

STATE OF ARIZONA  
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DEPT. OF INSURANCE

**REPORT OF TARGET EXAMINATION**

**OF**

**HARTFORD FIRE INSURANCE COMPANY**

**NAIC #19682**

**AS OF**

**JUNE 30, 2006**

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**JANET NAPOLITANO**  
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**CHRISTINA URIAS**  
Director of Insurance

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Dear Director Urias:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Arizona, a desk examination has been made of the market conduct affairs of the:

**HARTFORD FIRE INSURANCE COMPANY**  
**NAIC #19682**

The above examination was conducted by Sandra Lewis, CIE, Examiner-in-Charge, and Mari A. Sanchez, AIE, FLMI, AIRC, Senior Market Examiner and Latricia Young IIA, AIC, SCLA Market Examiner.

The examination covered the period of July 1, 2005 through June 30, 2006.

As a result of that examination, the following Report of Examination is respectfully submitted.

Sincerely yours,

A handwritten signature in cursive script that reads "Paul J. Hogan".

Paul J. Hogan, JD, FLMI, ALHC, CIE  
Market Oversight Administrator  
Market Oversight Division



## **FOREWORD**

This targeted market examination of Hartford Fire Insurance Company ("Company"), was prepared by employees of the Arizona Department of Insurance ("Department") as well as independent examiners contracting with the Department. A market examination is conducted for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the State of Arizona. The Examiners conducted the examination of the Company in accordance with Arizona Revised Statutes (A.R.S.) §§ 20-142, 20-156, 20-157, 20-158, and 20-159. The findings in this report, including all work products developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the following Personal Automobile (PA) and Homeowners (HO) lines of business operations:

1. Complaint Handling
2. Underwriting
3. Cancellations, Non-Renewals and Transfers
4. Claims Processing

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Additionally, findings may not be material to all areas that would serve to assist the Director.

Failure to identify or criticize specific Company practices does not constitute acceptance of those practices by the Department.

## **SCOPE AND METHODOLOGY**

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The market examination of the Company covered the period of July 1, 2005 through June 30, 2006 for business reviewed. The purpose of the examination was to determine the Company's compliance with Arizona's insurance laws, and whether the Company's operations and practices are consistent with the public interest. This examination was completed by applying tests to each examination standard to determine compliance with the standard. Each

standard applied during the examination is stated beginning on page 14 of this report and the results are reported beginning on page 8.

In accordance with Department procedures, the Examiners completed a Preliminary Finding ("PF") on those policies, claims, complaints, and/or procedures not in apparent compliance with Arizona law. The PF forms were submitted for review and comment to the Company representative designated by Company management as being knowledgeable about the files. For each PF the Company was requested to agree, disagree, or otherwise justify the Company's noted action.

The Examiners utilized both examinations by test and examination by sample. Examination by test involves review of all records within the population, while examination by sample involves the review of a selected number of records from within the population. Due to the small size of some populations examined, examinations by test and by sample were completed without the need to utilize computer software.

File sampling was based on a review of underwriting and claim files that were randomly or systematically selected by using Audit Command Language (ACL) software and computer data files provided by the Company's Representative, Jackie Apanowitch, Regulatory Compliance, or to other Company personnel designated by her. Samples were tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data resulted in an exception ratio, which determined whether or not a standard was met. If the exception ratio found in the sample was, generally, less than 5%, the standard was considered as "met". A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified.

### **EXECUTIVE SUMMARY**

This examination was completed by applying tests to each examination standard to determine compliance with the standards. Each standard applied during the examination is stated in this report at page 14, and the "Examination Findings" are reported beginning at page 8.

1. The Company failed Standard No. 9 with regard to its claims handling as follows:
  - The Company appears to have violated A.R.S. § 20-461(A)(1). The apparent violations resulted from

- i. The use of two PA and five HO claim form letters that failed to provide the correct insurance carrier's name.
  - ii. The Company's having issued 21 salvage titles in the wrong carrier's name.
- The Company appears to have violated A.R.S. § 20-466.03. The apparent violations resulted from the use of two claim forms that failed to include the required Arizona fraud warning.
2. The Company passed Standard 11 with comment with regard to the following:
  - The Company appears with regard to two (2%) of 90 PA Paid claims to have failed to pay the correct amount of sales tax on total loss claims, in apparent violation of A.A.C. R20-6-801(H)(1)(b). Although a 2% apparent violation rate meets the standard, financial restitution in the amount of \$181.50 in unpaid sales tax plus \$32.60 in accrued interest was payable and paid to the two insureds, for a total of \$214.10 in required restitution.
3. The Company passed the remaining 14 standards, as indicated at the end of this Report.

## HISTORY OF THE COMPANY

The Company derives its corporate existence and powers from a charter granted in May 1810 by the General Assembly of the State of Connecticut. From 1970 until 1995, the Company was a subsidiary of ITT Corporation. From December 20, 1995, until the present time, the company has been an affiliate of The Hartford Financial Services Group, Inc., a publicly traded Company on the New York Stock Exchange (NYSE).

