

Anthony A. Williams  
**Mayor**

Thomas E. Hampton  
**Commissioner**



# Market Conduct Examination



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

(NAIC ACCREDITED)

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



**Thomas E. Hampton**  
**Commissioner**

July 10, 2006

I, Thomas E. Hampton, Commissioner of Insurance, Securities and Banking of the District of Columbia, hereby certify that I have compared the annexed copy of the

**LIMITED SCOPE MARKET CONDUCT EXAMINATION REPORT**  
**FOR THE**  
**CROWN INSURANCE COMPANY**  
**AS OF OCTOBER 31, 2002**

With the original on file in this Department and the same is a correct transcript there from, and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of this Department, at the City of Washington, the day and year first written

A handwritten signature in black ink, appearing to read "Thomas E. Hampton", written over a horizontal line.

Thomas E. Hampton  
Commissioner of Insurance, Securities and Banking

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**SALUTATION**

May 15, 2006

Honorable Thomas E. Hampton, Commissioner  
Department of Insurance, Securities and Banking  
District of Columbia  
810 First Street Northeast, Suite 701  
Washington, DC 20002

Dear Mr. Commissioner:

In accordance with your instructions and pursuant to District of Columbia Official Code § 31-1402 (a), and procedures promulgated by the National Association of Insurance Commissioners, a limited scope market conduct examination of the management and affairs has been conducted of:

**CROWN INSURANCE COMPANY OF THE DISTRICT OF COLUMBIA**

with statutory administrative offices located at 2122 24<sup>th</sup> Place, N.E., Suite-A, Washington, D.C. 20018.

The report thereon, as of October 31, 2002 is herein respectfully submitted.

## **FORWARD**

This follow-up market conduct examination is, in general, a report by exception, wherein only exceptions or errors are noted. The report is designed to set forth facts with regard to any material adverse findings and identify significant issues. The examination reflects the District of Columbia insurance activities of Crown Insurance Company, hereinafter referred to as the "Company. The assigned National Association of Insurance Commissioners (NAIC) group and individual numbers respectively are 2778 and 11148.

## **SCOPE OF EXAMINATION**

The examination covered the period November 1, 2001 to October 31, 2002 and incorporated findings from the Company's initial October 31, 2001 market conduct examination as well as Company operations/management, underwriting, policyholder service, claims, marketing and sales, producer licensing, and complaint handling.

The examination confirmed or disaffirmed the Company's corrective action plan incorporated as their response to the October 31, 2001 report. That report cited the following violations:

DC Official Code § 22-3225.9	Anti-Fraud plan
DCMR 26, Chapter 8 § 803.1	Fidelity bond
DC Official Code § 31-803(a)(1)	Licensed agent
DC Official Code § 31-2502.29	Risk discrimination practices
DCMR 26, Chapter 8 § 801.2	Cancellation/Nonrenewal practices
DCMR 26, Chapter 8 § 801.1	Premium collection practices
DCMR 26, Chapter 8 § 801.2	Waived/Discounted premium practices

The on-site examination was conducted at the home office of the Company with field-work commencing on January 13, 2003 and ending April 18, 2003. Additional examination tasks were performed off premises, at the offices of the Department of Insurance, Securities and Banking, hereinafter referred to as “DISB”. In reviewing material for this report, the examiners relied primarily on records and materials furnished by the Company. The examination was conducted pursuant to D.C. Official Code §31-1401 et seq. and was guided by the NAIC Market Conduct Examination Handbook.

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 DISB.

### **METHODOLOGY**

The examination process consists of a sequence of activities. Obtaining and confirming an understanding of the company’s operational system is vital in the examination process. Some such activities are:

- Evaluating company procedural manuals and memorandum;
- Conducting interviews with company personnel;
- Scanning transactions prior to sample selection;

After obtaining operational knowledge, an evaluation or risk assessment is performed of the company’s unique characteristics, identifying and summarizing the major risks that then drive the individual exam area strategies.

Although the sequence of activities outlined occurs in every DISB market conduct examination and is based on NAIC Handbook standards and tests. Some standards are measured using an analysis of general data gathered by the examiner, or provided by the company in response to queries. Some standard findings are developed through direct reviews of random sampling of files.

