



Report on

Market Conduct Examination

of the

Hartford Insurance Company of the Midwest
Hartford Casualty Insurance Company
Indianapolis, Indiana

Hartford Underwriters Insurance Company
Hartford, Connecticut

by Representatives of the
North Carolina Department of Insurance

as of

July 28, 2017

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Raleigh, North Carolina
July 28, 2017

Honorable Mike Causey
Commissioner of Insurance
Department of Insurance
State of North Carolina
Albemarle Building
325 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Stephen W. Robertson
Commissioner of Insurance
Indiana Department of Insurance
311 West Washington Street, Suite 103
Indianapolis, Indiana 46204 - 2787

Honorable Katharine L. Wade
Insurance Commissioner
Connecticut Insurance Department
153 Market Street, 7th Floor
Hartford, Connecticut 06103

Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of

Hartford Insurance Company of the Midwest (NAIC #37478)
Hartford Casualty Insurance Company (NAIC #29424)
Hartford Underwriters Insurance Company (NAIC #30104)
NAIC Exam Tracking System Exam Number: NC-NC131-11
Indianapolis, Indiana
Hartford, Connecticut

hereinafter generally referred to as the Companies, at the Companies' field office located at 8711 University East Drive, Charlotte, North Carolina, and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina and 325 N. Salisbury Street, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Department conducted a target examination of the Companies. This examination commenced on December 5, 2016, and covered the period of July 1, 2014, through June 30, 2016, with analyses of certain operations of the Companies being conducted through June 29, 2017. All comments made in this report reflect conditions observed during the period of the examination.

This examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive, and consisted of an examination of the Companies' practices and procedures in marketing and underwriting. The findings and conclusions contained within the report are based on the work performed and are referenced within the appropriate sections of the examination report.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance that fall outside certain tolerance levels. The Department applied a 0 percent tolerance level for the use of forms and rates/rules that were neither filed with nor approved by the Department and 5 percent for all other areas reviewed. Sample sizes were generated using an Audit Command Language software. The Department utilized a 95% Confidence Level to determine the error tolerance level.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Companies' procedures and practices in the following area:

Underwriting Practices – Private Passenger Automobile: Missing motor vehicle records and signed consent to rate forms. Homeowners: Missing or erroneous consent to rate forms, incorrect rating territories, comingling of premiums on the consent to rate form, misleading display of additional Coverage A percentage, application of an incorrect protective device credit, and use of unfiled/unapproved rates.

Specific violations are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be

viewed on the North Carolina Department of Insurance Web site www.ncdoi.com by clicking “Insurance Industry” and then “Legislative Services” under “Other Divisions”.

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate their ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions must be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

MARKETING

Policy Forms and Filings

Policy forms and filings for the Companies were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following lines of business:

- Private Passenger Automobile
- Homeowners

Filings for both lines of business were made by the North Carolina Rate Bureau on behalf of the Company. Deviations for these lines of business were made to the Department by the Companies.

UNDERWRITING PRACTICES

Overview

The Companies’ marketing in North Carolina is directed to the personal lines of business. The Companies provided the examiners with listings of the following types of active policies for the period under examination:

- Private Passenger Automobile
- Homeowners

A random selection of 262 policies was made from a total population of 3,208. Each selected policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

Private Passenger Automobile

The Companies provided a listing of 597 active private passenger automobile policies issued during the period under examination. One hundred nineteen policies were randomly selected for review.

The Companies' private passenger automobile policies were written on an annual basis. Coverages were written on a consent to rate basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk, except for the 14 files mentioned below.

The Companies did not adhere to the provisions of Rule 4(f)(1)(a) of the North Carolina Rate Bureau Personal Auto Manual and 11 NCAC 19.0102 and 11 NCAC 19.0104 as 14 files did not include a motor vehicle record.

The Companies did not adhere to the provisions of NCGS 58-36-30(b) and 11 NCAC 10.0602 as 29 policies did not have a signed consent to rate form in the file. All 29 errors resulted in overcharges to the insured. At the request of the examiners, the Companies issued refunds in the amount of \$6,805.08. In addition, the examiners requested the Companies to conduct a self-audit. The Companies will identify all policies for which they did not obtain a signed consent to rate form and issue refunds to the policyholders. The Companies will report to the Department the total amount refunded at the conclusion of the self-audit.

