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Market Conduct Examination



Government of the District of Columbia
Department of Insurance, Securities and Banking

**Market Conduct Examination for
CROWN INSURANCE COMPANY OF THE DISTRICT OF COLUMBIA
For the Period
June 29, 2001 through October 31, 2001**

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March 14, 2002

Honorable Lawrence Mirel
Commissioner, District of Columbia
Department of Insurance and Securities Regulation
810 First Street, NE, Suite 701
Washington, DC 20002

Commissioner:

Under the provisions of the District of Columbia Insurance Code, Title 31, Section 1402 et seq., an examination was made of the conduct, performance, and practices of

CROWN INSURANCE COMPANY OF THE DISTRICT OF COLUMBIA

with administrative offices located at 2122 24th Place, NE, Washington, D.C. 20018. This market conduct examination, as of October 31, 2001, reflects the insurance activities for Crown Insurance Company of the District of Columbia, hereinafter referred to as the "Company". The Company's National Association of Insurance Commissioners (NAIC) individual company code number is 11148 and its NAIC group code is 2778. The market conduct examination is, in general, a report by test, wherein each test applied during the examination is stated and the results are reported, whether the results are favorable or unfavorable.

SCOPE OF EXAMINATION

This examination covers the period the Company commenced business, June 29, 2001 through October 31, 2001. The examination fieldwork commenced on September 26, 2001 and concluded January 17, 2002. The purpose of the examination was to determine compliance by the Company with provisions of the law and any other facts relative to its business methods, management or equity of its dealings with its policyholders.

The examination is conducted in accordance with the guidelines and procedures recommended by the National Association of Insurance Commissioners (NAIC), rules and regulations of the List of Sections Amended of D.C. Municipal Regulations, and Titles of the District of Columbia Code. In reviewing material for this report, the examiner relied primarily on records and material furnished by the Company.

During the course of this examination, the Company's operations were reviewed, including, but not limited to, the following:

- Operations and management;
- Claim practices;
- Underwriting and rating practices;
- Policy and forms adherence;
- Policyholder service;
- Marketing and advertising;
- Complaint handling

Some unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not constitute acceptance of such practices by the Department of Insurance and Securities Regulation, hereinafter referred to as DISR. This report should not be construed to endorse or discredit any insurance company or insurance product.

COMPANY OPERATIONS AND MANAGEMENT

The Company was organized under the Laws of the District of Columbia, incorporated on March 6, 2001 and commenced business June 29, 2001. The Company is licensed to write any vehicle for hire or any substitute vehicle for hire in the District of Columbia. The commercial automobile liability coverage for taxicabs provides minimum responsibility limits of \$25,000 per person / \$50,000 per accident for bodily injury and \$10,000 per accident for property damage.

Affiliated Parties

The Company is a direct, wholly owned subsidiary of VFH Captive Insurance Company, a Georgia insurance company, which in turn is wholly owned by Solomon Bekele.

Direct Written Premium

The Company's accounting records show total direct written premium from June 29, 2001 through October 31, 2001 of \$114,345.00. Policies written by the Company are for two week durations and the premiums are collected on the effective date of each policy except as commented on under the caption "Business Practices and Trends" and "Policyholder Service".

Management and Control

The Directors and officers of the Company as of the examination date are as follows:

Solomon Bekele	President and Treasurer
Ethiopia Alfred - Bekele	Vice-President and Secretary

During this examination, each aspect of the Company's operations was evaluated to make the following determinations:

1. Has the Company's management established standards to assure operations are carried out effectively?
2. Do management standards comply with applicable regulatory requirements and the public interest?
3. Are management's activities meeting their own established standards?

The evaluation of management is commented on under the captions "Evaluation of Operation", page 16; "Summary of Findings", page 16; and "Recommendations", page 19.

Accounts, Records, and Internal Controls

The examination of accounts and records disclosed weakness of internal controls in several areas of the Company's operations. The examination is not intended to determine if any of these internal control weaknesses materially effects the Company's financial statements.