The examiner’s judgment determines the specific procedures, plans and tests appropriate for each company operation. The standards were measured using tests designed to adequately measure how the company met the standard. Each standard applicable to a company’s functional operation is reported under its respective heading. A failed standard that also has a specific DC Official Code citation is identified under the related company function. Unresolved examination violations/issues are at end of the report under the caption, “Summary of Significant Issues”.

Areas of operational review having a direct statutory requirement but not a direct NAIC standard, for example, National Intercompany Arbitration Agreement Management, are accompanied by “Comments” and “Findings” under a separate report heading.

### **COMPANY PROFILE**

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 authorized to underwrite 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.

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

### **Management and Control**

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

Solomon Bekele  
Ethiopia Alfred-Bekele

President and Treasurer  
Vice-President and Secretary

## **PRIOR EXAMINATION FINDINGS**

### **Anti-Fraud Plan Issue**

#### Examination Issue:

The October 31, 2001 market conduct report addressed the Company's failure to submit an insurance fraud prevention and detection plan with DISB.

#### Company Statement:

The Company has developed an Anti-fraud plan that is attached to this letter and submitted to you for filing with the Depart. This plan sets forth policies and procedures for preventing, detecting and investigating insurance fraud, as required by the report. The Company had not been made aware of this requirement during process of obtaining its license.

#### Finding:

The examiner obtained direct written confirmation from DISB's anti-fraud division that the Company submitted an insurance fraud prevention and detection plan with DISB.

### **Fidelity Bond Issue**

#### Examination Issue:

The October 31, 2001 market conduct report addressed the Company's failure to secure a \$15,000 fidelity bond and to file a certified copy with DISB.



Company Statement:

The Company has applied for a Fidelity Bond in the amount of \$15,000 as required by the report. A copy of the application to Travelers Property Casualty is attached to this letter. In the initial [financial] examination of the Company by the Department, the report noted the absence of a Fidelity Bond but made no request or indication that one be obtained or was required. The Company therefore concluded that the requirement did not apply.

Finding:

The Company was found to still be in violation of DCMR, Title 26, Chapter 8, Section 803.1, which states that “All officers and employees of domestic companies shall at all times be covered by a “primary commercial blanket fidelity bond” in the amount of not less than \$15,000.00. These bonds shall include by endorsement or otherwise a provision requiring the surety to notify the Commissioner in writing prior to cancellation or to any change in principal or penalty. The bond or a certified copy shall be filed with the Superintendent.”

The examiners confirmed with Travelers Property Casualty that the Company had previously applied for a fidelity bond and was declined. The agent that shopped the insurance market to find a carrier to accept the Company’s fidelity bond risk was also the Company’s own appointed non-residence agent.

The agent stated to the examiners that the risk was shopped to various insurers but when he could not find an interested carrier, the Company withdrew the request for insurance. The examiners determined the Company ended its efforts to obtain a fidelity bond after the agent failed to find an insurance company willing to accept their risk.

The Company remained in violation until March 20, 2003 when the Company secured an annual fidelity bond from Travelers in the amount of \$15,000 for a term of April 1, 2003 to April 1, 2004.

## **Licensed Agent Issue**

### Examination Issue:

The October 31, 2001 market conduct report addressed the Company's failure to use only properly licensed insurance agents or brokers in all its principle insurance dealings and to cease transferring its production and premium collection functions to non-licensed entities.

### Company Statement:

The Company has contracted with Ace Insurance Services to act as the insurance agent of the Company. The Company has filed with the department an appointment of Samuel Bekele, District of Columbia Insurance License Number 8187533, as an agent of the Company. Copies of both documents are attached. Moreover, an employee of the Company is currently studying to become a licensed insurance agent. The Company initially believed that it could write directly, as its Parent does in the State of Georgia (a licensed captive insurer).

### Observation:

The Company can only take insurance applications and conduct the affairs of insurance only through licensed agents or brokers in the jurisdictions giving rise to the insurance transaction. The initial market conduct examination found the Company's unlicensed employee was responsible for producing the Company's DC premium volume.

The Company entered into an agreement on April 15, 2002 with Ace Insurance Service (hereinafter known as "ACE"), located in Springfield, Virginia whereby ACE would act as the Company's non-resident appointed agent and ACE would be compensated \$1,500 per month. The Company asserted that their appointed agent's primary duty was to endorse policies and to ensure all policies are properly endorsed. During the course of the examination, ACE was interviewed and the following information was obtained:

- The agent had been paid only once during the contract period and that payment was made at the inception of the contract. The agent did not think he earned any additional compensation from the Company as no services were performed;
- The agent never performed any sales activities on behalf of the Company;
- The agent never met any taxi fleet owners to discuss insurance;
- The Company would fax a document on occasion to Virginia for the agent's signature.

Finding:

The Company was found in violation of D.C. Official Code § 31-803(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 examiners determined that the Company's unlicensed employee continued performing the actions of an authorized and licensed agent. The Company remained in violation until April 2003 when their employee obtained an insurance license and Company appointment.

**Risk Discrimination Practices**

Examination Issue:

The October 31, 2001 market conduct report addressed the Company's practice of preparing a taxi owner's liability policy and failing to disclose the premium rate charged to the policyholder. In cases of non-fleet administered policies, the policyholder pays directly to the Company the approved premium rate of \$59. This payment method gives the policyholder a receipt (proof of payment in advance) for the purchase of a two-week term liability policy.

For policies administered by fleet owners, the Company does not control the price charged. Fleet owners, who also perform administrative insurance functions for the Company, are permitted to determine each policyholder's premium rate. The examiners determined that the Company's failure to disclose to all policyholders the lawful price of each individual policy discriminated unfairly since all policyholders present the same degree of risk to the Company. The examiners further determined that

premium/rate disclosure would enable taxi consumers to compare insurance costs for similar policies between competing insurance companies.

Company Statement:

The Company failed to address this practice specifically in their April 29, 2002 response to the market conduct examination but provided the following:

As acknowledged by the examiner, the Company has been following market custom in certain of its practices, in order to be competitive in the District of Columbia taxicab insurance market. The Company has implemented or is in the process of implementing the recommendations made during the examination or set out in the report. The Company has sought to cooperate with the Department in every opportunity and will continue to do so.

Finding:

The Company was found still to be in violation of D.C. Official Code § 31-2502.29, which states in part that discrimination between individual risks of the same class or hazard in the amount of premiums or rates charges for any policy or in any terms or conditions of such policy, or in any other manner whatsoever, is prohibited.

**Cancellation/Nonrenewal Practices**

Examination Issue:

The October 31, 2001 market conduct report addressed the Company's failure to effect policy cancellations and non-renewals in accordance with the conditions of their approved policy form and in accordance with D.C. Official Code § 50-314(h).

Company Statement:

As noted on page 12 of the report, the Company corrected the isolated cases where written cancellations or terminations had inadvertently not been sent to policyholders or the Department of Motor Vehicles. Furthermore, the Company has adopted a written

procedure to make sure that notices of cancellation or terminations are timely sent. A copy of the written procedure is attached.

Finding:

The examiner reviewed the Company's operational practices and tested premium transactions and found the Company did not waive or discount any premium.

**Premium Collection Practices**

Examination Issue:

The October 31, 2001 market conduct report addressed the Company's practice of financing premium for entire fleets of individual policyholders' and on several occasions not collecting premium from fleet policyholders until policy periods had expired.

Company Statement:

The Company failed to address this practice specifically in their April 29, 2002 response to the market conduct examination but provided the following:

As acknowledged by the examiner, the Company has been following market custom in certain of its practices, in order to be competitive in the District of Columbia taxicab insurance market. The Company has implemented or is in the process of implementing the recommendations made during the examination or set out in the report. The Company has sought to cooperate with the Department in every opportunity and will continue to do so.

Observation:

Historically, taxi liability insurers in DC do not focus on marketing liability insurance to the individual taxi owner/operator but rather directs marketing efforts to fleet owners.

For the purpose of clarity, a fleet owner is a person/corporation that owns a color scheme. The fleet owner is not the sole owner of all the vehicles painted into his color scheme.

