

**STATE OF MICHIGAN**

**DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES**



**MARKET CONDUCT EXAMINATION**

**NUMBER 2015C-0080**

**April 27, 2015**

***TARGETED MARKET CONDUCT EXAMINATION REPORT***

***OF***

***TRUMBULL INSURANCE COMPANY***

***HARTFORD, CONNECTICUT***

***NAIC COMPANY CODE 27120***

***For the Period January 1, 2014 through December 31, 2014***

## TABLE OF CONTENTS

I. EXECUTIVE SUMMARY .....	1
II. INTERROGATORY TO COMPANY.....	1
III. ACKNOWLEDGEMENT .....	9

## I. EXECUTIVE SUMMARY

Trumbull Insurance Company (the Company) is an authorized foreign insurance company. This Risk Assessment Interrogatory (interrogatory) was conducted by the Michigan Department of Insurance and Financial Services (DIFS) in conformance with the National Association of Insurance Commissioners (NAIC) *Market Regulation Handbook* (2012) (*Handbook*) and the Michigan Insurance Code, MCL 500.100 et seq. (the Code).

The interrogatory covers the period January 1, 2014 to December 31, 2014. The interrogatory was written under the supervision of Sherry J. Bass-Pohl, Manager of the Market Conduct Company Examination Unit.

This is a targeted examination, conducted via mail, as a result of analysis of the NAIC Market Conduct Annual Statement (MCAS) submission.

DIFS considers a “finding” to be an instance where a violation of Code was determined to have occurred, or one in which corrective action on the part of the Company is deemed advisable.

### **Findings:**

There are no findings.

### **Recommendations:**

There are no recommendations.

## II. INTERROGATORY TO COMPANY

Below is each interrogatory provided to the Company. The NAIC Standard and/or Michigan statute which prompted the interrogatory is also included. The Company response and DIFS’ comments, if any, follow:

### **A. OPERATIONS/MANAGEMENT**

**Standard 1:** The regulated entity has an up-to-date, valid internal or external audit program. NAIC *Handbook*, Chapter 16.

**Standard 18:** All data required to be reported to departments of insurance is complete and accurate. NAIC *Handbook*, Chapter 16.

1. The data reported by your company show that there have been a total of 52 company initiated cancellations after an auto policy has been in force for more than 55 days. This number seems quite high. Can you please verify this number?

**Company Response:**

Yes, this information is correct for the time period of January 1, 2013 – December 31, 2013.

**DIFS' Comment on Company Response:**

An examination of the cancellations shows that the data were reported correctly. (See underwriting section of this report for additional comments on these cancellations).

2. Please describe your company's internal/external audit programs of personal auto claims and underwriting: Who performs the audits? What do the auditors examine? How often are the audits performed? What were the findings of the audits done in the last twelve months?

**Company Response:**

The Hartford's Internal Audit Unit evaluates the adequacy and effectiveness of The Hartford's internal controls and concludes as to the overall efficiency of operations. Internal Audit unit conducts independent analyses of the internal control environment, evaluating whether management is fulfilling its responsibilities in the identification, controlling, and monitoring of business risk, and reports the results of these evaluations to appropriate members of management and the Board of Directors.

When Internal Audit performs compliance audits, it develops an audit plan appropriate to the area or process under review. Internal Audit identifies and reports to management areas of noncompliance with corporate policy, regulations and law. Internal Audit makes appropriate recommendations, and follows up with business units to assure that recommendations are implemented on a timely basis.

Additionally, no underwriting or claims compliance audits were conducted during the review period specified. Should a compliance audit occur it would be conducted by members of our Compliance, Product, Underwriting, and Claims teams. Items examined typically include pricing/rating accuracy, adherence to underwriting guidelines, proper attachment of policy forms and customer notification, and compliance with the unfair claims practices act.

**DIFS' Comment on Company Response:**

DIFS is satisfied with the Company's audit program.

3. Please attach the minutes of Board meetings for the previous twelve months.

**Company Response:**

See attached.

