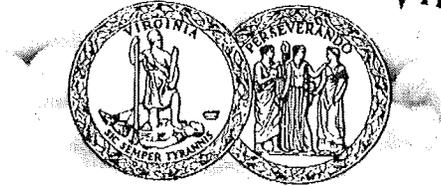


JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



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**STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

I, Karen S. Gerber, Senior Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of Federated Insurance Company, Great Northern Insurance Company, Pacific Indemnity Company, and Vigilant Insurance Company as of March 31, 2013, conducted at the companies' office in Chesapeake, Virginia is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' response to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case No. INS-2015-00151 finalizing the Report.

**IN WITNESS WHEREOF**, I have  
hereunto set my hand and affixed  
the official seal of this the Bureau  
at the City of Richmond, Virginia,  
this 16th day of October, 2015.

Karen S. Gerber  
Examiner in Charge

**MARKET CONDUCT EXAMINATION REPORT**

**OF**

**FEDERAL INSURANCE COMPANY**

**GREAT NORTHERN INSURANCE COMPANY**

**PACIFIC INDEMNITY COMPANY**

**VIGILANT INSURANCE COMPANY**

**AS OF**

**MARCH 31, 2013**

**COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

**Property and Casualty Division  
Market Conduct Section**

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## INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a market conduct examination has been made of the private passenger auto and homeowners lines of business written by Federal Insurance Company, Great Northern Insurance Company, Pacific Indemnity Insurance Company, and Vigilant Insurance Company at their office in Chesapeake, Virginia, and the office of the State Corporation Commission Bureau of Insurance.

The examination commenced November 4, 2013 and concluded June 12, 2014. Brandon L. Ayers, Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Ju'Coby D. Hendrick, Richard L. Howell, Melody S. Morrissette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on February 7, 2013 and was assigned the examination number of VA-097-M7. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

**COMPANY PROFILES\***

Federal Insurance Company was incorporated on February 15, 1901 and began business on March 2, 1901, under the laws of New Jersey.

Great Northern Insurance Company was incorporated in 1952 under the laws of Minnesota to become the successor to Underwriters at Lloyds of Minneapolis (organized in 1918), effective August 1, 1952. On November 28, 2007, it was re-domesticated to the State of Indiana.

Pacific Indemnity Company was incorporated on January 16, 1926, under the laws of California. It began business on February 5, 1926.

Vigilant Insurance Company was incorporated on July 17, 1939 under the laws of New York as the Reserve Insurance Company. It was organized to write general fire and marine business and began operations on October 18, 1939.

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\* Source: Best's Insurance Reports, Property & Casualty, 2012 Edition.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date that the companies were licensed in Virginia except as noted in the table.

<b>GROUP CODE: 0038</b>	<b>FIC</b>	<b>GNIC</b>	<b>PIC</b>	<b>VIC</b>
<b>NAIC Company Number</b>	20281	20303	20346	20397
<b>LICENSED IN VIRGINIA</b>	10/15/1924	1/26/1970	12/1/1958	10/20/1944
<b>LINES OF INSURANCE</b>				
Accident and Sickness	X	X	X	X
Aircraft Liability	X	X	X	X
Aircraft Physical Damage	X		X	X
Animal	7/17/81			
Automobile Liability	X	X	X	X
Automobile Physical Damage	X	X	X	X
Boiler and Machinery	X	7/3/75	X	X
Burglary and Theft	X	X	X	X
Commercial Multi-Peril	X	7/3/75	X	X
Credit	X			
Farmowners Multi-Peril	X	X	X	X
Fidelity	X	7/3/75	X	X
Fire	X	7/3/75	X	X
General Liability	X	X	X	
Glass	X	X	X	X
Homeowners Multi-Peril	X	X	X	X
Inland Marine	X	X	X	X
Miscellaneous Property	X	7/3/75	X	X
Ocean Marine	X	7/3/75	X	X
Surety	X	7/3/75	X	X
Water Damage	X	7/3/75	X	X
Workers' Compensation	X	7/3/75	X	X

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2012 for the lines of insurance included in this examination.\* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
<b>Federal Insurance Company</b>		
Homeowners Multi-Peril	\$5,907,719	.33%
Private Automobile Liability	\$313,468	.01%
Private Automobile Physical Damage	\$497,120	.03%
<b>Great Northern Insurance Company</b>		
Homeowners Multi-Peril	\$13,229,051	.73%
Private Automobile Liability	\$1,541,984	.06%
Private Automobile Physical Damage	\$2,062,554	.11%
<b>Pacific Indemnity Company</b>		
Homeowners Multi-Peril	\$6,753,749	.37%
Private Automobile Liability	\$256,007	.01%
Private Automobile Physical Damage	\$351,140	.02%
<b>Vigilant Insurance Company</b>		
Homeowners Multi-Peril	\$4,287,344	.24%
Private Automobile Liability	\$489,718	.02%
Private Automobile Physical Damage	\$704,667	.04%

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\* Source: The 2012 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

## SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile and homeowners' lines of business written in Virginia for the period beginning April 1, 2012 and ending March 31, 2013. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance<sup>1</sup>, statutory notices, agent licensing, complaint handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

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<sup>1</sup> Policies reviewed under this category reflected the companies' current practices and, therefore, fell outside of the exam period.

The examiners may not have discovered every unacceptable or noncompliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

### **STATISTICAL SUMMARY**

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

AREA	Population Sample Requested					FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
	FIC	GNIC	PIC	VIC	TOTAL				
<b><u>Private Passenger Auto</u></b>									
New Business <sup>1</sup>	<u>44</u> 4	<u>126</u> 12	<u>187</u> 3	<u>19</u> 6	<u>376</u> 25	20	0	20	100%
Renewal Business <sup>2</sup>	<u>335</u> 10	<u>1453</u> 15	<u>187</u> 7	<u>411</u> 13	<u>2386</u> 45	49	0	49	100%
Co-Initiated Cancellations	<u>0</u> 0	<u>2</u> 2	<u>0</u> 0	<u>0</u> 0	<u>2</u> 2	1	0	0	0%
All Other Cancellations <sup>3</sup>	<u>32</u> 7	<u>108</u> 10	<u>18</u> 3	<u>45</u> 6	<u>203</u> 26	19	0	14	74%
Nonrenewals	<u>2</u> 2	<u>5</u> 5	<u>1</u> 1	<u>3</u> 1	<u>11</u> 9	9	0	5	56%
<b><u>Homeowners</u></b>									
New Business	<u>184</u> 10	<u>598</u> 15	<u>251</u> 10	<u>43</u> 5	<u>1076</u> 40	40	0	2	5%
Renewal Business <sup>4</sup>	<u>1663</u> 15	<u>4242</u> 20	<u>2009</u> 15	<u>1143</u> 15	<u>9057</u> 65	64	0	1	2%
Co-Initiated Cancellations	<u>5</u> 7	<u>3</u> 0	<u>2</u> 0	<u>0</u> 3	<u>10</u> 10	10	0	7	70%
All Other Cancellations <sup>5</sup>	<u>113</u> 11	<u>196</u> 18	<u>84</u> 2	<u>58</u> 0	<u>451</u> 31	28	0	10	36%
Nonrenewals	<u>8</u> 5	<u>27</u> 5	<u>12</u> 2	<u>5</u> 2	<u>52</u> 14	14	0	6	43%
<b><u>Claims</u></b>									
Auto <sup>6</sup>	<u>69</u> 23	<u>368</u> 30	<u>44</u> 18	<u>107</u> 21	<u>588</u> 92	90	0	43	48%
Property <sup>7</sup>	<u>186</u> 12	<u>537</u> 15	<u>235</u> 15	<u>147</u> 15	<u>1105</u> 57	52	0	28	54%

Footnote <sup>1</sup> 5 New Business policies were moved to Renewal Business  
 Footnote <sup>2</sup> 5 policies were moved from New Business and 1 policy was not reviewed  
 Footnote <sup>3</sup> 6 policies were expired policies and were not reviewed and 1 policy was a Florida exposure  
 Footnote <sup>4</sup> 1 file was a multi state risk and was not reviewed  
 Footnote <sup>5</sup> 3 policies were flat canceled and were not reviewed  
 Footnote <sup>6</sup> 2 files were not primary PPA policies and were not reviewed  
 Footnote <sup>7</sup> 1 file was outside of the exam period and 4 files were losses on other state's policies and were not reviewed

## **PART ONE – THE EXAMINERS’ OBSERVATIONS**

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile New Business Policies**

The Bureau reviewed 20 new business policy files. As a result of this review, the examiners found overcharges totaling \$1,241.00 and undercharges totaling \$808.00. The net amount that should be refunded to insureds is \$1,241.00 plus six percent (6%) simple interest.

- (1) The examiners found 10 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute.
  - a. In five instances, the company failed to include the applicable edition dates of forms not otherwise uniquely identified on the declarations page.
  - b. In five instances, the company failed to list all forms applicable to the policy on the declarations page.
- (2) The examiners found three violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy.
- (3) The examiners found two violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an Adverse Underwriting Decision (AUD).
- (4) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The

company failed to notify the insured, in writing, that his policy had been surcharged for an at-fault accident.

- (5) The examiners found three violations of § 38.2-1906 A. The company failed to file all rates and supplementary rate information.
- (6) The examiners found 41 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In four instances, the company failed to use the correct discounts and/or surcharges.
  - b. In one instance, the company failed to apply the correct surcharge points for accidents and/or convictions.
  - c. In seven instances, the company failed to use the correct symbols.
  - d. In 19 instances, the company failed to use the correct territory.
  - e. In one instance, the company failed to use the correct tier eligibility criteria.
  - f. In two instances, the company failed to use the correct base and/or final rates.
  - g. In one instance, the company failed to use the correct deductible factors.
  - h. In two instances, the company failed to apply its expense fee according to the filed rule.
  - i. In three instances, the company failed to apply its Agreed Value Rule when determining the Agreed Value premium.
  - j. In one instance, the company failed to identify the vehicle customarily operated by the insured.

**Automobile Renewal Business Policies**

The Bureau reviewed 49 renewal business policy files. As a result of this review, the examiners found overcharges totaling \$3,821.00 and undercharges totaling \$2,055.00. The net amount that should be refunded to insureds is \$3,821.00 plus six percent (6%) simple interest.

- (1) The examiners found 20 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute.
  - a. In 17 instances, the company failed to include the applicable edition dates of forms not otherwise uniquely identified on the declarations page.
  - b. In three instances, the company failed to list all forms applicable to the policy on the declarations page.
- (2) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy.
- (3) The examiners found two violations of § 38.2-1905 A of the Code of Virginia. The company failed to notify the insured, in writing, that the policy had been surcharged for an at-fault accident.
- (4) The examiners found one violation of § 38.2-1905 C of the Code of Virginia. The company failed to charge points to the vehicle customarily driven by the operator responsible for incurring the points.
- (5) The examiners found 121 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In one instance, the company failed to use the correct discounts and/or surcharges.
  - b. In 18 instances, the company failed to use the correct symbols.

- c. In 49 instances, the company failed to use the correct territory.
- d. In 23 instances, the company failed to use the correct driver classification factor.
- e. In ten instances, the company failed to use the correct base and/or final rates.
- f. In one instance, the company failed to use the correct deductible factors.
- g. In two instances the company failed to apply the expense fee according to the filed rule.
- h. In three instances, the company failed to use the rounding rule on file with the Bureau.
- i. In one instance, the company failed to use its Agreed Value Rule when determining the Agreed Value premium.
- j. In 13 instances, the company failed to identify the vehicle customarily operated by the insured.

### **Homeowners New Business Policies**

The Bureau reviewed 40 new business policy files. As a result of this review, the examiners found overcharges totaling \$60.00 and undercharges totaling \$3.00. The net amount that should be refunded to insureds is \$60.00 plus six percent (6%) simple interest.

The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to use the correct discounts and/or surcharges.

**Homeowners Renewal Business Policies**

The Bureau reviewed 64 renewal business policy files. As a result of this review, the examiners found no overcharges and undercharges totaling \$6.00.

The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to use the correct territory.

**TERMINATION REVIEW**

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

**Company-Initiated Cancellations – Automobile Policies****NOTICE MAILED PRIOR TO THE 60<sup>TH</sup> DAY OF COVERAGE**

The Bureau reviewed one automobile cancellation that was initiated by the companies where the cancellation notice was mailed prior to the 60<sup>th</sup> day of coverage in the initial policy period. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

**NOTICE MAILED AFTER THE 59<sup>TH</sup> DAY OF COVERAGE**

The Bureau reviewed one automobile cancellation that was initiated by the companies where the cancellation notice was mailed on or after the 60<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

**All Other Cancellations – Automobile Policies**NONPAYMENT OF PREMIUM

The Bureau reviewed four automobile cancellations that were initiated by the companies for nonpayment of the policy premium. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found four violations of § 38.2-2208 B of the Code of Virginia.

- a. In two instances, the company failed to retain proof of mailing the cancellation notice to the insured.
- b. In two instances, the company failed to retain a copy of the cancellation notice to the lienholder.

REQUESTED BY THE INSURED

The Bureau reviewed 15 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. As a result of this review, the examiners found no overcharges and undercharges totaling \$725.10.

- (1) The examiners found eight violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (2) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

**Company-Initiated Nonrenewals – Automobile Policies**

The Bureau reviewed nine automobile nonrenewals that were initiated by the companies.

- (1) The examiners found four violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the nonrenewal notice to the

insured.

- (2) The examiners found four violations of § 38.2-2208 B of the Code of Virginia. The company failed to obtain valid proof of mailing the nonrenewal notice to the lienholder.

### **Company-Initiated Cancellations – Homeowners Policies**

#### NOTICE MAILED PRIOR TO THE 90<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed seven homeowner cancellations that were initiated by the companies where the cancellation notice was mailed prior to the 90<sup>th</sup> day of coverage in the initial policy period. As a result of this review, the examiners found overcharges totaling \$11.75 and no undercharges. The net amount that should be refunded to insureds is \$11.75 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (2) The examiners found four violations of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (3) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.

#### NOTICE MAILED AFTER THE 89<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed three homeowner cancellations that were initiated by the companies where the cancellation notice was mailed on or after the 90<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (2) The examiners found two violations of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found two violations of § 38.2-2114 A of the Code of Virginia.
  - a. In one instance, the company cancelled a policy insuring an owner-occupied dwelling after the 89<sup>th</sup> day of coverage for a reason not permitted by the statute.
  - b. In one instance, the company cancelled coverage on an owner-occupied dwelling because of a physical change in the property and failed to properly document the change.

### **All Other Cancellations – Homeowners Policies**

#### NONPAYMENT OF PREMIUM

The Bureau reviewed nine homeowner cancellations that were initiated by the companies for nonpayment of the policy premium. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found seven violations of § 38.2-2113 C of the Code of Virginia.
  - a. In five instances, the company failed to retain a copy of the proof of mailing the cancellation notice to the insured.
  - b. In two instances, the company failed to retain a copy of the proof of mailing the cancellation notice to the lienholder.
- (2) The examiners found four violations of § 38.2-2114 A of the Code of Virginia. The company failed to send the insured written notice of cancellation of an

owner-occupied dwelling policy.

- (3) The examiners found one violation of § 38.2-2114 C of the Code of Virginia.  
The company failed to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).
- (4) The examiners found four occurrences where the company failed to comply with the provisions of the Renters insurance policy. The company failed to send written notice of cancellation to the insured.

#### REQUESTED BY THE INSURED

The Bureau reviewed 19 homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. As a result of this review, the examiners found overcharges totaling \$115.52 and no undercharges. The net amount that should be refunded to insureds is \$115.52 plus six percent (6%) simple interest.

The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.

#### **Company-Initiated Nonrenewals – Homeowners Policies**

The Bureau reviewed 14 homeowner nonrenewals that were initiated by the companies.