For example, a fleet consisting of twenty (20) taxicabs painted into a color scheme may represent twenty (20) individual vehicle owners. Each vehicle owner elects to affiliate with the owner of the fleet. When a fleet owner personally owns taxicabs, these vehicles are for rent to licensed taxi operators. Historically fleet drivers' pay their insurance premium at the end of a week or two-week period but usually after their insurance coverage expired.

Finding:

The Company was found still to be 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.

**Waived/Discounted Premium Practices**

Examination Issue:

The October 31, 2001 market conduct report addressed evidence that the Company waived or discounted insurer premium while the policyholders insurance was in force.

Company Statement:

As noted on page 15 of the report, references the Company "amending" its practice of waiving premium payments without sending notification to the Department of Motor Vehicles. The Company has never had such a practice. In one isolated instance, premium was waived on a vehicle that had been removed from service for mechanical reasons and the notice was inadvertently not sent. This isolated case was corrected during the exam.

Finding:

The examiner reviewed the Company's operational practices and tested premium transactions and found the Company did not waive or discount any premium.

## COMPANY OPERATIONS AND MANAGEMENT

NOTE: During the course of the review of Company management, the examiners sought data to evaluate the following questions:

- Has the Company's management taken measures to adhere to the recommendations made by DISB on the initial market conduct examination?
- Has management implemented procedures to comply with applicable regulatory requirements?
- Do management standards comply with both the applicable regulatory requirements and the interest of the general public?

In order to evaluate the Company's operations, the examiner gathered Company data using informational requests, direct questioning, interviews, and presentations by the Company staff and officers.

During the course of this examination, the Company's commercial auto liability operations were reviewed using tests prescribed in the NAIC Examiners Handbook, Volume I, Chapter VIII to determine if the Company was meeting established industry standards. The following report section gives direct reference to the NAIC handbook standard.

The examiners determined standards A-5, A-6, 10, A-11, A-12, A-13, A-14, A-15, A-16, A-17, as the Company is a direct writer of commercial automobile liability insurance were not applicable and therefore passed these standards for review.

Standard A-2 was not examined.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section A Standard A-1

The company has an up-to-date, valid internal or external audit program.

Comments: This standard has a direct statutory requirement, i.e., D.C. Official Code § 31-302 states in part that all insurers shall have an annual audit and shall file an audited financial report with DISB.

Finding: The Company is in compliance with the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section A Standard A-3

The company has an antifraud plan in place.

Comments: This standard has a direct statutory requirement, i.e., D.C. Official Code § 22-3225.09(a). This standard is primarily focused on internal fraud and whether the company has a process for detection and prevention.

Findings: The Company is in compliance the standard.

Observations: The Anti-Fraud Plan submitted by the Company, although approved by DISB, is not written for the Company needs nor has the Anti-Fraud plan been implemented. Emphasis should be placed on such areas such as disbursement controls systems, receipts controls, journal entries controls, segregation/protection of assets controls, computer access controls, balancing/review controls, forms controls, and new business key controls.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section A Standard A-4

The company has a valid disaster recovery plan.

Comments: The review methodology for this standard does not have a direct statutory requirement. Disaster recovery planning is concerned with the resources, processes, and equipment needed to restore business facilities when a disaster has struck. Recovery plans involve employee teams that spring into action to keep the critical function performing and working to restore the original facilities to return to business as usual.

Findings: Company met the standard.

Observations: The Disaster Recovery Plan does not clearly establish the intent and goals of the plan such as minimizing potential ill-will from customers, a scheduled review and update, of guiding the Company towards the restoration of normal operations, a plan overview or emergency handbook, minimization of the impact of a disaster on financial operations, or adhering to all legal and regulatory requirements.



NAIC Market Conduct Examinations Handbook – Chapter VIII, Section A Standard A-7

Records are adequate, consistent and orderly and comply with District of Columbia record retention requirements.

Comments: This standard has a direct statutory requirement, i.e., D.C. Official Code § 31-2231.10. This standard is intended to assure that an adequate and accessible record exists of the company's transactions. The focus is on the records and the actions considered in a market conduct examination such as trade practices, complaint handling, etc. Inadequate, disorderly, inconsistent, and inaccessible records can lead to inappropriate handling of claims, inappropriate handling of complaints.

