Providence, R.I. 02903. The Rhode Island Insurance Division can be contacted by telephone at 401-277-2223." (Note: The current telephone number for the Rhode Island Insurance Division is 401-222-2223.)

Recommendation #15: It is recommended that the Companies include the appropriate language in their denial notice as set forth in Rhode Island Insurance Regulation LXXIII Section 7.H.

Personal Automobile

A review of the Companies' private passenger automobile claim practices for the period under examination was conducted to determine whether the Companies complied with applicable provisions of its private passenger automobile policy, misrepresented policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims, used licensed claim adjusters and made fair and equitable settlement of private passenger automobile claims. In addition, the review was performed to evaluate whether the Companies were in compliance with R. I. Gen. Laws §27-3-51, §27-7-2.1, §27-7-5, §27-10-1 et seq., §27-10.1-1, §27-8-12, §27-8-14, §27-9.1-4, §42-28-47 and Rhode Island Insurance Regulations X, and LXXIII.

The Companies provided the examiners with two computer printouts; one showing claims closed with payment and the other for claims closed without payment. The population of Private Passenger Automobile claims closed with payments for the period under examination was 2,796. The population of Private Passenger Automobile claims closed without payments for the period under examination was 931. The examiners selected a sample of 118 claims closed with payment and 109 claims closed without payment files.

Paid Claims

The Companies' procedures for handling Private Passenger Automobile claims closed with payment were examined to determine whether the Companies were in compliance with applicable R. I. Gen. Laws and Insurance Regulations and the Companies' private passenger automobile policy.

A sample of 118 claim files was selected for this area of review. All 118 files were reviewed and based on the results of the examination work performed, four exceptions were noted.

The four exceptions noted were due to the Companies' failure to comply with R. I. Gen. Laws § 27-3-51 which requires written notice of payment by the insurer of \$5,000.00 or more in settlement of any liability claim be mailed to the claimant, at the same time payment is made to the claimant's attorney.

Recommendation #16: It is recommended that the Companies reinforce with their claims staff the written notice requirement for payments of \$5,000 or more in settlement of any liability claim when payment is made to a claimant's attorney in order to ensure compliance with the statute.

Claims Closed Without Payment

The Companies' procedures for handling Private Passenger Automobile claims closed without payment were examined to determine whether the Companies were in compliance with applicable R. I. Gen. Laws and Rhode Island Insurance Regulations and the Companies' private passenger automobile policy.

A sample of 109 claim files was requested and reviewed for this area. Based on the results of the examination work performed, it was determined that there was one exception. The exception related to the Companies' failure to provide the required language in their denial notice to the claimant. The required notice must contain the following statement: "We will be available to you to discuss the position we have taken. Should you, however, wish to contact the Rhode Island Insurance Division regarding this matter, it maintains a section to investigate complaints at 233 Richmond Street, Providence, R.I. 02903. The Rhode Island Insurance Division can be contacted by telephone at 401-277-2223". (Note: The current telephone number for the Rhode Island Insurance Division is 401-222-2223.)

Recommendation #17: It is recommended that the Companies reinforce the notice requirement as set forth in Rhode Island Insurance Regulation LXXIII Section 7.H. with their claims staff.

CANCELLATIONS AND NONRENEWALS

Homeowners Cancellations And Nonrenewals

An examination of the Companies' Rhode Island homeowners cancellation and nonrenewal practices was conducted to assess whether, during the period under examination, the Companies were in compliance with R. I. Gen. Laws §27-5-3.4. The examination was also performed to assess the Companies compliance with the cancellation and nonrenewal provisions of their homeowners contracts.

The examiners requested a listing of company initiated homeowners cancellations and nonrenewals issued by the Companies during the period under examination. The examiners were advised by the Companies that prior to April 12, 1999 their computer data/base system (PALLM) could not distinguish between insured initiated and Companies initiated homeowners cancellations and nonrenewals. The examiners were further advised by the Companies that as of April 12, 1999 code '09' which means cancelled/nonrenewed by insured was added to their programs so that the Companies will be able to identify these cases.

