

STATE OF ARIZONA
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DEPT. OF INSURANCE

REPORT OF TARGET EXAMINATION

OF

HARTFORD CASUALTY INSURANCE COMPANY

NAIC #29424

AS OF

JUNE 30, 2006

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Governor

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CHRISTINA URIAS
Director of Insurance

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:

HARTFORD CASUALTY INSURANCE COMPANY
NAIC # 29424

The above examination was conducted by Sandra Lewis, CIE, Examiner-in-Charge, and Mari A. Sanchez, AIE, FLMI, AIRC, Senior Market Examiner and Latricia Young IIA, AIC, SCLA Market Examiner.

The examination covered the period of July 1, 2005 through June 30, 2006.

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

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Paul J. Hogan".

Paul J. Hogan, JB, FLMI, ALHC, CIE
Market Oversight Administrator
Market Oversight Division

AFFIDAVIT

STATE OF ARIZONA)
)
County of Maricopa) ss.

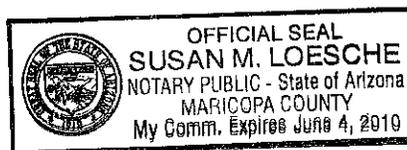
I, Sandra Lewis, CIE, being first duly sworn state that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance, and that under my direction and with my participation and the participation of Mari Sanchez, AIE, FLMI, AIRC, Senior Market Examiner, and Latricia Young, IIA, AIC, SCLA, Market Examiner, the examination of Hartford Casualty Insurance Company, hereinafter referred to as the "Company" was performed at the offices of the Arizona Department of Insurance. A teleconference meeting with appropriate Company officials was held to discuss the findings set forth in this Report. The information contained in this Report, consisting of the following pages, is true and correct to the best of my knowledge and belief, and any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.

Sandra Lewis
Sandra Lewis, CIE,
Market Examinations Examiner-in-Charge

Subscribed and sworn to before me this 2 day of July, 2007.

Susan M Loesche
Notary Public

My Commission Expires 6-4-2010



FOREWORD

This market examination of Hartford Casualty Insurance Company (“Company”), was prepared by employees of the Arizona Department of Insurance (“Department”) as well as independent examiners contracting with the Department. A market 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 products developed in the production of this report, are the sole property of the Department.

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

1. Complaint Handling
2. Underwriting
3. Cancellations, Non-Renewals and Transfers
4. 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 July 1, 2005 through June 30, 2006 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 beginning at page 18 and the results are reported beginning on page 8.

In accordance with Department procedures, the Examiners completed a Preliminary Finding ("PF") on those policies, claims, complaints, and/or procedures not in apparent compliance with Arizona law. The PF forms were submitted for review and comment to the Company representative designated by Company management as being knowledgeable about the files. For each PF 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, examinations 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 randomly or systematically selected by using Audit Command Language (ACL) software and computer data files provided by the Company's Representative, Jackie Apanowitch, Regulatory Compliance, or to other Company personnel designated by her. Samples were tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data resulted in an exception ratio, which determined whether or not a standard was met. If the exception ratio found in the sample was, generally, less than 5%, the standard was considered as "met". A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified.

EXECUTIVE SUMMARY

This examination was completed by applying tests to each examination standard to determine compliance with the standards. Each standard applied during the examination is stated in this report at page 18, and the "Examination Findings" are reported beginning at page 8.

1. The Company failed Standard No. 6 with regard to its cancellations and renewals as follows:
 - The Company appears to have violated A.R.S. § 20-1652(B) with regard to one (8%) of the 12 Nonrenewed files reviewed. The apparent violation

resulted from the Company's failure to advise the insured of the condition that needed to be remedied, and allowing 30 days to complete repairs, before nonrenewing the policy based upon the condition of premises. The Company agreed with this finding.

