

STATE OF ARIZONA
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MAR 17 2010

DEPT. OF INSURANCE

REPORT OF TARGET MARKET CONDUCT EXAMINATION
OF
PROPERTY & CASUALTY INSURANCE COMPANY OF HARTFORD

NAIC #34690

AS OF

December 31, 2008

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CHRISTINA URIAS
Director of Insurance

Honorable Christina Urias
Director of Insurance
State of Arizona
2910 North 44th Street
Suite 210, Second Floor
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Dear Director Urias:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Arizona, a desk examination has been made of the market conduct affairs of the:

Property & Casualty Insurance Company of Hartford
NAIC #34690

The above examination was conducted by Helene I. Tomme, CPCU, CIE, Market Examinations Supervisor, Examiner-in Charge, and Linda L. Hofman, AIE, MCM, FLMI, AIRC, CCP, Market Conduct Senior Examiner and Christopher G. Hobert, CIE, MCM, FLMI, AIRC, CCP, Market Conduct Senior Examiner.

The examination covered the period of January 1, 2008 through December 31, 2008.

As a result of that examination, the following Report of Examination is respectfully submitted.

Sincerely yours,

Helene I. Tomme, CPCU, CIE
Market Examinations Supervisor
Market Oversight Division

FOREWORD

This targeted market conduct examination report of the Property & Casualty Insurance Company of Hartford (herein referred to as, "PCIC", or the "Company"), was prepared by employees of the Arizona Department of Insurance (Department) as well as independent examiners contracting with the Department. A market conduct examination is conducted for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the state of Arizona. The Examiners conducted the examination of the Company in accordance with Arizona Revised Statutes (A.R.S.) §§ 20-142, 20-156, 20-157, 20-158 and 20-159. The findings in this report, including all work product developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the following Homeowners' (HO) lines of business operations:

1. Complaint Handling
2. Marketing and Sales
3. Producer Compliance
4. Underwriting and Rating
5. Cancellations and Non-Renewals
6. Claims Processing

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Additionally, findings may not be material to all areas that would serve to assist the Director.

Failure to identify or criticize specific Company practices does not constitute acceptance of those practices by the Department.

SCOPE AND METHODOLOGY

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The market examination of the Company covered the period of January 1, 2008 through December 31, 2008 for business reviewed. The purpose of the examination was to determine the Company's compliance with Arizona's insurance laws, and whether the Company's operations and practices are consistent with the public interest. This examination was completed by applying tests to each examination standard to determine compliance with the standard. Each standard applied during the examination is stated in this report and the results are reported beginning on page 8.

In accordance with Department procedures, the Examiners completed a Preliminary Finding ("Finding") form on those policies, claims and complaints not in apparent compliance with Arizona law. The finding forms were submitted for review and comment to the Company representative designated by Company management to be knowledgeable about the files. For each finding the Company was requested to agree, disagree or otherwise justify the Company's noted action.

The Examiners utilized both examinations by test and examination by sample. Examination by test involves review of all records within the population, while examination by sample involves the review of a selected number of records from within the population. Due to the small size of some populations examined, examination by test and by sample were completed without the need to utilize computer software.

File sampling was based on a review of underwriting and claim files that were systematically selected by using Audit Command Language (ACL) software and computer data files provided by the Company. Samples are tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data will result in an exception ratio, which determines whether or not a standard is met. If the exception ratio found in the sample is, generally less than 5%, the standard will be considered as "met." The standard in the areas of procedures and form use will not be met if any exception is identified.

HISTORY OF THE COMPANY

(Provided by the Company)

The Company was incorporated on May 4, 1989 under the laws of the State of Indiana and commenced business on January 1, 1994. The Company is based in Hartford, Connecticut.

The Company started writing homeowners business on October 1, 2000 in PCIC.

PROCEDURES REVIEWED WITHOUT EXCEPTION

The Examiners review of the following Company departments¹ or functions indicates that they appear to be in compliance with Arizona statutes and rules:

Complaint Handling

Marketing and Sales

Producer Compliance

Underwriting and Rating

Claims Processing

EXAMINATION REPORT SUMMARY

The examination identified two (2) compliance issues that resulted in 118 exceptions due to the Company's failure to comply with statutes and rules that govern all insurers operating in Arizona. These issues were found in one (1) of the six (6) sections of Company operations examined. The following is a summary of the Examiners' findings:

Cancellation and Non Renewals

In the area of Cancellations and Non Renewals, two (2) compliance issues are addressed in this Report as follows:

- The Company failed to provide an adequate Summary of Rights on 39 HO cancellations for underwriting reasons and on 52 HO non renewals notices for a total of 91 policyholders/insureds cancelled or non renewed for an adverse underwriting decision.
- The Company failed to identify the appropriate insuring company name on 3 HO non renewals, 23 HO cancellations for underwriting reasons and 1 ADOI complaints for a total of 27 underwriting correspondence/letters.