Findings: The Company is in compliance with the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section A Standard A-8

The company is licensed for the lines of business that are being written.

Comments: This standard does not have a direct statutory requirement. This standard infers that the company is operating within the scope of its certificate of authority to do business.

Findings: Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section A Standard A-9

The company cooperates on a timely basis with examiners performing the examinations.

Comments: This standard has a direct statutory requirement, i.e., D.C. Official Code § 31-1403(b). The standard is intended to assure that the company is cooperating with the regulatory jurisdiction in the completion of an open and cogent review of the company's operations in the District.

Findings: The Company is in compliance with the standard.

Observations: None

## COMPLAINT HANDLING

NOTE: The NAIC definition of a complaint is a written communication primarily expressing a grievance (meaning an expression of dissatisfaction). The examiner reviewed the Company's procedures for processing policyholder or other related complaints.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section B Standard B-1

All complaints are recorded in the required format on the Company complaint register.

Comments: This standard has a direct statutory requirement, i.e., D.C. Official Code § 31-2231.18. An insurer should have a written policy and procedure to formally track complaints.

Findings: The Company is in compliance with the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section B Standard B-2

The Company has adequate complaint handling procedures in place and communicates such procedures to policyholders.

Comments: This standard does not have a direct statutory requirement. This standard is concerned with whether the company's written policies and procedures adequately handle complaints and communications with complainants.

Findings: Company met the standard.

Observations: There were no exceptions in this area.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section B Standard B-3

The Company should take adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.

Comments: The criteria for reviewing complaints consists in part to determining whether the Company response is timely, the response is complete and responsive to all issue raised, whether adequate documentation to support the respondent's position, the respondent's actions are appropriate from a business practice standpoint, whether the Company's actions comply with all applicable statutes, rules and policy or contract provisions and whether appropriate remedies for the consumer are identified.

Findings: Company met the standard.

Observations: One complaint, presently pending resolve, is an issue of disagreement between the Company and Thrifty Rent-A-Car as it pertains to the claimant's demand for the payment of the value of the total loss of their vehicle. The Company has offered what they feel to be a reasonable settlement to the claimant on a couple of occasions. This offer has been rejected each time by the claimant on the grounds of what they believe is improper and unfair settlement of claim practices on behalf of the Company. The DISB is currently reviewing this complaint with hopes of reaching a fair and equitable decision.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section B Standard B-4

The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations.

Comments: The standard does not have a direct insurance statutory requirement, however timeliness is inferred.

Findings: Company met the standard.

Observations: The average response time by the Company in the recording and responding to the complaint was one (1) day.

## **MARKETING AND SALES**

NOTE: This portion of the examination is designed to evaluate representations made by the Company and its agents about its products. It is not an area that is typically evaluated based on testing or sampling techniques but can be. The areas to be considered in this kind of review include all media (radio, television, etc.), written and

verbal advertising and sales materials. The Company does not have any formal policy and/or procedure manual for marketing and sales. The examiners determined standards C2, C3, and C4 are not applicable.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section C Standard C-1

All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

Comments: This standard has direct statutory requirements i.e., D.C. Official Code § 31-2331.04 and 31-2231.03. It is concerned with representations made by the Company to its producers in other than a training mode.

Findings: Company was in violation of D.C. Official Code §§ 31-2331.04 and 31-2231.03.

Observations: In 2003, the Company contacted Bankers Independent Insurance Company, hereafter known as (“BIIC”), for a producer contract to market BIIC’s commercial taxi fire and collision policies, as does one of the Company’s direct competitors. BIIC declined to contract with the Company.

The Company learned that its non-resident appointed agent (ACE) was currently appointed in Virginia to represent BIIC for other lines of insurance. The Company made an agreement with ACE whereby after ACE received a BIIC taxi contract, the Company would market the BIIC commercial taxi insurance. The Company’s unlicensed employee thereby took applications on behalf of BIIC and submitted the applications, along with payments, to ACE (in Virginia) for proper submission to BIIC.

