

MARKET CONDUCT EXAMINATION REPORT

ON

HARTFORD UNDERWRITERS INSURANCE COMPANY

NAIC # 30104

One Hartford Plaza
Hartford, Connecticut 06155-0001

EXAMINATION NUMBER 09.701

March 31, 2009

Karen Weldin Stewart, CIR-ML
Commissioner



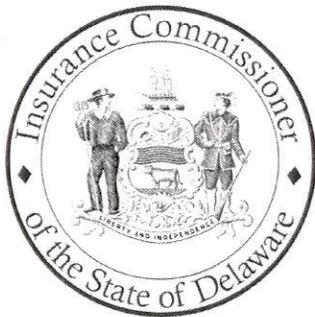
Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of March 31, 2009 on

HARTFORD UNDERWRITERS INSURANCE COMPANY

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

Attest By: Larissa J. Harrison



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

11/28/11

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
HARTFORD UNDERWRITERS INSURANCE COMPANY
AS OF
March 31, 2009

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.

A handwritten signature in blue ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

**Delaware Market Conduct Examination Report
Hartford Underwriters Insurance Company**

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SALUTATION

October 19, 2010

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 09-705, and pursuant to statutory provisions including 18 Del.C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

Hartford Underwriters Insurance Company

The examination was performed as of March 31, 2009. Hartford Underwriters Insurance Company, hereinafter referred to as the "Company," or "HUIC" is incorporated under the laws of the State of Connecticut. This 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:

8 Farm Springs Road, Farmington, Connecticut 06032

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 appropriate locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

The Hartford Group has written the AARP Automobile and Homeowners Insurance Program (“AARP Program”) since 1984. The AARP Program is a co-branded direct response program that is marketed to AARP members and will continue through January 2020.

The Company stated, “As part of its commitment to the AARP Program, The Hartford is required to maintain service and program levels, engage in continuous improvement initiatives with respect to sales, service and claims handling to achieve Best in Class service levels, support a dedicated call center operation that maintains the AARP Program’s distinct identity, and conduct on-going gerontology-based training for staff to provide an awareness of the needs of an older population. The Hartford provides personal lines insurance products through its employee agents and customer service through its employee customer service representatives. The Hartford’s Personal Lines Insurance Centers are located in Southington, Connecticut; Oklahoma City, Oklahoma; Lehigh Valley, Pennsylvania; and San Diego, California. AARP claims are serviced throughout the country at Hartford (CT) Claim Centers.

The Company, through the AARP program, provides auto and homeowners insurance for individuals. The Company issues its policies through employee agents. HUIC did not issue new business policies to Delaware customers during the examination period. However, HUIC policies continued to be renewed in the examination period. HUIC claims were not reviewed separately but policy service including cancellations and non renewals were reviewed as were HUIC complaints.

By way of further background, The Hartford introduced a new class plan in Property & Casualty Insurance Company for its AARP Automobile Insurance Program in Delaware effective July 1, 2005 and for its AARP Homeowner Program in Delaware effective December 1, 2000. These plans are multi-tier programs that were filed in accordance with Delaware law. Upon implementation of these new class plans, acceptance of applications for all new AARP program business in Hartford Underwriters Insurance Company was discontinued. Existing customers in Hartford Underwriters Insurance Company continue to renew in that company.

In response to the examiners’ request for information relating to the relationship between The Hartford and AARP, the Company stated, “Personal Lines provides automobile, homeowners and home-based business coverage to the members of AARP through a direct marketing operation and to individuals who prefer local agent involvement through a network of independent agents in the standard personal lines market. Up until the sale of the business on November 30, 2006, the Company also sold non-standard auto insurance through the Company’s Omni Insurance Group, Inc. (“Omni”) subsidiary. Personal Lines had earned premiums of \$3.9 billion, \$3.8 billion and \$3.6 billion in 2007, 2006 and 2005, respectively.

AARP represents a significant portion of the total Personal Lines business and produced earned premiums of \$2.7 billion, \$2.5 billion and \$2.3 billion in 2007, 2006 and 2005, respectively.

The Hartford’s exclusive licensing arrangement with AARP continues until January 1, 2020 for automobile, homeowners and home-based business insurance. This agreement provides Personal Lines with an important competitive advantage. Personal Lines’ underwriting income for 2007, 2006 and 2005 was \$322 million, \$429 million and \$460 million, respectively.”

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The Company provided records of all new automobile, homeowners and home-based business coverage written in Delaware during the examination period. Although there is no restriction prohibiting the Company from selling P&C policies outside of the AARP program, the information provided by the Company indicated that all new business was issued through the AARP sponsored program. HUIC did not issue new business policies to Delaware customers during the examination period.