Internal control weaknesses noted are as follows:

- Bank checking accounts were not reconciled.
- Segregation of duties in the recording of premium, billing, payment receipt, and billing adjustments was lacking.
- Check numbers were unaccounted for and missing from sequence and supporting documentation was lacking.
- The Company could not produce adequate reconciliation of subsidiary accounts to support an audit trail back to the general ledger.
- Lack of budgeting and a managerial accounting system.

During the course of the examination, the Company increased its use of computer technology in billing. This effort shortened the internal processes needed for functions such as generating insureds' identification cards and maintaining insureds' enrollment information.

In the review of how the Company addresses it's role in insurance fraud prevention and detection, it was brought to management's attention that a fraud plan should have been developed and filed with DISR to comply with **District of Columbia Code, Title 22, Section 3225.09 (a)**.

In the review of the Company's compliance with other provisions of the law, the Company failed to secure a commercial blanket fidelity bond on all officers and employees. This failure of management is a violation of **District of Columbia**

Municipal Regulations (DCMR) Title 26, Chapter 8, Section 803.1, which states in part that all domestic companies shall at all times be covered by a “primary commercial blanket fidelity bond” in the amount of not less than \$15,000 and file a certified copy with DISR.

Business Practices and Trends

The Company began operations by insuring taxicabs operating under color schemes (hereinafter referred to as fleet companies). The premium payment for the insured taxicabs came from checks issued by the fleet companies or their principles. The explanation for why the Company was receiving check payments from fleet companies rather than named insureds was that fleet checks represented funds collected by the fleet’s management from various cab owners who painted into that fleet’s color scheme as well as any taxicabs owned by the fleet owner and leased out to various drivers. Subsequently, the funds of fleet owned cabs and individual owner cabs are commingled.

The Company’s approved policy form Section VI “Common Policy Conditions” part D states that the first named insured shown in the declarations is responsible for the payment of all premiums.

The Company initially insured one hundred (100) vehicles in one large fleet and forty-five (45) cabs in a medium fleet. After the first two-week policy period, both fleets were renewed. The Company did not deposit either fleet’s initial check until ten (10) days after the renewal or twenty-four (24) days after receipt. The check for the large fleet was returned by the bank for non-sufficient funds (NSF).

The large fleet company made payment for the renewal insurance using its check. The Company did not deposit the first renewal payment until thirty-two (32) days after the effective date of the policies or eighteen (18) days after the policies expired.

The bank twice dishonored the large fleet's initial premium check. No money was received on the one hundred (100) vehicle fleet until fifty-three (53) days after the policies' effective date. The large fleet's renewal check was also returned marked NSF.

The Company continued to take the large fleet company checks for premium payments and continued to renew the policies. The Company held checks before depositing them as long as sixty-five (65) days. It appeared the Company had an extended financing arrangement with this fleet company.

The following schedule denotes that of the seven (7) policy periods, i.e. August 5, 2001 through October 28, 2001, approximately eighty-seven per centum (87%) of the premiums were deposited after the policies had expired.

**DAYS FROM EFFECTIVE DATE OF INSURANCE TO THE DATE FLEET
COMPANY CHECKS ARE DEPOSITED AND CLEAR THE BANK**

<u>Range in</u> <u>Days</u>	<u>Number of</u> <u>Occurrences</u>	<u>Amount</u>
0 to 5	2	\$ 5,428.00
6 to 10	3	\$ 3,822.00
11 to 15	2	\$ 5,428.00
16 to 20	16	\$ 36,374.00
21 to 30	9	\$ 13,060.00
Over 30	12	\$ 50,203.00

The Company's practice of depositing fleet's premium payments after the actual insurance policies expire give the appearance that the fleets are not collecting the premium from the insureds at the time the insurance becomes effective or the Company is financing the premium.

If the Company is financing premiums by taking fleet checks as security, any dishonored fleet check would leave the Company without recourse for the policies written. There were fourteen (14) occurrences of fleet company checks returned to the Company for non-sufficient funds (NSF) during the period under examination.