Homeowners

The Companies provided a listing of 2,611 homeowners policies issued during the period under examination. One hundred nineteen policies were randomly selected for review.

The Companies' homeowner policies were written on an annual basis. Coverages were written on a consent to rate basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies did not adhere to the provisions of NCGS 58-40-30 as seven policies charged a premium for Identity Fraud Expense coverage when those premium rates had not been filed with and approved by the North Carolina Department of Insurance. The Companies have agreed to refund the full premiums for that coverage and cease offering the coverage until proper rates are filed with and approved by the Department.

The Companies did not adhere to the provisions of NCGS 58-36-30(b) and 11 NCAC 10.0602 as 22 files did not have a signed consent to rate form or the consent to rate form contained a discrepancy with the effective date, the consent to rate premium, the writing Company, or some combination thereof. The errors resulted in 14 overcharges for which the Companies issued refunds.

As a result of the violations associated with NCGS 58-40-30 and NCGS 58-36-30(b) the Companies refunded a total of \$5,920.56. At the request of the examiners, the Companies will conduct a self-audit and issue refunds to all affected policyholders. The Companies will report the total amount refunded to the Department at the conclusion of the self-audit.

The Companies did not adhere to the provisions of NCGS 58-36-30(a) and 11 NCAC 10.0602(a)(2) as the premium that would be charged without application of consent to rate

displayed on the consent to rate form for seven policies included the premium for Identity Fraud Expense Coverage.

The Companies did not adhere to the provisions of NCGS 58-36-30(a), 11 NCAC 10.0602(a)(2), and Rule 404.C of the North Carolina Homeowners Manual as the premium that would be charged without application of consent to rate displayed on the consent to rate form for 113 policies included an unfiled 2.0 percent protective device credit.

The Companies did not adhere to the provisions of NCGS 58-36-30(a) and 11 NCAC 10.0602(a)(2) as the premium that would be charged without application of consent to rate displayed on the consent to rate form for 10 policies was calculated with an incorrect territory.

The Companies did not adhere to the provisions of NCGS 58-36-30(a) and the North Carolina Homeowners Manual Rule 407.C.1.b. as the declaration pages for 20 policies displayed the additional amount of insurance for Coverage A as either 125% or 150%, when only 25% and 50% are valid options.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Companies must order and retain copies of motor vehicle records in all private passenger automobile files. The Companies must obtain and retain a completed and signed consent to rate form in all files that have a policy issued on a consent to rate basis. The Companies must use the correct territory when issuing a policy. The Companies must use only filed and approved rates and credits. If the premium for a coverage is not regulated by the North Carolina Rate Bureau, then that premium should not be included in the premium without application of consent to rate on the consent to rate form. Unless an appropriate deviation is filed and approved, the Companies must offer only the homeowner coverage options available in the homeowners manual.

CONCLUSION

An examination has been conducted on the market conduct affairs of Hartford Insurance Company of the Midwest, Hartford Casualty Insurance Company, and Hartford Underwriters Insurance Company for the period July 1, 2014, through June 30, 2016, with analyses of certain operations of the Companies being conducted through June 29, 2017.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of the Companies' operations in the areas of marketing and underwriting practices.

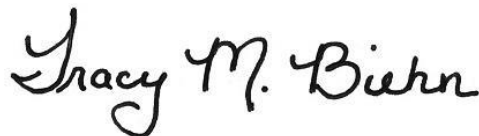
In addition to the undersigned, Patricia Murphy, AIC, ARM, MCM, North Carolina Market Conduct Senior Examiner, participated in this examination.

Respectfully submitted,



Larry R. Cook, CPCU, AU, ARe, ARM, AIM, AMIM,
AIAF, AAI, MCM
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.



Tracy M. Biehn, MBA, MCM, LPCS
Deputy Commissioner
Market Regulation Division
State of North Carolina