- (1) The examiners found four violations of § 38.2-2113 A of the Code of Virginia.  
The company failed to obtain valid proof of mailing the nonrenewal notice to the insured.
- (2) The examiners found four violations of § 38.2-2113 C of the Code of Virginia.  
The company failed to obtain valid proof of mailing the nonrenewal notice to the lienholder.

- (3) The examiners found one violation of § 38.2-2114 C of the Code of Virginia. The company failed to provide the specific reason for nonrenewal of a policy insuring an owner-occupied dwelling.
- (4) The examiners found one violation of § 38.2-2114 I of the Code of Virginia. The company refused to renew a policy written on an owner-occupied dwelling solely because of a claim resulting primarily from natural causes.

### CLAIMS REVIEW

#### **Private Passenger Automobile Claims**

The examiners reviewed 90 automobile claims for the period of April 1, 2012 through March 31, 2013. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$7,246.34 and underpayments totaling \$11,755.20. The net amount that should be paid to claimants is \$11,525.85 plus six percent (6%) simple interest.

- (1) The examiners found 10 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found eight violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim.
  - a. In two instances, the company failed to properly inform an insured of his Medical Expense Benefits coverage.

- b. In three instances, the company failed to inform an insured of his Transportation Expense coverage when the file indicated the coverage was applicable to the loss.
- c. In three instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist coverage (UM) when the file indicated the coverage was applicable to the loss.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant or a claimant's authorized representative that reasonably suggested a response was expected.
- (4) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found 31 violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
  - a. In one instance, the company failed to reimburse the insured his portion of the collision deductible under the Uninsured Motorist Property Damage coverage (UMPD).
  - b. In one instance, the company failed to pay the insured's rental benefits, available under the UMPD coverage and/or Underinsured Motorist

coverage (UIM).

- c. In 16 instances, the company failed to pay the proper sales and use tax, title fee and/or license fee on first party total loss settlements.
- d. In three instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.
- e. In eight instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
- f. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision (OTC) or Collision coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found one violation of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
- (7) The examiners found five violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or policy provisions relating to coverages at issue.
- (8) The examiners found five violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- (9) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and

equitable settlement of a claim in which liability was reasonably clear.

- (10) The examiners found three violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.
- (11) The examiners found four violations of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.
- (12) The examiners found one violation of § 38.2-517 A 6 of the Code of Virginia. The company set arbitrary or unreasonable limits on the reimbursement for paint and/or materials.
- (13) The examiners found one violation of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured authorizing the company to make payments directly to the medical provider.
- (14) The examiners found six occurrences where the company failed to comply with the provisions of the insurance policy.
  - a. In five instances, the company paid an insured more than he/she was entitled to receive under the terms of the policy.
  - b. In one instance, the company failed to abide by the policy provisions when making payment for a UMPD payment.

#### Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

- (1) The examiners found one violation of § 46.2-624 of the Code of Virginia. The company failed to notify the Virginia Department of Motor Vehicles when

payment was made in excess of \$3,500.00 on a water-damaged vehicle.

- (2) The examiners found eight violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

### **Homeowners Claims**

The examiners reviewed 52 homeowner claims for the period of April 1, 2012 through March 31, 2013. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$33,954.47 and underpayments totaling \$17,217.69. The net amount that should be paid to claimants is \$16,217.69 plus six percent (6%) simple interest.

- (1) The examiners found 13 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found two violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim. The company failed to inform the insured of the Additional Living Expense (ALE) coverage of the policy.
- (3) The examiners found two violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant or a claimant's authorized representative that

reasonably suggested a response was expected.

(4) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

(5) The examiners found five violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

a. In two instances, the company failed to properly pay the entire claim under the insured's Dwelling Replacement Cost coverage.

b. In one instance, the company failed to pay the entire claim under the ALE coverage.

c. In two instances, the company failed to pay the entire claim under the insured's Personal Property Replacement Cost coverage.

These findings occurred with such frequency as to indicate a general business practice.

(6) The examiners found two violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.

a. In one instance, the company failed to properly convey to the insured the company's obligation concerning payment of the liability claim.

b. In one instance, the company failed to properly convey the coverage applicable to the loss.

(7) The examiners found four violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt

investigation of claims arising under insurance policies.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found six violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.

- (10) The examiners found 17 occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In one instance, the company failed to include the mortgagee on the check.
  - b. In eight instances, the company paid an insured more than he/she was entitled to receive under the terms of his/her policy.
  - c. In two instances, the company paid a claimant when no liability was attributed to the insured.
  - d. In six instances, the company issued payments under the incorrect coverages.

#### **REVIEW OF FORMS**

The examiners reviewed the companies' policy forms and endorsements used

during the examination period and those that are currently used for the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

### **Automobile Policy Forms**

#### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 42 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area,

#### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

### **Homeowners Policy Forms**

#### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 42 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found four violations of § 38.2-317 A of the Code of Virginia. The companies used a form that had not been filed with the Bureau at least 30 days prior to use.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

**Automobile Policies**

The companies provided six new business policies but failed to provide the requested mailing dates. In addition, the companies provided 18 renewal business policies but failed to provide the requested mailing dates.

NEW BUSINESS POLICIES

- (1) The examiners found one violation of § 38.2-304 of the Code of Virginia. The companies used a binder for more than the 60 days allowed by the statute.
- (2) The examiners found two violations of § 38.2-305 B of the Code of Virginia. The companies failed to provide the Important Information to Policyholders notice.
- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The companies failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the

new business application.

#### RENEWAL BUSINESS POLICIES

The examiners found 11 violations of § 38.2-305 B of the Code of Virginia. The companies failed to provide the Important Information to Policyholders notice.

#### **Homeowners Policies**

The companies did not issue any new business policies during the period under review. The companies provided 12 renewal business policies but failed to provide the requested mailing dates.

#### RENEWAL BUSINESS POLICIES

The examiners found 24 violations of § 38.2-305 A of the Code of Virginia. The companies failed to specify in the insurance policy accurate information required by the statute.

- a. In 16 instances, the companies failed to show the time the policy became effective on the declarations page.
- b. In eight instances, the companies failed to list all forms applicable to the policy on the declarations page.

#### REVIEW OF STATUTORY NOTICES

To obtain sample policies to review the content of the statutory notices that the companies are required to provide to insureds and used by the companies for the lines examined, the examiners used the same new business policy and renewal business policy mailings that were previously described. The details of these policies have been set forth previously under the Review of the Policy Issuance Process section of the Report. The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

**General Statutory Notices**

- (1) The examiners found four violations of § 38.2-305 B of the Code of Virginia. The companies' Important Information Regarding Your Insurance notice did not contain all of the information required by this statute.
- (2) The examiners found four violations of § 38.2-604 B of the Code of Virginia. The companies' long form Notice of Information Collection and Disclosure Practices did not contain all of the information required by this statute.
- (3) The examiners found four violations of § 38.2-604 C of the Code of Virginia. The companies' short form Notice of Information Collection and Disclosure Practices did not contain all the information required by this statute.

**Statutory Vehicle Notices**

- (1) The examiners found four violations of § 38.2-2202 A of the Code of Virginia. The companies failed to have available for use a Notice of Optional Medical Expense Benefits Coverage.
- (2) The examiners found four violations § 38.2-2202 B of the Code of Virginia. The companies failed to have available for use a Notice of Optional Uninsured Motorist Coverage.

**Statutory Property Notices**

The examiners found four violations of § 38.2-2118 of the Code of Virginia. The companies failed to have available a notice summarizing the replacement cost provisions for owner-occupied dwellings.

**Other Notices**

The companies provided copies of 13 other notices including applications that were used during the examination period.

The examiners found four violations of § 38.2-2114 C of the Code of Virginia. The companies' non-pay notices did not advise the insured of notices required by statute.

- a. In two instances, the companies failed to advise the insured of his right to request a review by the Commissioner of Insurance.
- b. In two instances, the companies failed to advise the insured of the availability of insurance through the VPIA.

#### **LICENSING AND APPOINTMENT REVIEW**

A review was made of new business private passenger automobile and homeowner policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

#### **Agent**

- (1) The examiners found 35 violations of § 38.2-1318 of the Code of Virginia.
  - a. In 31 instances, the companies failed to provide a copy of the new business application.
  - b. In four instances, the companies failed to provide the information for the agent who placed the policy with the company.
- (2) The examiners found three violations of § 38.2-1822 A of the Code of Virginia. The companies permitted a person to act in the capacity of an agent who was not licensed in Virginia.
- (3) The examiners found two violations of § 38.2-1833 of the Code of Virginia. The companies failed to appoint an agent within 30 days of the date of the

application.

**Agency**

The examiners found one violation of § 38.2-1812 of the Code of Virginia. The companies failed to appoint an agency within 30 days of the date of application.

**REVIEW OF THE COMPLAINT HANDLING PROCESS**

A review was made of the companies' complaint handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

**REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES**

The Bureau requested a copy of the companies' Information Security Program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their Information Security Procedures.

## **PART TWO – CORRECTIVE ACTION PLAN**

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agents licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

### **General**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to the Report.

### **Rating and Underwriting Review**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges, and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the

companies acknowledge that they have refunded or credited the overcharges listed in the file.

- (4) Specify accurate information in the policy by listing all applicable forms and corresponding edition dates on the declarations page.
- (5) Properly represent the benefits, coverages, advantages, and conditions of the policy by showing accurate information on the point surcharge notice.
- (6) Provide the insured with a written notice of an AUD when the insured is charged a premium amount base upon information that differs from the information provided on the application.
- (7) Notify the insured in writing when their policy is being surcharged for an at-fault accident.
- (8) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, symbols, territories, tier eligibility, driver classification factors, base and/or final rates, rounding rules, agreed value rules, filed fees, and premium determination rules.

### **Termination Review**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges, and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.

- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) Calculate return premium according to the filed rules and policy provisions.
- (5) Retain a copy of the cancellation and nonrenewal notices sent to the insured and/or lienholder.
- (6) Provide proper notice of cancellation to the insured and/or lienholder when canceling a policy.
- (7) Obtain and retain valid proof of mailing cancellation and nonrenewal notices to the insured and/or lienholder.
- (8) Cancel a policy insuring an owner-occupied dwelling when the notice is mailed after the 89<sup>th</sup> day of coverage only for those reasons permitted by statute.
- (9) Provide the insured notice of his right to have the termination of his policy reviewed by the Commissioner of Insurance.
- (10) Obtain advance written notice when the insured requests cancellation of the policy.
- (11) Provide the insured with notice of the availability of insurance through the VPIA in the cancellation notice of an owner-occupied dwelling policy.

### **Claims Review**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments, and send the amount of the underpayment to insureds and claimants.

- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.
- (4) Document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to deductibles, rental benefits under UMPD and Transportation Expenses coverage, Medical Expense coverage, Additional Living Expense, and Extra Coverages.
- (6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim, and pay the claim in accordance with the insured's policy provisions.
- (7) Adopt and implement reasonable standards for the prompt investigation of claims.
- (8) The companies should include a correct statement of coverage under which payments are made with all claim payments to insureds.

### **Forms Review**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company shall:

File all homeowner forms with the Bureau at least 30 days prior to use in Virginia.

### **Review of Policy Issuance Process**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company shall:

- (1) Specify accurate information in the policy by showing the time the policy becomes effective and listing all applicable forms on the declarations page.
- (2) Provide the Important Information to Policyholders notice with all new and renewal policies as required by the Code of Virginia.

### **Review of Statutory Notices**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company shall:

- (1) Amend the Important Information Regarding Your Insurance notice to comply with § 38.2-305 B of the Code of Virginia.
- (2) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (3) Amend the short form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 C of the Code of Virginia.
- (4) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 B of the Code of Virginia.
- (5) Develop a Replacement Cost notice to comply with § 38.2-2118 of the Code of

Virginia.

- (6) Develop a Notice of Optional Medical Expense Benefits Coverage that complies with § 38.2-2202 A of the Code of Virginia.
- (7) Develop a Notice of Optional Uninsured Motorist Coverage that complies with § 38.2-2202 B of the Code of Virginia.
- (8) Amend the Cancellation notice to include the notice of the availability of other insurance to comply with § 38.2-2114 C of the Code of Virginia.
- (9) Amend the Cancellation notice to include the notice of right to review by the Commissioner of Insurance to comply with § 38.2-2114 C of the Code of Virginia.

#### **Licensing and Appointment Review**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company shall:

- (1) Provide convenient access to the files, documents, and records relating to the examination.
- (2) Appoint agents within 30 days of the application.
- (3) Pay commissions only to agencies that are appointed by the companies.
- (4) Accept business only from agents and agencies that have a current license from the Commonwealth of Virginia.

### **PART THREE – RECOMMENDATIONS**

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer.

#### **RECOMMENDATIONS**

We recommend that the companies take the following actions:

##### **Rating and Underwriting**

- The companies should add a procedure to show confirmation of coverage signed by the insured to prove that the companies provided all of the coverages initially requested by the insured.
- The companies should verify the rate classes shown on the declarations page are accurate and filed with the Bureau.
- The companies should change the wording on the declarations page from “inception date” to “effective date.”
- The companies should clarify Rule 14.H.1.a to specify how the rule applies to fifth vehicles on a policy:
- The companies should revise its manual to indicate the distance required to classify a home in territory 56 (non-beachfront area) or 456 (beachfront area).
- The companies should consider listing the Excess UM/UIM coverage amount under the Vehicles section of Excess Liability on the declarations page.

##### **Termination**

- The companies should verify that all towns and counties are spelled correctly in the policy, on the notice of cancellation, and on the proof of mailing.
- The companies should verify that the insured’s name and address are shown on the Cancellation Request/Policy Release documents.

- The companies should not attach the Loss Payable Clause endorsement to the policy if the policy does not contain a lienholder.
- The companies should remove the Right to Review by the Commissioner of Insurance language from the cancellation notice when the notice is mailed within the first 59 days of coverage for private passenger auto policies.

### Claims

- The companies should pay title and transfer fees only when the salvage is retained by the companies.
- The companies should modify their form letter to clarify the reimbursable expenses for a comparable vehicle.
- The companies should advise insureds that the policy does not require them to obtain a police report.
- The companies should acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days.
- The companies should make all claim denials in writing, and keep a copy of the denial in the claim file.
- The companies should provide copies of repair estimates prepared by or on behalf of the companies to insureds and claimants.
- The companies should properly represent pertinent facts or insurance provisions relating to the coverages at issue.
- The companies should make a prompt, fair, and equitable settlement of a claim in which liability is reasonably clear.
- The companies should provide a reasonable explanation of the basis in the insurance policy in relation to facts or applicable law for the denial of a claim or offer of a compromise settlement.
- The companies should reimburse paint and materials without applying arbitrary or unreasonable limits.
- The companies should obtain a written authorization from an insured prior to making payments directly to the medical provider.
- The companies should include the fraud statement on all claim forms required by the companies as a condition of payment.

- The companies should pay water damage vehicle claims according to Virginia Department of Motor Vehicle Code § 46.2-624.

### **Forms**

- The companies should correct the typographical error in the Standard Contents form under the section entitled Wind or Hail on Page D-3.

### **Policy Issuance Process**

- The companies should not list notices in the section entitled "Forms attached to the policy."
- The companies should add the Bureau of Insurance's TDD number (804-371-9206) to the Important Information Regarding Your Insurance notice.
- The companies should include in the information packet sent to the insured the Important Automobile Insurance Information folder and Accident Report Guide. The information is not required by the statute to be sent; however, the companies advised the insured in a letter included with the original information packet that it was sent. If the companies advise the insured that the information is sent, then the companies should provide the insured with the information that is referenced in the letter.