Of the forty-five (45) billing periods, the Company deposited the premium payment thirty-seven (37) times after the policy period had expired.

SALES AND MARKETING

Marketing

District of Columbia Code, Title 31, Section 801 (3) defines an insurance agent as one who solicits applications for insurance or negotiates a policy of insurance on behalf of an insurance company.

The Company markets its commercial automobile policy through sells by salaried employees, who are not insurance agents. A Company employee negotiates policies of insurance through taxicab fleet representatives who act on behalf of owners/drivers associated with the taxicab fleet.

The marketing system used by the Company is in violation of **District of Columbia Code, Title 31, Section 803 (a) (1)**, which states in part that no person shall act as or hold himself out to be an insurance agent or insurance broker unless duly licensed.

The Company's sales were originally directed to taxicab company fleets but individual owner/operators were sold commercial automobile policies in October 2001.

Insurance placement is negotiated with a representative of the fleet company. The fleet company is not the insured in most cases. Registered owners/drivers are the insureds on all policies issued by the Company. A fleet company intervenes in the insurance

procurement and acts as a broker representing a group of owners who painted into the fleet's color scheme.

A fleet representative negotiates on behalf of others in the fleet and assists the Company in acquiring underwriting information. These are actions of an insurance broker. The fleet representative also collects insurance premiums from the Company's insured and pays those premiums in the form of a fleet company check to the Company, much like an insurance agent.

Advertising

The Company has no advertising materials.

Licensing and Appointment of Agents

The Company has no appointed insurance agents.

Adjusters

Company uses independent claim adjusters to manage claims.

UNDERWRITING AND RATING PRACTICES

The Company's underwriting and rating practices were reviewed, including filing of forms in use during the period under examination.

Policy Forms and Filings

The Company's contract forms and applications were reviewed to determine compliance with filing requirements. During the review procedure, it was brought to the Company's attention that the policy form in use was not the one submitted and subsequently approved by the Commissioner. This error was corrected during the course of the examination. The incorrect policy form used by the Company was one that was in use by the Company's Georgia affiliate.

Application of Rate Underwriting

The most appropriate statistic to measure accuracy is the number of files in error. An error is taken to be any failure of the Company to:

- Correctly calculate premium
- Comply with statutes, regulations or policy provisions
- Properly issue policies written

The Company wrote one thousand nine hundred eighty (1,980) policies for the three (3) months ending October 31. Tests were performed on all issued policies to determine whether the rate charged on each policy was as approved by the Commissioner.

Documents provided to insureds, whose insurance placement was negotiated through a fleet company representative, make no disclosure for the liability rate charged. Independent taxicab owner/operators who negotiate their own coverage and pay premiums directly to the Company have pure rate knowledge. This failure to make full disclosure to some insureds but not to all insureds discriminates unfairly since all policyholders present the same degree of risk to the Company.

Rate disclosure enables the consumer to compare costs of similar policies, encourages, and enables consumers to focus on the quality of the insurance offered. The purpose of the rate examination performed was to assure that rates are nondiscriminatory. All Company billing statements showed the approved rate, however the billing statements are not provided to the named insureds in all cases. The conclusion of this testing could not prove that the same class of insured was not being charged different rates or rates not approved by the Commissioner. The Company is not in control of its rates on placements for coverage brokered through taxicab company representatives.

The Company actions are in violation of **District of Columbia Code, Title 31, Section 2502.29**, which states in part that discrimination between individual risks of the same class or hazard in the amount of premiums or rates charged for any policy or in any terms or conditions of such policy, or in any other manner whatsoever, is prohibited.

Cancellation/Nonrenewal Practices

District of Columbia Code, Title 31, Section 2403 states in part that each owner of a motor vehicle required to be registered in the District shall maintain insurance on that vehicle. Section 801.2 of DCMR Title 26, states in part that insurance shall be deemed in force until cancellation is actually effected in accordance with the condition of the policy and in accordance with District of Columbia Code, Title 50, Section 314 (h).

