

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

21<sup>st</sup> CENTURY CENTENNIAL INSURANCE COMPANY

NAIC # 34789

3 Beaver Valley Rd.

Wilmington, DE 19803

As of

December 31, 2012

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2012 on

**21<sup>st</sup> Century Centennial Insurance Company**

is a true and correct copy of the document filed with this Department.

Attest By: \_\_\_\_\_

A handwritten signature in blue ink, appearing to be "J. J. Stewart", written over a horizontal line.



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.

\_\_\_\_\_  
Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
**21<sup>st</sup> Century Centennial Insurance Company**  
AS OF  
December 31, 2012

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

---

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

## Table of Contents

EXECUTIVE SUMMARY .....	2
SCOPE OF EXAMINATION.....	2
METHODOLOGY .....	3
COMPANY HISTORY .....	3
CONSUMER COMPLAINTS.....	4
CLAIMS .....	6
CONCLUSION.....	9

Honorable Karen Weldin Stewart CIR-ML  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 13.763, and pursuant to statutory provisions including 18 Del. CODE §318-322, a market conduct examination has been conducted of the affairs and practices of:

**21<sup>st</sup> Century Centennial Insurance Company**

The examination was performed as of December 31, 2012. 21st Century Centennial Insurance Company, hereinafter referred to as the "Company" or as "21st Century," is domiciled in Pennsylvania. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

3 Beaver Valley Rd.  
Wilmington, Delaware 19803

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

## EXECUTIVE SUMMARY

The 21<sup>st</sup> Century Centennial Insurance Company is domiciled in Pennsylvania and is licensed to conduct business in all states and the District of Columbia. The Company is part of The Farmers Insurance Group. The Farmers Insurance Group of Companies and Farmers are all trade names that refer to a group of insurance companies that provide homeowners insurance, auto insurance, commercial insurance, life insurance and other financial services throughout the United States.

In the 2012 Annual Statement filed with the Department, 21<sup>st</sup> Century reported total individual private passenger automobile premiums written for all states in the amount of \$18,776,895 of which \$18,777 was written in Delaware.

The examination focused on the Company's private passenger automobile business in the following areas of operation: Company Operations and Management; Complaint Handling, and Claims. This examination was part of a series of examinations to review the use of independent medical examiners, peer review organizations, arbitration, and surcharges after an at-fault accident.

The following exceptions were noted in the areas of operation reviewed:

- Complaints: 1 Exception – 18 Del. CODE §320 (c) Conduct of Examination: Failure to provide complaint documentation in a complete and timely manner
- Complaints: 1 Exception – 18 Del. CODE § 2304 (16) *Unfair claim settlement practices*.: The Company did not pay a claim in which liability had become reasonably clear in accordance with policy provisions. Also, the Company did not attempt in good faith to effectuate prompt, fair and equitable settlements of a claim.
- Claims (Independent Medical Examinations): 3 Exceptions – 18 Del. CODE § 2304 (16) *Unfair claim settlement practice*.: In 3 claims the Company denied benefits retroactively to a date weeks or months prior to the Independent Medical Examiner or the date of the closing letter.
- Claims (Surcharges): 116 Exceptions – 18 Del. Admin. Code 609 §5.1.7 *Limitations on Automobile Surcharges in Voluntary Markets and Assigned Risk Plan*.: The Company failed to notify the insured of policy surcharges in compliance with the regulation.

## SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 Del. CODE §318-322 and covered the experience period of January 1, 2011 through December 31, 2012. This examination was part of a series of examinations conducted to

review the use of independent medical examiners, peer review organizations, arbitration and surcharges after an at-fault accident.

The examination was a target market conduct examination of the Company's private passenger automobile business in the following areas of operation: Company Operations and Management; Complaint Handling, and Claims.

## **METHODOLOGY**

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While examiners report on errors found in individual files, the examiners also focus on general business practices of the Company.

