

OFFICE OF THE  
NEW MEXICO PUBLIC REGULATION  
COMMISSION  
INSURANCE DIVISION



CERTIFICATE

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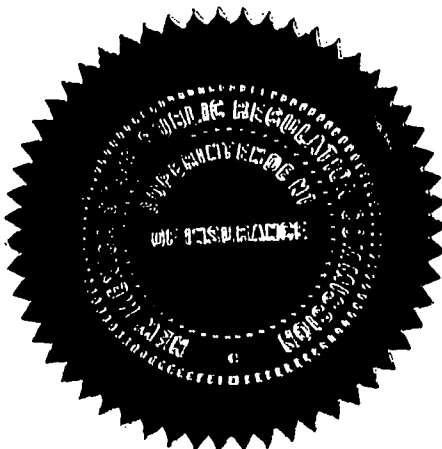
I, Eric P. Serna, Superintendent of Insurance of the State of New Mexico, do hereby certify that the attached Report of Examination for the period ending December 31, 2003 on:

Hartford Insurance Group  
Trumbull Insurance Company  
Hartford, Connecticut 06115

Was recently completed by *Nestor J. Romero*, Examiner-In-Charge with the Insurance Division.

Due consideration has been given to the comments of the Examiner regarding the financial condition and business affairs as reflected in this report.

The report as of this date is hereby adopted, filed and made an official record of the Division.



In Witness Whereof, I have hereunto set  
my official seal On this 7th  
day of April, 2006 A.D.

Superintendent of Insurance

STATE OF NEW MEXICO

COUNTY OF SANTA FE

Nestor J. Romero, CPA, CFE, CIE being duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Superintendent of Insurance of the State of New Mexico;

That an examination was made of the affairs of the Hartford Insurance Group and Trumbull Insurance Company for the period ending December 31, 2003;

That the following sixteen (16) pages constitute the report thereon to the State of New Mexico Division of Insurance Superintendent;

And that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.



Nestor J. Romero, CPA, CFE, CIE  
Examiner-In-Charge

Subscribed and sworn to before me this the 12<sup>th</sup> day of April 2006.

Isabel F. Solano  
(Signature)

Isabel F. Solano Notary Public  
(Print Name)

in and for the State of New Mexico

My commission expires June 6, 2009

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**REPORT OF THE MARKET CONDUCT EXAMINATION**

**OF**

**THE HARTFORD INSURANCE GROUP**

**TRUMBULL INSURANCE COMPANY  
NAIC # 27120**

**(As of December 31, 2003)**

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April 13, 2006

Honorable Thomas R. Rushton  
Acting Superintendent of Insurance  
State of New Mexico  
P.O. Drawer 1269  
Santa Fe, New Mexico 87504-1269

Superintendent Serna:

Pursuant to your instructions and in accordance with NMSA (1978) § 59A-4-5, an examination has been made of the business affairs and market conduct operations of THE HARTFORD INSURANCE GROUP, including:

TRUMBULL INSURANCE COMPANY  
NAIC # 27120

This examination was conducted at the Examiners' offices located at 20226 North 14th Avenue, Phoenix, Arizona 85027.

## **EXECUTIVE SUMMARY**

The following are the material findings made by the Examiners during the onsite examination of The Hartford Insurance Group (Trumbull Insurance Company):

### **1. Cancellations:**

- The Examiners identified seven files out of 81 cancellations and nonrenewals where the policies had been in effect for more than 60 days and the reasons for cancellation provided by the Company were not permissible reasons as enumerated by NMAC 13.8.4.8(B).
- In six of those seven files the Company also failed to provide at least 15 days notice before the effective date of cancellation in apparent violation of NMAC 13.8.4.8(C).
- The Examiners found one other file that was in effect for more than 60 days where the Company failed to provide at least 15 days notice before the effective date of cancellation in violation of NMAC 13.8.4.8(C).

## FOREWORD

The Examiners conducted the examination of Trumbull Insurance Company ("Trumbull" or "the Company"). This examination was conducted in accordance with New Mexico Statutes Annotated (1978), Chapter 59A, and New Mexico Administrative Code, Title 13 ("NMSA (1978)" and "NMAC" respectively). Specifically, this examination was conducted under the authority of NMSA (1978) §§ 59A-4-1, *et seq.* Company personnel provided the Examiners with the information that is included in this Report of Examination.

The EXHIBITS section of this Report contains the **Exhibit** referenced in the Report in **bold type**.