This limited scope Market Conduct Examination focused on the complaints, claims, marketing and sales, rating and underwriting practices of the Hartford Underwriters Insurance Company for personal lines automobile and Homeowners policies written through a sponsored program with the American Association of Retired Persons (AARP).

Five areas of concern were noted during the examination. These issues are more fully discussed under the following categories:

Complaints – Incomplete record of complaints

Complaints – Timely Complaint resolution

Underwriting and Rating – Unjustified increase in renewal auto premiums

Underwriting and Rating – Inappropriate use of Notice of Adverse Action (NOAA) letters

Marketing and Sales, Advertising – Misrepresentation of fact

- The examiners found that the Company does not provide a written response to written complaints submitted directly from consumers, nor does the Company document the resolution of these complaints in their files. Delaware's Unfair Practices in the Insurance Business Statute 18 Del.C.§ 2304 (17), DE mandates that the Company's records shall include the disposition of all complaints.
- The examiners found that HUIC complaints filed with the DDOJ had response times that exceeded the twenty one (21) days specified in the instructions to the Company and in 18 Del.C.§ 2304 (26)
- Underwriting and Rating- Personal Lines Auto- The examiners found that the Company increases renewal auto premiums based on an increase in the mileage driven by the insured but does not offer evidence that such mileage has increased. This practice is in violation of the unfair practices statute 18 Del.C.§ 2304 (7) b, where premiums and charges shall not be in excess of those specified as fixed by the insurer,
- Underwriting and Rating – Personal Lines - The Company used Notices of Adverse Action letters (NOAA) to inform policyholders, upon renewal, that their insurance rates had been adversely impacted by less than optimal insurance scores. These notices were sent in error to renewal policyholders according to the Company. This action violates 18 Del.C.§ 8303.

For the cited exceptions in the report, Recommendations have been made to address the issues and concerns noted by the examiners.

LIST OF RECOMMENDATIONS

Recommendation: It is recommended that the Company's procedures include standards for the maintenance of all pertinent documentation in their complaint files in compliance with 18 Del.C. 2304 §17.

Recommendation: It is recommended that the Company provide responses to complainants within the time limits indicated by the DDOI in correspondence with the Company and in 18 Del.C. § 2304 (26)

Recommendation: It is recommended that the Company comply with the rates it has filed pursuant to 18 Del.C. § 2504. Specifically, renewal rates should not be increased except in accordance with the filed rate plans. In addition, the Company should maintain appropriate evidence of its basis for rating adjustments on the basis of increased mileage driven.

Recommendation: The Company must review its record management procedures to ensure complete and accurate data is provided in compliance with 18 Del.C. § 320(c). This recommendation applies to the inaccurate information provided to customers in NOAA letters.

SCOPE OF EXAMINATION

The Delaware Department of Insurance has authority to perform this examination pursuant to, but not limited to, 18 Del.C. §§ 318-322. This examination of Hartford Underwriters Insurance Company began April 24, 2009 and covered the period of January 1, 2008 through March 31, 2009, unless otherwise noted. This limited scope examination was conducted concurrent with the examination of Property and Casualty Insurance of Hartford (PCIC), NAIC number 34690. This examination focused on a review of the Company's Operations and Management, Marketing & Sales Practices and Procedures, Claims Practices and Procedures, Underwriting and Rating Practices and Procedures and Complaints Practices and Procedures. The Company and the DDOI agreed to "Deem" the results of the claims reviews from the PCIC examination as applicable to the HUIC claims. This allowed the examiners to review only one set of claims for both companies. Other areas of this examination pertained to the same information provided in responses to the PCIC inquiries including Company Operations. The reviews of these areas of congruity were reviewed only once. The lines of business reviewed in this examination included personal lines automobile, homeowners and home-based business coverage¹.

This examination was performed in accordance with the NAIC's *Market Regulation Handbook* standards.

A random selection of the Company's underwriting files was made from the lists provided by the Company. The records subject to this examination are business in-force during the examination

¹ This includes *Incidental Office* coverage on homeowner's policies but does not include commercial lines of business.

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period. Separate files for each line of business were reviewed. A selection of files for policies terminated during the examination period, without regard of when the policy became effective was also reviewed.

A separate file of terminated policies for each line of business was reviewed. Also included in the sampling were policies changed or re-written during the examination period as were Delaware policies with a nonrenewal effective date within the examination period.

The examiners reviewed samples of closed paid claims and closed without payment claims where the date of loss occurred during the examination period.

Some files may contain multiple errors which are indicated by category but only considered once when determining the error ratio. The error ratio criterion used to develop confidence levels for the policy files review is zero percent (0%) for Complaints, Sales and Advertising, producers who are not appointed and/or licensed, and the use of forms, rates and rules that are neither filed with nor approved by the Department; ten percent (10%) and for the claim files review it is seven percent (7%), as established by the NAIC and adopted by the Delaware Department. Any operation with an error ratio in excess of these criteria indicates a general business practice.