- The Company appears to have violated A.R.S. § 20-1653(2) with regard to 2 (6%) of 34 Cancellation/Transfer/Nonrenewal forms reviewed. The apparent violations resulted from the Company's failure to provide the insured with a written notice of nonrenewal with the specific reasons for the Company's action. In one of the two cases, the coverage was rewritten in another Hartford company, but with a change in coverage limits.
2. The Company failed Standard No. 9 with regard to its claims handling as follows:
- The Company appears to have violated A.R.S. § 20-461(A)(1). The apparent violations resulted from the use of one HO Closed Without Pay claim letter and four HO Subrogation claim letters that failed to provide the correct insurance carrier's name.
 - The Company appears to have violated A.R.S. § 20-466.03. The apparent violations resulted from the use of one HO Closed Without Pay claim form that failed to include the required Arizona fraud warning.
3. The Company passed Standard 11 with comment with regard to the following:
- The Company appears with regard to one (1%) of 80 HO Paid claims to have failed to pay the correct amount based on policy provisions and the facts at hand when the claim was initially processed, in apparent violation of A.R.S. § 20-461(A)(2). Although a 1% apparent violation rate meets the standard, financial restitution in the amount of \$1,125.00 plus \$143.32 interest for a total additional payment of \$1,268.32 was payable and paid to the insured.
 - The Company appears with regard to one (1%) of 80 HO Paid claims to have failed to pay interest on a claim it had reprocessed and for which it had issued a supplemental payment due to the Company's own error, in apparent violation of A.R.S. § 20-462(A). Although a 1% apparent violation rate meets the standard, financial restitution in the amount of \$40.43 in accrued interest was payable and paid to the insured.

4. The Company passed the remaining 13 standards, as indicated at the end of this Report.

HISTORY OF THE COMPANY

Hartford Casualty Insurance Company was incorporated under the Laws of New Jersey as "Citizens Insurance Company of New Jersey" and commenced business on December 31, 1929. The name was changed to "Hartford Casualty Insurance Company" in November 1971.

A new Company, "Hartford Casualty Insurance Company of Indiana", was incorporated on March 5, 1987 with the intent of merging the two Companies. Effective July 1, 1987 the Companies were merged, and the domicile of the Company was changed to Indiana.

Effective on the merge date the new Company changed its name by dropping "of Indiana".

PROCEDURES REVIEWED WITHOUT EXCEPTION

The Examiners review of the following Company departments or functions indicates that they appear to be in compliance with Arizona statutes and rules. If a department name is listed there were no exceptions noted during the review.

Complaint Handling
(Standards 1 and 2)

Underwriting
(Standards 3 and 4)

RESULTS OF PREVIOUS MARKET EXAMINATION

During the past four years, there were three Market Conduct Examinations completed. These examinations were completed by Kentucky, North Carolina, and Washington. There were no significant patterns of non-compliance.

HO CANCELLATIONS, NONRENEWALS AND TRANSFERS

EXAMINATION FINDINGS – FAILED STANDARD 6

The Examiners reviewed 12 HO Nonrenewed policies from a population of 132, 10 HO Transferred policies from a population of 3,059, and 12 HO underwriting Cancelled policies from the same population of 3,059. The Examiners completed their Phase I review and did not proceed to a Phase II on this Standard.

The Company advised that no new HO business was written by this Company during the Examination period.

Based on the Examiners' review of the sample of the Company's HO policies Canceled, Nonrenewed, and Transferred during the examination period, the Company failed to meet Standard 6: *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, nonrenewal based on condition of premises, and shall not be unfairly discriminatory.* See A.R.S. §§ 20-448 and 20-1651 through 20-1656.

A.R.S. § 20-1652(B)

The Examiners reviewed the sample of 12 Nonrenewed policies for compliance with A.R.S. § 20-1652(B), which requires that, in the event of nonrenewal of a HO policy based on condition of the premises, the insurer shall give the insured 30 days notice and opportunity to remedy the identified conditions.

During Phase I of the examination one (8%) of the 12 Nonrenewal files reviewed by the Examiners failed Standard 6 because the Company nonrenewed the policy due to the condition of premises without advising the insured of the condition that needed remedied, and allowing 30 days to complete repairs, according to the terms prescribed by A.R.S. § 20-1652(B). Reference PF # 006.

The Company agreed with this PF. An 8% error ratio does not meet Standard; therefore, a recommendation is warranted.

Subsequent Events: The Company began using the Oden Terminator in April 2006. The Company asserts that this system has improved compliance with state non-renewal notice requirements because it includes permissible reasons for non-renewal as well as additional state-specific requirements, such as Arizona's requirements regarding non-renewals as a result of premises condition. The Oden system includes a trigger that alerts the individual processing the notice that a thirty (30) day warning notice is required and that notice advises the insured of the premises condition issue.

Recommendation #1

Within 90 days of the filed date of this Report, the Company should submit documentation to the Department to show that the Company has appropriate procedures in place to ensure that 30 days notice and opportunity to correct the condition of the premises are provided to Arizona insureds prior to nonrenewal of coverage based on condition of the premises.

