

MARKET CONDUCT EXAMINATION REPORT

ON

PROPERTY and CASUALTY INSURANCE COMPANY of HARTFORD

NAIC # 34690

One Hartford Plaza
Hartford, Connecticut 06155-0001

EXAMINATION NUMBER 09.702

March 31, 2009

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

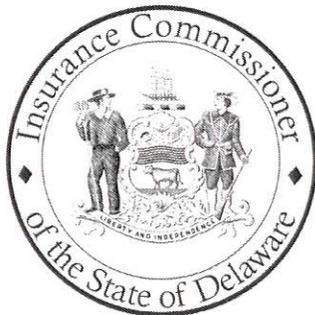
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of March 31, 2009 on

PROPERTY and CASUALTY INSURANCE COMPANY of HARTFORD

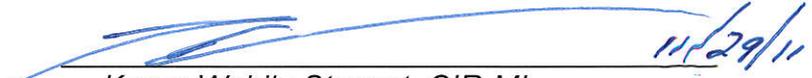
is a true and correct copy of the document filed with this Department.

Attest By:

Handwritten signature of Laurie J. Kayson in blue ink.



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
PROPERTY and CASUALTY INSURANCE COMPANY of HARTFORD
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.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

**Delaware Market Conduct Examination Report
Property and Casualty Insurance Company of Hartford**

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SALUTATION

October 26, 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 09-702, and pursuant to statutory provisions including 18 *Del. C.* §318-322, a market conduct examination has been conducted of the affairs and practices of:

Property and Casualty Insurance Company of Hartford

The examination was performed as of March 31, 2009. Property and Casualty Insurance Company of Hartford, hereinafter referred to as the "Company," or as "PCIC," is incorporated under the laws of the State of Connecticut. This examination consists 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 has contracted its third extension that 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.

Property & Casualty Insurance Company of Hartford has provided a policy listing of business that originated during the examination period in accordance with the Department's request for underwriting information. No business originated in Hartford Underwriters Insurance Company during the examination period. 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. This agreement provides Personal Lines

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with an important competitive advantage. Personal Lines' underwriting income for 2007, 2006 and 2005 was \$322 million, \$429 million and \$460 million, respectively.”

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.

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

The following area of concern was noted during the examination. This issue is more fully discussed under the following category: :

Complaints – Non-timely response to DDOI

- The examiners found that ten (10) of the thirty eight (38) PCIC complaints filed with the DDOI had response times that exceeded the twenty one (21) days specified in the instructions to the Company. This represents a twenty six percent (26%) error rate in violation of 18 Del. C. §2304(26).

For the cited exception in the report a Recommendations has been made to address the issue and concern noted by the examiners.

LIST OF RECOMMENDATIONS

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

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 Property and Casualty Insurance Company of Hartford began April 24, 2009 and covered the period of January 1, 2008 through

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March 31, 2009, unless otherwise noted. This examination focused on a review of the following areas:

Company's Operations and Management,
Marketing & Sales Practices and Procedures,
Policyholder Services Practices and Procedures,
Claims Practices and Procedures,
Underwriting and Rating Practices and Procedures and
Complaints Practices and Procedures.

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 originating during the examination 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 Delaware submissions rejected or declined for each line of business. 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.

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

HISTORY AND PROFILE

The Property and Casualty Company of Hartford was incorporated on May 4, 1989 under the laws of Indiana and commenced business on January 1, 1994. Property and Casualty Insurance Company of Hartford (PCIC) 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. In 2007, PCIC changed its reporting segments to reflect the current manner by which it's chief operating decision maker views and manages the business. A new rating plan for PCIC's AARP Automobile Insurance Program in Delaware was effective December 1, 2005. A new rating plan for PCIC's AARP Homeowner Program in Delaware was effective December 1, 2000.

PCIC policies in Delaware for the examination period January 1, 2008 through March 31, 2009;

Table 1.

PCIC	Auto	Homeowners
In Force	6005	7052
Newly Issued	263	850

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.

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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.

COMPLAINT HANDLING

Standard B 1

NAIC Market Conduct Examiners Handbook - Chapter XVI. §B, Standard 1.

All complaints or grievances are recorded in the required format on the regulated entity's complaint register.

18 Del. C. §2304(17); Del. Reg. 101§2.1.7.

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: Pass

Review Procedures:

- The examiners determined if the regulated entity records all complaints (both consumer direct, and insurance department) and
- The regulated entity recorded required information in the complaint register

Observations:

The examiners reviewed all of the Delaware complaint files reported as received by the Company during the examination period. The Company stated that a complaint is defined as follows: *The Hartford has adopted the NAIC's definition of a complaint... "a written communication primarily expressing a grievance."*

The examiners originally requested PCIC complaints from all sources. However, the Company stated that verbal expressions of grievances were not recorded and logged. The Company agreed to provide records only for written complaints. The Company reported that there were a total of fifty six (56) Delaware complaints including thirty nine (39) DDOI complaints and seventeen (17) complaints direct from customers or their representatives during the examination period. No exceptions were noted with the written log when compared to the documents provided.

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. §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:

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

Finding: The examiners found that ten (10) of the thirty eight (38) PCIC complaints filed with the DDOI had response times that exceeded the twenty one (21) days specified in the DDOI instructions to the Company. This represents a twenty six percent (26%) error rate in violation of 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.

CONCLUSION

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

A handwritten signature in black ink, appearing to read "Roger L. Fournier". The signature is stylized with a large, sweeping initial "R" and a long, horizontal stroke extending to the right.

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