

Report on

Market Conduct Examination

of

The Travelers Indemnity Company of America
The Travelers Indemnity Company

Hartford, Connecticut

by Representatives of the
North Carolina Department of Insurance

as of

October 9, 2014

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Raleigh, North Carolina
October 9, 2014

Honorable Thomas B. Leonardi
Commissioner of Insurance
Department of Insurance
State of Connecticut
153 Market Street, 7th Floor
Hartford, Connecticut 06103

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
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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

The Travelers Indemnity Company of America (NAIC #25666)
The Travelers Indemnity Company (NAIC #25658)
NAIC Exam Tracking System Exam Number: NC299-M51
Hartford, Connecticut

hereinafter generally referred to as the Companies, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of The Travelers Indemnity Company of America and The Travelers Indemnity Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that revealed no concerns were omitted.

SCOPE OF EXAMINATION

This examination commenced on December 9, 2013, and covered the period of January 1, 2008, through December 31, 2012, with analyses of certain operations of the Companies being conducted through October 8, 2014. All comments made in this report reflect conditions observed during the period of the examination.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of marketing, underwriting practices, and terminations.

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 at or above the following levels: 0 percent for producers who were not appointed and/or licensed, and the use of forms and rates/rules that were neither filed with nor approved by the Department; and 10 percent for all other areas reviewed.

EXECUTIVE SUMMARY

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

Underwriting Practices – Private Passenger Automobile: Incorrect allocation of recoupment surcharges. Workers' Compensation: Unappointed producers.

Specific violations related to each area of concern 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 DIVISIONS” then “Legislative Services”.

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 should 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:

1. Private Passenger Automobile
2. Homeowners
3. Workers' Compensation

Filings for the private passenger automobile, homeowners, and workers' compensation lines of business were made by the North Carolina Rate Bureau on behalf of the Companies. Deviations for these lines of business were made to the Department by the Companies.

UNDERWRITING PRACTICES

Overview

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

1. Private Passenger Automobile
2. Homeowners
3. Workers' Compensation

A random selection of 200 policies was made from a total population of 59,502. Each 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 55,929 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected for review.

The Companies' private passenger automobile policies were written on an annual or semi-annual basis. Liability coverages were written utilizing manual and deviated rates. Physical damage coverages were written using both manual rates and 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 were deemed to be in violation of the provisions of Section 4, Chapter 13, Item C. Surcharges, 2.a and b, of the North Carolina Reinsurance Facility (NCRF) Standard

Practice Manual as 100 of the active policies reviewed (100 percent error ratio) allocated the recoupment surcharge over coverages other than bodily injury and property damage only.

Homeowners

The Companies provided a listing of 2,588 active homeowners policies issued during the period under examination. Fifty policies were randomly selected for review.

The Companies' homeowners coverages were written utilizing manual and deviated rates. Policies were written on an annual 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. All premiums charged were deemed correct.

Workers' Compensation

The Companies provided a listing of 985 active workers' compensation policies issued during the period under examination. Fifty policies were randomly selected for review.

The Companies' workers' compensation coverages were written utilizing manual and deviated rates. Policies were written on an annual or semi-annual 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. All premiums charged were deemed correct.

The Companies were deemed to be in violation of NCGS 58-33-26 and NCGS 58-33-40 as the producer was not properly appointed by the Companies for 10 of the active files reviewed (20 percent error ratio).

TERMINATIONS

Overview

The Companies' cancellation procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. We reviewed the following lines of business:

1. Private Passenger Automobile
2. Homeowners
3. Workers' Compensation

Special attention was placed on the validity and reason for cancellation, timeliness in issuance of the cancellation notice, policy refund (where applicable), and documentation of the policy file. A total of 13,558 policies were terminated during the period under examination. The examiners randomly selected 200 terminations for review.

Private Passenger Automobile Cancellations

One hundred cancelled private passenger automobile policies were randomly selected for review from a population of 8,904.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Insured's request	69	69.0
Nonpayment of premium	15	15.0
Coverage rewritten	15	15.0
Underwriting reasons	1	1.0
Total	100	100.0

The Companies were not required to issue cancellation notices for 84 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten. Cancellation notices for the remaining 16 policies stated the specific reason for cancellation. The Companies issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies. The Companies sent the North Carolina Notice of Termination form (FS-4) to the North Carolina Division of Motor Vehicles (DMV) when liability coverage was cancelled.

Homeowners Cancellations

Fifty cancelled homeowners policies were randomly selected for review from a population of 2,891.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Insured's request	41	82.0
Nonpayment of premium	8	16.0
Coverage rewritten	1	2.0
Total	50	100.0

The Companies were not required to issue cancellation notices for 42 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten. Cancellation notices for the remaining eight policies stated the specific reason for cancellation. All insureds and mortgagees were given proper and timely notification of cancellation.

All premium refunds were deemed correct. The Companies issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

Workers' Compensation Cancellations

Fifty cancelled workers' compensation policies were randomly selected for review from a population of 1,763.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Insured's request	31	62.0
Nonpayment of premium	18	36.0
Underwriting reasons	1	2.0
Total	50	100.0

The Companies were not required to issue cancellation notices for 31 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 19 policies stated the specific reason for cancellation. All insureds were given proper and timely notification of cancellation.

All premium refund calculations were deemed correct. The Companies issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

The Companies have indicated a programming correction will be implemented to correct the allocation of the recoupment surcharge on private passenger automobile policies to bodily injury and property damage premiums only. The Companies should monitor the results of that correction to ensure compliance with the provisions of the NCRF Standard Practice Manual.

The Companies should reinforce procedures to ensure that producers who submit applications for insurance to the Companies are properly appointed.

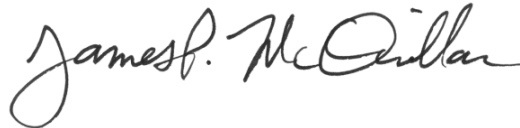
CONCLUSION

An examination has been conducted on the market conduct affairs of The Travelers Indemnity Company of America and The Travelers Indemnity Company for the period January 1, 2008, through December 31, 2012, with analyses of certain operations of the Companies being conducted through October 8, 2014.

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 Company operations in the areas of marketing, underwriting practices, and terminations.

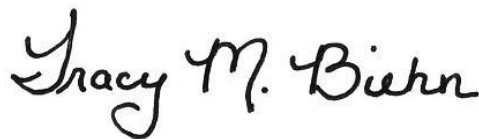
In addition to the undersigned, Gina Abate, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



James P. McQuillan, CPCU, AIT
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, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina