

STATE OF RHODE ISLAND
DEPARTMENT OF BUSINESS REGULATION
Division of Insurance

*Report on the Targeted Market Conduct Examination of the Hartford Companies
(NAIC 0091) consisting of:*

*TWIN CITY FIRE INSURANCE COMPANY (NAIC 29459)
HARTFORD UNDERWRITER'S INSURANCE COMPANY (NAIC 30104)
HARTFORD CASUALTY INSURANCE COMPANY (NAIC 29424)
HARTFORD FIRE INSURANCE COMPANY (NAIC 19682)
HARTFORD INSURANCE COMPANY OF THE MIDWEST (NAIC 37478)*

Cranston, Rhode Island

For the Period January 1, 2007 through December 31, 2007

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION
1511 Pontiac Ave. – Bldg. 69-2
Cranston, RI 02920**

IN THE MATTER OF:

)

DBR No. 10-118

TWIN CITY FIRE INSURANCE COMPANY # 29459

)

HARTFORD UNDERWRITER'S INSURANCE COMPANY # 30104

)

HARTFORD CASUALTY INSURANCE COMPANY # 29424

)

HARTFORD FIRE INSURANCE COMPANY #19682

)

HARTFORD INSURANCE COMPANY OF THE MIDWEST # 37478

)

Respondent.

)

CONSENT AGREEMENT

It is hereby agreed between the Department of Business Regulation (“Department”) and the Hartford Companies (“Respondent”) as follows:

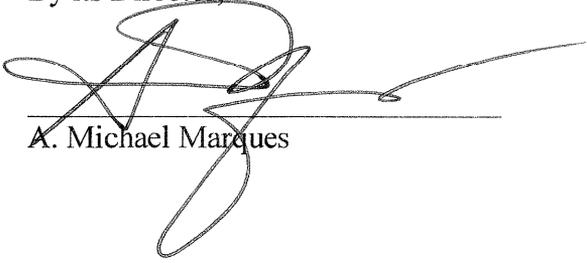
1. Pursuant to R.I. Gen. Laws § 27-13.1-4, the Department conducted a Market Conduct Examination (“Examination”) in order to evaluate Respondent’s compliance with applicable R. I. Gen. Laws.
2. The Examination was completed and a report was issued on June 17, 2010.

WHEREFORE, based on the foregoing, Respondent and the Department have decided to resolve this matter without further administrative proceedings, and hereby agree to the following:

Respondent is ordered to pay an administrative penalty of fifty thousand dollars (\$50,000).

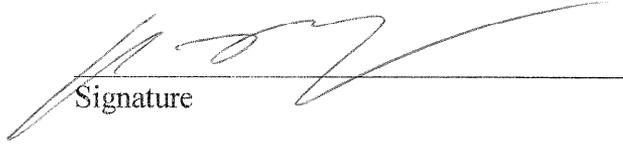
Department and Respondent hereby consent and agree to the foregoing on this 29th day of July 2010.

Department of Business Regulation
By its Director,



A. Michael Marques

Respondent,



Signature

Andrew G. Bucknam
Name (Print)

Assistant VP, & Assistant General Counsel
Title (Print)

June 17, 2010

The Honorable A. Michael Marques
Director
Rhode Island Department of Business Regulation
1511 Pontiac Avenue, Building 68-2
Cranston, RI 02920

Dear Director Marques:

Pursuant to your instructions, and in accordance with the statutes of the State of Rhode Island, a Targeted Market Conduct Examination ("Examination") was conducted of The Hartford Companies of Hartford, Connecticut.

As is permissible under Rhode Island General Law ("R.I.G.L.") § 27-13.1, the Department of Business Regulation ("DBR." "we", or "us") retained the services of Eide Bailly LLP ("Eide") to provide assistance in reviewing information and other data relevant to this matter. The specific procedures performed by Eide were established through discussion with DBR over the course of the Examination and were conducted by Eide under the supervision and control of DBR.

R.I.G.L § 27-13.1 provides authority for this Examination. The Examination was conducted in accordance with standards established by the National Association of Insurance Commissioners, as well as procedures developed by the Department.