## SCOPE OF EXAMINATION

The scope of this examination was limited to the Company's private passenger automobile coverage. This targeted examination focused on the Company's underwriting and rating practices, and cancellations for the 2003 calendar year. The purpose of the examination was to determine the Company's compliance with New Mexico's insurance laws related to the underwriting and rating of personal lines automobile coverage and to determine whether the Company's operations and practices are consistent with the public interest. Special attention was paid to the use and handling of information obtained by a claims history information exchange developed by ChoicePoint – the Comprehensive Loss Underwriting Exchange ("C.L.U.E.") – and to consumer credit information obtained from Trans Union and used for the purposes of

determining an applicant's acceptability and premium. The Company's current system-based tiering program was implemented in New Mexico beginning November 1999.

Independent Examiners conducted this examination pursuant to the insurance laws of the State of New Mexico, as authorized by NMSA (1978) § 59A-4-5. The Examiners performed their reviews in accordance with the procedures and guidelines established by the National Association of Insurance Commissioners ("NAIC").

Examination findings may result in administrative action by the Division of Insurance. Certain unacceptable or non-complying practices may not have been discovered due to the limited scope of this examination. Failure to identify or issue findings regarding specific Company practices does not constitute acceptance by the New Mexico Division of Insurance.

In accordance with the Division's procedures, the Examiners completed Personal Lines File Review Sheets ("Review Sheets") on those files, forms, and/or practices found to be in apparent violation of New Mexico laws. The Review Sheets were submitted to the Company representatives designated by the Company management as being knowledgeable about the issues raised for their review and comment.

#### **STATUTES AND RULES CITED**

The Examiners may allege that a Company has apparently violated certain sections of the New Mexico Insurance Code. The New Mexico Superintendent of Insurance ("Superintendent") or his designee will make any



final finding of violations as may be justified by the facts. The Examiners have alleged that the Company is in apparent violation of the following rule:

**New Mexico Administrative Rule:** NMAC 13.8.4.8.

### **BACKGROUND OF EXAMINATION**

The Trumbull Insurance Company was one of four Companies within The Hartford Insurance Group called and scheduled for this Market Conduct examination. The Hartford requested that the Trumbull examination be conducted separately from the other three Hartford Insurance Company examinations, as the operations of Trumbull are autonomous. The Examiners agreed to do so.

**Table I – Trumbull’s Production and Loss Ratios/Policy Counts**

	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>As of June 2003</u></b>
Written Premium	\$ 821,417	\$ 1,904,795	\$ 1,008,034
Earned Premium	\$ 644,424	\$ 1,449,169	\$ 938,931
Loss Ratio	49%	44%	68%
Policies in Force	627	1,044	1,312

### **UNDERWRITING AND RATING**

The primary focus of this targeted examination was the Company's underwriting and rating practices.

#### **Underwriting**

The Examiners reviewed the Company's underwriting manuals and guides to ensure compliance with New Mexico Statutes and Rules and the fair treatment of policyholders.

In New Mexico, Trumbull is a carrier within The Hartford Group of Insurance Companies and provides personal automobile insurance to those insureds with less acceptable driving/loss records and more potential for future loss than insureds written into standard and preferred companies.

The Examiners requested copies of the Company's underwriting guidelines, filed rating rules, and rates in effect during the examination period. Additionally, the Examiners requested a description of the Company's use of C.L.U.E. reports and credit scoring in underwriting and/or the establishment of premiums.

### **Rating**

The Examiners requested copies of the Company's filed rating methodologies and rates in effect during the examination period. Trumbull provided copies of its filed rates in use during the examination period. Base rates are modified according to rating procedures approved by the New Mexico Division of Insurance. Premiums are also modified using factors related to household information, the age of insured, the age of the vehicle, and the coverage purchased. In all cases, the Company rounds the premium to the nearest whole dollar.

The Examiners conducted a rating verification using the rating rules and worksheets provided by the Company. Further, the Examiners reviewed the Company's use of credit scoring and accident/loss history in establishing the rates for each policy under review.

## **Credit Scoring**

The Company obtains a credit score from Trans Union for all new business applications. The Trans Union credit score is a number from 1 to 997.

Credit range. The one- to three-digit credit score from Trans Union is assigned to Company developed credit score ranges, which have not been filed with the Division. The credit score ranges are converted to an insurance score of 0 through 9 (hereinafter referred to as "credit score"), with 0 being the least advantageous and 9 being the most advantageous. A value of 4 or 5 is considered the "average" risk level. The Company refers to the credit score values 0 through 9 as an "insurance score;" however, for the purposes of this Report the Examiners will be referring to these values as a credit score since these values are driven strictly by the credit score obtained through Trans Union. The credit score is one of the three factors included in placing new business into the Transfer Discount Determination Tier ("TDDT"). TDDT placement determines the insured's eligibility for discounts available within Trumbull, and therefore has a direct impact on the rates charged.