This examination report is a report by exception rather than a report by test. This means that only those areas where recommendations are suggested are described and results indicated.

HISTORY AND PROFILE

The Hartford Underwriters Insurance Company was incorporated by the state of Connecticut on December 22, 1987. On July 1, 1988, New York Underwriters Insurance Company, a New York domiciled corporation, was merged into the Company and changed its name to the Hartford Underwriters Insurance Company.

Hartford Underwriters Insurance Company is part of a group of fifteen (15) companies referred to as the *Hartford Fire Insurance Pool*. The combined group of companies offers a variety of insurance coverage to business and individuals throughout the United States. The coverage provided by the entire group includes workers' compensation, property, automobile, homeowners, umbrella, marine, livestock, special casualty, bond, professional liability and directors' and officers' liability coverage. Hartford introduced a new rating plan for its AARP Automobile Insurance Program in Delaware, effective December 1, 2005 and for its AARP Homeowner Program in Delaware effective December 1, 2000. Upon implementation of these new multi-tier rating plans, acceptance of new applications for all new AARP program business was discontinued; existing customers continue to renew with the company where the coverage was originally written.

In response to the examiners' request for information relating to the relationship between the Hartford and AARP, the Company stated:

Personal Lines provides automobile, homeowners and home-based business coverage to the members of AARP through a direct marketing operation and to individuals who prefer local agent involvement through a network of independent agents in the standard personal lines market. Up until the sale of the business on November 30, 2006, the Company also sold non-standard auto insurance through the Company's Omni Insurance Group, Inc. ("Omni") subsidiary. Personal Lines had earned premiums of \$3.9 billion, \$3.8 billion and \$3.6 billion in 2007, 2006 and 2005, respectively.

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AARP represents a significant portion of the total Personal Lines business and produced earned premiums of \$2.7 billion, \$2.5 billion and \$2.3 billion in 2007, 2006 and 2005, respectively. The Hartford's exclusive licensing arrangement with AARP continues until January 1, 2020 for automobile, homeowners and home-based business. This agreement provides Personal Lines with an important competitive advantage. Personal Lines' underwriting income for 2007, 2006 and 2005 was \$322 million, \$429 million and \$460 million, respectively.

The following chart shows policies in Delaware for the examination period January 1, 2008 through March 31, 2009;

HUIC	Auto	Homeowners
In Force	11,746	4,245
Newly Issued	0	0

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property and Casualty Insurer found in the Delaware Market Conduct Examiners' Handbook. This chapter is derived from applicable Delaware Statutes, Rules and Regulations as referenced herein and the *NAIC's Market Regulation Handbook* (2008 edition).

The types of review used in this examination fall into three general categories: generic, sample, and electronic.

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using a sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the *NAIC's Market Regulation Handbook*. Samples of complaint files, underwriting files and settlement files were reviewed to determine that the processes described by the Company are actually used by the Company.

An "electronic" review indicates that a standard was tested through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews one hundred percent (100%) of the records of a particular type.

In this examination, the standards were tested through a combination of "generic" review and direct observation of the processes used.

Each Standard contains a brief description of the purpose or reason for the Standard. The examiners' "Observations" are noted following each Standard tested. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported with the appropriate corresponding Standard.

B. COMPLAINT HANDLING

Standard B 3

NAIC Market Conduct Examiners Handbook - Chapter XVI. §B, Standard 3.

The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.

18 Del. C. §318(a), §2304(17).

The review methodology for this standard is “sample.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company is in compliance with state statutes governing complaint handling.

Results: Fail

Review Procedures: Among the review procedures, the examiners determine:

- Does the regulated entity’s response fully address the issues raised in the complaint,
- Does the response include adequate documentation to support the respondent’s position

The examiners observed that the Company does not regularly provide documentation pertaining to the disposition or resolution of direct complaints in their files. The examiners found that the Company does not provide a written response to written complaints submitted directly from consumers, nor do they maintain a transcript of telephone calls memorializing the resolution of these complaints in their files. Delaware 18 Del.C.§2304 “Unfair Practices in the Insurance Business” indicates the following:

“(17) Failure to maintain complaint handling procedures. -- Failure of any person to maintain a complete record of all the complaints which it has received since the date of its last examination as otherwise required in this title. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint. For purposes of this subsection, "complaint" shall mean any written communication primarily expressing a grievance.”

The Company stated that their regular practice is to respond to customer written expressions of dissatisfaction by phone. In two instances, it appeared that only when the insured could not be reached by phone did the Company respond in writing. Based on the contents of the direct complaint files, the examiners could not determine how or if many direct complaints are properly resolved. The Company provided the following response to the examiners’ inquiries.