### **Statutory Notices**

- The companies should add the Bureau of Insurance's TDD number (804-371-9206) to the Important Information Regarding Your Insurance notice.
- The companies should remove the Right to Review by the Commissioner of Insurance language from its Notice of Change in Policy Rates/Coverage notice.
- The companies should correct the typographical error in the Point Surcharge notice 01-10-1190 (Ed. 11-01).

### **SUMMARY OF PREVIOUS EXAMINATION FINDINGS**

The Bureau conducted one prior market conduct examination of the private passenger automobile, antique automobile, homeowner's, commercial automobile,

commercial multi-peril and general liability lines of business of Federal Insurance company, Vigilant Insurance Company, Pacific Indemnity Company and Great Northern Insurance Company.

During the examination as of June 30, 1991, Federal Insurance Company violated Virginia Code §§ 38.2-231, 38.2-304, 38.2-305 A 6, 38.2-305 A 10, 38.2-610, 38.2-1906 B, 38.2-1908 B, 38.2-2014, 38.2-2113, 38.2-2114, 38.2-2120, 38.2-2206, 38.2-2208, 38.2-2210, 38.2-2212, 38.2-2220, 38.2-2223, and 38.2-2224, as well as Sections 4.4 and 4.5 of the Commission's Rules Governing Insurance Premium Finance Companies and Sections 4 and 9 (d) of the Commission's Rules Governing Unfair Claim Settlement Practices, and Vigilant Insurance Company violated Virginia Code §§ 38.2-304, 38.2-510 A 10, 38.2-1906 B, 38.2-1908 B, 38.2-2014, 38.2-2113, 38.2-2114, 38.2-2118, 38.2-2120, 38.2-2208, 38.2-2210, 38.2-2212, 38.2-2220, 38.2-2223, and 38.2-2224, as well as Section 4 of the Commission's Rules Governing Unfair Settlement Practices, and Pacific Indemnity Company violated Virginia Code §§ 38.2-510 A 10, 38.2-1906 B, 38.2-1908 B, 38.2-2014, 38.2-2213, 38.2-2120, 38.2-2208, 38.2-2210, 38.2-2212, 38.2-2220, 38.2-2223 and 38.2-2224, as well as Section 4 of the Commission's Rules Governing Unfair Settlement Practices, and Great Northern Insurance Company violated Virginia Code § 38.2-231.

The Bureau conducted one prior market conduct examination of the private passenger automobile and homeowner's lines of business of Federal Insurance Company, Great Northern Insurance Company, Pacific Indemnity Company, and Vigilant Insurance Company.

During the examination as of December 31, 1998, Federal Insurance Company violated §§ 38.2-305 A, 38.2-305 B, 38.2-510 A 10, 38.2-610 A, 38.2-1822, 38.2-1833, 38.2-1905, 38.2-1906 D, 38.2-2014, 38.2-2113, 38.2-2114, and 38.2-2206, 38.2-2208, 38.2-2212, and 38.2-2223 of the Code of Virginia, as well as 14 VAC 5-400-70 A and 14

VAC 5-400-70 D, and Great Northern violated §§ 38.2-305 A, 38.2-305 B, 38.2-510 A 10, 38.2-610 A, 38.2-1822, 38.2-1833, 38.2-1906 D, 38.2-2014, 38.2-2114, 38.2-2208, 38.2-2212, and 38.2-2223 of the Code of Virginia, as well as 14 VAC 5-400-30, 14-VAC-400 70 A, and 14VAC 5-400-70 D, and Pacific Indemnity Company violated §§ 38.2-304, 38.2-305 A, 38.2-305 B, 38.2-510 A 10, 38.2-1906 D, 38.2-2014, 38.2-2114, 38.2-2208, 38.2-2212, and 38.2-2223 of the Code of Virginia as well as 14 VAC 5-400-30, and 14 VAC 5-400-70 D, and Vigilant Insurance Company violated §§ 38.2-305 A, 38.2-305 B, 38.2-510 A 10, 38.2-1833, 38.2-1904 D, 38.2-1906 D, 38.2-2014, 38.2-2208, 38.2-2212, and 38.2-2223 of the Code of Virginia as well as 14 VAC 400-30, 14 VAC 5-400-70 A and 14 VAC 5-400-70 D.

The Bureau conducted one prior market conduct examination of the private passenger automobile and homeowner's lines of business of Federal Insurance Company, Great Northern Insurance Company, Pacific Indemnity Company, and Vigilant Insurance Company.

During the examination as of December 31, 2002, Federal Insurance Company was ordered to cease and desist from any conduct which constitutes a violation of §§ 38.2-231, 38.2-304, 38.2-305, 38.2-317 A, 38.2-1812, 38.2-1822, 38.2-1833, 38.2-1906 D, 38.2-2014, 38.2-2124, 38.2-2125, and 38.2-2220 of the Code of Virginia, and 14 VAC 5-390-40 D and 14 VAC 5-400-40 A, and Great Northern Insurance Company was ordered to cease and desist from any conduct which constitutes a violation of §§ 38.2-231, 38.2-304, 38.2-305, 38.2-317 A, 38.2-1833, 38.2-1906 D, 38.2-2014, and 38.2-2220 of the Code of Virginia, and Pacific Indemnity Company was ordered to cease and desist from any conduct which constitutes a violation of §§ 38.2-231, 38.2-305, 38.2-317 A, 38.2-1833, 38.2-1906 D, 38.2-2124, 38.2-2125, and 38.2-2220 of the Code of Virginia, and Vigilant Insurance Company was ordered to cease and desist from any conduct which constitutes a violation of §§ 38.2-231, 38.2-304, 38.2-305, 38.2-317 A,

38.2-1812, 38.2-1822, 38.2-1833, 38.2-1906 D, 38.2-2014, 38.2-2125, and 38.2-2220 of the Code of Virginia.

**ACKNOWLEDGEMENT**

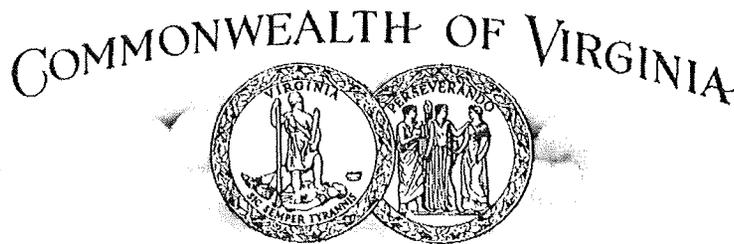
The courteous cooperation extended by the officers and employees of the companies during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink, appearing to read "Karen S. Gerber". The signature is written in a cursive, flowing style.

Karen S. Gerber  
Senior Insurance Market Examiner

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

August 26, 2014

**VIA UPS 2<sup>nd</sup> DAY DELIVERY**

Colette Perri  
Chubb Insurance Companies  
15 Mountain View Road  
Warren, NJ 07059

RE: Market Conduct Examination  
Federal Insurance Company (NAIC#20281)  
Great Northern Insurance Company (NAIC#20303)  
Pacific Indemnity Company (NAIC#20346)  
Vigilant Insurance Company (NAIC#20397)

Dear Ms. Perri:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of April 1, 2012 through March 31, 2013. The preliminary examination report (Report) has been drafted for the company's review.

Enclosed with this letter is a copy of the preliminary examination report and copies of review sheets that have been withdrawn or revised since June 12, 2014. Also enclosed are several reports that will provide you with the specific file references for the violations listed in the report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the company, I would urge you to closely review the report. Please provide a written response. When the company responds, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the company to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report. The company does not need to respond to any particular item with which it agrees. If the company disagrees with an item or wishes to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the report or modify a violation unless the company provides written documentation to support its position.

Ms. Perri  
August 26, 2014  
Page 2

Secondly, the company should provide a corrective action plan that addresses all of the issues identified in the examination, again using the same headings and numberings as are used in the Report.

Thirdly, if the company has comments it wishes to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the company should outline the actions it is taking to prevent those issues from becoming a business practice.

Finally, we have enclosed an Excel file that the company must complete and return to the Bureau with the company's response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

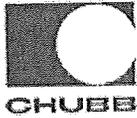
The company's response and the spreadsheet mentioned above must be returned to the Bureau by October 6, 2014..

After the Bureau has received and reviewed the company's response, we will make any justified revisions to the report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by October 6, 2014.

Sincerely,

Joy Morton  
Supervisor  
Market Conduct Section  
Property & Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)



## CHUBB & SON

15 Mountain View Road, Warren, NJ 07059

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23 October 2014

VIA: Electronic Mail and Overnight Mail

Virginia Bureau of Insurance  
Market Conduct Section  
Property and Casualty Division  
1300 East Main Street  
Richmond, VA 23219

Attention: Joy M. Morton  
Supervisor

RE: Market Conduct Examination  
Federal Insurance Company (NAIC: #20281)  
Great Northern Insurance Company (NAIC: #20303)  
Pacific Indemnity Company (NAIC: #20346)  
Vigilant Insurance Company (NAIC: #20397) (Hereinafter, "Companies")

Dear Ms. Morton:

Please find enclosed with this letter a copy of the Companies' response to the Preliminary Market Conduct Examination Report (hereinafter, "Report").

We appreciate the opportunity to respond to the Report and provide further documentation in support of the Companies' responses. The Companies weigh very seriously allegations of violation of Virginia Statutes and Regulations. The Companies have undertaken numerous meetings and initiated numerous projects to address matters outlined in the Report.

We valued the opportunity to work with the Bureau's staff on this Examination and we look forward to working with the Bureau to resolve the matters referenced in the Report.

Very truly yours,

*Colette M. Perri*

Colette M. Perri  
Vice President, U.S. Regulatory Compliance Manager & Associate Counsel

Chubb & Son  
a division of Federal Insurance Company  
Manager and/or Agent

Enc: Response, Restitution Chart, CD-ROM and Exhibits

Companies Response to  
Market Conduct Examination Report  
Of  
Federal Insurance Company  
Great Northern Insurance Company  
Pacific Indemnity Company  
Vigilant Insurance Company

**PART ONE – THE EXAMINERS’ OBSERVATIONS**

**RATING AND UNDERWRITING REVIEW**

**Automobile New Business Policies**

(1)

a. Disagree, in part. The Companies disagree, in part, with the finding that the company failed to include the applicable edition dates of forms not otherwise uniquely identified on the declarations page. The findings in RPA003 1399402837 are not related to failure to include edition dates on the declarations page. The matter addressed in RPA003 1399402837 pertained to stating the form number for the Medical Expense & Income Loss Coverage, on the declarations page. The form number for the Medical Expense & Income Loss Coverage Endorsement is stated on the declarations page. Please see, Exhibit “A.” Therefore, we respectfully request the finding for RPA003 1399402837 relating to the Medical Expense & Income Loss Coverage be removed from the Report.

b. Disagree, in part. The Companies disagree, in part, with three (3) of the nine (9) findings for failing to list all forms applicable to the policy on the declarations page. More specifically, the Companies disagree with the findings on RPA023 1290062474, RPA009 1386335759 and RPA019 1847403678. In these three (3) instances, the Companies listed the Medical Expense & Income Loss Coverage Endorsement on the declarations page. By way of further response, Virginia Statute Section 38.2-305 A does not limit the number of pages that shall constitute a declarations page and it does not state where on the declarations page the form number for any specific coverage must be listed. Since this coverage is listed on the declarations page, with the form number, the Companies’ declarations pages comply with the letter of the law. Please see, Exhibit “B1” for RPA023 1290062474, Exhibit “B2” for, RPA009 1386335759 and Exhibit “B3” for RPA019 1847403678. Therefore, we respectfully request the findings for RPA023 1290062474, RPA009 1386335759 and RPA019 1847403678 be removed from the Report.

(2) Agree.

(3) Disagree, in part. The Companies disagree, in part, with two (2) of the three (3) findings for failing to provide an Adverse Underwriting Decision (“AUD”) letter. More specifically, the Companies disagree with the findings on RPA013 571683475 and

RPA020 736119945 for failure to provide an AUD letter. In both instances an AUD letter was issued. In Exhibit "C-1," for RPA013 571683475, please see the AUD letter that relates to the policy in question. Additionally, in Exhibit "C-2," please see the AUD letter that relates to the policy stated in review sheet RPA020 736119945. Since AUD letters were issued, we respectfully request the findings for RPA013 571683475 and RPA020 736119945 be removed from the Report.

(4) Agree.

(5)

a. Agree.

b. Agree.

c. Agree.

d. Agree.

e. Agree.

f. Disagree, in part. The Companies disagree with the finding in RPA013 765423894. This finding alleges the Companies failed to use the correct minimum surcharge for autos with an agreed value of \$75,000 or greater. The rules on file with the Bureau state the minimum surcharge is \$150. On both vehicles #2 and #3, the surcharge applied was no less than \$150. Please see Exhibit "D," which includes the rate sheets for vehicle #2 and vehicle #3 for the policy in question. For both vehicles the rate sheets show the symbol increase and the resulting surcharge amount. The surcharge for vehicle #2 is \$153. The result for vehicle #3 is a surcharge of \$150. These meet the rule requirement of a minimum surcharge of \$150. Therefore, we respectfully request the findings for on RPA013 765423894 be removed from the Report.

g. Agree.

h. Agree.

i. Disagree, in part. The Companies disagree, in part, with one of the findings related to the application of the Agreed Value Rule. More specifically, the Companies disagree with the finding on RPA024 1385560888, that alleged that the Company failed to follow its Agreed Value Rule 3.1.b.1.c when determining the Agreed Value Premium for vehicle #2, an auto of \$75,000 in value or greater. The rule specifies a minimum surcharge of \$150. The alleged violation was for a failure to apply the minimum surcharge to comprehensive. However, the Company did apply at least the minimum surcharge to both collision and comprehensive. Please see Exhibit "E," which is the rate sheet for the

vehicle and policy in question. The rate sheet shows the surcharge amount of \$180 for comprehensive and \$474 for collision both of which meet the rule requirement of a minimum surcharge of \$150. Therefore, we respectfully request the findings for on RPA024 1385560888 be removed from the Report.

j. Agree.

### **Automobile Renewal Business Policies**

(1)

a. Agree.

b. Disagree, in part. The Companies disagree, in part, with fifteen of the eighteen findings for failing to list all forms applicable to the policy on the declarations page. More specifically, the Companies disagree with the findings on the following Review Sheets as it pertains to listing the Medical Expense & Income Loss coverage on the declarations page. On the policies associated with the review sheets listed below, the Medical Expense & Income Loss coverage is listed on the declarations page.

RPA015 -2067190223	(Exhibit "F-1")
RPA021 1000184776	(Exhibit "F-2")
RPA025 514462249	(Exhibit "F-3")
RPA035 -360032172	(Exhibit "F-4")
RPA047 -156434747	(Exhibit "F-5")
RPA049 -1836771011	(Exhibit "F-6")
RPA054 -1390476680	(Exhibit "F-7")
RPA055 -1867825383	(Exhibit "F-8")
RPA057 1376423270	(Exhibit "F-9")
RPA061 -965408252	(Exhibit "F-10")
RPA063 1989302965	(Exhibit "F-11")
RPA065 964204250	(Exhibit "F-12")
RPA067 -974654485	(Exhibit "F-13")
RPA007 717252349	(Exhibit "F-14")
RPA069 -760544688	(Exhibit "F-15")

By way of further response, Virginia Statute Section 38.2-305 A does not limit the number of pages that shall constitute a declarations page and it does not state where on the declarations page the form number for any specific coverage must be listed. Since this coverage is listed on the declarations page, with the form number, the Companies' declarations pages comply with the letter of the law. Please see, Exhibit "F1" to "F-15." Each policy associated with each review sheet is placed in the order as listed above. To facilitate your review, the area where the coverage is listed has been delineated by lines and arrows. Therefore, we respectfully request the findings for the above-referenced review sheets be removed from the Report.

(2) Agree.

(3) Agree.

(4) Agree.