The primary purpose of the Examination was to evaluate The Hartford Companies' compliance with Rhode Island General Laws, Public Laws, and Insurance Regulations surrounding underwriting and rating decisions. The work performed during the Examination satisfied this purpose, and forms the basis for DBR's findings and recommendations as presented in this report.

The attached report summarizes the scope of the Examination, the procedures performed, the findings, and recommendations. This report is comprised of six sections as outlined below:

- **Executive Summary** - A high level overview of the Examination's scope and relevant findings.
- **Examination Approach** - A high level description of the procedures performed in the Targeted Market Conduct Examination.
- **Company Background** - The history of The Hartford Companies.
- **Underwriting and Rating** - A detailed description of procedures performed, findings and recommendations.
- **Summary** - The final conclusion of the examination.
- **Acknowledgement** - Certification of qualifications.

I. EXECUTIVE SUMMARY

This summary is intended to provide a high-level overview of the reported results of the examination of The Hartford Companies ("Hartford" or "Company"). The body of the report provides details on the scope of the examination, tests conducted, findings and conclusions, recommendations, and subsequent Company actions. For purposes of this report, the examiners have utilized the NAIC standard "report by test" model after discussion with Department of Business Regulation ("DBR" or "Department"). DBR considers a substantive issue as one in which corrective action on part of the Company is deemed advisable, or one in which a "finding", or violation of Rhode Island insurance laws or regulations was found to have occurred. It is also recommended that Company management evaluate any substantive issues or "findings" for applicability to potential occurrence in other jurisdictions. When applicable, the Company should take corrective action for all jurisdictions and provide a report of any such corrective actions taken to DBR.

The Company has stated that there is no indication that there are any failed standards cited that extend to other jurisdictions in which it is licensed to do business, and that it does not foresee the necessity of taking any corrective actions in jurisdictions other than Rhode Island.

The following is a summary of all substantive issues found, along with related recommendations and, if applicable, subsequent Company actions made as part of the targeted market conduct examination of Hartford.

SECTION I - UNDERWRITING & RATING

The following standards were noted as having exceptions during the examination of 115 randomly selected policies and a specific sample of 33 policies previously identified by the Department as requiring specific review. See further details in the subsequent sections of this report.

STANDARD 4 *The regulated entity underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations, and regulated entity guidelines in the selection of risks.*

STANDARD 10 *Credits, debits and deviations are consistently applied on a non-discriminatory basis.*

STANDARD 11 *Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.*

STANDARD 17 *Underwriting, rating and classification are based on adequate information, developed at or near inception of the coverage rather than near expiration, or following a claim.*

FINDING 1

This finding violated Standard 4, 10, 11, and 17

Finding 1: Eide examined a sample of 148 policies and noted that 30 of 33 policies relating to the jewelry business produced by a single agent were placed into the Preferred Company, Hartford Insurance Company of the Midwest, although they did not meet the Company's Underwriting Guidelines. The same competitor previously wrote all 33 of these policies. Twenty-seven of the 30 policies written received a Rhode Island Scheduled Modification (RISM) credit for Premises, however, the files were not supported by proper documentation such as inspection reports or other credible documentation. Twenty-five of the 30 policies written received a RISM credit for being a "Targeted Class of Business" which is not an allowed category for RISM. Five of the 30 policies written received an additional credit in addition to the two credits noted above, that was not supported by proper documentation.

Observations: Eide Bailly noted deviations in the sample selected as noted below.

Recommendations: Eide Bailly recommends that the Company review its underwriting practices to ensure that an agent or group of business does not receive preferred treatment that could be interpreted as unfairly discriminatory.

Company Response: The Company has indicated that the underwriter has final discretion as to the placement of the risk with a company utilizing standard, preferred, and increased rates. The Company noted that they rely heavily on their agents to advise which credits a risk qualifies for. The Company does not concede that the underwriter's actions were in any way unfairly discriminatory and advises that underwriting staff has been informed of the importance of adequate file documentation to ensure that pricing is adequately documented.

FINDING 2,3,4,5 and 6

These findings violated Standard 10 and 11

Findings 2,3,4,5 and 6: Company Placement and Rhode Island Scheduled Modification Credits. In reviewing the underwriting rules and defined risk categories at the Hartford, we note the following deviations from the standard application of the underwriting rules, without supporting documentation for the deviation.