The Company's policy cancellation and nonrenewal conditions are a restatement of District of Columbia Code, Title 31, Section 2409. The terms and conditions of the Company's insurance policy provide that failure of the named insured to remit the applicable premium when due shall constitute a rejection of the Company's offer to renew the policy and the policy shall terminate on the expiration date.

Cancellation and nonrenewal are both specific actions by the insurance company or the insured. Both actions are desires to discontinue coverage that would otherwise be continued. In most cases, a policyholder can discontinue future coverage simply by not paying a premium to renew a policy when it expires. The Company can elect to avoid making future coverage available when a policy expires by providing an insured with advance written notice of nonrenewal.

The Company's policies typically renew on the anniversary date, which is every two weeks. In cases where the policyholder wishes to change insurers or cancel coverage on a vehicle before the policy expires, notice is given to the Company and a pro-rated premium amount is calculated for the unused period of insurance. This return premium portion of a cancellation is explained under the caption, "POLICYHOLDER SERVICE".

In the early stages of writing business, the Company was allowing fleet companies the privilege of removing selected taxicabs from their billing invoice for such reasons as a vehicle was out of service undergoing repairs. These billing adjustments were being reflected as credits on the fleet company invoices but cancellation notices were not being sent in the manner proscribed by the terms and conditions of the policy or in accordance with underlying law.

In one incidence, the Company issued a policy on which the premiums were never paid. The Company explained the policy as one issued in error and provided the examiner with a "Notice of Cancellation or Termination" as evidence that the policy was cancelled. The cancellation notice was prepared fifty-nine (59) days after the policy's effective date of coverage. Investigation of this incident revealed the Company cancellation was never sent to Department of Motor Vehicles (DMV). The Company, without collecting any premium, continuously insured this vehicle from August to November 2001, when the taxi was sold and insured elsewhere.

This incident is an illustration of the Company violating both **DCMR Title 26, Chapter 8, Section 801.1** dealing with premiums being collected in advance and **DCMR Title 26, Chapter 8, Section 801.2**, dealing with cancellations. The Company exposed itself to coverage/claim issues should an occurrence arose and their actions mislead the Department of Motor Vehicles (DMV) to think coverage was continuous. Owners of vehicles found to be without continuous insurance coverage are subject to fines and penalties. During the course of the examination, the Company did correct cases it determined were cancellations or terminations by sending a notice to the insured and DMV in accordance with the terms and conditions of its insurance policy.

The Company was also found in violation of DCMR Title 26, Chapter 8, Section 801.1 under the caption, "POLICYHOLDER SERVICE".

The Company is in violation of **DCMR Title 26, Chapter 8, Section 801.2**, which states in part that cancellation shall be effected in accordance with the conditions of the policy and in accordance with District of Columbia Code, Title 50, Section 314 (h). The policy

states that at least thirty-days (30) prior to the proposed date of cancellation, or in the case of nonrenewal, thirty-days (30) prior to the end of the policy period; the insured shall be notified by evidence of a proof of mailing and reasonable explanation for the grounds supporting the cause of action.

POLICYHOLDER SERVICE

The policyholder service review was designed to test for compliance with statutes and regulations regarding notice of billings, premium refunds, coverage questions, and policy changes. The area of billing was partially commented on under the caption “Business Practices and Trends”. No policies examined were determined to have renewal issues. The Company provided its underwriting guidelines and test checks were performed against the Company’s underwriting standards with no exceptions found. The Company’s underwriting guidelines were found in compliance with the governing authority in the District.

The Company had forty-five (45) policy period billing cycles. Fifteen (15) times the Company received payment (in most cases a hold check) at the time the policies became effective. There is a trend for the fleet companies to provide payment at the end of a policy period rather than in advance. This practice by the Company is in violation of **(DCMR) Title 26, Chapter 8, Section 801.1**, which states in part that premiums shall be collected in advance and for a term of not less than two (2) weeks, except that the initial collection from a new policyholder may be for a period of less than two (2) weeks or on a pro-rated basis.