“When a customer complains or makes an inquiry, unless otherwise specified by the customer, the Company attempts to resolve the issue over the telephone. While a written response is not an expectation, one is offered and provided if requested.”

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Table2 Hartford Complaints

	HUIC
Direct	7
DOI	55
Total	62
Auto	58-94%
Homeowners	4- 6%
Rate Increase complaints	45/62- 73%
Rate Increase Attributed to Age/Mileage, Auto	18/48- 31%
Written Response provided	Direct.-2/7 DOI- 54/55
Inaccurate NOAA Letters.	1/4 Homeowners - 20% 7/58 Auto- 12%
Incomplete Files (initially)	7/62- 11%

The Company’s failure to acknowledge written direct complaints along with their stated practice of attempting to resolve written complaints with a phone call falls short of an adequate process in the resolution, recording and documentation of direct complaints received by the Company.

Recommendation: The Company does not retain adequate records to support complaint resolutions, therefore it is recommended that the Company comply with 18 *Del.C.* § 2304 (17). This compliance should include a revision of the Company’s complaint procedures to include procedures that dictate written correspondence to any written complaint.

Standard B 4

NAIC Market Conduct Examiners Handbook - Chapter XVI. §B, Standard 4

The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations

18 Del. C. §318(a), §2304(17).

The review methodology for this standard is “sample.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company is in compliance with state statutes governing complaint handling.

Results: Fail

Review Procedures: Among the review procedures, the examiners determine:

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- Review complaints to ensure that the regulated entity is maintaining adequate documentation
- Determine if the regulated entity's response is timely.

The examiners found that four (4) of the fifty five (55) HUIC complaints filed with the DDOI had response times that exceeded the twenty one (21) days specified in the instructions to the Company and in 18 Del. C. §2304(26), which states: "No person shall, with such frequency as to indicate a general business practice, fail to provide preliminary substantive responses to inquiries from the Department of Insurance regarding the denial of claims, cancellation, nonrenewal, or refusal of benefits, refusal to pre-authorize benefits, or violations of this title, within 21 calendar days of such inquiry. A response in compliance with this paragraph shall not preclude the provision of additional information responsive to the inquiry."

Recommendation: It is recommended that the Company provide responses to complainants within the time limits indicated by the DDOI in correspondence with the Company and in 18 Del. C. §2304(26).

F. UNDERWRITING AND RATING

Standard F 01

NAIC's Market Regulation Handbook - Chapter XVI. §F, Standard 1

The rates charged for the policy coverage are in accordance with filed rates or the regulated entity's rating plan.

18 Del. C. §2517

The review methodology for this standard is "sample." This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company is in compliance with state statutes governing underwriting and rating.

Results: **Fail**

Observations: According to the Company's analysis of complaints, nationwide, the leading cause of complaints was the inclusion of the Notice of Adverse Action (NOAA) letters with new or renewal policies. The examiners found in the Delaware complaint log that eight (8) of sixty two (62), or thirteen percent (13%) of HUIC complaints involved incorrect NOAA letters included in with policy renewal information The Company provided assurances to the DDOI that HUIC was in the process of revising their practices with respect to adverse action notices in a communication dated 3/5/2008 and that insureds will not receive NOAA letters on their future renewal(s).

Recommendation: It is recommended that the Company issue policies according to its filed rating plans, pursuant to 18 Del.C. § 2517, which states: "Adherence to filings. No insurer shall make or issue a contract or policy except in accordance with the filings which are in effect for the insurer as provided in this chapter or in accordance with § 2505 (exemption from filing) or § 2509 (excess rates) of this title."

The examiners also found that eighteen (18) of the HUIC complaints attributed auto rate increases to increased annual mileage driven over the previous period. However, the examiners did not find evidence presented by the Company in any of these complaint files to substantiate a record of additional mileage driven.

Recommendation: It is recommended that the Company comply with the rates it has filed pursuant to 18 Del.C. §2504, which states: (a) Every insurer shall file with the Commissioner..., every manual, minimum, class rate, rating schedule or rating plan and every other rating rule, and every modification of any of the foregoing which it proposes to use. Every such filing shall state the proposed effective date thereof, and shall indicate the character and extent of the coverage contemplated.

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In addition, the Company should maintain appropriate evidence of its basis for rating adjustments on the basis of increased mileage driven.

Recommendation: The Company must review its record management procedures to ensure complete and accurate data is provided in compliance with 18 Del.C § 320(c) which states: “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.”

CONCLUSION

The examination was conducted by Roger Fournier, Steve Misenheimer and Gwen Douglas, supervised by Shelly Schuman and is respectfully submitted,



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