## PROCEDURES REVIEWED WITHOUT EXCEPTION

The Examiners review of the following Company departments or functions indicates that they appear to be in compliance with Arizona statutes and rules. If a department name is listed there were no exceptions noted during the review.

**Complaint Handling**  
(Standards 1 and 2)

**Underwriting**  
(Standards 3 and 4)

**Cancellation & Nonrenewal**  
(Standards 5 and 6)



**RESULTS OF PREVIOUS MARKET EXAMINATION**

During the past four years, three Market Conduct Examinations were completed by the states of North Carolina, Washington and Kentucky. There were no significant patterns of non-compliance.

**CLAIMS PROCESSING**

## EXAMINATION FINDINGS – FAILED STANDARD 9

During the Phase I Examination, the Examiners reviewed the Company's claims manuals, forms, policies and procedures. At the completion of the Phase I review of sample claim files it was determined that a Phase II review of Paid claims was warranted for this standard based on the error ratio. The following table shows the samples selected for each of the phases:

<u>Type of Claim Reviewed</u>	<u>Population</u>	<u>Phase I Sample</u>	<u>Phase II Sample</u>	<u>Total Sample</u>
PA Claims Closed w/o Pay	398	25	0	25
PA Claims Paid	1,139	35	55	90
HO Claims Closed w/o Pay	39	39	0	39
HO Claims Paid	62	26	29	55
HO Claims Subrogated	<u>7</u>	<u>7</u>	<u>0</u>	<u>7</u>
<b>Totals</b>	<b>1,645</b>	<b>132</b>	<b>84</b>	<b>216</b>

Based on the Examiners' review of the Company's PA and HO claims, the Company failed to meet Standard 9: The company claim forms are appropriate for the type of product and comply with statutes, rules and regulations. A.R.S. §§ 20-461, 20-466.03, 20-2106, A.A.C. R20-6-801. A standard in the area of form use is not met if any exception is identified.

### A.R.S. § 20-461(A)(1)

**Claim Letters.** During the Phase I review two PA claim letters and five HO claim letters failed Standard 9, because the Company failed to advise the insureds of the appropriate insuring company. None of the letters cited contained form numbers.

These seven letters misrepresented pertinent facts or insurance policy provisions relating to coverages at issue, according to the terms prescribed by A.R.S. § 20-461(A)(1). Please reference PFs # 001 (Amended), 002 (Amended), 003 (Amended), 005 (Amended), 008 (Amended), 016 (Amended), and 032.

*Subsequent Events: The Company sent a letter dated January 18, 2007, to its Property Site Leaders indicating the need to ensure the proper state-specific fraud warning and the correct writing company are provided in all written communications with customers. The Company also sent a letter dated January 30, 2007, to Managers indicating the CI letters had been updated to include all state-specific fraud warning and correct writing company information. The letter further advises the Managers that if CI letters are not used, associates need to ensure the correct writing company is referenced and appropriate department of insurance language is included as needed.*

### **Recommendation #1**

Within 90 days of the filed date of this report submit documentation to the Department to show that the Company procedures have been corrected to provide the appropriate insuring company's name in all communications with the insured.

**Salvage Title.** During the Phase I and Phase II review the Examiners reviewed 90 PA Paid claims and identified 21 exceptions where the Company failed to issue the salvage titles in the appropriate company, according to the terms prescribed by A.R.S. § 20-461(A)(1). The Company issued the salvage titles in Hartford Insurance Company in lieu of Hartford Fire Insurance Company. Please reference PFs # 006, 007, 009, 010 (two titles), 012, 013, 014, 015, 031, 033, 034, 035, 036, 037, 038 (two titles), 039, 041, 042, 043 & 044.

*Subsequent Events: The Company states that during mid-2006 the Company recognized that Arizona Salvage certificates of title were being issued without the correct writing company name. The Company researched the discrepancy with its salvage partner, COPART, and both companies modified their total loss salvage handling procedures. During the 4<sup>th</sup> quarter of 2006, the Company began to stamp all total loss salvage documents with the writing company name according to the policy associated with the claim. COPART reprogrammed its system to allow only valid writing company names to display on salvage certificates of title. Since these modifications were implemented, the Company believes all of the Company's Arizona total loss salvage certificates of title are issued to the writing company appropriate for the policy associated with the claim.*

### **Recommendation #2**

Within 90 days of the filed date of this report submit documentation to the Department to show that the Company procedures have been corrected to provide the appropriate insuring company's name on all salvage titles.

### **A.R.S. § 20-466.03**

During the Phase I review, one PA claim and one HO claim failed Standard 9 because the inserted fraud warning forms did not provide the Arizona fraud warning prescribed by A.R.S. § 20-466.03. In each case, the Company provided the California fraud warning instead. Please reference PFs # 004 and 011.