Following is a table depicting the days and incidences when the Company did not collect the premium in advance:

**DAYS FROM EFFECTIVE DATE OF POLICIES TO DATE PAYMENT IS
MADE**

<u>Range in Days</u>	<u>Number of Occurrences</u>
Immediately at issue	15
1 to 5	2
6 to 10	1
11 to 15	16
16 to 25	2
26 to 30	1
31 to 45	5

When a new vehicle would be prorated into a fleet company's existing policy period, coverage would be provide on that vehicle with the pro-rated premium being added on the renewal invoice for that fleet and collected at the end of the coverage period, not collected in advance as prescribed above. This violation occurred thirty (30) times during the period under examination.

In the Company's initial stage of writing policies, one fleet company was invoiced for policies covering sixty-seven (67) taxicabs. After the initial two (2) week policy period, the same taxicabs were renewed. At the time of the third policy renewal, the fleet company was given credit for thirteen (13) taxicabs. The fleet company claimed ten (10) vehicles should never have been insured from inception. The renewal invoice for the fleet reflected two (2) \$590.00 credits for these ten (10) vehicles. The Company could not explain what taxicabs specifically comprised this credit or how to reconcile the billing. No cancellation notices were sent on the ten (10) vehicles.

The Company extended billing adjustments for a period if a fleet had a vehicle out of service for a mechanical cause. In one instance, the Company allowed one fleet to remove a cab from being invoiced for eight (8) weeks without canceling coverage. The

practice of not billing insurance premiums for a vehicle while out of service is a violation of **DCMR, Title 26, Chapter 8, Section 801.2**. Prior to the conclusion of examination fieldwork, the Company amended its practice of waving premium payments without sending notification to Department of Motor Vehicles (DMV).

Under the terms and conditions of the Company's policy, the return premium is to be returned to the policyholder. No evidence of any return payments to policyholders was provided. The Company made approximately \$1,800 in credit adjustments on fleet company invoices but no evidence that policyholders were given their return premium.

In the examination phase to determine that premiums were properly returned (refunded) to the payee, it was noted the Company made a practice of issuing credit amounts for any prorated return premiums to the fleet companies, not to the named policyholder. The method used by the Company in dealing with policyholders excludes the possibility of securing evidence that any of the policyholders received their return premium payment. The Company's practice does not conform to its policy, Section IV "Common Policy Conditions" part D, which states that the first named insured shown on the declarations will be the payee for any return premiums paid.

CLAIMS SETTLEMENT PRACTICES

Claims practices of a Company are examined for efficiency of handling, accuracy of payment, compliance to the District of Columbia Code and Regulations and adherence to underlying contract provisions.

The Company does not have any written claims procedures. Nothing in the Company's operating procedures appeared to conflict with the District of Columbia Code and Regulations. As there was no claim volume, any statement regarding claims settlement practices is reserved for future examinations.

CONSUMER COMPLAINTS/INQUIRIES

During the course of the examination, the Company did not have any filed complaints recorded in its register.

EVALUATION OF OPERATIONS

Recommendations to improve overall operations were made to management during the course of the examination and management has already implemented some of the recommendations expressed in this report.

The Company cannot delegate its responsibility to monitor the treatment of its policyholders to non-insurance parties, i.e. fleet company representatives. No formal agreements exist between the Company and any of the fleets as to what activities a fleet company would perform on behalf of the Company.

SUMMARY OF FINDINGS

The market conduct examination revealed areas of concern as follows:

1. Anti-fraud Plan

Reference page 5

The Company is in violation of D.C. Code, Title 22, Section 3225.9 (a), which states in part that every licensed insurer shall submit to DISR an insurance fraud prevention and detection plan that indicates specific procedures for accomplishing the following:

- Prevention, detection, and investigation of insurance fraud;
- Orientation of employees on insurance fraud prevention and detection;
- Employment of fraud investigators;
- Reporting of insurance fraud to the appropriate authorities; and
- Collection of restitution for financial loss caused by insurance fraud.