Finding 2- a CPA firm was placed in the preferred company, Hartford Fire Insurance Company, although they did not qualify, as their premium was less than \$10,000. The appropriate company placement would have been Hartford Casualty. Furthermore, the risk was given a 25% Rhode Island Scheduled Modification Credit without adequate support. The supporting documentation included noted that the offices were ergonomically designed, employees were well trained and supervised, and management cooperative, but consisted of two sentences in their underwriting notes. No inspection report, policy manuals or supporting evidence was provided.

Finding 3- a furniture store file included underwriting notes stating that the agent needed credits to beat a competitor's premium. The premium that the Hartford charged was just under the competitor's premium and was the result of placement in Hartford Fire Insurance Company, despite the premium not qualifying, and the existing risks of both delivery and movement of furniture of the insured.

Finding 4- a jewelry manufacturer's policy file included extensive dialogue about trying to be competitive with a competitor. The Hartford did a cancel re-write and applied a 5% Rhode Island Schedule Modification Credit without support other than dialogue. The risk was written under different classification codes to arrive at a lower premium.

Finding 5 - a jewelry store policy file included dialogue about needing a 15% credit to place it with the Hartford. The Hartford placed the risk in their most favorable company, Hartford Insurance Company of the Midwest, and added a 5% Rhode Island Scheduled Modification Credit without support for either decision.

Finding 6 - a jewelry distributor policy file included a 37% Rhode Island Schedule Modification Credit, however most of the comments in the file referred to the risk as being standard or average.

Observations: Eide Bailly noted deviations in the sample with respect to the previously mentioned debit and credit practices, and company placement.

Recommendations: Eide Bailly recommends the regulated entity reiterate to the underwriters the Company policy that they clearly document their underwriting decisions prior to issuing a policy.

Company Response:

Finding #2: The Company agrees this should have been written in Hartford Casualty based on the guidelines. This policy will be reviewed prior to the June 2009 renewal and the appropriate company placement will be determined. The Rhode Island Scheduled Modification Credit was developed based upon information provided by the agent and the insured through telephone conversations, and file documentation provides evidence to support the underwriter's basis for developing the credit.

Finding #3: The Company agrees this should have been written in Hartford Casualty based on the guidelines. The Company stipulates that the underwriter can deviate based on the individual risk specific characteristics and these characteristics are required to be documented in the file. The Company noted that in this instance, adequate documentation was not included in the file to support the deviation. This file will be reviewed prior to the 2009 renewal and the proper company placement will be determined, properly documented and changed if necessary.

Finding #4: The Company noted that it regularly relies on account information provided by its appointed agents to support underwriting decisions, including pricing. In this case, the underwriter exercised judgment based upon overall account characteristics and placed them in a more favorable company and apply the modification factor.

Finding #5: The Company noted that the basic qualifications indicate the use of Hartford Fire rates. After the automated system develops the initial rating plan, the underwriter can provide additional pricing consideration based on risk characteristics not contemplated in the initial system determination. In this instance, adequate documentation was not included in the file to support the writing company placement. This file will be reviewed prior to the 2009 renewal and the proper company placement will be determined, properly documented, and changed if necessary.

Finding #6: The Company regularly relies on account information provided by its appointed agents to support underwriting decisions, including pricing. This situation will be reviewed with the underwriting staff. Since this policy was not renewed at the end of the 2008 policy term, no prospective action will be taken on

this account.

In 2009, the Companies issued Underwriting Bulletins to remind underwriting staff servicing small commercial and middle market risks to clearly document schedule rating or individual risk premium modification plans. In addition, the Business Insurance Compliance Group conducts periodic reviews to ensure compliance with Rhode Island documentation standards.

FINDING 7

This finding violated Standard 17

Finding 7: One policy selected, a wire manufacturer, was issued an initial premium based on the class code 3383 jewelry manufacturing with a filed rate of \$3.44 per \$100 of payroll instead of the correct code 3257 wire manufacturing not otherwise classified with a filed rate of \$5.76. When the policy was correctly coded during the audit, the audit premium was significant as wire manufacturing was their primary line of business.