*Subsequent Events: The Company sent a letter dated January 18, 2007, to its Property Site Leaders indicating the need to ensure the proper state-specific fraud warning and the correct writing company are provided in all written communications with customers. The Company also sent a letter dated January 30, 2007, to Managers indicating the CI letters had been updated to include all state-specific fraud warning and correct writing company information. The letter*

*further advises the Managers that if CI letters are not used, associates need to ensure the correct writing company is referenced and appropriate department of insurance language is included as needed.*

**Recommendation #3**

Within 90 days of the filed date of this report submit documentation to the Department to show that the Company procedures have been corrected to provide the correct Arizona fraud warning to all claimants.

**EXAMINATION FINDING – STANDARD 11 PASSED WITH COMMENT**

Based on the Examiners' review of the Company's PA Paid claims, the Company met Standard 11 with comment as the examination related to sales tax on total loss claims.

**A.A.C. R20-6-801(H)(1)(b)**

During the Phase I and Phase II review the Examiners reviewed 90 PA Paid claims and identified two exceptions where the Company failed to pay appropriate sales tax on total loss claims, according to the terms prescribed by A.A.C. R20-6-801(H)(1)(b). Please reference PF# 040 and 043.

**AUTOMOBILE PAID CLAIMS**

(Failed to pay appropriate sale tax, Phase I and Phase II)

A.A.C. R20-6-801(H)(1)(b)

<b>Line of Business</b>	<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
PA	1139	90	2	2%

**An error ratio less than 5% meets the standard.**

*Subsequent Events: Upon receipt of the PFs, the Company determined that the payment discrepancies were inadvertent errors by the individual claim handler.*

*Regarding PF# 040 the claim handler applied an incorrect tax rate to the total loss settlement that resulted in an underpayment to the insureds in the amount of \$115.58. The Company reopened the claim and sent a check for the amount of the tax under-payment, with interest in accordance with A.R.S. § 20-462(A), ( $\$115.58 + \$22.29 = \$137.87$ ) to the insured. Proof of this payment has been provided to the Department.*

*Regarding PF# 043 the claim handler applied an incorrect tax rate to the total loss settlement that resulted in an underpayment to the insureds in the amount of \$65.92. The Company reopened the claim and sent a check for the amount of the tax under-payment, with interest in accordance with A.R.S. § 20-462(A), ( $\$65.92 + \$10.31 = \$76.23$ ) to the insureds. Proof of this payment has been provided to the Department.*

**SUMMARY OF STANDARDS**

**Complaint Handling**

#	STANDARD	PASS	FAIL
1	The company takes adequate steps to finalize and dispose of the complaints in accordance with applicable statutes, rules, regulations and contract language. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
2	The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	

**Underwriting and Rating**

#	STANDARD	PASS	FAIL
3	Disclosures to insureds concerning coverage are accurate and timely. (A.R.S. §§ 20-259.01, 20-262, 20-263, 20-264, 20-266, 20-267)	X	
4	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1654)	X	

**Cancellation and Non-Renewals**

#	STANDARD	PASS	FAIL
5	Declinations shall comply with state laws and company guidelines including the Summary of Rights to be given to the applicant and shall not be unfairly discriminatory. (A.R.S. §§ 20-448, 20-2108, 20-2109, 20-2110)	X	
6	Cancellation and Non-Renewal notices comply with state laws, company guidelines and policy provisions, including the amount of advance notice required and grace period provisions to the policyholder, nonrenewal based on condition of premises, and shall not be unfairly discriminatory (A.R.S. §§ 20-448, 20-1631, 20-1632, 20-1632.01, 20-1651 through 20-1656)	X	

**Claims Processing**

#	STANDARD	PASS	FAIL
7	The initial contact by the company with the claimant is within the required time frame. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
8	Timely investigations are conducted. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
9	The company claim forms are appropriate for the type of product and comply with statutes, rules and regulations. (A.R.S. §§ 20-461, 20-466.03, 20-2106, A.A.C. R20-6-801)		X
10	Claim files are adequately documented in order to be able to reconstruct the claim. (A.R.S. §§ 20-461, 20-463, 20-466.03, A.A.C. R20-6-801)	X	
11	Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations. (A.R.S. §§ 20-268, 20-461, 20-462, A.A.C. R20-6-801)	X With Comment	
12	The company uses reservation of rights and excess of loss letters, when appropriate. (A.R.S. § 20-461(A)(1), A.A.C. R20-6-801(D)(1))	X	
13	Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner. (A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801)	X	
14	The company responds to claim correspondence in a timely manner. (A.R.S. § 20-461, 20-462, A.A.C. R20-6-801)	X	
15	Denied and closed without payment claims are handled in accordance with policy provisions and state law. (A.R.S. §§ 20-461, 20-462, 20-463, 20-466, 20-2110, A.A.C. R20-6-801)	X	
16	No insurer shall fail to fully disclose to first party Insureds all pertinent benefits, coverages, or other provisions of an insurance policy or insurance contract under which a claim is presented. Arizona Rule (A.A.C. R20-6-801)	X	