(5)

a. Agree.

b. Disagree. The Companies disagree with the finding in RPA004 1435483958 stating there was no evidence in the policy file to support the application of one surcharge point to vehicle #4. The Companies' claim information supports the application of one surcharge point for a loss with Driver #1 that occurred on 9/20/2012. While the policy number for this insured changed, the loss was listed with the insured's prior policy number and still is eligible for use with and on the current policy number. Please see, Exhibit "G," which is a copy of the claims note that relates to the loss in question. Since this claim note, documenting the accident, constitutes evidence that shall be relied upon to surcharge the policy, we respectfully request the finding in RPA004 1435483958 be removed from the Report.

c. Agree.

d. Agree.

e. Disagree. The Companies disagree with the finding in RPA-38 - 1035388649 that the wrong tier eligibility criteria were used. More specifically, the Companies disagree that the policy, in question, did not meet the underwriting guidelines for Great Northern Insurance Company. The issue on this policy does not concern whether a trailer is considered a vehicle. The issue is whether Agreed Value applies to the policy. This policy is not a new business policy. It is a renewal policy and it has been in-force for more than two (2) terms, i.e. since 2004 and re-written in 2007. In this case, the applicable guidelines are those guidelines entitled "Virginia Auto Writing Company Guidelines Third & Subsequent Renewals." Those guidelines do not include an Agreed Value requirement. Since there is no Agreed Value requirement for this renewal policy, the policy was appropriately renewed in Great Northern Insurance Company for the policy term within the scope of this exam. Please see, Exhibit "H" for a copy of the applicable guidelines. Therefore, we respectfully request the finding in RPA-38 -1035388649 be removed from the Report.

f. Agree.

g. Disagree, in part. The Companies disagree with the finding in RPA053 323224077 for the failure to correctly rate the Medical Expense coverage for two (2) mopeds on the policy. Rule 14, not Rule 19, addresses the charge for the Medical Expense Coverage for a moped. Please see, Exhibit "I," providing copies of Rule 14 and Rule 19. We have marked the appropriate section of Rule 14 with an asterisk and

delineated further the description of the 'vehicle' and the charge. Further, we are providing a copy of Rule 19. Rule 19 does not address Medical Expense coverage for mopeds. The charge for each moped was \$155, in accordance with Rule 14. Therefore, we respectfully request the finding in RPA053 323224077 be removed from the Report.

h. Agree.

i. Disagree, in part. The Companies disagree, in part, with the findings that the Companies failed to use the rounding rule on file with the Bureau, as outlined in the following Review Sheets: RPA054 747417771, RPA061 -551281450 and RPA063 -1863891806. By way of further response, the Companies, in fact, used the rounding rule on file in the three instances referenced in the Report. In each of these three instances, the insured requested a two-pay option for paying the premium due on the policy. Since the Companies did not have a two-pay option, the Companies accommodated the request of the insured by splitting the premium in half and issuing what seemed to be six-month policies that appeared as if they failed to follow a rounding rule. The initial premium charged for the 12-month policy was rounded according to the rounding rule. But, to accommodate the request of the insured, the Companies split the premium in half. The only documents that could be generated to support the insured's request were two 6-month declaration pages that split the premium exactly in half. The Companies had already rounded the initial premium. If the Companies would have rounded the split premium the Companies would, in fact, be rounding again and presumably in violation of their filed rule because the Companies would have rounded twice.

j. Agree.

[k.] [sic]

l. Agree.

### **Homeowners New Business Policies**

a. Disagree, in part. The Companies disagree with nine (9) of the eleven findings in this section of the Report. Each of the Review Sheets, where the Companies are requesting reconsideration and maintaining disagreement, is set forth below.

RHO005 -1513412271. Disagree. The Companies disagree with the finding that the Undervalue Surcharge was not applied to the policy. There was no need to apply the Undervalue Surcharge, for several reasons. The policy was written effective 5/18/2012 with \$1,000,000 in dwelling coverage. However, the home was required to be appraised. The home was appraised on 7/12/2012 at \$1,411,000. Once the home was appraised, it was determined that the value of the Coverage A should be increased. The policy was endorsed effective 9/17/2012 to increase the dwelling coverage to \$1,411,000,

per the appraisal. Therefore, the Undervalue Surcharge would not apply. Notice of the increase of Coverage A was issued. Please see, Exhibit “J.”

On page 5.2 of the Rate and Rule we address Underinsured houses and state that there is an undervalue surcharge when coverage is below 80% of the amount of coverage **we recommend** [emphasis added]. On page 6.28 of the Rate and Rule we address Undervalue Surcharge and again state “there is a 20% surcharge for each 10% of coverage (or fraction) below 80% of the amount of coverage we recommend. In this case, the payment basis for the house will be conditional replacement cost.”

Based on this rule the Undervalue Surcharge was not applied since Coverage A was increased as recommended in the appraisal and notice. Therefore, we respectfully request this finding be removed from the Report.

RHO006 -338233024. Disagree. The Companies disagree with the finding that the Undervalue Surcharge was not applied to the policy. There was no need to apply the Undervalue Surcharge, for several reasons. The policy was written effective 12/17/2012 (issued on 12/20/2012) with \$223,000 in dwelling coverage. However, the home was required to be appraised. The home was appraised on 2/2/2013 at \$292,916. Once the home was appraised, it was determined that the value of the Coverage A should be increased. The policy was endorsed effective 2/22/2013 to increase the dwelling coverage to \$293,000, per the appraisal. Therefore, the Undervalue Surcharge would not apply. Notice of the increase of Coverage A was issued. Please see, Exhibit “K.”

On page 5.2 of the Rate and Rule we address Underinsured houses and state that there is an undervalue surcharge when coverage is below 80% of the amount of coverage **we recommend** [emphasis added]. On page 6.28 of the Rate and Rule we address Undervalue Surcharge and again state “there is a 20% surcharge for each 10% of coverage (or fraction) below 80% of the amount of coverage we recommend. In this case, the payment basis for the house will be conditional replacement cost.”

Based on this rule the Undervalue Surcharge was not applied since Coverage A was increased as recommended in the appraisal and notice. Therefore, we respectfully request this finding be removed from the Report.

RHO022 -601488485. Disagree. The Companies disagree with the finding that the Undervalue Surcharge was not applied to the policy. This policy was written effective 11/8/2012 (issued on 11/28/2012) with \$1,947,000 in dwelling coverage. The home was appraised on 1/2/2013 at \$4,799,000. However, during the appraisal, the appraiser recognized several serious conditions with this home and promptly alerted the underwriter to these serious findings even before the appraisal report was finalized. Thereafter, the

appraisal report was sent to the underwriter on 1/3/2013. With the discussion involving the appraiser and the review of the appraisal report, the underwriter determined this home was not eligible for coverage based upon the conditions in the home. The underwriter issued a cancellation notice that was mailed to the insured on 1/3/2013. The policy was cancelled effective 1/18/2013 due to physical conditions of the risk not previously disclosed to the Company and as determined/confirmed by the actual inspection. Based upon the timing of the appraisal, the apparent condition of the home and the subsequent cancellation, there was no need to increase coverage on the home or to apply the undervalue surcharge. A copy of the cancellation notice and corresponding proof of mail are attached as Exhibit "L." Therefore, we respectfully request this finding be removed from the Report.

RHO028 -940676617. Disagree. The Companies disagree with the finding that the Undervalue Surcharge was not applied to the policy. There was no need to apply the Undervalue Surcharge, for several reasons. The policy was written effective 6/13/2012 with \$500,000 in dwelling coverage. However, the home was required to be appraised. The home was appraised on 7/13/2012 with a replacement cost of \$660,820. Once the home was appraised, it was determined that the value of the Coverage A should be increased. The policy was endorsed effective 7/19/2012 to increase the dwelling coverage to \$661,000, per the appraisal. Therefore, the Undervalue Surcharge would not apply. Notice of the increase of Coverage A was issued. Please see, Exhibit "M."

On page 5.2 of the Rate and Rule we address Underinsured houses and state that there is an undervalue surcharge when coverage is below 80% of the amount of coverage **we recommend** [emphasis added]. On page 6.28 of the Rate and Rule we address Undervalue Surcharge and again state "there is a 20% surcharge for each 10% of coverage (or fraction) below 80% of the amount of coverage we recommend. In this case, the payment basis for the house will be conditional replacement cost."

Based on this rule the Undervalue Surcharge was not applied since Coverage A was increased as recommended in the appraisal and notice. Therefore, we respectfully request this finding be removed from the Report.

RHO029 299482558. Disagree. The Companies disagree with the finding that the Undervalue Surcharge was not applied to the policy. There was no need to apply the Undervalue Surcharge, for several reasons. This policy was written effective 8/8/2012 with \$1,100,000 in dwelling coverage. However, the home was required to be appraised. The home was appraised on 8/13/2012 at \$1,421,000. Once the home was appraised, it was determined that the value of the Coverage A should be increased. The policy was promptly endorsed to increase the dwelling coverage to \$1,421,000, per the appraisal findings. There was no need to apply the Undervalue Surcharge because after the home

was appraised the Coverage was promptly increased. Therefore, the Undervalue Surcharge would not apply. Notice of the increase of Coverage A was issued. Please see, Exhibit "N."

On page 5.2 of the Rate and Rule we address Underinsured houses and state that there is an undervalue surcharge when coverage is below 80% of the amount of coverage **we recommend** [emphasis added]. On page 6.28 of the Rate and Rule we address Undervalue Surcharge and again state "there is a 20% surcharge for each 10% of coverage (or fraction) below 80% of the amount of coverage we recommend. In this case, the payment basis for the house will be conditional replacement cost."

Based on this rule the Undervalue Surcharge was not applied since Coverage A was increased as recommended in the appraisal and notice. Therefore, we respectfully request this finding be removed from the Report.

RHO031 -1315942800. Disagree. The Companies disagree with the finding that the Undervalue Surcharge was not applied to the policy. There was no need to apply the Undervalue Surcharge, for several reasons. This policy was written effective 12/12/2012 with \$500,000 in dwelling coverage. However, the home was required to be appraised. The home was appraised on 1/25/2013 at \$689,688. Once the home was appraised, it was determined that the value of the Coverage A should be increased. The policy was promptly endorsed to increase the dwelling coverage to \$690,000, per the appraisal. Therefore, the Undervalue Surcharge would not apply. Notice of the increase of Coverage A was issued. Please see, Exhibit "O."

On page 5.2 of the Rate and Rule we address Underinsured houses and state that there is an undervalue surcharge when coverage is below 80% of the amount of coverage **we recommend** [emphasis added]. On page 6.28 of the Rate and Rule we address Undervalue Surcharge and again state "there is a 20% surcharge for each 10% of coverage (or fraction) below 80% of the amount of coverage we recommend. In this case, the payment basis for the house will be conditional replacement cost."

Based on this rule the Undervalue Surcharge was not applied since Coverage A was increased as recommended in the appraisal and notice. Therefore, we respectfully request this finding be removed from the Report.

RHO033 -2128548526. Disagree. The Companies disagree with the finding that the Undervalue Surcharge was not applied to the policy. There was no need to apply the Undervalue Surcharge, for several reasons. This policy was written effective 1/10/2013, with \$1,000,000 in dwelling coverage. However, the home was required to be appraised. The home was appraised on 3/21/2013 at \$1,335,000. Once the home was appraised, it was determined that the value of the Coverage A should be increased. The policy was promptly endorsed to increase the dwelling coverage to \$1,335,000, per the appraisal. Therefore,

the Undervalue Surcharge would not apply. Notice of the increase of Coverage A was issued. Please see, Exhibit "P."

On page 5.2 of the Rate and Rule we address Underinsured houses and state that there is an undervalue surcharge when coverage is below 80% of the amount of coverage **we recommend** [emphasis added]. On page 6.28 of the Rate and Rule we address Undervalue Surcharge and again state "there is a 20% surcharge for each 10% of coverage (or fraction) below 80% of the amount of coverage we recommend. In this case, the payment basis for the house will be conditional replacement cost."

Based on this rule the Undervalue Surcharge was not applied since Coverage A was increased as recommended in the appraisal and notice. Therefore, we respectfully request this finding be removed from the Report.

RHO035 86037220. Disagree. The Companies disagree that the Rental Surcharge was improperly applied to this policy. This policy was issued per the agent's request but subsequently amended effective 3/22/2013, which is the policy's inception date. Per the underwriting notes, the **agent** [emphasis added] applied the Rental Surcharge. However, the Underwriter instructed the Company to remove the surcharge since the home was occupied by a full-time caretaker. The Company promptly corrected the agent's mistake. Please see, Exhibit "Q." The Coverage Update and screen shots of notes point to the caretaker, in the subject residence. The Rate Sheet indicates the Rental Surcharge is \$0. Please note: The premium reduction of \$256 on the endorsement is more than the Rental Surcharge amount of \$162. This is because, in addition to removing the Rental Surcharge, the Liability Coverage was also removed from the policy effective 3/22/2013 and both changes are addressed in the same document.

RHO039 1393218005. Disagree. The Companies disagree with the finding that the Undervalue Surcharge was not applied to the policy. There was no need to apply the Undervalue Surcharge, for several reasons. This policy was written effective 12/19/2012 with \$500,000 in dwelling coverage. However, the home was required to be appraised. The home was appraised on 2/5/2013 at \$638,210. Once the home was appraised, it was determined that the value of the Coverage A should be increased. The policy was promptly endorsed to increase the dwelling coverage to \$638,000, per the appraisal. Therefore, the Undervalue Surcharge would not apply. Notice of the increase of Coverage A was issued. Please see, Exhibit "R."

On page 5.2 of the Rate and Rule we address Underinsured houses and state that there is an undervalue surcharge when coverage is below 80% of the amount of coverage **we recommend** [emphasis added]. On page 6.28 of the Rate and Rule we address Undervalue Surcharge and again state "there is a 20% surcharge for each 10% of coverage (or fraction) below 80% of the

amount of coverage we recommend. In this case, the payment basis for the house will be conditional replacement cost.”

Based on this rule the Undervalue Surcharge was not applied since Coverage A was increased as recommended in the appraisal and notice. Therefore, we respectfully request this finding be removed from the Report.

- b. Agree.
- c. Disagree. The Companies disagree with the findings in RHO028 -1582782854 and RHO034 1385134941.

More specifically, on RHO028 -1582782854, the Company disagrees with the finding that it failed to apply a charge for the 2% wind deductible for location #2, on the policy. Per the Rate and Rule manual, in Step 4, “Deductible Factor: If a mandatory wind or hail deductible applies, multiply the wind or hail deductible factor from the following chart by the premium developed above. Round to the nearest whole dollar. **If the dollar amount of the wind or hail deductible is less than the dollar amount of the base deductible then the wind or hail deductible factor does not apply**” [emphasis added].

The 2% wind deductible applied against the \$180,000 Coverage A equals \$3,600. Since that deductible is less than the policy deductible of \$5,000, the Company does not apply it.

Before applying the wind or hail deductible factor to the rating, the Company must determine if the wind or hail deductible dollar amount is less than the base deductible dollar amount. The rule does say to multiply the factor by the coverage amount. The third paragraph under “Wind or hail deductibles” states “to calculate the dollar amount of a percent wind or hail deductible, multiply the percent by the amount of coverage for the house.” The calculation for location #2 on this policy, i.e. determining if the wind or hail deductible factor applies, is  $2\% \times \$180,000 = \$3,600$ . The base deductible on the policy was \$5,000. Therefore, the wind or hail deductible factor was not applied because the wind or hail dollar amount of \$3,600 was less than the base deductible of \$5,000. Please see, Exhibit “S.” Therefore, we respectfully request this finding be removed from the Report.