**DIFS' Comment on Company Response:**

No issues or concerns were noted in the Board minutes.

4. The number of Property Damage (PD) claims opened during the period reported by your company (577) also seems quite high. Please keep in mind that PD claims represent property damage claims occurring outside the state of Michigan. Is that what the number reported by your company represents?

**Company Response:**

We have reviewed the claims associated with the 577 number. Based upon this review, only 61 of those claims are actually property damage claims that occurred outside the state of Michigan. When we report the claims through the MCAS process, we are including all property damage claims that are associated with policies written in the state of Michigan, whether the loss occurs inside the state of Michigan or in a different state. We believe this methodology is consistent with the way Property Damage Liability Insurance is defined by the NAIC in their documents outlining the MCAS process. Currently, there does not seem to be any kind of variation in definition of Property Damage Liability Insurance for the state of Michigan. Please let us know if we need to change our program logic going forward.

**DIFS' Comment on Company Response:**

DIFS will not recommend any change in the Company's program logic.

**B. UNDERWRITING**

**Standard 9:** Rescissions are not made for non-material misrepresentations.

MCL 500.3109a:

An insurer providing personal protection insurance benefits under this chapter may offer, at appropriately reduced premium rates, deductibles and exclusions reasonably related to other health and accident coverage on the insured. Any deductibles and exclusions offered under this section are subject to prior approval by the commissioner and shall apply only to benefits payable to the person named in the policy, the spouse of the insured, and any relative of either domiciled in the same household.

MCL 500.3220:

Subject to the following provisions no insurer licensed to write automobile liability coverage, after a policy has been in effect 55 days or if the policy is a renewal, effective immediately, shall cancel a policy of automobile liability insurance except for any 1 or more of the following reasons:

- (a) That during the 55 days following the date of original issue thereof the risk is unacceptable to the insurer.

(b) That the named insured or any other operator, either resident of the same household or who customarily operates an automobile insured under the policy has had his operator's license suspended during the policy period and the revocation or suspension has become final.

MCL 500.3009:

(1) An automobile liability or motor vehicle liability policy insuring against loss resulting from liability imposed by law for property damage, bodily injury, or death suffered by any person arising out of the ownership, maintenance, or use of a motor vehicle shall not be delivered or issued for delivery in this state with respect to any motor vehicle registered or principally garaged in this state unless the liability coverage is subject to a limit, exclusive of interest and costs, of not less than \$20,000.00 because of bodily injury to or death of 1 person in any 1 accident, and subject to that limit for 1 person, to a limit of not less than \$40,000.00 because of bodily injury to or death of 2 or more persons in any 1 accident, and to a limit of not less than \$10,000.00 because of injury to or destruction of property of others in any accident.

(2) If authorized by the insured, automobile liability or motor vehicle liability coverage may be excluded when a vehicle is operated by a named person. Such exclusion shall not be valid unless the following notice is on the face of the policy or the declaration page or certificate of the policy and on the certificate of insurance:

Warning—when a named excluded person operates a vehicle all liability coverage is void—no one is insured. Owners of the vehicle and others legally responsible for the acts of the named excluded person remain fully personally liable.

(3) If an insurer deletes coverages from an automobile insurance policy pursuant to section 3101, the insurer shall send documentary evidence of the deletion to the insured.

1. Your personal auto policy form appears to exclude Bodily Injury (BI) coverage for the named insured and any family member. However, the statutory minimum BI limit in Michigan is \$20,000 per person and \$40,000 per occurrence. (See MCL 500.3009). To be in compliance, it appears that language needs to be added to exclusion, e.g., “. . . in excess of the statutory minimum . . .” Can you please advise?

**Company Response:**

The personal auto policy form is modified by form A-5859-13, Amendment of Policy Provision (filing no. HART-128688208, approved September 25, 2012). This form removes the exclusion in question by stating “It is agreed that Exclusion A.10 is deleted.”

**DIFS’ Comment on Company Response:**

DIFS has reviewed Form A-5859-13 under the Serff tracking number indicated above and has noted that the exclusion is deleted by the form.