No Hits and Thin Files. "No Hits" (credit score H) are defined as risks for which a match between applicant's name and social security number and a record on the credit vendor's database cannot be made. "Thin Files" (credit score S) are defined as risks for which a match is made, but there is inadequate information in the credit file to calculate a score. The Examiners reviewed 274 No Hit and Thin File classifications for the examination period, and found no exceptions.

## **Tier Placement**

The three elements that go into TDDT assignment include:

- **Prior Insurance** – the existence of prior insurance, length of lapse, and prior Bodily Injury limits;
- **Comprehensive Claims** – the number of comprehensive claims of \$1,000.00 or more during the chargeable period;
- **Financial Responsibility (Credit Score value 0 through 9).**

These three elements create the Company driven system matrix. The Company TDDT factors are applied directly to the Company's base rates for each type of coverage written. The Company's base rates reflect the highest rates applicable prior to the application of the TDDT discounts. The discount factors range from as low as .27 (73% discount) to a 1.00 (no discount).

## **CANCELLATIONS AND NONRENEWALS**

A review of the Company's termination practices was conducted to determine the accuracy and promptness of the Company's premium refunding, as well as compliance with timeliness and content requirements for notices of termination. NMAC 13.8.4.8 states in pertinent part:

B. If a policy of insurance has been in effect for sixty (60) days or more, an insurer may cancel the policy only for one or more of the following reasons:

- (1) the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the insurer;
- (2) willful and negligent acts or omission by the insured have substantially increased the hazards insured against;
- (3) revocation or suspension of driver's license of the named insured or other operator who either resides in the same household or customarily operates the vehicle; or
- (4) the named insured presented a claim based on fraud or material misrepresentation.

C. An insurer, to affect such cancellation, shall mail or deliver to the insured a written notice stating the reason for such cancellation and stating when, not less than fifteen (15) days after the mailing or delivery, the cancellation shall be effective. Provided, however, an insurer may eliminate the reason for such cancellation from any notice mailed to an additional insured or lienholder under the policy.

The Examiners reviewed 55 cancelled policies and 26 nonrenewed policies. The Examiners identified seven files (9%) that were in effect for more than 60 days where the reason for cancellation provided by the Company was not a permissible reason as enumerated in NMAC 13.8.4.8(B) (Exhibit 1). The Examiners identified six of those seven files in which the Company failed to provide at least 15 days notice before the effective date of cancellation in apparent violation of NMAC 13.8.4.8(C) (Exhibit 1). The Examiners found one other file that was in effect for more than 60 days where the Company failed to provide at least 15 days notice before the effective date of cancellation in apparent violation of NMAC 13.8.4.8(C) (Exhibit 1). The Company agreed with these findings, but also provided the Examiners with a statement saying that "On 8/3/04, an edit was put into the system which will prevents the person processing from using a cancellation date greater than 60 days from the effective date of the policy."

### **METHODOLOGY**

The Examiners requested, and the Company supplied, hard copy and/or electronic listings of data and information related to new business issued, cancellations, and nonrenewed policies. The Examiners used Microsoft Excel to perform a preliminary review and sort of the data to ensure that the populations

from which samples were selected were limited to those records falling within the scope of the examination.

The Examiners requested that the Company provide a policy count by credit score ranges so that the Examiners could determine the distribution ratio by credit score ranges within the Company to the total number of policies written by the Company. The Examiners then selected a stratified random sampling of files from each credit score range to match the distribution percentage of the score range to total. (For example, if the NAIC sample for a given company was 100 and that company's ratio of a particular credit score to its total policy population was 10%, the Examiners selected a random sample equal to 10% or 10 policies from that particular credit range group of policies).

This process was chosen to insure that an adequate sample was selected from each credit score stratum, including "No Hits" and "Thin Files." The Examiners and the Company referred to the files produced for each stratum in this process as "bucket" files.

Samples were selected for review using the NAIC criteria, which suggest that:

- For a population greater than 5,000 a sample of 100 files be selected;
- For a population of 50 to 5,000 a sample of 50 files be selected; and
- For a population of less than 50 all files be selected.

The Examiners also requested copies of the following materials in use during the examination period:

- Underwriting and rating manuals, guides and bulletins;
- Specimen applications, policy forms and billing notices;
- Cancellation codes, automobile symbols, and rating territories;
- Advertising.

During the course of this examination, apparent deficiencies and issues relating to the operations and business practices of the Company were identified. These are deemed to be apparent until the adoption of this Report by the Superintendent at which time the Report shall be admissible as evidence of the facts pursuant to NMSA (1978), § 59A-4-13(A).

**Automobile Policy Data**

The Company produced electronic listings of automobile new business and cancellations processed during the examination period. The Examiners selected random samples of files for review. These listings included two populations of New Business policies. The first population consisted of those applicants with a credit score ranging from 1 through 997. The second population consisted of policies with a credit score of H (No Hit)<sup>1</sup>, S (Thin File)<sup>2</sup>, or N (Too Young).