The Companies also disagree with the finding on RHO034 1385134941 stating the Companies used superseded rates when rating the policy. In order to rate the policy, the appropriate rate book must be used. Here, the policy was effective on 3/29/2013. However, the policy was rated and issued on 3/22/2013, which date precedes the 3/25/2013 rate book effective date. The appropriate rate book, in this instance, is the 11/7/2011 rate book effective date. The Companies did not use superseded rates. Therefore, we respectfully request this finding be removed from the Report. Please see,

Exhibit "T," a screen shot that reflects the rate determination date of 3/22/2013. Therefore, we respectfully request this finding be removed from the Report.

### **Homeowners Renewal Business Policies**

Agree.

### **TERMINATION REVIEW**

#### **Company-Initiated Cancellations – Automobile Policies**

##### **NOTICE MAILED PRIOR TO THE 60<sup>TH</sup> DAY OF COVERAGE**

Examiners found no violations in this area.

##### **NOTICE MAILED AFTER THE 59<sup>TH</sup> DAY OF COVERAGE**

Disagree. The Companies disagree with the finding for TPA002 891506672, and described in the Report as stating that the "company canceled the insured's motor vehicle policy due to revocation or suspension of a driver's license that **did not occur during the period of time allowed by the statute**" [emphasis added]. The policy term was 2/17/2012 to 2/17/2013. The cancellation notice stated the incident causing the license suspension occurred on 8/24/2012. The insured's driver's license was suspended on 8/24/2012. Rather than simply stating that the license was suspended on 8/24/2012, the Company's authorized representative used legal jargon and stated on the notice that the license was suspended "on or about 8/24/12." Using the words "on or about" does not invalidate the cancellation notice nor does it indicate that the event did not occur during the period of time allowed by statute. The suspension occurred during the policy term. A legal definition of "on or about" defines this term of art to mean "near; approximately; without significant variance from an agreed date." Please, see <<http://legal-dictionary.thefreedictionary.com/on+or+about>>. The term "on or about" is typically used to protect the person making a factual allegation from being challenged as being accurate. We have counseled staff not to use legal jargon when preparing cancellation notices. However, since the notice remains compliant and acceptable under Virginia Statute Section 38,2-2212 D, we respectfully request this finding be removed as a violation. Please see, Exhibit "U."

#### **All Other Cancellations – Automobile Policies**

##### **NONPAYMENT OF PREMIUM**

- a. Agree.
- b. Agree.

REQUESTED BY THE INSURED

(1) Disagree. The Companies disagree with the finding in TPA025 -1279736038 in that there was a failure to provide the requested information, more specifically the accounting screens, for the policy in question. It should be noted that the policy in question canceled on 3/13/2013 for the policy term of 9/30/2012 to 9/30/2013. The Review Sheet stated the date the policy was issued, as 10/31/2011, and requested accounting screens “until the date entry of 4/6/12.” These dates do not coincide with any of the Companies’ records. Further, the Companies did respond to Review Sheet TPA025 -1279736038 on 12/11/2013 and provided the relevant documentation via electronic mail with the response to the Review Sheet. Please see, Exhibit “V,” which includes the Companies’ response to the Review Sheet, the Declarations Page and the accounting screens. Since this documentation was previously provided, the Companies respectfully request this finding be removed from the Report.

(2) Agree.

(3) Agree.

**Company-Initiated Nonrenewals – Automobile Policies**

(1) Agree.

(2) Agree.

**Company-Initiated Cancellations – Homeowner Policies**

NOTICE MAILED PRIOR TO THE 90<sup>TH</sup> DAY OF COVERAGE

(1) Agree.

(2) Agree.

(3) Agree.

NOTICE MAILED AFTER THE 89<sup>TH</sup> DAY OF COVERAGE

(1) Agree.

(2) Agree.

(3)  
a. Agree.

- b. Agree.

**All Other Cancellations – Homeowner Policies**

NONPAYMENT OF PREMIUM

- (1)
  - a. Agree.
  - b. Agree.

(2) Agree.

(3) Agree.

(4) Agree.

REQUESTED BY INSURED

- (1) Disagree. The Companies disagree with the finding on THO034 -340677061 that there was a failure to provide convenient access to files, document and records relating to the examination. The Companies were asked to provide numerous documents in the course of the exam. We cannot confirm or deny whether the Premium Summary page was previously provided in initial responses, since these were photocopies mailed to the Bureau of Insurance. If the Premium Summary page was not previously provided, it can be attributed to human error and not an intentional withholding of information. When the Premium Summary page was cited on the Review Sheet, indicating the company did not provide it, the page was promptly provided. Please see, Exhibit “W,” which includes a copy of the Review Sheet with the Companies’ dated response and the attached Premium Summary page. Since the Companies did not intentionally withhold information, we respectfully request this finding be removed from the Report.

(2) Agree.

**Company-Initiated Nonrenewals – Homeowners Policies**

- (1) Agree.
- (2) Agree.
- (3) Agree.
- (4) Agree.

## CLAIMS REVIEW

### **Private Passenger Automobile Claims**

(1) Disagree, in part. Of the 13 violations of 14 VAC 5-400-30, the Companies do not agree with six (6) of these violations:

CPA005 - The Company does not agree that the amount paid to the rental company is incorrect. The Company paid the amount billed by the rental company. The Company does not agree that it owes the rental company for "extra coverages" elected by the Insured.

CPA020 – The Company does not agree that the documentation was insufficient. The insured did not repair his vehicle at the time the initial check was sent to the body shop. The check was returned and credited back to the file. When the Insured did go to the body shop to have the repairs completed, the check was reissued to the body shop.

CPA026 – The Company does not agree that the file was silent on the decision to pay this claim as presented. All damages that were paid were to the part of the vehicle that was presented initially.

CPA038 - The Company does not agree that photos that were mistakenly attached to the claim file make this file unable to be reconstructed. The photos are clearly of a different vehicle and were not used in any way to investigate this file. Files are locked down after 24 hours to avoid any tampering with file notes, therefore the pictures which were attached mistakenly could not be removed. However, the claims adjuster clearly did not utilize these photos in the handling of the claim.

CPA052 – The Company does not agree with this finding. An Independent Appraiser was sent after the Insured or his shop could not provide photos of the damaged vehicle. The estimate obtained from the Independent Appraiser that included photos was utilized to pay the estimate. The estimate obtained by the Independent Appraiser was agreed to by the insured shop of choice.

CPA073 – The Company does not agree with this finding. There was no delay in investigating the claim. Permissive use is an important factor with any insured vehicle claim that has been driven by an individual not listed on the policy. Claim was reported on a Thursday when contact was attempted, insured did not call back until Monday at which time coverage was accepted.

(2) Disagree, in part. Of the nine (9) violations of 14 VAC 5-400-40 A, the Companies do not agree with two (2) of these violations:

- a. CPA080 – The Company disagrees with this finding. The Insured's deductible was waived appropriately due to the fact that this was a Total Loss paid under the Agreed Value coverage.

b. CPA057 – The Company disagrees with the amount of the charge. The Insured has been told of his coverage and has not requested reimbursement of same as he has stated that he did not pay anything out of pocket. The Insured's daughter's treatment was \$2319.08 (\$2222.08 Hospital and \$97.00 for GP). We agree that the underpayment is in this amount as the Insured is entitled to collect.

c. Agree.

d. Agree.

(3) Agree.

(4) Disagree, in part. Of the seven (7) violations of 14 VAC 5-400-70 A, the Companies do not agree with four (4) of these violations:

CPA005, CPA074, CPA081, and CPA086 – The Companies disagree with these findings. In these matters, there was not a "claim" submitted by the Insured for the charges paid by them to Enterprise. The Company has a direct billing agreement with the rental provider and the amount charged to the Companies was paid in full. There was not a "claim" from the Insured for the miscellaneous charges that they incurred. As such, a denial of coverage for these elected expenses is not required. A "Claim is defined as a demand for payment by a claimant and in these instances there was no demand made by the Insured.

(5) Agree.

(6) Disagree. The Company disagrees with this finding. CPA046 - The claims adjuster requested that a copy of the estimate be sent to the insured. The adjuster provided the information regarding the estimate in the claim file. The claims assistant acknowledged that she sent the estimate to the insured. Therefore the estimate was sent with the check to the insured at time of payment.

(7) Agree.

(8) Disagree, in part. Of the six (6) §38.2-510 A 3 Code of Virginia violations, the Companies do not agree with three (3) of these violations:

CPA026 – The claims investigation was completed appropriately. Permissive user status was investigated on the part of the Insured's son. Coverage was afforded.

CPA029 – A prompt investigation was completed into the VIN of the insured vehicle. Both the Insured and Agent were contacted to clarify the vehicle involved. Photos were obtained by an Independent Appraiser to confirm the appropriate VIN number.

CPA078 - A prompt investigation was completed on this matter. Insured struck a dog while in New York State. This is a covered loss under the policy. Residency was not in question in this matter.

(9) Agree.

(10) Agree.

(11) Agree.

(12) Agree.

(13) Agree.

(14) Disagree. The attachment provided by the Department indicates three (3) claims that contained overpayments, not six (6) claims.

Other Law Violations

(1) Agree.

(2) Agree.

**Homeowners Claims**

(1) Disagree, in part. Of the 14 violations of 14 VAC 5-400-30, the Companies do not agree with one (1) of these violations:

CHO013 - A letter dated 6/18/2012 from CMS indicates that they could not locate a claim without the HICN number. A verbal and written request was made of the claimant for the HICN. Once the HICN number was obtained by the Claimant, it was sent to Medicare. Medicare then did not pursue the claim. The claim was closed four (4) months later. The statute of limitations ran in April, 2014.

(2) Agree.

(3) Agree.

(4) Agree.

(5) Agree.

(6) Agree.

(7) Disagree, in part. Of the five (5) §38.2-510 A 3 Code of Virginia violations, the Company does not agree with one (1) of these violations:

CHO003 – In this matter, an eight (8) year old couch was replaced when the Insured accidently destroyed one (1) of the cushions. The Company does not agree that that they

failed to adopt and implement reasonable standards for prompt investigation of claims when they paid the replacement cost of the couch instead of repair of the single cushion.

(8) Agree.

(9) Disagree, in part. Of the three (3) §38.2-510 A 14 Code of Virginia violations, the Company does not agree with three (3) of these violations:

CHO011 – The Company disagrees with this finding for two (2) violations. The damages for the two (2) claimants were paid under the liability portion of the coverage. The Company is not contractually obligated to pay RCV to the claimants. A fair amount of depreciation was applied to these estimates based on the age and wear and tear.

CHO013 – The Company disagrees that it failed to document the claim file in such detail that pertinent events and dates could not be reconstructed. The Company provided all information to Medicare that it requested. Medicare has not sent a lien to the Company since the information was provided on 7/23/2012. The statute of limitations ran on this matter in April, 2014.

(10) Disagree, in part. Of the 18 occurrences where the company is alleged to have failed to comply with the provisions of the insurance policy, the Company disagrees with two (2) of these violations:

CHO018 – The Company does not agree with the total of the overpayment of this matter. As previously stated, the correct amount was paid for the tree and debris removal on 3/28/2013. Separately, debris removal was paid per the Contractor's invoice for the removal of the structural items such as the Gazebo.

CHO028 - The Company disagrees that there was an overpayment of this claim. The item was scheduled for the amount paid. Although replacement cost was less than the scheduled amount, the Company is contractually bound to pay the scheduled amount.

## **REVIEW OF FORMS**

### **Automobile Policy Forms**

#### **POLICY FORMS USED DURING THE EXAMINATION PERIOD**

No violations found in this area.

#### **POLICY FORMS CURRENTLY USED**

No additional forms to review.

## **Homeowners Policy Forms**

### POLICY FORMS USED DURING THE EXAMINATION PERIOD

Agree.

### POLICY FORMS CURRENTLY USED

No additional forms to review.

## **REVIEW OF THE POLICY ISSUANCE PROCESS**

### **Automobile Policies**

#### NEW BUSINESS POLICIES

(1) Agree.

(2) Agree.

(3) Agree.

#### RENEWAL BUSINESS POLICIES

Agree.

### **Homeowners Policies**

#### RENEWAL BUSINESS POLICIES

- a. Agree.
- b. Disagree, in part. The Companies disagree, in part, with the finding related to MHO003 383006976. By way of explanation this Review Sheet cites the Companies for failing to list the form number and edition dates on the declarations page for a specific policy number. The same policy number and the same issue were already addressed in MHO003 - 293337855 and captured in the Report under Renewal Business Policies, Section "a," which Section immediately precedes this one in the Companies' response. The Companies have "agreed" with the findings in Section "a" of the Renewal Business policies, which includes the issue of listing the form numbers and edition dates on the declarations page. Since the same issue and the same policy are cited twice, we respectfully request Review Sheet MHO003 383006976 be withdrawn and further request that the finding under MHO003 383006976 be removed from the Report.

Please see, Exhibit "X" for copies of both Review Sheets, which include the Companies' initial responses.

## **REVIEW OF STATUTORY NOTICES**

### **General Statutory Notices**

- (1) Agree.
- (2) Disagree. The Companies use several forms to provide the notice required under Virginia Statute Section 38.2-604 B of the Code of Virginia. These forms, when read together, meet the requirements stated in the law. Please see Exhibits "Y-1" to "Y-3." There is no requirement under Section 38.2-604 B that the Companies use only one form to provide notice. Therefore, we respectfully request the four (4) violations of Section 38.2-604 B be removed from the Report.
- (3) Disagree. The Companies use several forms to provide the notice required under Virginia Statute Section 38.2-604 C of the Code of Virginia. These forms, when read together, meet the requirements stated in the law. Please see, Exhibits "Y-1" to "Y-3." There is no requirement under Section 38.2-604 C that the Companies use only one form to provide notice. Therefore, we respectfully request the four (4) violations of Section 38.2-604 C be removed from the Report.

### **Statutory Vehicle Notices**

- (1) Agree.
- (2) Agree.

### **Statutory Property Notices**

Agree.

### **Other Notices**

- a. Agree.
- b. Agree.

## **LICENSING AND APPOINTMENT REVIEW**

### **Agent**

- (1)
  - a. Disagree, in part. The Companies disagree that in 31 instances they failed to provide a copy of the new business application. For Virginia homeowners'

business, the Companies do not utilize paper applications. Therefore, there are no applications to provide. While the Companies do not require paper applications, they do require that producers provide the Companies with all the basic risk and rating information necessary to underwrite, rate and issue a policy. The Companies' Agency Agreement also requires producers to act in good faith, honor their fiduciary duty, provide accurate information and comply with the law. There are (2) ways the Companies obtain information in order to effectively and accurately issue homeowner policies:

**The licensed producer interfaces with our policy quoting/issuance system.**

In these cases, the producer has the ability to enter new line or endorsement requests directly into our system from his/her desktop. Requiring a hard copy of an application in these situations would clearly be redundant and would eliminate the very efficiency that the Companies and producers are trying to achieve through interface.

**The licensed producer utilizes our Call Center.**

Chubb Personal Insurance operates a Customer Service Center in Whitehouse, New Jersey. The Customer Service Representatives (CSRs) accept new line and/or endorsement information from producers over the phone. The CSRs require producers to provide all of the information that would otherwise be gathered using a paper application. Producers may use an ACORD application or their own electronic system to solicit the information from the applicant prior to calling us. The obvious advantage to our insured, our producers, and the Companies for using the call-in approach is that we are able to process transactions faster, more efficiently, and more accurately than could be done if applications were mailed or faxed into us.

From the Companies' perspective, the Companies consider the electronic record captured to rate and issue the first policy to be the same as a new line application since it reflects the information the producer provided on the insured's behalf. It should be noted that the Companies retain the information for the first policy, as well as the information for all subsequent endorsements, renewals, and other transactions, within the system dating back to 1988 when the program was first introduced. It should be further noted that the Companies could not locate any law that requires the use of a paper application.

b. Agree.

(2) Agree.

(3) Agree.

**Agency**

Agree.