2. Does your company rescind auto policies? Can you please explain your company's rescission procedures? What is the time period beyond which your company does not exercise the option of rescission? Can you please attach copies of the last ten of your company's rescission notices?

**Company Response:**

No rescissions were found for Trumbull Insurance Company during the time period between January 1, 2014 and December 31, 2014. Should an underwriter believe that circumstances warrant a possible rescission the policy in question would be referred to our Legal team for review.

3. How does your company evaluate the veracity of an insured's statement on an application regarding qualification for excess Personal Injury Protection (PIP) and wage loss rating?

**Company Response:**

Trumbull Insurance Company relies upon the insured to disclose any information related to qualification for excess PIP/wage loss rating as requested on the application.

4. Can you please attach copies of the last 25 mid-term company-initiated cancellation letters that have been sent to the named insureds?

**Company Response:**

Please see the requested cancellation notices that are attached – note that they encompass cancellations during the latter part of 2014 as per the review period specified at the beginning of this document.

**DIFS' Comment on the Company Response:**

The mid-term cancellations submitted inadvertently included some non-pay cancellations. However, all of the mid-term Company initiated cancellations were done in accordance with MCL 500.3220(b). DIFS will not request submission of any additional cancellations.

## **C. COMPLAINT HANDLING**

**Standard 1:** All complaints are recorded in the required format on the regulated entity's complaint register. NAIC *Handbook*, Chapter 16.

**Standard 2:** The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders. NAIC *Handbook*, Chapter 16.

**Standard 3:** The Company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language. NAIC *Handbook*, Chapter 16.

**Standard 4:** The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations. NAIC *Handbook*, Chapter 16.

1. Can you please attach a copy of the company's personal auto complaint register?

**Company Response:**

See attached.

2. Can you please attach a copy of the company guidelines for handling personal auto complaints?

**Company Response:**

The member insurance companies of The Hartford utilize a common complaint tracking and monitoring system known as Archer. Our Consumer Affairs Department serves as the focal point for the administration of this tracking system and for facilitating the timely resolution of all complaints filed with the individual companies.

Complaints come into The Hartford in two ways: either into the Consumer Affairs Department or directly into a field office. In either case, the recipient is responsible for setting up a file in Archer, thereby initiating the resolution process the same day as the complaint is received.

Once received and tracked, a complaint is assigned to a member of the Consumer Affairs Department for handling. This includes reviewing the complaint itself, related internal documentation and transactions, and correspondence with the complainant. Customer complaints received via phone are responded to within 48 hours; those received through the mail are responded to within 7 business days. DIFS initiated complaints are responded to by the due date set by the state.

**DIFS' Comment on the Company Response:**

No issues were found with the Company's complaint register. All complaints were resolved in a timely manner. There was no predominant origin of the complaints.

**D. CLAIMS HANDLING**

**Standard 3:** Claims are resolved in a timely manner. NAIC *Handbook*, Chapter 16.

MCL 500.3142:

- (1) Personal protection insurance benefits are payable as loss accrues.
- (2) Personal protection insurance benefits are overdue if not paid within 30 days after an insurer receives reasonable proof of the fact and of the amount of loss sustained. If reasonable proof is not supplied as to the entire claim, the amount supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Any part

of the remainder of the claim that is later supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. For the purpose of calculating the extent to which benefits are overdue, payment shall be treated as made on the date a draft or other valid instrument was placed in the United States mail in a properly addressed, postpaid envelope, or, if not so posted, on the date of delivery.

(3) An overdue payment bears simple interest at the rate of 12% per annum.

MCL 500.3109a:

An insurer providing personal protection insurance benefits under this chapter may offer, at appropriately reduced premium rates, deductibles and exclusions reasonably related to other health and accident coverage on the insured. Any deductibles and exclusions offered under this section are subject to prior approval by the commissioner and shall apply only to benefits payable to the person named in the policy, the spouse of the insured, and any relative of either domiciled in the same household.