The Company identified the universe of files for each segment of the review. Based on the universe sizes, random sampling was utilized to select the files reviewed during this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. In general, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and to review written summaries provided in regard to the exceptions found.

## **COMPANY HISTORY**

The Company was incorporated on July 7, 1977 in the Commonwealth of Pennsylvania and commenced business on November 1, 1977. The Company was known as the Colonial Penn Insurance Company until July 1, 2002 when its name was changed to GE Property & Casualty Insurance Company. On August 29, 2003, the Company was sold by GE Financial Assurance Holdings, Inc., a subsidiary of the General Electric Company, to Lexington Insurance Company, an indirect subsidiary of American International Group, Inc. (AIG). Effective April 1, 2004, the Company's name was changed to AIG

Centennial Insurance Company. Effective July 2, 2009, the Company and other member companies in the 21st Century Personal Auto Group (the 21st Century PAG entities) were acquired by Farmers Group, Inc. (FGI) from AIG. Subsequently on July 1, 2009, FGI sold the 21st Century PAG entities to Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange. Effective April 1, 2010, the Company's name was changed to 21st Century Centennial Insurance Company.

## **COMPANY OPERATIONS AND MANAGEMENT**

### **Internal Audit**

The Company provided information and documentation related to internal audits and internal market regulation/conduct audit reviews. Included with the requests were regulatory actions and court actions taken against the Company and Market Conduct Examination Reports. All reports covered the three years prior to December 31, 2012. The requested information and supporting documentation was provided by the Company and reviewed during the course of the examination.

The examination included a sample review of internal audit reports and internal market regulation/conduct audits under the examination scope. When reports identified deficiencies, corrective actions and remediation plans were included with the business units' response. Additionally, the information and documentation reviewed provided assurance that the internal controls methods and audit procedures in place complied with the Company's established policies and procedures.

There were no exceptions or concerns noted as a result of the review.

## **CONSUMER COMPLAINTS**

The complaint log was reviewed for compliance with 18 Del. C. §2304 (17). This Section of the Code requires maintenance of a complete record of all complaints received since the date of its last examination. Written complaint files involving claims were also reviewed for compliance with 18 *Del. Admin. Code* 902 §1.2.1.2.

The following exceptions were noted following the examiners' review of complaint files:

### **1 Exceptions-18 Del. C. § 320 Conduct of Examinations, Provision of Records**

(c) Every person being examined, the person's officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner's examiners, the accounts, records, documents, files, information, assets and matters of such person, in the person's possession or control, relating to the subject of the examination and shall facilitate the examination.

In the course of this examination, the Company initially provided documentation relating to four complaints, representing that these were all of the Delaware complaints on record. When the examiners questioned the Company about an additional listing of complaints it was discovered that 28 complaints had been overlooked.

Following the review of a DDOI internal report, the examiners found reference to 8 additional DDOI complaints that were not included in either of the listings previously provided by the Company

The Company subsequently provided the examiners with an additional 86 Direct (from Customer) complaints. To facilitate the completion of the examination, the examiners selected 11 additional files from this new complaint listing for review.

The Company's failure to provide comprehensive data relating to Delaware complaints caused the examiners to devote additional time and resources to this portion of the examination. The Company failed to provide accurate and responsive documentation regarding complaints as required by 18 Del. C. §320.

*Recommendation:* It is recommended that the Company make freely available the accounts, records, documents, files, and information to facilitate the examination in accordance with 18 Del. C. §320.

## **2 Exceptions 18 Del. C § 2304 (16) Unfair claim settlement practices:**

- (16) Unfair claim settlement practices. -- No person shall commit or perform with such frequency as to indicate a general business practice any of the following:
- e. Failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed;
  - f. Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear;
  - g. Compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts ultimately recovered in actions brought by such insureds;
  - h. Attempting to settle a claim for less than the amount to which a reasonable person would have believed that person's own self was entitled by reference to written or printed advertising material accompanying or made part of an application;

As a result of injuries sustained in two accidents, an individual complained after the company failed to offer a settlement for each accident. Although this was a complex and unusual case, the Company failed to follow their own internal determination that two separate accidents should be filed and attempted settlement under a single claim. The claimant ultimately obtained legal counsel and filed suit to resolve the claims.