## **REVIEW OF THE COMPLAINT HANDLING PROCESS**

No violations found in this area.

## **REVIEW OF PRIVACY AND INFORMATION SECURITY PRACTICES**

The Companies provided their information security procedures.

## **PART TWO – CORRECTIVE ACTION PLAN**

### **General**

#### **Rating and Underwriting Review**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company

- (1) The errors that caused overcharges and undercharges are being corrected. Refunds have been sent to the insured or accounts have been credited. Please see, the Companies' Restitution List.
- (2) The Companies included six percent (6%) simple interest to the amount refunded and/or credited to the insured's accounts. Please see, the Companies' Restitution List.
- (3) The Companies have completed the document entitled "Rating Overcharges Cited during the Exam." This file will be attached to the Companies' response.
- (4) The Companies are revising the current private passenger automobile declarations page to ensure it captures the form numbers and corresponding edition dates for the policy coverages. The Companies are revising the set-up of the homeowners' policy to create a separate page that will capture the form numbers and corresponding edition dates for the policy coverages.
- (5) The Companies have issued directives and reminders to ensure that staff shows accurate information on the point surcharge notice.
- (6) The Companies have issued directives and reminders to ensure that staff sends the Adverse Underwriting Decision Notice and retains a copy in the underwriting file.

- (7) The Companies have issued directives and reminders to ensure that staff notifies the insured, in writing, when the policy is being surcharged for an at-fault accident.
- (8) Filed Discounts: The Companies have corrected the matter regarding the application of filed discounts.

Surcharges: The Companies have issued directives and reminders to ensure that staff applies the appropriate surcharges, where warranted.

Points for Accidents & Convictions: The Companies have issued directives and reminders to ensure that staff apply the appropriate points for accidents and convictions, where warranted.

Symbols: The Companies have resolved this issue within the business.

Territories: The Companies have resolved this issue between the Companies' filing area and the Bureau of Insurance.

Deductible Factors: Per the Companies' earlier response to the Report, the Companies have disagreed with the alleged violation and, at this time, we await further consideration from the Bureau of Insurance.

Tier Eligibility: The Companies have issued directives and reminders to ensure that staff correctly tiers policies.

Driver Classification Factors: Several areas in the business are working to ensure the appropriate driver classification factors are applied. This is a large effort and involves numerous areas to ensure this is handled appropriately.

Base and/or Final Rates: Where applicable, the Companies will remind staff to ensure they use the proper base and/final rates. Further, this is an area being considered for future company reviews to ensure compliance.

Rounding Rule: The Companies are using the filed rounding rule. To eliminate future confusion, the Companies will not issue two declarations pages that split the premium in half. Only one declarations page will be issued.

Agreed Value Rules: Where applicable, the Companies will remind staff to use the proper Agreed Value Rules. Further, this is an area being considered for future company reviews to ensure compliance.

Uninsured Motorist Rates: The Companies have carefully reviewed the Review Sheets received in this exam. Only one review sheet pertained to Uninsured Motorist Rates. This Review Sheet was withdrawn after consideration of the

Companies' response. At this time, the Companies believe no further response is required in this matter.

Fees: The Companies have issued directives to ensure the appropriate fees are included in the rating process.

Premium Determination Rules: The Companies will remind staff to follow premium determination rules.

### **Termination Review**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company

- (1) The errors that caused overcharges and undercharges are being corrected. Refunds have been sent to the insured or accounts have been credited. Please see, the Companies' Restitution List.
- (2) The Companies included six percent (6%) simple interest to the amount refunded and/or credited to the insured's accounts. Please see, the Companies' Restitution List.
- (3) The Companies have completed the document entitled "Termination Overcharges Cited during the Exam." This file will be attached to the Companies' response.
- (4) The Companies have assessed its performance in the exam process and will ensure documentation is provided in response to the exam requests and in support of Company responses in accordance with the Bureau's timing requirements. The Companies have also addressed with staff the retention requirements to ensure we are able to provide the Bureau with the documentation requested.
- (5) The Companies have filed new policy wording to support its calculation of return premium.
- (6) The Companies have addressed with staff the retention requirements. Further, this is an area being considered for future company reviews to ensure compliance.
- (7) The Companies have instructed staff, via training, of the requirements for providing proper notice of cancellation to the insured and/or lienholder when canceling a policy. Further, this is an area being considered for future company reviews to ensure compliance.
- (8) The Companies have met with the U.S. Postmaster advising the Postmaster of the need for legible postmarks. Additionally, the Companies have implemented a "quality assurance" review to ensure the post office provide legible proof of mailing.

(9) The Companies have instructed staff through training of the appropriate reasons for canceling an owner-occupied policy after the 89<sup>th</sup> day of coverage.

(10) The Companies have carefully reviewed the Review Sheets received in this exam. We have been unable to locate any references to terminations due to foreclosure. We would appreciate further direction in this matter. If there is a specific Review Sheet pertaining to terminations and foreclosures, kindly direct our attention to said sheet.

(11) The Companies have issued directives and reminders to ensure that staff indicates to the insured the right to have the termination of the policy reviewed by the Commissioner of Insurance.

(12) The Companies have filed new policy wording to support the cancellation of policies at the request of the insured.

(13) The Companies have issued directives and reminders to ensure that staff indicates to the insured the availability of insurance through the VPIA in the cancellation notices of owner-occupied dwelling policies.

### **Claims Review**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company

- (1) All the examples provided by the Department have been reviewed with Management and all refunds (on non-disputed claims) have been paid to the insured and claimants (as noted on the Claims Underpayments Cited during the Examination).
- (2) All payments made to insured and claimants included the six percent (6%) simple interest calculated by the Department.
- (3) The Company acknowledges payment of the underpayments as outlined in the spreadsheet.
- (4) Training has been conducted with the staff regarding appropriate documentation of claim files.
- (5) The Company has created additional training to provide to the claim adjusters regarding these coverages to provide additional education. All claim examples have been discussed and reviewed by Management.
- (6) Training has been conducted with the staff regarding documenting all denials and properly documenting claim files with the denial.

- (7) The Company always strives to make a fair and reasonable settlement and pay claims in accordance with the insured's policy provisions. Reminders and training of staff regarding this requirement has been conducted.
- (8) Reminders and training of staff regarding this requirement has been conducted.
- (9) A review of the procedure for documenting coverages on payments has occurred to ensure that coverages are provided on the payment. In addition, training with the claims adjusters regarding this requirement has been conducted.

### **Forms Review**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company

The Companies will ensure that all homeowners' forms are filed with the Bureau at least 30 days prior to use in Virginia.

### **Review of Policy Issuance Process**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company

- (1) The Companies are revising the set-up of the homeowners' policy to create a separate page that will display the time the policy becomes effective and list applicable forms.
- (2) The Companies have issued directives and reminders to ensure that staff includes the Important Information to Policyholders notice with all new and renewal policies.

### **Review of Statutory Notices**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company

- (1) The Companies have amended the Important Information Regarding Your Notice to include the telephone number to contact the Company.

- (2) As stated earlier in this response, the Companies' 'long-form' Notice of Information Collection and Disclosure Practices does comply with Virginia Statute Section 38.2-604 B of the Code of Virginia. The Companies have several forms that address the requirements outlined in this law. However, the Companies are currently developing a new form that should allow for fewer forms to be issued to the policyholder. Please also see, Exhibits "Y-1" to "Y-3."
- (3) As stated earlier in this response, the Companies' 'short form' Notice of Information Collection and Disclosure Practices does comply with Virginia Statute Section 38.2-604 C of the Code of Virginia. The Companies have several forms that address the requirements outlined in this law. However, the Companies are currently developing a new form that should allow for fewer forms to be issued to the policyholder. Please also see, Exhibits "Y-1" to "Y-3."
- (4) As stated earlier in this response, the Companies believe their notices are complying with the law. However, the Companies are currently developing a new form that should allow for fewer forms to be sent to the policyholder. Please also see, Exhibits "Y-1" to "Y-3."
- (5) The Companies are in the process of revising the wording for the replacement cost notice to comply with the law.
- (6) The Companies have already resolved the issue of the Notice of Optional Medical Expense Benefits Coverage and it is being issued.
- (7) The Companies have already resolved the issue of the Notice of Optional Uninsured Motorist Coverage and it is being issued.
- (8) This issue was a matter of human error. The Companies have reminded staff to use the correct Cancellation notice.
- (9) This issue was a matter of human error. The Companies have reminded staff to use the correct Cancellation notice.

### **Licensing and Appointment Review**

Federal Insurance Company,  
Great Northern Insurance Company,  
Pacific Indemnity Insurance Company, and  
Vigilant Insurance Company

- (1) The Companies will investigate the means to provide convenient access to files, document and records relating to the exam.

- (2) The Companies will remind staff to ensure agents are appointed within 30 days of the application. Further, this is an area being considered for future company reviews to ensure compliance.
- (3) The Companies will remind staff to pay commissions only to agencies that are appointed by the Companies. Further, this is an area being considered for future company reviews to ensure compliance.
- (4) The Companies will remind staff to accept business only from agents and agencies that have a current license from the Commonwealth of Virginia. Further, this is an area being considered for future company reviews to ensure compliance.

### **PART 3 - RECOMMENDATIONS**

#### **RECOMMENDATIONS**

##### **Rating and Underwriting**

- The Companies are reviewing the recommendation to add a procedure to show confirmation of coverage signed by the insured.
- The Companies have reminded staff of the need to verify the rate classes shown on the declarations page to ensure they are accurate and filed with the Bureau.
- The Companies are reviewing the recommendation to change the wording on the declarations page to reflect effective date instead of inception date.
- The Companies are reviewing the recommendation regarding Rule 14.H.1.a to identify how the rule applies to the fifth vehicle on a policy.
- The Companies are reviewing the recommendation to revise the homeowners' manual to indicate the distance required to classify a home in territory 56 or 456.
- The Companies are reviewing the recommendation pertaining to listing the Excess UM/UIM coverage amount under the Vehicles section of Excess Liability on the declarations page.

##### **Termination**

- The Companies have reminded staff to verify the correct spelling of towns and counties on the policy, notices of cancelation of proofs of mailing.
- The Companies have reminded staff to ensure that the insured's name and address are shown on the Cancellation Request/Policy Release documents.
- The Companies have reminded staff not to attach the Loss Payable Clause endorsement to the policy if there is no lienholder.
- The Companies have reminded staff to use the appropriate cancellation notice and that there is no need to provide the Right to Review by the Commissioner

when the notice is mailed within the first 59 days of coverage for private passenger auto policies.

## **Claims**

- The Companies will pay title and transfer fees only when the salvage is retained by the Companies.
- The Companies will modify their form letter to clarify the reimbursable expenses for a comparable vehicle.
- The Companies will advise insured that the policy does not require them to obtain a police report.
- The Companies will acknowledge correspondence that reasonable suggests a reply is expected from insured and claimants within 10 business days.
- The Companies will provide copies of repair estimates prepared by or on behalf of the companies to insured and claimants.
- The Companies will properly represent pertinent facts or insurance provisions relating to the coverages at issues.
- The Companies will make a prompt, fair, and equitable settlement of a claim in which liability is reasonable clear.
- The Companies will reimburse paint and materials without apply arbitrary or unreasonable limits.
- The Companies will obtain a written authorization from an insured prior to making payments directly to the medical provider.
- The Company will include the fraud statement on all claim forms required by the companies as a condition of payment.
- The Companies will pay water damage vehicle claims according to the Virginia Department of Motor Vehicle §Code 46.2-264

## **Forms**

- The Companies will correct the typographical error in the State Contents form under the section entitled Wind or Hail on Page D-3.

## **Policy Issuance Process**

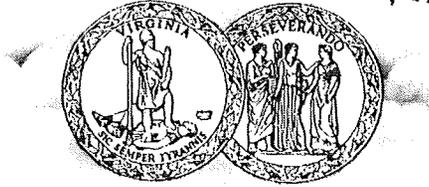
- The Companies are reviewing the recommendation to remove notices from the section entitled “Forms attached to the policy.”
- The Companies have added the BOI’s TDD number to the Important Information Regarding Your Insurance notice.
- The Companies are reviewing the recommendation regarding the Automobile Insurance Information folder and Accident Report Guide to identify how best to proceed.

## **Statutory Notices**

- The Companies have added the BOI's TDD number to the Important Information Regarding Your Insurance notice.
- The Companies are reviewing the recommendation to remove the Right to Review by the Commissioner of Insurance language from its Notice of Change in Policy Rates/Coverage notice.
- The Companies will correct the typographical error in the Point Surcharge notice - 1010-1190 (Ed. 11-01)

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
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<http://www.scc.virginia.gov/division/boi>

February 27, 2015

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Colette M. Perri  
Vice President  
Chubb & Son  
15 Mountain View Road  
Warren, NJ 07059

RE: Market Conduct Examination  
Federal Insurance Company (NAIC # 20281)  
Great Northern Insurance Company (NAIC # 20303)  
Pacific Indemnity Insurance Company (NAIC # 20346)  
Vigilant Insurance Company (NAIC # 20397)  
Examination Period: April 1, 2012 – March 31, 2013

Dear Ms. Perri:

The Bureau of Insurance (Bureau) has reviewed the October 23, 2014 response to the Preliminary Market Conduct Report (Report) of Federal Insurance Company, Great Northern Insurance Company, Pacific Indemnity Insurance Company, and Vigilant Insurance Company (Companies). The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings or items that have changed in the Report. This response follows the format of the Report.

## PART ONE – THE EXAMINERS' OBSERVATIONS

### Rating and Underwriting Review

#### Automobile New Business Policies

- (1a) After further review, the violation for RPA011 has been withdrawn from the Report.
- (1b) After further review, the violations for failing to list the Medical Expense and Income Loss Benefits Endorsement on the declarations page have been withdrawn from the Report.

- (3) The violations for RPA013 and RPA020 remain in the Report. The notices provided by the Company in Exhibits C-1 and C-2 are notices that were sent to the producer, not the insured. According to the Code of Virginia the insurance company must provide an Adverse Underwriting Decision (AUD) notice to the insured stating the reason for any increase in premium. The violation for RPA003 has been withdrawn.
- (5f) After further review, the violation for RPA013 has been withdrawn.
- (5i) After further review the violation for RPA024 has been withdrawn from the Report.

### **Automobile Renewal Business Policies**

- (1b) After further review the violations for RPA007, RPA015, RPA021, RPA025, RPA035, RPA047, RPA049, RPA54, RPA055, RPA057, RPA061, RPA063, RPA065, RPA067 and RPA069 have been withdrawn from the Report.
- (5b) After further review, RPA004 has been withdrawn.
- (5e) After further review, the violation for RPA038 has been withdrawn from the Report. The Report has been renumbered, and the net undercharge has been revised to reflect this change. Due to the change in the undercharge, the Report now reflects an overcharge for RPA038.
- (5g) After further review, the violation for RPA053 has been withdrawn from the Report. The Report has been renumbered and the net overcharge has been removed from the Restitution Spreadsheet.
- (5i) The violations for RPA054, RPA061, and RPA063 remain in the Report. The Company indicated that the policies were written for a six month policy period and the premium was calculated with an annual premium and then divided in half. The rounding rule does not make allowances for six month policies as opposed annually. The company has other six month policies that are rounded to the whole dollar premium.
- (5j) The violations for RPA027 and RPA029 for failing to apply the Antique Auto Expense Fee have been to a different citation for consistency in Report writing...

### **Homeowner New Business Policies**

- (a) After further review, the violation for RHO005, RHO006, RHO028, RHO029, RHO031, and RHO033 have been withdrawn from the Report. The Company provided documentation to show that the insured was informed of the increase in their dwelling coverage.

After further review, the violation for RHO022 has been withdrawn from the Report. The policy was canceled in the first 90 days.

After further review, the violation for RHO035 has been withdrawn from the Report. The Company provided documentation to show that the policy was endorsed back to the effective date to remove the rental surcharge.