¹ If a department name is listed there were no exceptions noted during the review.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS

During the past three (3) years, there were two (2) Market Conduct Examinations completed by the states of Arizona and Missouri. There were no significant patterns of non-compliance noted.

CANCELLATIONS AND NON-RENEWALS

Homeowners (HO):

The Examiners reviewed 52 HO cancellation/declination files for non-payment of premium (including 2 sample files) out of a population of 1,397, 52 HO cancellation files for underwriting reasons (including 2 sample files) out of a population of 265 and 52 HO non renewals (including 2 sample files) out of a population of 122. This cancellation/non renewal review included a total sample size of 156 HO files from a total population of 1,784.

All cancellation and nonrenewal files were reviewed to ensure compliance with Arizona Statutes and Rules.

The following Cancellation and Non Renewal Standard failed:

#	STANDARD	Regulatory Authority
1	Declinations, Cancellations and Non-Renewals shall comply with state laws and company guidelines including the Summary of Rights to be given to the policyholder and shall not be unfairly discriminatory.	A.R.S. §§ 20-448, 20-2108, 20-2109, 20-2110

#	STANDARD	Regulatory Authority
2	Cancellation and Non-Renewal notices comply with state laws, company guidelines and policy provisions, including the amount of advance notice required and grace period provisions to the policyholder and shall not be unfairly discriminatory.	A.R.S. §§ 20-191, 20-443, 20-448, 20-1631, 20-1632, 20-1632.01, 20-1651 through 20-1656

Cancellation and Nonrenewal, Standard #1 - failed

Preliminary Finding 001 – Summary of Rights – The Examiners identified 39 HO cancellations for underwriting reasons and 52 HO non renewal notices for a total of 91 insureds that were cancelled or non renewed for an adverse underwriting decision and the notices failed to provide the required Summary of Rights language, an apparent violation of A.R.S. §§ 20-2108, 20-2109 and 20-2110.

HOMEOWNERS' CANCELLATIONS

Failed to provide adequate Summary of Rights in the event of an adverse underwriting decision
A.R.S. §§ 20-2108, 20-2109 and 20-2110

Population	Sample	# of Exceptions	% to Sample
265	52	39	75%

A 75% error ratio does not meet the Standard; therefore, a recommendation is warranted.

HOMEOWNERS' NON RENEWALS

Failed to provide adequate Summary of Rights in the event of an adverse underwriting decision
A.R.S. §§ 20-2108, 20-2109 and 20-2110

Population	Sample	# of Exceptions	% to Sample
122	52	52	100%

A 100% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #1

Within 90 days of the filed date of this report provide the Department with documentation that Company procedures are in place so that the required Summary of Rights language is sent with all cancellation, non renewal or declination notices that involve an adverse underwriting decision by the Company. Also, re-submit its cancellation and non renewal notices with the required language to the Department for approval.

Subsequent Events: During the course of the Phase I Examination Company disagreed with the Examiner's finding that its Summary of Rights was not adequate. The Company was provided with the ADOI approved language. The finding stands as written.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 003 -Wrong Company name identified on underwriting correspondence: - The Company failed to identify the appropriate insuring company as Property & Casualty Insurance Company of Hartford on written correspondence sent to insureds or complainants on 3 HO non renewals, 23 HO cancellation for underwriting reason and 1 consumer complaint files for a total of 27 underwriting documents/correspondence/letters, which is an apparent violation of A.R.S. § 20-442.

Standard #2 File Review Summary

Failed to identify the appropriate insuring company
A.R.S. § 20-442

Files Reviewed	Population	Sample	Exceptions	Error Ratio	PF#
HOMEOWNERS					
HO Non Renewals	122	52	3	6%	003
HO Canc for UW reasons	265	54	23	43%	003
Totals	387	106	26	25%	

ADOI COMPLAINTS					
Complaints	10	10	1	10%	003
Totals	10	10	1	10%	

Grand Totals	397	116	27	23%	
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A 23% combined error ratio does not meet the standard; therefore a recommendation is warranted.

Recommendation # 2

Within 90 days of the filed date of this report provide the Department with documentation that the Company's procedures are in place to identify the appropriate insuring Company on all Homeowners' correspondence including but not limited to underwriting forms and or letters sent by the Company.

Subsequent Events: During the course of the Phase I Examination, the Company disagreed with the Examiner's finding that they need to include the appropriate insuring company on underwriting correspondence. Failure to identify the appropriate insuring Company on its UW correspondence constitutes a misrepresentation; the insured/claimant has a right to know which insuring Company they are dealing with. The finding stands as written.