During the review of the Company’s advertising materials is when the Company disclosed how it was using BIIC’s product to compete in the market. This marketing effort met the Company’s competitive need and generated sales for ACE.

BIIC halted this marketing practice during the course of the Company’s examination.

### **PRODUCER LICENSING**

NOTE: This portion of the examination is designed to test the Company’s compliance with DC producer licensing laws and rules. The entire producer licensing issue is presented on page 5 of the report under the caption, “Licensed Agent Issue” and incorporates NAIC market conduct examiners handbook standards D1 and D2. The examiners determined standards D3, D4, D5 and D6 are not applicable.

## **POLICYHOLDER SERVICES**

NOTE: The policyholder services portion of the examination is designed to test the Company's compliance with statutes regarding notice/billing, delays/no response, premium refund, coverage questions, and policy changes. Areas of policyholder services are presented on pages 7, 8, and 9 of the report under the captions, "Cancellation/Nonrenewal Practices" followed by "Premium Collection Practices" and concluded with "Waived/Discounted Premium Practices". The examiners determined standards E4 and E5 were not applicable.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section E Standard E-1

Premium notices and billing notices are sent out with an adequate amount of advance notice

Comments: The standard does not have a direct insurance statutory requirement, however timeliness of information to the policyholder is inferred so policyholder can make informed decisions.

Findings: Company services to fleet policyholders differ from services to direct payment purchasers of insurance. All policy duration is two (2) weeks. Payments by fleet policyholders are either financed, through a Company arrangement with a fleet owner, or payable at the expiration of coverage while direct payment policyholders receive no billing notices from the Company when their next payment is due.

Observations: The Company renews fleet policyholders and makes billing adjustments after the fact. Direct payment, or payment in advance of insurance coverage, policyholders are either cancelled or non-renewed based on their advance payment requirement.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section E Standard E-2

Policy issuance and insured requested cancellations are timely

Comments: The standard does not have a direct insurance statutory requirement, however timeliness of information to the policyholder is inferred so policyholder can make informed decisions

Findings: Company failed to provide satisfactory evidence that policyholder services delegated to fleet owners were adequate.

Observations: Company services to fleet policyholders differ from services to direct payment purchasers. Direct payment purchasers may receive a copy of the insurance policy issued by the Company. Fleet owners do not provide policyholders they service with insurance policies. Direct payment insurance purchasers deal directly with the Company and can cancel their insurance policies and request and secure a refund of unearned premium whereas the Company delegate’s policyholders services for fleet policyholders to the administrative skills of each servicing fleet owner.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section E Standard E-3

All correspondence directed to the Company is answered in a timely and responsive manner by the appropriate department

Comments: The standard does not have a direct insurance statutory requirement, however timeliness of information to the policyholder is inferred so policyholder can make informed decisions

Findings: Company failed to provide satisfactory evidence that policyholder services delegated to fleet owners were adequate.

Observations: None

### **UNDERWRITING AND RATING**

NOTE: This portion of the examination is designed to test the underwriting and rating practices and determine how the company treats the public and determine compliance with applicable statutes, rules and regulations. Areas of underwriting and rating are presented on page 6 under the caption, “Risk Discrimination Practices”. NAIC standards F4, F5, F6, F7, F8, F9, F10, F12, F14, F17, F20, F21, F24, F26, F27 were determined not to apply to this company as it writes liability only without endorsement forms. Standards F3, F 11, F-15, F-18, F-19, and F-25 were not examined.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section F Standard F-1

The rates charged for the policy coverage are in accordance with filed rates.

Comments: This standard has a direct statutory requirement, i.e., D.C. Official Code § 31-2703(g) that states, “No company, agent, or broker shall make, issue, or deliver, or knowingly permit the making, issuance, or delivery of any policy of insurance within the scope of this chapter contrary to pertinent filings which are in effect for the

company as provided in this chapter, except that upon the written application of the insured stating his reasons therefore, filed with and approved by the Commissioner, a rate in excess of that provided by a filing otherwise applicable may be used on any specific risk”. It is necessary to determine if the company is in compliance with rating systems, which have been filed with and approved by DISB. Rates should not be unfairly discriminatory. A company practice of allowing the public to pay incorrectly rated policies is indicative of management’s indifference the public interest. Deviation from approved rates may also indicate the company engages in unfair competitive trade practices.