Observations: Eide Bailly noted that no significant audit adjustments for the other 147 policies tested.

Recommendations: Eide Bailly recommends that the Company reiterate to their underwriters the importance of obtaining adequate information and utilizing correct class codes when issuing an estimate.

Company Response: The Company noted that when a significant difference in premium is developed by the audit department an audit alert is sent to underwriting to review the variations in the exposures on the policy. In this instance no action was taken by the underwriter, who is no longer with the company. The Company has addressed this finding.

II. EXAMINATION APPROACH

The Department conducted a targeted market conduct examination of The Hartford Companies Inc. ("Hartford" or "Company") for the period January 1, 2007 through December 31, 2007. The examination was called pursuant to authority in Rhode Island state law. The current market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Department. Representatives from the firm of Eide Bailly, LLP ("Eide") were engaged to complete certain agreed-upon procedures.

A tailored audit approach was developed to perform the examination of Hartford using the guidance and standards of the *National Association of Insurance Commissioners Market Conduct Examiners Handbook* ("Handbook"), the market conduct examination standards of the Department, and the state of Rhode Island insurance laws, regulations and bulletins. All procedures were performed under the management and control of the market conduct examination staff of the Department. All sampling techniques utilized in the examination are in accordance with the sampling guidelines outlined in the Handbook. The items reviewed for this exam included 115 randomly selected policies, and 33 jewelry policies specifically identified as requiring Department review. The following describes the procedures performed and the findings for the workplan steps thereon.

The basic business areas that were reviewed under this examination were:

- I. Underwriting and Rating - Related to workers' compensation risks written in Rhode Island during the period of examination.

III COMPANY BACKGROUND

Twin City Fire Insurance Company

The original Company was incorporated on July 10, 1910 under the laws of Minnesota and began business in April 1913. The Company was acquired by the Hartford Fire Insurance Company in February 1921. A new Company, "Twin City Fire Insurance Company of Indiana", was incorporated on March 1987 with the intent of merging the original Company into the new. On July 1, 1987 the two companies merged with the resultant change of domicile to the State of Indiana. Effective on the merger date the new Company changed its name by dropping "of Indiana".

Hartford Underwriters Insurance Company

The Company was incorporated by the State of Connecticut on December 22, 1987 pursuant to Connecticut General Statutes, Section 33-236.

On July 1, 1988 New York Underwriters Insurance Company, a New York domiciled corporation was merged into the Company and changed its name to Hartford Underwriters Insurance Company. New York Underwriters was incorporated on August 11, 1925 and began business on January 1, 1926.

Hartford Casualty Insurance Company

The Company was incorporated under the Laws of New Jersey as "Citizen Insurance Company of New Jersey" and commenced business on December 31, 1929. The name was changed to "Hartford Casualty Insurance Company" in November 1971.

A new Company, "Hartford Casualty Insurance Company of Indiana", was incorporated on March 5, 1987 with the intent of merging the two companies. Effective July 1, 1987 the two companies were merged with the resultant change of domicile to Indiana.

Effective on the merger date the new company changed its name by dropping "of Indiana".

Hartford Fire Insurance 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 NYSE.

Hartford Insurance Company of the Midwest

The Company was incorporated as an Indiana stock property and casualty insurance Company on September 11, 1979 and commenced business on January 1, 1980.

Standard 4. The regulated entity underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations and regulated entity guidelines in the selection of risks.

Rhode Island General Laws § 27-7.1-4.1; Bulletin 2007-11

Objective: This Standard is concerned with whether unfair discrimination is occurring in the application of premium discounts and surcharges.

Pursuant to R.I.G.L § 27-7.1-4.1, rates shall not be excessive, inadequate, or unfairly discriminatory. Due consideration shall be given to past and prospective loss experience, a reasonable margin for profits and contingencies, dividends and savings, past and prospective expenses both country wide and within Rhode Island, provisions for special assessments, and all other relevant factors within and outside of Rhode Island. In determining the reasonableness of the profit, consideration shall be given to investment income.