The examiners recognize that this incident, taken separately does not constitute a general business practice. However, the examiners found that, in this instance, the Company's actions are in violation of Delaware's Unfair Claim Practices statute. The Company's failure to address the complainant's issues resulted in accusations of delays, poor service, failure to return correspondence in a timely fashion, intimidation and abusive treatment. With respect to the underlying claims, the examiners found that the Company did not attempt in good faith to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear. The Company did attempt to settle a claim for less than the amount to which a reasonable person would have believed that person's own self was entitled. Additionally, the Company compelled the insured to institute litigation in order to recover amounts due under an insurance policy. Ultimately the company paid the maximum bodily injury amount on one claim but did not pay anything on the second claim.

*Recommendation:* It is recommended that the Company settle claims in a fair and equitable manner in compliance with 18 Del. C § 2304 (16) *Unfair claim settlement practices*.

## **CLAIMS**

### **Independent Medical Examinations**

The examiners received a listing for Delaware that contained a total of 1,116 claims involving Bodily Injury (BI), Uninsured Motorist (UM), Underinsured Motorist (UIM), Personal Injury Protection (PIP) and Medical Payments (MED) coverage. Among these claims the listing showed 131 claims where Independent Medical Examinations (IME) were ordered including one claim with an Arbitration and one with a Peer Review.

Of the 131 IME claims, 51 IME files were selected and reviewed for compliance with 18 Del. CODE §2304 Unfair Practices in the Insurance Business. Among the sampled claims were three Bodily Injury claims, one Uninsured Motorist claim and 47 PIP claims.

### **3 Exceptions - 18 Del. C § 2304:**

- (16) Unfair claim settlement practices. -- No person shall commit or perform with such frequency as to indicate a general business practice any of the following:
  - f. Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear;

The examiners found exceptions with 3 of the claims following IMEs in 2 instances and a Peer Review (PR) in one case. The examiners observed that in 3 claims, the Company denied benefits retroactively to a date weeks or months prior to the IME or the date of the closing letter. These claim denials did not follow the Company's regular claims settlement practices and appear to unfairly subject the claimant to charges for treatment, without prior notice, that were previously being paid by the Company.

*Recommendation:* It is recommended that the Company pay claims fairly and equitably in which liability has become reasonably clear in accordance with policy provisions.

### **Peer Review Organizations**

Procedures were provided that related to Peer Review Organizations. The Company provided a listing of all private passenger auto claims during the examination period that had a claim component related to bodily injury (BI, UM, UIM, PIP, Med-Pay) for all Peer Review Organizations utilized by the Company.

The Company provided a list of claims that resulted in a peer review. Documentation in regard to the determination made by the peer review organization was also provided.

There were no exceptions noted.

### **Arbitration**

The Company provided a listing of all private passenger auto claims during the examination period that had a claim component related to bodily injury (BI, UM, UIM, PIP, Med-Pay). The Company also provided documentation in regard to the outcome of arbitration (arbitration found in favor of claimant, arbitration found in favor of company, arbitration resulting in compromise settlement).

There were no exceptions noted.

### **Surcharges**

The Company provided copies of surcharge plans in use during the examination period. The Company also provided copies of surcharge algorithms and a listing of policies for which surcharges were added after a claim. All of this information was reviewed by the Examiners.

The examiners performed the following reviews of personal automobile accident claim files to which a surcharge was applied at renewal.

The Company identified a universe of 1471 personal automobile claim files to which a surcharge was applied (at renewal) during the examination period. The examiners selected a sample of 50 surcharged personal automobile claim files that were reviewed to verify compliance with applicable Delaware Insurance statutes and rules. There were a total of 132 surcharged renewal periods included in the 50 auto policy files.