A.R.S. § 20-1653(2)

The Examiners reviewed the samples of 12 Nonrenewed policies, 10 Transferred policies, and 12 Canceled policies for compliance with A.R.S. § 20-1653(2), which requires that the insurer provide a written notice of nonrenewal to the insured, which notice shall include the specific facts that constitute the reason for the nonrenewal. This notice is required in the case of transfers if the coverage is written in an affiliated insurer with a change in coverage limits.

During Phase I of the examination one (8%) of the 12 Nonrenewal files reviewed by the Examiners failed Standard 6 because the Company was unable to supply a copy of the written Notice of Nonrenewal with the specific reason for the Company's action, according to the terms prescribed by A.R.S. § 20-1653(2). The Company sent the Examiners a computer log sheet that stated, "set up for n/r on 7/10/05 due to vacant residence, processed n/r." Reference PF # 009.

During Phase I of the examination one (10%) of the 10 Transfer files reviewed by the Examiners failed Standard 6 because of no Nonrenewal Notice being sent to the Insured, according to the terms prescribed by A.R.S. § 20-1653(2). Reference PF # 015. The coverage was rewritten in another Hartford writing Company (Sentinel) using the same policy dates. The policy had some coverage limits that were changed.

The following table summarizes the apparent violations of A.R.S. § 20-1653(2):

A.R.S. § 20-1653(2) Apparent Violations
(Failed to send Notices of Nonrenewal)

Claim Type	Sample Size	# of Exceptions	% to Sample
HO Nonrenewed	12	1	8%
HO Transferred	10	1	10%
HO Canceled	12	0	0%
Totals	34	2	6%

A 6% error ratio does not meet Standard; therefore, a recommendation is warranted.

Subsequent Events: The Company began using the Oden Terminator in April 2006. The Company asserts that this system has improved compliance with state non-renewal notice requirements because it includes permissible reasons for non-renewal as well as additional state-specific requirements, such as Arizona's requirements regarding non-renewals as a result of premises condition.

Recommendation #2

Within 90 days of the filed date of this Report, the Company should submit documentation to the Department to show that the Company has appropriate procedures in place to comply with notice requirements for the cancellation or nonrenewal of Arizona HO policies.

CLAIMS PROCESSING

EXAMINATION FINDINGS – FAILED STANDARD 9

During the Phase I Examination, the Examiners reviewed the Company's claims manuals, forms, policies and procedures. The Examiners completed their Phase I review and did not proceed to a Phase II regarding this Standard.

Based on the Examiners' review of the Company's HO claims, the Company failed to meet Standard 9: *The company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.* See A.R.S. §§ 20-461, 20-466.03, 20-2106, and A.A.C. R20-6-801. A standard in the area of form use is not met if any exception is identified.

A.R.S. § 20-461(A)(1)

During the Phase I review, one HO Closed Without Pay claim letter and four HO Subrogated claim letters failed Standard 9, because the Company failed to advise the insureds of the appropriate insuring company. None of the letters cited contained form numbers.

These five letters misrepresented pertinent facts or insurance policy provisions relating to coverages at issue, according to the terms prescribed by A.R.S. § 20-461(A)(1). Please reference PFs # 001, 004 and 005.

Subsequent Events: The Company sent a letter dated January 18, 2007, to its Property Site Leaders indicating the need to ensure the proper state-specific fraud warning and the correct writing company are provided in all written communications with customers. The Company also sent a letter dated January 30, 2007, to Managers indicating the CI letters had been updated to include all state-specific fraud warning and correct writing company information. The letter further advises the Managers that if CI letters are not used, associates need to ensure the correct writing company is referenced and appropriate department of insurance language is included as needed.

Recommendation #3

Within 90 days of the filed date of this Report, the Company should submit documentation to the Department to show that the Company has appropriate procedures and forms in place to provide the insured with the name of the appropriate insuring company on all communications.

A.R.S. § 20-466.03

During the Phase I review, one HO Closed Without Pay claim form used by the Company failed Standard 9 because the file did not include the Arizona fraud warning prescribed by A.R.S. § 20-466.03. The Company provided the Illinois fraud warning instead. Please reference PF # 001.

Subsequent Events: The Company sent a letter dated January 18, 2007, to its Property Site Leaders indicating the need to ensure the proper state-specific fraud warning and the correct writing company are provided in all written communications with customers. The Company also sent a letter dated January 30, 2007, to Managers indicating the CI letters had been updated to include all state-specific fraud warning and correct writing company information. The letter further advises the Managers that if CI letters are not used, associates need to ensure the correct writing company is referenced and appropriate department of insurance language is included as needed.