The population of homeowners cancellations and nonrenewals processed by the Companies during the period under examination was 2,641. Cancellations accounted for 1,937 and nonrenewals for the remaining 704 files. From this population, a sample of 118 cancellations and nonrenewals was selected for review. Of the 118 cancellations and nonrenewals selected for testing, 70 homeowners cancellations and nonrenewals were initiated by the Companies and 48 were initiated by the insured.

During our testing, we noted that 18 cancellations and two nonrenewal files contained certified mailings returned to the Companies by the United States postal service with the notation "Unclaimed". In addition, we noted five cancellations files contained return receipts lacking the signature of the addressee. R. I. Gen. Laws §27-5-3.4 states in part "A return receipt from the United States postal service showing receipt of the notice at the address of the insured stated in

the policy shall be sufficient proof of notice. If the company does not receive a return receipt from the United States postal service within ten (10) days, then the company may forward such notice by first class mail and maintain proof of mailing of the notice to the insured in the ordinary course of the insurer's business, and such proof of mailing shall be sufficient proof of notice". After the United States postal service returned the 20 certified mailings with the notation "Unclaimed" and five return receipts lacking the signature of the addressee, the Companies failed to forward notices by first class mailing. By not sending notice by first class mail, the Companies were unable to provide sufficient proof of notice as described in R. I. Gen. Laws §27-5-3.4.

During our testing, we noted one file wherein the policy was stamped cancelled. A copy of the cancellation notice was in the file, however, the policy file contained no evidence that a cancellation notice was mailed to the insured as required by R. I. Gen. Laws §27-5-3.4.

Recommendation #18: It is recommended that the Companies review their cancellation and nonrenewal policies and procedures pertaining to homeowners policies and implement controls to ensure that the Companies are in compliance with R. I. Gen. Laws §27-5-3.4. Therefore, if the Companies do not receive the signed return receipt referenced in the statute within 10 days, the Companies will then forward the notice to their insured by first class mail and maintain proof of mailing.

The Companies were unable to provide the examiners with one of the 118 files selected for testing.

Recommendation #19: It is recommended that the Companies' management review its record retention and retrieval practices and implement changes to ensure that files can be located as needed for examination by market conduct examiners.

Personal Automobile Cancellations

An examination of the Companies' personal automobile cancellation practices for the period under examination was conducted to assess whether the Companies were in compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation XVI.

The Companies provided the examiners with two computer printouts of Automobile Cancellations for the examination period. The first printout was for Personal Automobile Cancellations for Non-payment of premium. The second was for cancellations for miscellaneous reasons. The population of the non-payment cancellations was 1,128. The population of the miscellaneous cancellations was 77. The examiners selected 75 non-payment cancellations and all 77 cancellations for miscellaneous reasons. The Companies could not distinguish between insured initiated and company initiated cancellations under the miscellaneous category and therefore the examiners determined that the entire miscellaneous category should be reviewed.

Based on the review of the 152 (75 non-payment cancellations/77 miscellaneous cancellations) Automobile Cancellations it was determined that the Companies were in compliance with applicable R. I. Gen. Laws and Rhode Island Insurance Regulation.

Personal Automobile Nonrenewals

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

The population of personal automobile nonrenewals processed for the period under examination was 494. Prior to May 1, 1999, the Companies computer based system (PALLM) could not

distinguish between insured initiated nonrenewals and company initiated nonrenewals. In order to adequately test the Companies compliance with R. I. Gen. Laws §27-9-4, the examiners manually retrieved 26 Company initiated nonrenewals. In addition, the Company provided eight more Company initiated nonrenewals for a total of 34 files. Beginning May 1, 1999, the Companies' data entry personnel began using a code '05' in their program to indicate a nonrenewal at the insured's request.