SUMMARY OF FAILED STANDARDS

EXCEPTIONS	Rec. No.	Page No.
CANCELLATIONS AND NON RENEWALS		
<u>Standard #1</u> Declinations, Cancellations and Non-Renewals shall comply with state laws and company guidelines including the Summary of Rights to be given to the policyholder and shall not be unfairly discriminatory.	1	12
<u>Standard #2</u> Cancellation and Non-Renewal notices comply with state laws, company guidelines and policy provisions, including the amount of advance notice required and grace period provisions to the policyholder and shall not be unfairly discriminatory.	2	13

SUMMARY OF PROPERTY AND CASUALTY STANDARDS

Complaint Handling

#	STANDARD	PAGE	PASS	FAIL
1	The Company takes adequate steps to finalize and dispose of the complaints in accordance with applicable statutes, rules, regulations and contract language. (A.R.S. § 20-461 and A.A.C. R20-6-801)	8	X	
2	The time frame within which the Company responds to complaints is in accordance with applicable statutes, rules and regulations. (A.R.S. § 20-461 and A.A.C. R20-6-801)	8	X	

Marketing and Sales

#	STANDARD	PAGE	PASS	FAIL
1	All advertising and sales materials are in compliance with applicable statutes, rules and regulations. (A.R.S. §§ 20-442 and 20-443)	8	X	

Producer Compliance

#	STANDARD	PAGE	PASS	FAIL
1	The producers are properly licensed in the jurisdiction where the application was taken. (A.R.S. §§ 20-282, 20-286, 20-287 and 20-311 through 311.03)	8	X	
2	An insurer shall not pay any commission, fee, or other valuable consideration to unlicensed producers. (A.R.S. § 20-298)	8	X	

Underwriting and Rating

#	STANDARD	PAGE	PASS	FAIL
1	The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan. (A.R.S. §§ 20-341 through 20-385)	8	X	

#	STANDARD	PAGE	PASS	FAIL
2	Disclosures to insureds concerning rates and coverage are accurate and timely. (A.R.S. §§ 20-259.01, 20-262, 20-263, 20-264, 20-266, 20-267, 20-2110)	8	X	
3	All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations, including, but not limited to, the Notice of Insurance Information Practices and the Authorization for Release of Information. (A.R.S. §§ 20-2104, 20-2106, 20-2110 and 20-2113)	8	X	
4	All forms and endorsements forming a part of the contract should be filed with the director (if applicable). (A.R.S. § 20-398)	8	X	
5	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1654)	8	X	
6	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463, 20-1109)	8	X	

Declinations, Cancellation and Non-Renewals

#	STANDARD	PAGE	PASS	FAIL
1	Declinations, Cancellations and Non-Renewals shall comply with state laws and company guidelines including the Summary of Rights to be given to the policyholder and shall not be unfairly discriminatory. (A.R.S. §§ 20-448, 20-2108, 20-2109 and 20-2110)	11		X
2	Cancellations and Non-Renewal notices comply with state laws, company guidelines and policy provisions, including the amount of advance notice required and grace period provisions to the policyholder, nonrenewal based on condition of premises, and shall not be unfairly discriminatory. (A.R.S. §§ 20-191, 20-443, 20-448, 20-1631, 20-1632, 20-1632.01, 20-1651 through 20-1656).	11		X

Claims Processing

#	STANDARD	PAGE	PASS	FAIL
1	The initial contact by the company with the claimant is within the required time frame. (A.R.S. § 20-461 and A.A.C. R20-6-801)	8	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, and A.A.C. R20-6-801)	8	X	
3	The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations. (A.R.S. §§ 20-461, 20-466.03, 20-2106, and A.A.C. R20-6-801)	8	X	
4	Claim files are adequately documented in order to be able to reconstruct the claim. (A.R.S. §§ 20-461, 20-463, 20-466.03 and A.A.C. R20-6-801)	8	X	
5	Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations. (A.R.S. §§ 20-268, 20-461, 20-462 and A.A.C. R20-6-801)	8	X	
6	The Company uses reservation of rights and excess of loss letters, when appropriate. (A.R.S. § 20-461 and A.A.C. R20-6-801)	8	X	
7	Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner. (A.R.S. §§ 20-461, 20-462 and A.A.C. R20-6-801)	8	X	
8	The Company responds to claim correspondence in a timely manner. (A.R.S. § 20-461, 20-462 and A.A.C. R20-6-801)	8	X	
9	Denied and closed without payment claims are handled in accordance with policy provisions and state law. (A.R.S. §§ 20-461, 20-462, 20-463, 20-466, 20-2110 and A.A.C. R20-6-801)	8	X	
10	No insurer shall fail to fully disclose to first party insureds all pertinent benefits, coverages, or other provisions of an insurance policy or insurance contract under which a claim is presented. (A.A.C. R20-6-801)	8	X	
11	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	8	X	