Pursuant to Bulletin 2007-11 Insurers that cede or otherwise grant underwriting authority and/or pricing authority to their agents/producers, including the application of scheduled credits and debits, are responsible for all underwriting, binding and pricing decisions and/or actions of those agents/producers. Insurers are therefore reminded that they are responsible for assuring that the policy is written in accordance with their underwriting guidelines and criteria, as well as in accordance with filings approved by the Department (including but not limited to policy forms, rules, rates, loss costs and scheduled rating). In addition, the Department will hold any insurance producer who knowingly quotes or binds business outside filed and approved programs accountable for such actions.

Testing Procedures:

- Review relevant underwriting information to ensure that no unfair discrimination is occurring according to the state's definition of unfair discrimination;
- Determine if the regulated entity is following its underwriting guidelines, and that the guidelines conform to the state laws and are not unfairly discriminatory;
- Determine, if required, that regulated entity underwriting guidelines have been filed with the department;
- Review interoffice memoranda for evidence of anti-competitive behavior;
- Review underwriting files for inconsistent handling of rating or underwriting practices which result in unfair discrimination, including requests for supplemental information;
- Review agent produced business by agency to determine that any underwriting actions taken are within the Company's underwriting manual requirements;
- Review underwriting files to ensure that similar risks are being priced according to the underwriting manual.

Testing Results:

Finding 1: Eide examined a sample of 148 policies (115 randomly selected and 33 specifically requested by the Department). Eide noted that 30 of 33 policies that were specifically requested by the Department to be reviewed, related to jewelry business that was produced by a single agent. This particular business was placed into the Preferred Company, Hartford Insurance Company of the Midwest, although it did not meet Company Underwriting Guidelines. A competitor previously wrote all 33 policies quoted. Twenty-seven of the 30 policies written received a Rhode Island Scheduled

Modification (RISM) credit for Premises that were not supported by proper documentation such as inspection reports or other credible documentation. Twenty-five of the 30 policies written received a RISM credit for being a "Targeted Class of Business" which is not an allowed category for RISM. Five of the 30 policies written received an additional credit to the two credits noted above that was not supported by proper documentation.

Observations: Eide Bailly noted deviations in the sample selected as noted below.

Company Response: The Company has indicated that the underwriter has final discretion as to the placement of the risk with a company utilizing standard, preferred, and increased rates. The Company noted that they rely heavily on their agents to advise which credits a risk qualifies for. The Company does not concede that the underwriter's actions were in any way unfairly discriminatory and advises that underwriting staff has been informed of the importance of file documentation to ensure that pricing is adequately documented.

Recommendations: Eide Bailly recommends that the Company review its underwriting practices to ensure that an agent or group of business does not receive preferred treatment that could be interpreted as discriminatory.

Standard 10. Credits, debits and deviations are consistently applied on a non-discriminatory basis.

RI General Laws 27-7.1-2
Bulletin 2007-5

Objective: This Standard is concerned with Company's compliance with reporting information to the NCCI. The NCCI uses this information to identify trends in the insurance industry.

Pursuant to Bulletin 2007-5 all scheduled debits and credits applied to any insured's account must be based on evidence that is contained in the underwriting file of the insurer in accordance with the insurer's scheduled rating table filed and approved by the Department. The effective date of any scheduled debit or credit shall not be any date prior to the receipt in the insurer's office of the evidence supporting the debit or credit.

Testing Procedures:

- Review underwriting files to determine that credits and debits applied match the rating table filed with the Department;
- Determine through review of underwriting files if credits and debits are applied consistently;
- Determine if the reasons for use of credits and other deviations are documented within the underwriting file;
- Verify proper handling of "consent to rate" or "excess rate" forms where applicable.

Testing Results:

Findings: Company Placement. In reviewing the underwriting rules and defined risk categories at the Hartford we note the following deviations from the standard application of the underwriting rules without supporting documentation for the deviation.

Finding 2- a CPA firm was placed in the preferred company, Hartford Fire Insurance Company, although they did not qualify, as their premium was less than \$10,000. The appropriate company placement would have been Hartford Casualty. Furthermore, the risk was given a 25% Rhode Island Scheduled Modification Credit without adequate support. The supporting documentation, including the offices being ergonomically designed, employees being well trained and supervised, and management cooperation consisted of two sentences in their underwriting notes. No inspection report, policy manuals or supporting evidence was provided.