During our review of personal automobile nonrenewal files, we noted that one file contained a personal automobile policy with a policy period of May 1, 1996 to May 1, 1997, however the nonrenewal notice was mailed on April 7, 1997. Another personal automobile nonrenewal file contained a policy with a policy period of November 18, 1995 to November 18, 1996, however the nonrenewal notice was mailed out on October 25, 1996. In both instances the Companies are in violation Rhode Island Insurance Regulation XVI Section 4 which states in part:

“Unless the insurer, at least thirty days in advance of the end of the policy period, mails or delivers to the insured at the address shown in the policy, notice of intention not to renew the policy or to condition its renewal upon reduction of limits or elimination of any coverages afforded under the policy together with a statement of its reasons thereof, the named insured shall be entitled to renew the policy upon payment of the premium due on the effective date of the renewal”.

Recommendation # 20: It is recommended that the Companies review their nonrenewal policies and procedures pertaining to nonrenewal of personal automobile policies and implement controls to ensure that the Companies are in compliance with Rhode Island Insurance Regulation XVI.

During our review, we noted that one personal automobile policy was nonrenewed due to claim frequency and that two policies were nonrenewed because of unfavorable claims history. A review of the Companies loss history register indicates that there were no loss occurrences under these policies within the policy years.

The aforementioned three personal automobile nonrenewals were in violation of R. I. Gen. Laws §27-9-4(5)(b) which states that no insurance company shall fail to renew a private passenger

automobile policy because of a loss occurrence only, unless a chargeable loss occurrence of five hundred dollars (\$500) or more, or more than two (2) nonchargeable loss occurrences, involving the insured have taken place within the annual policy year.

Recommendation #21: It is recommended that the Companies review their nonrenewal policies and procedures pertaining to nonrenewal of personal automobile policies and implement controls to ensure compliance with R. I. Gen. Laws § 27-9-4.

SUMMARY OF RECOMMENDATIONS

<u>No.</u>	<u>Recommendation</u>	<u>Page Number</u>
1.	It is recommended that the Companies initiate the necessary action to comply with R. I. Gen. Laws §27-7-1 for their Personal Automobile Policies.	9
2.	It is recommended that the Companies immediately establish the correct replacement cost for the risk referenced above. Once the correct replacement cost is determined, the Companies should contact the agent and insured to discuss the procedures for amending the policy to reflect the true amount at risk. In addition, the Companies should refund the excess premium charged from the date of inception.	10
3.	It is recommended that the Companies perform a review of their procedures applicable to non-resident producer licensing, and implement measures to ensure that producers do not write insurance business for which they are not properly licensed.	10
4.	It is recommended that the Companies evaluate their pre-inspection procedures to ensure that they are in compliance with Regulation LXXVII.	11
5.	It is recommended that the Companies review their procedures pertaining to automobile rating and implement procedures to ensure that similar errors do not occur in the future. It is also recommended that the Companies correct the territory code error and refund the premium overcharge to the insured.	11
6.	It is recommended that the Companies implement policies and procedures to ensure that correct rating classifications are applied to ensure that policies are rated in a fair and consistent manner. It is also recommended that the Companies correct the classification upon renewal.	12
7.	It is recommended that the Companies implement policies and procedures to ensure that all rating classifications including applicable secondary rating classifications on personal automobile policies, are fairly and consistently applied to all insureds. It is also recommended that the Companies correct the secondary classification factor error and refund the premium overcharge to the insured.	12