The sampled files were reviewed for compliance with 18 DE Reg. 609 § 5.1.7.

*5.1.7 No surcharge may be imposed unless the named insured is notified at least ten days in advance of the effective date of the surcharge, of the amount of the surcharge and the reasons for the imposition of the surcharge. No surcharge may be instituted against a policyholder except at the time of renewal or policy issuance unless a new insured under the policy is added during the policy term and the new insured is surchargeable under the insurer's filed and approved surcharge plan. Notice of imposition of a surcharge may be included with the renewal offer. This subsection does not apply to new business*

There were three types of exceptions noted in the review of the sampled files.

- **8 Exceptions 18 Del. Admin 609 Limitations on Automobile Surcharges in Voluntary Markets and the Assigned Risk Plan § 5.1.7.**  
The Company's position regarding surcharge notifications is that only the initial renewal period subject to a surcharge requires a notification in accordance with 18 DE Reg. 609 § 5.1.7. Therefore, according to the Company's reasoning, there should be an initial surcharge notification letter in each of the 49 valid sampled files. The examiners found an initial surcharge notification letter in only 41 of the 49 sampled files. The examiners find 16% of the sampled files do not contain any initial surcharge notification letter.
- **69 Exceptions 18 DE Reg. 609 § 5.1.7.** 18 DE Reg. 609 § 5.1.7 requires an insured be to “notified at least ten days in advance of the effective date of the surcharge, of the amount of the surcharge and the reasons for the imposition of the surcharge”. Among the 38 files with more than one policy period, there were 122 policy periods, 38 initial periods and 84 subsequent renewals. Among the 84 subsequent renewal periods there were 69 in which the premium/surcharge changed and no notification was provided. In these instances, there should have been a subsequent notice of the amount of surcharge provided.
- **39 Exceptions 18 DE Reg. 609 § 5.1.7.**The Company must include the amount of the surcharge being applied in accordance with 18 DE Reg. 609 § 5.1.7. The examiners found no notifications of a surcharge amount in any of the 39 notices contained in the files. The examiners also found that none of the policy declaration pages listed the amount of the surcharge. Therefore, consumers are unable to determine what amount they are being surcharged or if the Company was accurately surcharging their auto policies.

The Company stated the following in their response to the Initial Summary “As of December 2, 2013, the Company has added the surcharge amount to its surcharge notices.” The examiners reviewed a sample of a notice that included the amount of surcharge and acknowledge the company has implemented changes to address this finding.

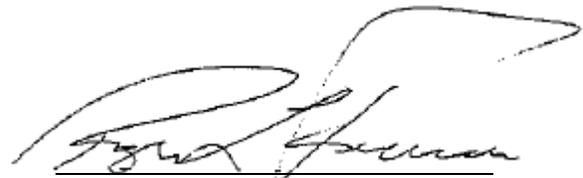
*Recommendation:* It is recommended that the Company notify the insured at least ten days in advance of the effective date of a surcharge and the amount of the surcharge.

## CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended that the Company make freely available the accounts, records, documents, files, and information, to facilitate the examination in accordance with the regulation. (Complaints)
2. It is recommended that the Company settle claims in a fair and equitable manner. (Complaints)
3. It is recommended that the Company pay claims in which the liability has become reasonably clear in accordance with policy provisions. (Complaints)
4. It is recommended that the Company pay claims fair and equitably in which liability has become reasonably clear in accordance with policy provisions.
5. It is recommended that the Company notify auto policyholders with surcharges in compliance with 18 DE Reg. 609 § 5.1.7. (Claims – Surcharges)

The examination, conducted by Shelly Schuman, Roger Fournier, and Delbert Knight, is respectfully submitted.



Roger L. Fournier, MCM, CIE,  
AIRC  
Examiner-in-Charge  
Market Conduct  
Delaware Department of Insurance