2. Fidelity Bond

Reference page 6

The Company is in violation of DCMR, Title 26, Chapter 8, Section 803.1, which states in part that all domestic companies shall at all times be covered by a “primary commercial blanket fidelity bond” in the amount of not less than \$15,000 and file a certified copy with DISR.

3. Marketing

Reference page 8

The Company is in violation of D.C. Code, Title 31, Section 803 (a) (1), which states in part that no person shall act as or hold himself out to be an insurance agent or insurance broker unless duly licensed.

4. Application of Rate Underwriting

Reference page 11

The Company is in violation of D.C. Code, Title 31, Section 2502.29, which states in part that discrimination between individual risks of the same class or rates charged for any policy, or in any of the terms or conditions of such policy, or in any other manner whatsoever, is prohibited.

5. Cancellation/Nonrenewal Practices

Reference page 12

The Company is in violation of DCMR, Title 26, Chapter 8, Section 801.2, which states in part that cancellation shall be effected in accordance with the conditions of the policy and in accordance with D.C. Code, Title 50, Section 314 (h).

6. Policyholder Service

Reference pages 12 and 13

The Company is in violation of DCMR, Title 26, Chapter 8, Section 801.1, which states in part that premiums shall be collected in advance and for a term of not less than two (2) weeks, except that the initial collection from a new policyholder may be for a period of less than two (2) weeks or on a pro-rated basis.

7. Policyholder Service

Reference page 15

The Company is in violation of DCMR, Title 26, Chapter 8, Section 801.2, which states in part that under no condition shall any premium be waived or discounted while insurance is in force.

RECOMMENDATIONS

1) The National Association of Insurance Commissioners has set forth guidelines and standards that set the level of conduct that an insurance company should meet. The Company should produce written procedural manuals or guides in the following areas:

- Disaster Recovery Plan
- Computer Systems Documentation
- Procedural Manuals for Operations (premium billing, billing adjustments, recording policy payments, internal audit)
- Complaint Handling Procedures (that also provides consumer inquiries with the Company's name, telephone, and address)
- Claims Handling Manual

2) The Company should use only properly licensed insurance representatives in all of its dealings with the public and cease transferring its Company production and premium collection functions to non-licensed entities.

3) Any contracted or arranged marketing or servicing agreement should have the prior approval of DISR.

4) The Company should audit the records of its future licensed insurance representatives for compliance with Company policies and procedures.

5) The Company should control policy issuance (proof of insurance in-force).

6) The Company should effect insured-requested cancellations in a timely manner and according to the terms and conditions of the insurance policy.

7) Provide evidence to DISR when asked to produce evidence that the returned premium on cancelled policies is actually returned to the insured.

8) Underwriting file documentation should be sufficient to mirror the underwriting manual, i.e., if underwriter checks with other insurance companies regarding applicant's previous claims history, that information should be noted in file.

- 9) The Company should keep files on all policy declinations to support its policy and practices for refusal to issue an insurance policy.
- 10) The insureds, in all cases, should have full disclosure of all costs as regards to their insurance policy.
- 11) Any policy fees should have the approval of DISR.
- 12) Company should have procedure to verify VIN number submitted with application is valid as well as other information contained on insurance application.
- 13) Company should document that its notice of cancellation/non-renewal is mailed or delivered to the named insured's last known address.
- 14) The Company's cancellation notices should contain a statement to the policyholder that the District of Columbia Taxicab Commission requires that insurance must be maintained on all registered vehicles and a copy of the cancellation notice has been received by the Bureau of Motor Vehicles Services,

ACKNOWLEDGMENT

In addition to the undersigned, Jeffery Johnson with the District of Columbia Department of Insurance and Securities Regulation participated in this examination.

Respectfully submitted,

William F. McCune, Supervisory Market Conduct Examiner
For the District of Columbia
Department of Insurance and Securities Regulation