Finding 3- a furniture store included underwriting notes stating that the agent needed credits to beat a competitor's premium. The premium that the Hartford charged was just under the competitor's premium and was the result of placement in Hartford Fire Insurance Company, despite the premium not qualifying, and the existing risks of both delivery and movement of furniture of the insured.

Finding 4- a jewelry manufacturer's policy file included extensive dialogue about trying to be competitive with a competitor. The Hartford did a cancel re-write and applied a 5% Rhode Island Schedule Modification Credit without support other than dialogue. The risk was written under different classification codes to arrive at a lower premium.

Finding 5 - a jewelry store policy file included dialogue about needing a 15% credit to place it with the Hartford. The Hartford placed the risk in their most favorable company, Hartford Insurance Company of the Midwest, and added a 5% Rhode Island Scheduled Modification without support for either.

Finding 6 - a jewelry distributor policy file included a 37% Rhode Island Schedule Modification Credit, however most of the comments in the file referred to the risk as being standard or average.

See also finding 1 of this report for a violation of this Standard, our observations and the Company response.

Observations: Eide Bailly noted deviations in the sample with respect to the above debit and credit practices (in addition to the 30 exceptions previously noted in Finding 1 and company placement.

Recommendations: Eide Bailly recommends the regulated entity reiterate to the underwriters the Company policy that they clearly document their underwriting decisions prior to issuing a policy.

Company Response:

Finding #2: The Company agrees this should have been written in Hartford Casualty based on the guidelines. This policy will be reviewed prior to the June 2009 renewal and the appropriate company placement will be determined. The Rhode Island Scheduled Modification Credit was developed based upon information provided by the agent and the insured through telephone conversations, and file documentation provides evidence to support the underwriter's basis for developing the credit.

Finding #3: The Company agrees this should have been written in Hartford Casualty based on the guidelines. The Company stipulates that the underwriter can deviate based on the individual risk specific characteristics and these characteristics are required to be documented in the file. The Company noted that in this instance, adequate documentation was not included in the file to support the deviation. This file will be reviewed prior to the 2009 renewal and the proper company placement will be determined, properly documented and changed if necessary.

Finding #4: The Company noted that it regularly relies on account information provided by its appointed agents to support underwriting decisions, including pricing. In this case, the underwriter exercised judgment based upon overall account characteristics and placed them in a more favorable company and apply the modification factor.

Finding #5: The Company noted that the basic qualifications indicate the use of Hartford Fire rates. After the automated system develops the initial rating plan, the underwriter can provide additional pricing consideration based on risk characteristics not contemplated in the initial system determination. In this instance, adequate documentation was not included in the file to support the writing company placement. This file will be reviewed prior to the 2009 renewal and the proper company placement will be determined, properly documented, and changed if necessary.

Finding #6: The Company regularly relies on account information provided by its appointed agents to support underwriting decisions, including pricing. This situation will be reviewed with the underwriting staff. Since this policy was not renewed at the end of the 2008 policy term, no prospective action will be taken on this account.

In accordance with the recommendation noted above, the Companies have reinforced

with the underwriters, documentation requirements.

Standard 11. Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.

RI General Laws 27-7.1-5.1
Bulletin 2007-5

Objective: This standard is concerned with whether unfair discrimination occurs in the sale of insurance.

Pursuant to R.I.G.L. § 27-7.1-5.1, every insurer shall file with the director every manual, minimum premium, class rate, rating schedule, or rating plan and every other rating rule, and every modification of any of the foregoing which it proposes to use. Every filing shall state the proposed effective date of the filing. Every insurer shall file or incorporate by reference material which has been approved by the director, at the same time as the filing of the rate, and all supplementary rating and supporting information to be used in conjunction with a rate.

Pursuant to Bulletin 2007-5 all scheduled debits and credits applied to any insured's account must be based on evidence that is contained in the underwriting file of the insurer in accordance with the insurer's scheduled rating table filed and approved by the Department. The effective date of any scheduled debit or credit shall not be any date prior to the receipt in the insurer's office of the evidence supporting the debit or credit.