Recommendation #4

Within 90 days of the filed date of this Report, the Company should submit documentation to the Department to show that the Company has appropriate procedures and forms in place to provide the claimant with the appropriate Arizona fraud warning.

EXAMINATION FINDING – STANDARD 11 PASSED WITH COMMENT

During the Phase I Examination, the Examiners reviewed the Company's claims manuals, forms, policies and procedures. At the completion of the Phase I review of sample claim files it was determined that a Phase II review of Paid claims was warranted for this standard based on the error ratio. The following table shows the samples selected for each of the phases:

<u>Type of Claim Reviewed</u>	<u>Population</u>	<u>Phase I Sample</u>	<u>Phase II Sample</u>	<u>Total Sample</u>
HO Claims Closed w/o Pay	261	26	0	26
HO Claims Paid	578	25	55	80
HO Claims Subrogated	<u>15</u>	<u>15</u>	<u>0</u>	<u>15</u>
Totals	854	66	55	121

Based on the Examiners' review of the Company's HO Paid claims, the Company met Standard 11 with comment as the examination related to the appropriateness of the payment. Standard 11 states: *Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.* See A.R.S. §§ 20-268, 20-461, 20-462, A.A.C. R20-6-801.

A.R.S. § 20-461(A)(2)

During the Phase I and Phase II review the Examiners reviewed 80 HO Paid claims and identified one (1%) exception where the Company failed to pay the correct amount on the claim based on policy provisions and the facts at hand, according to the terms prescribed by A.R.S. § 20-461(A)(2). Please reference PF# 003.

Subsequent Events: The Company agreed with the PF. The claim involved an antique gun that was depreciated to one half of the documented value. The Company paid the insured \$1,125.00 plus \$143.32 interest for a total additional payment of \$1,268.32.

A.R.S. § 20-462(A)

During the Phase I and Phase II review the Examiners reviewed 80 HO Paid claims and identified one exception where the Company reprocessed and made a supplemental payment on a claim, but failed to pay interest on the supplemental payment necessitated by its own error, according to the terms prescribed by A.R.S. § 20-462(A). Please reference PF# 002.

Subsequent Events: Upon receipt of the PFs, the Company determined that the payment discrepancies were inadvertent errors.

Regarding PF# 002 the claim was a water damage loss first processed in June 2006. The Company made an initial payment of \$11,469.44. When the claim was pulled for audit November 2006 the Company reviewed the file and made an additional payment of \$585.12. The Examiners reviewed the file and determined no interest had been paid on the November payment. The Company issued a check for \$40.43 covering interest.

SUMMARY OF STANDARDS

Complaint Handling

#	STANDARD	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, A.A.C. R20-6-801)	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, A.A.C. R20-6-801)	X	

Underwriting and Rating

#	STANDARD	PASS	FAIL
3	Disclosures to insureds concerning coverage are accurate and timely. (A.R.S. §§ 20-259.01, 20-262, 20-263, 20-264, 20-266, 20-267)	X	
4	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1654)	X	

Cancellation and Non-Renewals

#	STANDARD	PASS	FAIL
5	Declinations shall comply with state laws and company guidelines including the Summary of Rights to be given to the applicant and shall not be unfairly discriminatory. (A.R.S. §§ 20-448, 20-2108, 20-2109, 20-2110)	X	
6	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, nonrenewal based on condition of premises, and shall not be unfairly discriminatory (A.R.S. §§ 20-448, 20-1631, 20-1632, 20-1632.01, 20-1651 through 20-1656)		X

Claims Processing

#	STANDARD	PASS	FAIL
7	The initial contact by the company with the claimant is within the required time frame. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
8	Timely investigations are conducted. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
9	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, A.A.C. R20-6-801)		X
10	Claim files are adequately documented in order to be able to reconstruct the claim. (A.R.S. §§ 20-461, 20-463, 20-466.03, A.A.C. R20-6-801)	X	
11	Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations. (A.R.S. §§ 20-268, 20-461, 20-462, A.A.C. R20-6-801)	X With comment	
12	The company uses reservation of rights and excess of loss letters, when appropriate. (A.R.S. § 20-461(A)(1), A.A.C. R20-6-801(D)(1))	X	
13	Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner. (A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801)	X	
14	The company responds to claim correspondence in a timely manner. (A.R.S. § 20-461, 20-462, A.A.C. R20-6-801)	X	
15	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, A.A.C. R20-6-801)	X	
16	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. Arizona Rule (A.A.C. R20-6-801)	X	