8. It is recommended that the Companies implement policies and procedures to ensure that the Companies follow their Safe Driver Insurance Plan rules for surcharging premiums. It is also recommended that the Companies correct the surcharge error and refund the premium overcharge to the insured. 12
9. It is recommended that the Companies review their procedures pertaining to automobile physical damage rating, and implement procedures to ensure that similar errors do not occur in the future. It is also recommended the companies correct the symbol factor error upon renewal. 13
10. It is recommended that the Companies implement policies and procedures to ensure that premium rates, including all applicable four-door liability discounts, on personal automobile policies are fairly and consistently applied to all insureds. It is also recommended that the Companies correct the four door liability discount errors and refund premium overcharges to the insureds where applicable. 13
11. It is recommended that the Companies review their procedures pertaining to automobile rating and implement procedures to ensure that similar errors do not occur in the future. It is also recommended that the Companies correct the anti-lock brake credit error on policy renewal. 14
12. It is recommended that the Companies implement policies and procedures to ensure that premium rates, including all applicable discounts, on personal automobile policies are fairly and consistently applied to all insureds. It is also recommend that the Companies correct the passive restraint credit errors and refund the premium overcharges to the insureds. 14
13. It is recommended that the Companies review their procedures pertaining to automobile rating and implement procedures to ensure that similar errors do not occur in the future. It is also recommended that the Companies correct the anti-theft credit error and refund the premium overcharge to the insured. 14
14. It is recommended that the Companies correct their incorrect prorating of a loss by reimbursing the insured the amount of underpayment. 16
15. It is recommended that the Companies include the appropriate language in their denial notice as set forth in Rhode Island Insurance 16

Regulation LXXIII Section 7.H.

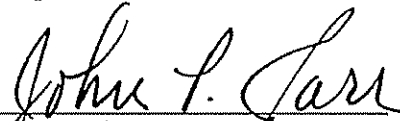
16. It is recommended that the Companies reinforce with their claims staff the written notice requirement for payments of \$5,000 or more in settlement of any liability claim when payment is made to a claimant's attorney in order to ensure compliance with the statute. 18
17. It is recommended that the Companies reinforce the notice requirement as set forth in Rhode Island Insurance Regulation LXXIII Section 7.H. with their claims staff. 18
18. It is recommended that the Companies review their cancellation and nonrenewal policies and procedures pertaining to cancellation and nonrenewal of homeowners policies and implement controls to ensure that the Companies are in compliance with R. I. Gen. Laws §27-5-3.4. Therefore, if the Companies do not receive the signed return receipt referenced in the statute within 10 days, the Companies will then forward the notice to their insured by first class mail and maintain proof of mailing. 20
19. It is recommended that the Companies' management review its record retention and retrieval practices and implement changes to ensure that files can be located as needed for examination by market conduct examiners. 20
20. It is recommended that the Companies review their nonrenewal policies and procedures pertaining to nonrenewal of personal automobile policies and implement controls to ensure that the Companies are in compliance with Rhode Island Insurance Regulation XVI. 22
21. It is recommended that the Companies review their nonrenewal policies and procedures pertaining to nonrenewal of personal automobile policies and implement controls to ensure compliance with R. I. Gen. Laws § 27-9-4. 23

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 and did not become aware of any other error or irregularity that could have a material effect on the market conduct condition of the Companies as presented in this report.

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

Respectfully submitted,



John P. Carr, CPCU,

Principal Market Conduct Examiner

Rhode Island Insurance Division

6-1-2000

Date

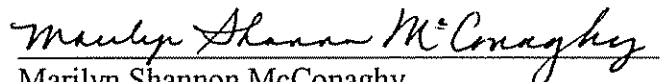
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION

The attached Report of Examination as of June 30, 1998, of the market conduct condition and affairs of Pawtucket Mutual Insurance Company and Narragansett Bay 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 Pawtucket Mutual Insurance Company and Narragansett Bay Insurance Company, and their market conduct condition as reflected from the examination report.

It is therefore ORDERED that said Report be, and it is hereby adopted and filed and made an official record of this department as of this date.

DEPARTMENT OF BUSINESS REGULATION


Marilyn Shannon McConaghy
Director/Insurance Commissioner

ORDER NO. 03-119

DATED: September 2, 2003