Test Procedures:

- Verify that the application of the plan complies with limitations imposed by the State;
- Verify that changes in the amounts of credit or debit contained in the underwriting file are supported by documentation or an explanation that is consistent with the change. Also that the basis for use is appropriate (i.e., based on objective criteria, not on perceived competitive pressures);
- Determine if the regulated entity is adjusting individual premiums to target premium levels for competitive reasons. Typically, the test for this is to review the documentation in the underwriting file but may also consist of documentation gathered through interviews of personnel, conducting walkthroughs and review of trends or patterns within the data being tested.

Test Results:

Findings: During our testing of a sample of 148 policies, we found 35 exceptions to the above standard. See Finding 1 of this report for details on 30 of the exceptions. See Findings 2,3,4,5 and 6 of this report for the remaining 5 exceptions.

Observations: Eide Bailly noted deviations in the sample selected as noted below.

Recommendations: See the recommendations to Finding 1 on page 9 of this report and see the recommendations to Findings 2,3,4,5, and 6 on page 11 of this report.

Company Response: In accordance with the recommendation noted above the Companies have reinforced with the underwriters documentation requirements.

Standard 17. Underwriting, rating and classification are based on adequate information, developed at or near inception of the coverage rather than near expiration, or following a claim.

Rhode Island General Laws § 27-7.1-5.1

Objective: This standard is concerned with whether underwriting, rating, and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

Pursuant to R.I.G.L. §27-7.1-5.1 Every insurer shall file with the director every manual, minimum premium, class rate, rating schedule, or rating plan and every other rating rule, and every modification of any of the foregoing which it proposes to use. Every filing shall state the proposed effective date of the filing. Every insurer shall file or incorporate by reference material which has been approved by the director, at the same time as the filing of the rate, and all supplementary rating and supporting information to be used in conjunction with a rate.

Testing Procedures:

- Verify that underwriting decisions were based on information that reasonably should have been developed at the inception of the policy or during initial underwriting and not, through audit or other means, after policy has expired;
- Determine if the initial underwriting of a policy is based on the information obtained after a claim is submitted.

Testing Results:

Finding 7: One policy selected, a wire manufacturer, was issued an initial premium based of the class code 3383 jewelry manufacturing with a filed rate of \$3.44 per \$100 of payroll instead of the correct code 3257 for wire manufacturing not otherwise classified with a filed rate of \$5.76. When the policy was correctly coded during the audit the audit premium was significant as the wire manufacturing was their primary line of business.

See also Finding 1 of this report for a violation of this Standard, our observations and the Company response.

Observations: Eide Bailly noted that no significant audit adjustments for the other 114 policies tested.

Recommendations: Eide Bailly recommends that the Company reiterate to their underwriters the importance of obtaining adequate information and utilizing correct class codes when issuing an estimate.

Company Response: The Company noted that when a significant difference in premium is developed by the audit department an audit alert is sent to underwriting to review the variations in the exposures on the policy. In this instance no action was taken by the underwriter, who is no longer with the company.

SUMMARY

Based upon the procedures in this limited scope engagement, Eide has reviewed and tested Company Underwriting and Rating as set forth in the Handbook and the Rhode Island Insurance Laws and Regulations. Eide has made recommendations to address various concerns related to Standards 4,10,11,and 17.

The cooperation and assistance that the officers and employees of The Hartford Companies and employees of the Department extended during the course of this review is hereby acknowledged.

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Eide Bailly LLP, applied certain agreed-upon procedures to the corporate records of the Company in order for the Department of Business Regulation of the State of Rhode Island to perform a Targeted Market Conduct Examination (" Targeted Examination") of the Companies.

The undersigned's participation in this targeted examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the National Association of Insurance Commissioners (NAIC) and the NAIC Market Conduct Examiners' Handbook. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of this targeted examination report.

The cooperation and assistance of the officers and employees of the Company extended to all examiners during the course of the examination is hereby acknowledged.


Sharon K. Gordon, CPA, CFE
Chief Insurance Examiner
State of Rhode Island
Department of Business Regulation
Division of Insurance
Cranston, Rhode Island