After further review, the violation for RHO039 has been withdrawn from the Report. The Company provided documentation to show that the insured was informed of the increase in their dwelling coverage. A review of the Restitution completed thus far indicates that the Company has made restitution while at the same time contesting this violation.

- (c) After further review, the violation for RHO028 has been withdrawn from the Report. The Company provided documentation that shows the correct deductible was applied to the rating of location #2 on the policy.

The violation for RHO034 remains in the Report. The Company has failed to provide sufficient evidence that the policy was rated on March 22, 2013 using the November 7, 2011 rates. The documentation provided by the Company does not show an issued date of March 22, 2013; therefore, the Bureau maintains that the Company used superseded rates when rating this policy.

## **Terminations Review**

### **Automobile Notices Mailed After the 59<sup>th</sup> Day of Coverage**

- (1) The violation for TPA 002 remains in the Report. The file information provided for this cancellation did not include an MVR showing a confirmed suspension or revocation. For reconsideration, the Company must provide a copy of the Department of Motor Vehicles Report showing that the conviction occurred.

### **Automobile Insured Requested Cancellations**

- (1) After further review, the violation for TPA025 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

### **Homeowner Insured Requested Cancellations**

- (1) After further review, the violation for THO034 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

## **Claims Review**

### **Private Passenger Automobile Claims**

- (1) The violation for CPA005 remains in the Report. The Company cannot explain the reason for paying a rental bill that inaccurately calculated the number of days rented and subsequent charges.

The violation for CPA020 remains in the Report. The Company paid the claim on November 2, 2012. The insured delayed repairing the vehicle until February 22, 2013. In the interim, a supplement of repairs was sent to the Company on January 23, 2013. The Company's file does not document how the additional repairs related to the original loss or if the additional repairs resulted from the delay of the original repair.

The violation for CPA026 remains in the Report. The Company appropriately questioned the location of the damages as compared to the facts of the loss. The Company then paid the questionable, unrelated damage without documenting the file as to the reason.

After further review, the violation for CPA038 has been withdrawn from the Report.

After further review, the violation for CPA052 has been withdrawn from the Report.

The violation for CPA073 remains in the Report. The driver of the insured's vehicle was an employee of the insured's company. The insured was on a boat and unable to be contacted. There was no indication that there was a permissive use issue, nor was an investigation initiated into permissive use. The claimant's vehicle was not drivable. The claimant waited five days for a decision from the Company. There is no documentation in the file to account for the delay.

- (2a) After further review, the violation for CPA080 has been withdrawn from the Report.
- (2b) The violation for CPA057 remains in the Report. The Company has agreed that the insured was given incorrect coverage information. The amount of the underpayment has been adjusted to \$2,319.08. An additional violation has been added to the Report to reflect this underpayment.
- (4) The violations for CPA005, CPA074, and CPA086 have been withdrawn from the Report. Because the insured was not advised prior to renting the vehicle that CDW coverage was not necessary and that the Company would not cover this additional coverage, the violation for CPA081 remains in the Report.
- (6) The violation for CPA046 remains in the Report. The Company's file does not document who received a copy of the estimate. The estimate could have been sent to any number of people.

- (8) After further review, the violation for CPA026 has been withdrawn from the Report.

The violation of CPA029 remains in the Report. The Vehicle Identification Number (VIN) on the vehicle did not match the VIN on the repair estimate. The agent decided, without any support, that the VIN must have been entered in error. No contact was made with the insured to determine where the VIN number originated. No contact was initiated with Underwriting to determine how the policy was rated with a VIN that was completely different than the VIN on the vehicle in question.

The violation for CPA078 remains in the Report. The insured stated that she was at her residence in New York when the incident occurred. This policy was a Virginia policy where residency would be relevant to coverage. The Company did not question the insured regarding her residency, which was material to the investigation and coverage.

- (14a) The Report has been corrected to reflect five violations in this area. The violations are detailed in the following Review Sheets: ClaimVehPPA-1749317156, ClaimVehPPA-1081640355, ClaimVehPPA-1039438369, ClaimVehPPA-70718805, and ClaimVehPPA-21408181681.

- (14b) Subsection (b) has been added to break out the citation for the failure to properly handle the Uninsured Motorist Property Damage (UMPD) claim.

### **Homeowner Claims**

- (1) After further review, the violation for CHO013 has been withdrawn from the Report.
- (7) After further review, the violation for CHO003 has been withdrawn from the Report.
- (9) After further review, the violation for CHO011 has been withdrawn from the Report.

The violation for CHO013 remains in the Report. The claimant's medical bill remains outstanding. The Company should have followed up with the claimant. The statute of limitations had not expired at the time of the review.

- (10) The violation for CHO018 remains in the Report. The Company has not provided a copy of the April 12, 2013 estimate to support their payment of \$1,105.48 in addition to the original estimate of \$1,105.48 previously paid in the estimate of April 12, 2013.

After further review, the violation for CHO028 has been withdrawn from the Report.

### **Homeowner Renewal Business Policy Issuance**

- (1b) After further review, the violation for MHO003, Review Sheet PIRBPIHO-383006976, has been withdrawn from the Report.

### **General Statutory Notices**

- (2) The violations for NGS003 remain in the Report. The notices do not meet the requirements as outlined in the statute. Please review §§ 38.2-604 B 3, 38.2-604 B 4, 38.2-604 B 5, 38.2-608, 38.2-609, 38.2-613 B 3, and 38.2-613 B 8 of the Code of Virginia.
- (3) The violations for NGS010 remain in the Report. The notice fails to advise the insured that the long form notice is available upon request.

### **Licensing and Appointment Review**

- (1) These violations remain in the Report. The Company is unable to provide documentation of the person soliciting the business. Section 38.2-1809 of the Code of Virginia requires agents to retain records of insurance transactions for three preceding calendar years.

## **PART TWO – CORRECTIVE ACTION PLAN**

### **Rating and Underwriting**

- (1) The Company has made partial restitution on RPA049. The Company should make the complete restitution as shown on the Restitution Spreadsheet.
- (8) After further review, the reference to UM rates has been removed from the Corrective Action Plan.

### **Termination Review**

- (4) This item has been removed from the Corrective Action Plan. The Report has been renumbered to reflect this change.

### **Claims Review**

- (1) The Company should make restitution on CPA005 and CHO013.

The Company did not provide a response to justify their partial payment on CPA037. The Company should make full restitution on this claim.

The Company did not provide a response to justify their dispute on CPA080. The Company should make full restitution on this claim.

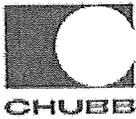
- (6) This item has been removed from the Corrective Action Plan and moved to the Recommendations section of the Report. The Report has been renumbered to reflect this change.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet, and any Review Sheets withdrawn, added, or altered as a result of this review. The Companies' response to this letter is due in the Bureau's office by April 1, 2015.

Sincerely,

Joy M. Morton  
Supervisor  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

JMM/pgh  
Enclosures



## CHUBB & SON

15 Mountain View Road, Warren, NJ 07059

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22 April 2015

VIA: Electronic Mail and Overnight Mail

Virginia Bureau of Insurance  
Market Conduct Section  
Property and Casualty Division  
1300 East Main Street  
Richmond, VA 23219  
Attention: Joy M. Morton  
Supervisor

RE: Market Conduct Examination  
Federal Insurance Company (NAIC: #20281)  
Great Northern Insurance Company (NAIC: #20303)  
Pacific Indemnity Company (NAIC: #20346)  
Vigilant Insurance Company (NAIC: #20397) (“Companies” or “Company”)

Dear Ms. Morton:

Thank you for your response dated February 27, 2015, and for the extension of time within which to respond to the revised version of the Bureau’s Market Conduct Examination Report of the Companies. Please find enclosed with this letter a copy of the Companies’ supplemental response to Part One – The Examiners’ Observations, of the revised version of the Market Conduct Examination Report (hereinafter, “Report”). Kindly also find attached an updated copy of the Restitution Chart. We appreciate the opportunity to respond further and to provide additional documentation in support of the Companies’ responses. Please know that we have undertaken a thorough review of the Report and we are working diligently on the matters outlined in the Report.

We remain appreciative of the opportunity to work with the Bureau’s staff on this Examination and we look forward to meeting with Bureau representatives to strengthen the relationship, improve processes and resolve the matters referenced in the Report.

Very truly yours,

*Colette M. Perri*

Colette M. Perri  
Vice President, U.S. Regulatory Compliance Manager & Associate Counsel  
Chubb & Son  
a division of Federal Insurance Company  
Manager and/or Agent

Enc: Response, Restitution Chart, CD-ROM and Exhibits

Companies' Supplemental Response to  
Market Conduct Examination Report  
of  
Federal Insurance Company  
Great Northern Insurance Company  
Pacific Indemnity Company  
Vigilant Insurance Company

**PART ONE – THE EXAMINERS' OBSERVATIONS**

**RATING AND UNDERWRITING REVIEW**

**Automobile New Business Policies**

- (1)
  - a. No further response, at this time.
  - b. No further response, at this time.
- (2) No further response, at this time.
- (3) No further response, at this time.
- (4) No further response, at this time.
- (5) No further response, at this time.
- (6)
  - a. No further response, at this time.
  - b. No further response, at this time.
  - c. No further response, at this time.
  - d. No further response, at this time.
  - e. No further response, at this time.
  - f. No further response, at this time.
  - g. No further response, at this time.
  - h. No further response, at this time.

- i. No further response, at this time.
- j. No further response, at this time.

**Automobile Renewal Business Policies**

(1)

- a. No further response, at this time.
- b. No further response, at this time.

(2) No further response, at this time.

(3) No further response, at this time.

(4) No further response, at this time.

(5)

- a. No further response, at this time.
- b. No further response, at this time.
- c. No further response, at this time.
- d. No further response, at this time.
- e. No further response, at this time.
- f. No further response, at this time.
- g. No further response, at this time.
- h. No further response, at this time.
- i. No further response, at this time.
- j. No further response, at this time.

**Homeowners New Business Policies**

Please be advised that the Bureau's cover letter dated February 27, 2015, at section (c), discusses the violation for RHO034. In both the revised Report and the Violation

Summary, the finding for RHO034 has been removed and withdrawn. The Companies previously provided evidence that the policy was rated on March 22, 2013 using the November 7, 2011 rates. With the documentation submitted in Exhibit T, we believe the removal/withdrawal of this violation was appropriate. Please advise if the Companies should re-submit this information for re-consideration.

**Homeowners Renewal Business Policies**

No further response, at this time.

**TERMINATION REVIEW**

**Company-Initiated Cancellations – Automobile Policies**

**NOTICE MAILED PRIOR TO THE 60<sup>TH</sup> DAY OF COVERAGE**

No further response, at this time.

**NOTICE MAILED AFTER THE 59<sup>TH</sup> DAY OF COVERAGE**

The Companies are respectfully submitting a copy of the insured's Department of Motor Vehicles Report ("MVR"), for reconsideration to remove the violation for TPA002 891506672. The MVR shows that the insured's license was suspended on 10/20/12. Please see Exhibit "Z."

**All Other Cancellations – Automobile Policies**

**NONPAYMENT OF PREMIUM**

- a. No further response, at this time.
- b. Disagree. The Companies located copies of the notices sent to the lienholders. Therefore, the Companies respectfully submit a copy of the notices sent to the lienholder for Review Sheets TPA008 -917506666 and TPA011 1409284199. We respectfully request the Bureau's consideration of these notices. Please see the notices located at Exhibit "AA-1 and AA-2."

**REQUESTED BY THE INSURED**

- (1) No further response, at this time.
- (2) No further response, at this time.

**Company-Initiated Nonrenewals – Automobile Policies**

- (1) No further response, at this time.

- (2) No further response, at this time.

**Company-Initiated Cancellations - Homeowners Policies**

NOTICE MAILED PRIOR TO THE 90<sup>TH</sup> DAY OF COVERAGE

- (1) No further response, at this time.
- (2) No further response, at this time.
- (3) No further response, at this time.

NOTICE MAILED AFTER THE 89<sup>TH</sup> DAY OF COVERAGE

- (1) No further response, at this time.
- (2) No further response, at this time.
- (3)
  - a. No further response, at this time.
  - b. No further response, at this time.

**All Other Cancellations – Homeowners Policies**

NONPAYMENT OF PREMIUM

- (1)
  - a. Disagree. The Companies located copies of the notices sent to the lienholders. Therefore, the Companies respectfully submit a copy of the notices sent to the lienholder for Review Sheets THO015 -254821580 and THO016 -586574827. We respectfully request the Bureau's consideration of these notices. Please see the notices located at Exhibit "BB-1 and BB-2."
  - b. No further response, at this time.
- (2) No further response, at this time.
- (3) No further response, at this time.
- (4) No further response, at this time.

## REQUESTED BY THE INSURED

No further response at this time.

### **Company-Initiated Nonrenewals – Homeowners Policies**

- (1) No further response, at this time.
- (2) No further response, at this time.
- (3) No further response, at this time.
- (4) No further response, at this time.

## CLAIMS REVIEW

### **Private Passenger Automobile Claims**

- (1) Respectfully disagree, in part. Of the 11 violations of 14 VAC 5-400-30, the Companies respectfully disagree with four (4) of these violations:

CPA005 - The Company does not agree that the amount paid to Enterprise is incorrect as it is not responsible to Enterprise for “extra coverages” elected by the Insured. However, the Company issued payment to the Insured on 4/14/15.

CPA020 – The Company maintains its position and respectfully disagrees that the documentation was insufficient. The insured did not repair his vehicle at the time the initial check was sent to the body shop. The check was returned and credited back to the file. When the Insured did go to the body shop to have the repairs completed, the check was reissued to the body shop.

CPA026 – The Company maintains its position and respectfully disagrees that the file was silent on the decision to pay this claim as presented. All damages that were paid were to the part of the vehicle that was presented initially.

CPA073 – The Company respectfully maintains its position that it does not agree with this finding. There was not a delay in investigating the claim. Permissive use is an important factor with any Insured vehicle claim that has been driven by an individual not listed on the policy. Claim was reported on a Thursday when contact was attempted, insured did not call back until Monday at which time coverage was accepted.

- (2) CPA057 – The Company agrees with the updated finding and has issued payment to the Insured for the amount of the treatment. The Company agrees with the remaining findings.

- (3) No further response, at this time.
- (4) Respectfully disagree, in part. Of the four (4) violations of 14 VAC 5-400-70 A, the Company maintains its position on CPA081 and its position that in these situations, there was not a “claim” submitted by the Insured for the charges paid by them to Enterprise. The Company has a direct billing agreement with the rental provider and the amount charged to the Companies was paid in full. There was not a “claim” from the Insured for the miscellaneous charges that they incurred. As such, a denial of coverage for these elected expenses is not required. A “Claim is defined as a demand for payment by a claimant and in these instances there was no demand made by the Insured.
- (5) No further response, at this time.
- (6) The Company continues to respectfully disagree with this finding and maintains its position. CPA046 - The claims adjuster requested that a copy of the estimate be sent to the insured. The adjuster provided the information regarding the estimate in the claim file. The claims assistant acknowledged that she sent the estimate to the insured. Therefore the estimate was sent with the check to the insured at time of payment.
- (7) No further response, at this time.
- (8) Of the findings of §38.2-510 A 3 Code of Virginia violations, the Companies continue to respectfully disagree with 2 of these violations:
- CPA029 – The Company maintains its position that a prompt investigation was completed into the VIN of the insured vehicle. Both the Insured and Agent were contacted to clarify the vehicle involved. Photos were obtained by an Independent Appraiser to confirm the appropriate VIN number.
- CPA078 – The Company maintains its position that a prompt investigation was completed on this matter. Insured struck a dog while in New York State. This is a covered loss under the policy. Residency was not in question in this matter.
- (9) No further response, at this time.
- (10) No further response, at this time.
- (11) No further response, at this time.
- (12) No further response, at this time.
- (13) No further response, at this time.
- (14) The Company has made payments as indicated on the Departments attachment.