The following random samples were selected from each of the populations:

**Table II – 2003 New Business Samples Selected**

<b><u>Credit Score</u></b>	<b><u>Population</u></b>	<b><u>Actual Sample Size</u></b>
1-997	1047	59
H, S, N	<u>274</u>	<u>50</u>
<b>Totals</b>	<b>1321</b>	<b>109</b>

The Company provided electronic data listings of Trumbull policies cancelled during the examination period.

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<sup>1</sup> "No Hits" are defined as risks for which a match between applicant's name and social security number and a record on the credit vendor's database cannot be made.

**Table III – 2003 Cancelled Policy Samples Selected**

<b><u>Cancel Type</u></b>	<b><u>Population</u></b>	<b><u>Sample Size</u></b>
Company Request	25	25
Insured Request	65	5
Non-Payment	340	25
Nonrenewals	<u>26</u>	<u>26</u>
<b>Totals</b>	<b>456</b>	<b>81</b>

Due to the small population of 2003 policies cancelled at the Company's request and policies nonrenewed during the examination period, the Examiners selected all files in those populations for review.

#### **File Review Methodology**

During the file review the Examiners used a proprietary Access database and Excel spreadsheets and formulas to:

- Log and track the files reviewed, as well as examination requests and examination findings;
- Confirm compliance with filed rating protocols;
- Calculate compliance with New Mexico insurance laws regulating timeliness;
- Perform time-study analyses.

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<sup>2</sup> "Thin Files" are defined as risks for which a match is made, but there is inadequate information in the credit file to calculate a score.



## ACKNOWLEDGEMENT

Lyn Sloan, CIE, Rosemary Cutter, and Laura Cohen participated in this examination and join the Examiner in Charge in gratefully acknowledging the courteous cooperation and professionalism extended by the examination coordinators.

Respectfully submitted,



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Nestor J. Romero, CPA, CFE, CIE  
Examiner in Charge

**EXHIBIT**

**HARTFORD INSURANCE GROUP  
PERSONAL AUTOMOBILE POLICIES**

NMSA (1978) § 59A-17-7.1

NAF accidents used in premium determination

	POLICY #	COMPANY	ORIG EFF DATE	EFF DATE	EXP DATE	OVER CHARGES
1	55 PHF880747	PCIC	12/2/2001	12/2/2002	12/2/2003	\$287
2	55 PHF578528	PCIC	4/12/2001	4/12/2003	4/12/2004	\$100
3	55 PHF569670	PCIC	4/15/2001	4/15/2003	4/15/2004	\$244
4	55 PHF789772	PCIC	10/4/2001	10/4/2002	10/4/2003	\$292
5	55 PHH404657	PCIC	7/10/2002	7/10/2003	7/10/2004	\$974
6	55 PHH663383	PCIC	5/7/2003	5/7/2003	5/7/2004	\$114
7	55 PHH374369	PCIC	9/6/2002	9/6/2002	9/6/2003	\$296
8	55 PHH908298	PCIC	12/23/2003	12/23/2003	12/23/2004	\$356
9	55 PHH917896	PCIC	12/20/2003	12/20/2003	12/20/2004	\$305
10	55 PHH919005	PCIC	12/31/2003	12/31/2003	12/31/2004	\$300
11	55 PHH919197	PCIC	1/5/2004	1/5/2004	1/5/2005	\$465
12	55 PHH920236	PCIC	12/22/2003	12/22/2003	12/22/2004	\$87
13	55 PHH936148	PCIC	1/30/2004	1/30/2004	1/30/2005	\$392
14	55 PHF583960	PCIC	4/20/2001	4/20/2001	4/20/2002	\$144
15	55 PHF660813	PCIC	Complaint	7/1/2002	7/1/2003	\$373
16	55 PHF660813	PCIC	Complaint	7/1/2003	7/1/2004	\$213
17	55 PHF492662	HMW	1/12/2001	1/12/2003	1/12/2004	TBD
18	55 PHF509255	HMW	2/13/2001	2/13/2003	2/13/2004	TBD
19	55 PHF514375	HMW	1/20/2001	1/20/2003	1/20/2004	TBD
20	55 PHF491352	HMW	1/27/2001	1/27/2003	1/27/2004	TBD
21	55 PHF561002	HMW	4/14/2001	4/14/2003	4/14/2004	TBD
22	55 PHF538704	HMW	2/26/2001	2/26/2003	2/26/2004	TBD
23	55 PHF527707	HMW	2/20/2001	2/20/2003	2/20/2004	TBD

**TOTAL     \$4,942**

14 policies for PCIC  
7 policies for HMW  
1 complaint (2 years)  
**23 total**

**TBD - To Be Determined**