MCL 500.3151:

When the mental or physical condition of a person is material to a claim that has been or may be made for past or future personal protection insurance benefits, the person shall submit to mental or physical examination by physicians. A personal protection insurer may include reasonable provisions in a personal protection insurance policy for mental and physical examination of persons claiming personal protection insurance benefits.

MCL 500.3135(5):

As used in this section, "serious impairment of body function" means an objectively manifested impairment of an important body function that affects the person's general ability to lead his or her normal life.

1. How does your company ensure compliance with MCL 500.3142? Please describe the process of payment of interest on PIP claims.

**Company Response:**

Process of paying interest on PIP claims:

If the medical bill payment is not made within 30 days after the date of receipt, interest is paid at the rate of 12% per annum/ 0.000328767 daily. We developed a tool called the Interest Spreadsheet Template that includes formulas that automatically calculates the interest owed. We update the Interest Spreadsheet Template with any interest rate changes that are implemented by the State.

2. How many PIP claims were closed and paid in 2014? How many PIP claims were paid late, thereby necessitating the payment of interest?

**Company Response:**

In 2014, Trumbull Insurance Company processed 10,095 bills and only 637 bills were paid late. In those cases, interest was paid to those medical providers.

**DIFS' Comment on Company Response:**

DIFS is satisfied with the percentage of PIP bills paid late by the Company. The interest was paid on those claims in compliance with MCL 500.3142.

3. What is the PIP penalty deductible applied when an insured is rated excess PIP but after a PIP loss is found not to have primary health insurance?

**Company Response:**

Our policy form does not include a provision relating to the application of a PIP penalty deductible. Consequently, we do not apply a PIP penalty deductible in these situations. It has been our experience that this type of situation is extremely rare. Because our book of business in Michigan is all AARP business, it's typical that the health insurance the customer has is Medicare; not other health insurance. Since we cannot coordinate benefits with Medicare, we become primary.

4. How is the choice of IME physician made? Is the insured allowed any input?

**Company Response:**

We currently use three different vendors in connection with IME situations. Each of the vendors chooses the IME doctor that will be used. However, if the claimant has an issue with the IME doctor that has been chosen by the vendor, we will work with the claimant by contacting the vendor and asking them to select another IME physician.

5. Does your company have a rebuttal process in place for disputed IME reports?

**Company Response:**

All IME cutoff letters contain language indicating that the treating physician can send in any additional documentation that would rebut the IME Report and our IME physician will review.

6. Can you please explain how the BI threshold is explained to claimants?

**Company Response:**

When we have an unrepresented claimant, our claim handlers explain that Michigan is a no-fault State with lifetime benefits under their Personal Injury Protection (PIP) coverage. The claim handler also explains that in order to pursue a claim against the responsible party, the injury needs to be serious in nature meaning that the injury would have to have an impact on how the claimant is able to lead a normal life. The claim handler does not get into details such as case law.

**DIFS' Comment on the Company Response:**

The Company's explanation of the BI threshold is adequate to accurately reflect MCL 500.3135(5) and current case law.

7. What are your company's net and combined loss ratios for BI and PIP for the last five years? Is there any relationship between these loss ratios and the compensation of any employees?

**Company Response:**

Please see attached Page 14s for the last 5 years. There is no relationship between the loss ratios and the compensation of our employees.

**DIFS' Comment on the Company Response:**

There are no issues with the BI and PIP loss ratios shown on the Page 14s. The lack of any relationship between BI and PIP loss ratios and employee compensation removes any possibility of conflict of interest.

**Findings:**

There are no findings.

**Recommendations:**

There are no recommendations.

**III. ACKNOWLEDGEMENT**

This risk assessment interrogatory report of Trumbull Insurance Company is respectfully submitted to the Director of the Department of Insurance and Financial Services, State of Michigan.

Trumbull Insurance Company  
DIFS Targeted Market Conduct Examination Report 2015C-0080  
April 27, 2015

The courteous cooperation and assistance of the officers and employees of the Company extended to the examiners during the course of the examination is hereby acknowledged.

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