Other Law Violations

- (1) No further response, at this time.
- (2) No further response, at this time.

**Homeowners Claims**

- (1) No further response, at this time.
- (2) No further response, at this time.
- (3) No further response, at this time.
- (4) No further response, at this time.
- (5) No further response, at this time.
- (6) No further response, at this time.
- (7) No further response, at this time.
- (8) No further response, at this time.
- (9) Respectfully disagree, in part. The Company maintains its position on the following violation:

CHO013 – The Company respectfully disagrees that it failed to document the claim file in such detail that pertinent events and dates could not be reconstructed. The Company provided all information to Medicare that it requested. Medicare did not respond nor provide a lien to the Company since the information was provided on 7/23/12. The statute of limitations ran on this matter in April, 2014.

(10) The Company respectfully disagrees with one of the violations pertaining to this section. CHO018 - The Company does not agree with the total of the overpayment of this matter. As previously stated, the correct amount was paid for the tree and debris removal on 3/28/13. Separately, debris removal was paid per the Contractor's invoice for the removal of the structural items such as the Gazebo.

**REVIEW OF FORMS**

**Automobile Policy Forms**

**POLICY FORMS USED DURING THE EXAMINATION PERIOD**

No further response, at this time.

**POLICY FORMS CURRENTLY USED**

No further response, at this time.

**Homeowners Policy Forms**

**POLICY FORMS USED DURING THE EXAMINATION PERIOD**

No further response, at this time.

**POLICY FORMS CURRENTLY USED**

No further response, at this time.

**REVIEW OF THE POLICY ISSUANCE PROCESS**

**Automobile Policies**

**NEW BUSINESS POLICIES**

(1) No further response, at this time.

(2) No further response, at this time.

(3) No further response, at this time.

**RENEWAL BUSINESS POLICIES**

No further response, at this time.

**Homeowners Policies**

**RENEWAL BUSINESS POLICIES**

a. No further response, at this time.

b. No further response, at this time.

## **REVIEW OF STATUTORY NOTICES**

### **General Statutory Notices**

- (1) No further response, at this time.
- (2) No further response at this time.
- (3) No further response, at this time.

### **Statutory Vehicle Notices**

- (1) No further response, at this time.
- (2) No further response, at this time.

### **Statutory Property Notices**

No further response, at this time.

### **Other Notices**

- a. No further response, at this time.
- b. No further response, at this time.

## **LICENSING AND APPOINTMENT REVIEW**

### **Agent**

- (1)
  - a. No further response, at this time.
  - b. No further response, at this time.
- (2) No further response, at this time.
- (3) No further response, at this time.

### **Agency**

No further response, at this time.

**REVIEW OF THE COMPLAINT HANDLING PROCESS**

No further response, at this time.

**REVIEW OF PRIVACY AND INFORMATION SECURITY PRACTICES**

No further response, at this time.

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
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TDD/VOICE: (804) 371-9206  
<http://www.scc.virginia.gov/division/boi>

May 27, 2015

**VIA UPS 2<sup>nd</sup> DAY DELIVERY**

Colette M. Perri  
Vice President  
Chubb & Son  
15 Mountain View Road  
Warren, NJ 07059

RE: Market Conduct Examination  
Federal Insurance Company (NAIC # 20281)  
Great Northern Insurance Company (NAIC # 20303)  
Pacific Indemnity Insurance Company (NAIC # 20346)  
Vigilant Insurance Company (NAIC # 20397)  
Examination Period: April 1, 2012 – March 31, 2013

Dear Ms. Perri:

The Bureau of Insurance (Bureau) has reviewed the April 22, 2015 response to the Revised Market Conduct Report (Report) of Federal Insurance Company, Great Northern Insurance Company, Pacific Indemnity Insurance Company, and Vigilant Insurance Company (Companies). The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings or items that have changed in the Report. This response follows the format of the Report.

## **PART ONE – THE EXAMINERS' OBSERVATIONS**

### **Rating and Underwriting Review**

#### **Homeowner New Business Policies**

- (c) The Bureau confirms that the violation for RHO034 was previously withdrawn from the Report. The Company does not need to respond further.

## **Terminations Review**

### **Automobile Notices Mailed After the 59<sup>th</sup> Day of Coverage**

After further review, the violation for TPA002 has been withdrawn from the Report.

### **Nonpayment of the Premium**

- (b) The violations for TPA 008 and TPA011 remain in the Report. The notices provided by the Company are confirmations of the cancellation. The lienholder is entitled to advance written notice of the cancellation.

### **Homeowner Non Payment of Premium**

- (1a) After further review, the violations for THO015 and THO016 have been withdrawn from the Report. Two additional violations have been added to the Report for failing to obtain proof of mailing of these cancellation notices to the lienholder.

## **Claims Review**

### **Private Passenger Automobile Claims**

- (1) The violation for CPA020 remains in the Report. The Company's file does not document how the additional repairs related to the original loss or if the additional repairs resulted from the delay of the original repair. The Company has not provided any additional information that would cause the Bureau to reconsider its original findings.

The violation for CPA026 remains in the Report. The Company's file does not document the payment. The Company has not provided any additional information that would cause the Bureau to reconsider its original findings.

After further review, the violation for CPA073 has been withdrawn from the Report.

- (4) The violation for CPA081 remains in the Report. The insured was not advised that the additional coverages would not be covered prior to obtaining the rental. The Company has not provided any additional information that would cause the Bureau to reconsider its original findings.
- (6) The violation for CPA046 remains in the Report. The Company's file does not document who received a copy of the estimate, it must be clear that the estimate was given to the vehicle owner. The Company has not provided any

additional information that would cause the Bureau to reconsider its original findings.

- (8) The violation of CPA029 remains in the Report. The Vehicle Identification Number (VIN) on the vehicle did not match the VIN on the repair estimate. The Company did not appropriately investigate the discrepancy. The Company has not provided any additional information that would cause the Bureau to reconsider its original findings.

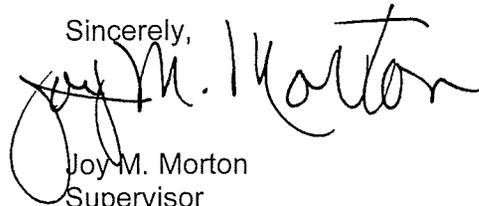
After further review, the violation for CPA078 has been withdrawn from the Report.

### Homeowner Claims

- (9) The violation for CHO013 remains in the Report. The file contained unresolved medical bills. The Company has not provided any additional information that would cause the Bureau to reconsider its original findings.
- (10) The violation for CHO018 remains in the Report. The Company has not provided a copy of the April 12, 2013 estimate to support their payment of \$1,105.48.

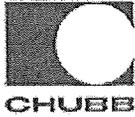
We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports and any Review Sheets withdrawn, added, or altered as a result of this review. The Companies' response to this letter is due in the Bureau's office by June 17, 2015.

Sincerely,



Joy M. Morton  
Supervisor  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

JMM/pgh  
Enclosures



## CHUBB & SON

15 Mountain View Road, Warren, NJ 07059

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17 June 2015

VIA: Electronic Mail and Overnight Mail

Virginia Bureau of Insurance  
Market Conduct Section  
Property and Casualty Division  
1300 East Main Street  
Richmond, VA 23219  
Attention: Joy M. Morton  
Supervisor

RE: Market Conduct Examination  
Federal Insurance Company (NAIC: #20281)  
Great Northern Insurance Company (NAIC: #20303)  
Pacific Indemnity Company (NAIC: #20346)  
Vigilant Insurance Company (NAIC: #20397) (“Companies” or “Company”)

Dear Ms. Morton:

Thank you for your response dated May 27, 2015, and for the opportunity to respond to the revised version of the Bureau’s Market Conduct Examination Report of the Companies. After careful review of the Report and the Companies’ previous responses, the Companies do not have any further substantive information to provide but maintain the position presented in the prior responses with regard to the disagreement of specifically alleged violations.

However, the Companies would respectfully request the ongoing opportunity to address and correct matters outlined in the report. Further, the Companies would greatly appreciate the opportunity to visit the Bureau in an effort to strengthen our relationship, improve processes and express our dedication to compliance. If the Bureau remains open to the suggestion, we would welcome the opportunity to visit in August or September.

As previously stated, we remain appreciative of the opportunity to work with the Bureau’s staff on this Examination.

Very truly yours,

*Colette M. Perri*

Colette M. Perri  
Vice President, U.S. Regulatory Compliance Manager & Associate Counsel  
Chubb & Son  
a division of Federal Insurance Company  
Manager and/or Agent

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
TDD/VOICE: (804) 371-9206  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

July 10, 2015

VIA UPS 2<sup>nd</sup> DAY DELIVERY

Colette Perri  
Chubb Insurance Companies  
15 Mountain View Road  
Warren, NJ 07059

RE: Market Conduct Examination  
Federal Insurance Company (NAIC#20281)  
Great Northern Insurance Company (NAIC#20303)  
Pacific Indemnity Company (NAIC#20346)  
Vigilant Insurance Company (NAIC#20397)

Dear Ms. Perri:

The Bureau of Insurance (Bureau) has concluded its review of the companies' response of June 17, 2015. Based upon the Bureau's review of the companies' letter, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Federal Insurance Company, Great Northern Insurance Company, Pacific Indemnity Company, Vigilant Insurance Company (Report).

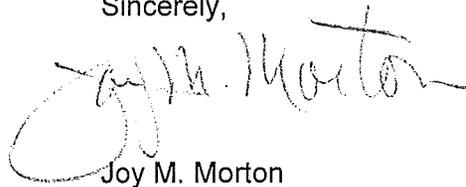
Based on the Bureau's review of the Report and the companies' responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-304, 38.2-305 A, 38.2-305 B, 38.2-317 A, 38.2-502, 38.2-510 A 3, 38.2-510 A 10, 38.2-604 B, 38.2-604 C, 38.2-610 A, 38.2-1318, 38.2-1812, 38.2-1822, 38.2-1833, 38.2-1905 A, 38.2-1905 C, 38.2-1906 A, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2114 I, 38.2-2118, 38.2-2202 A, 38.2-2202 B, 38.2-2208 A, and 38.2-2208 B of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-70 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

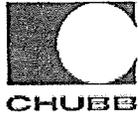
In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, looping initial "J".

Joy M. Morton  
Supervisor  
Market Conduct Section  
Property & Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

JMM/



## CHUBB & SON

15 Mountain View Road, Warren, NJ 07059

24 August 2015

Mary Bannister  
Deputy Commissioner  
Property and Casualty Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218

RE: Market Conduct Examination Settlement Offer  
Federal Insurance Company (NAIC#20281)  
Great Northern Insurance Company (NAIC#20303)  
Pacific Indemnity Company (NAIC#20346)  
Vigilant Insurance Company (NAIC#20397)

**400113**

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated July 21, 2015 concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance companies listed below for the alleged violations of: §§ 38.2-304, 38.2-305 A, 38.2-305 B, 38.2-317 A, 38.2-502, 38.2-510 A 3, 38.2-510 A 10, 38.2-604 B, 38.2-604 C, 38.2-610 A, 38.2-1318, 38.2-1812, 38.2-1822, 38.2-1833, 38.2-1905 A, 38.2-1905 C, 38.2-1906 A, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2114 I, 38.2-2118, 38.2-2202 A, 38.2-2202 B, 38.2-2208 A, and 38.2-2208 B of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-70 D of the Virginia Administrative Code to indicate a general business practice.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$96,500.00.
2. We agree to comply with the corrective action plan set forth in the companies' letters of October 23, 2014 and April 22, 2015.
3. We confirm that restitution was made to 53 consumers for \$36,261.11 in accordance with the companies' letters of October 23, 2014 and April 22, 2015.
4. We further acknowledge the companies' right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

Mary Bannister  
24 August 2015  
- Page 2 -

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

Federal Insurance Company  
Great Northern Insurance Company  
Pacific Indemnity Company  
Vigilant Insurance Company

Colette M. Perri

(Signed)

Colette M. Perri

(Printed Name)

Assistant Secretary

(Title)

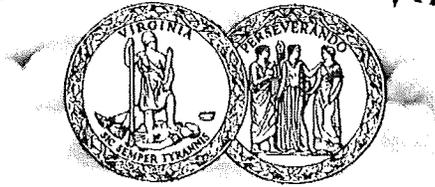
24 August 2015

(Date)

Enc.

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
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[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

CHUBB Group of Insurance Companies has tendered to the Bureau of Insurance the settlement amount of \$ 96,500.00 by their check numbered 0000033249 and dated August 21, 2015, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

150930021

AT RICHMOND, SEPTEMBER 16, 2015

SCC-CLERK'S OFFICE  
DOCUMENT CONTROL CENTER

2015 SEP 16 P 3:08

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2015-00151

FEDERAL INSURANCE COMPANY,  
GREAT NORTHERN INSURANCE COMPANY,  
PACIFIC INDEMNITY COMPANY  
and  
VIGILANT INSURANCE COMPANY,  
Defendants

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Federal Insurance Company, Great Northern Insurance Company, Pacific Indemnity Company, and Vigilant Insurance Company (collectively, "Defendants"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Virginia"), violated: § 38.2-304 of the Code of Virginia ("Code") by using an oral or written binder of insurance for more than 60 days; § 38.2-305 A of the Code by failing to provide the information required by statute in the insurance policy; §§ 38.2-305 B, 38.2-604 B, 38.2-604 C, 38.2-610 A, 38.2-2118, 38.2-2202 A, and 38.2-2202 B of the Code by failing to accurately provide the required notices to insureds; § 38.2-317 A of the Code by issuing insurance policies or endorsements without having filed such policies or endorsements with the Commission at least 30 days prior to their effective date; § 38.2-502 of the Code by misrepresenting the benefits, advantages, conditions or terms of insurance policies; § 38.2-1318 of the Code by failing to provide convenient access to files, documents, and records; § 38.2-1812 and 38.2-1833 of the Code for paying commissions to

agencies/agents that are not appointed by the Defendants; § 38.2-1822 of the Code by knowingly permitting persons to act as agents without first obtaining a license in the manner and form prescribed by the Commission; § 38.2-1905 A of the Code by failing to notify insureds in writing when their policies were surcharged for at-fault accidents; § 38.2-1905 C of the Code by assigning points under safe-driver insurance policies to a vehicle other than the vehicle customarily driven by the operator responsible for incurring points; §§ 38.2-1906 A and 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants; §§ 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2114 I, 38.2-2208 A, and 38.2-2208 B of the Code by failing to properly terminate insurance policies; and §§ 38.2-510 A (3) and 38.2-510 A (10) of the Code, as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, and 14 VAC 5-400-70 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to properly handle claims with such frequency as to indicate a general business practice.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendants have been advised of their right to a hearing in this matter whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have tendered to Virginia the sum of Ninety-six Thousand Five Hundred Dollars (\$96,500), waived their right to a hearing, agreed to comply with the corrective action plan set forth in their correspondence to the Bureau dated

October 23, 2014, and April 22, 2015, and confirmed that restitution was made to 53 consumers in the amount of Thirty-six Thousand Two Hundred Sixty-one Dollars and Eleven Cents (\$36,261.11).

The Bureau has recommended that the Commission accept the offer of settlement of the Defendants pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Bureau, is of the opinion that the Defendants' offer should be accepted.

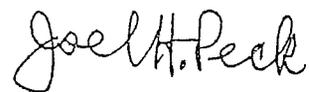
Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted.

(2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Colette Perri, Chubb Insurance Companies, 15 Mountain View Road, Warren, New Jersey 07059; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Mary M. Bannister.

A True Copy  
Teste:



Clerk of the  
State Corporation Commission