Findings: The Company is not in compliance with D.C. Official Code § 31-2703(g).

Observations: The Company had a practice of preparing a taxi owner’s liability policy declarations page and not disclosing the premium rate charged. When the Company changed its internal practice to preparing policyholder’s declaration pages with rate disclosure, the Company’s practice was still to NOT deliver a policy to the individual policyholder’s associated with a fleet. In cases of non-fleet administered policies, the policyholder pays directly to the Company the approved premium rate of \$59. This payment method gives the policyholder a receipt (proof of payment in advance) for the purchase of a two-week term liability policy. This issue is further addressed on page 6 under the caption, “Risk Discrimination Practices”.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section F Standard F-2
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Disclosures to insureds concerning rates and coverage are accurate and timely
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Comments: This standard has no direct statutory requirement. Without appropriate disclosures, policyholders find it difficult to make informed decisions.

Findings: The Company failed to meet the standard.

Observations: This issue is presented on page 6 of this report under the caption “Risk Discrimination Practices”.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section F Standard F-13

The producers are properly licensed and appointed in the jurisdiction where the application was taken.

Comments: The standard has a direct insurance statutory requirement, i.e., D.C. Official Code § 31-803(1)(a) that states, “No person, partnership, association, or corporation shall act as or hold itself out to be an insurance agent or insurance broker unless duly licensed”. This issue is further described on page 5 of this report under the caption, “Licensed Agent Issue”.

Findings: Company was in violation of D.C. Official Code § 31-803(a)(1).

Observations: On April 15, 2002, the Company entered into an agency agreement with ACE Insurance Agency, an unlicensed DC entity. ACE received its license as a non-resident entity on November 1, 2002, but the Company failed to appoint ACE. Ace Insurance Agency employed Samuel Bekele, whose broker’s license was effective May 1, 2001 and expired on April 30, 2003. On December 1, 2001, Samuel Bekele obtained his non-resident agent’s license and received an appointment from the Company on April 10, 2002.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section F Standard F-16

Policies and endorsements are issued or renewed accurately, timely and completely

Comments: This standard does not have a direct statutory requirement. Without appropriate disclosures, policyholders find it difficult to make informed decisions.

Findings: The Company failed to meet the standard.

Observations: Upon review of the Policy Declaration, the examiner found that the Company does not include the coverage issued and the policy premium charged to the insured. In lieu of issuing policies and/or proof of coverage to the insured, the Company retains the Policy Declaration in house, and issues a receipt upon remittance of premium.

Observations: None.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section F Standard F-22

Rejection/Declinations Rejections and declinations are not unfairly discriminatory.

Comments: This standard does not have a direct statutory requirement but is inferred in D.C. Official Code § 31-2502.29 that states in part that discrimination between individual risks of the same class or hazard in the benefits or in any of the terms or conditions of such policy, or in any other manner whatsoever is prohibited.



Findings: The Company may have unfairly discriminated in their practice of declining applicants for insurance.

Observations: The Company issued seven (7) declinations during the period of examination. The Company retains the right to defer from its guidelines at anytime, as stated in the guidelines:

“Please note that a variance from this policy may apply on a case by case basis and that all applicants must be approved prior to driving any vehicle that Crown Insurance Company insurers.”

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section F Standard F-23  
Cancellation/Nonrenewal and Declination notices comply with policy provisions and state laws and company guidelines.

Comments: This standard does have a direct statutory requirement but the Company’s own policy terms and conditions exceed the DC requirements so the policyholder benefits are greater. The examiners addressed the compliance by the Company to its insurance policy provisions.

Findings: The Company did not meet this standard in cancellation/nonrenewal occurrences reviewed.

Observations: Upon review of the Company’s insurance contract conditions under Section “Cancellation; Nonrenewal; Expiration Date” the following is found:

(b) Notice required of cancellation of or refusal to renew policy — No cancellation or refusal to renew by an insurer of a policy of motor vehicle insurance shall be effective unless the insurer has delivered or mailed to the named insured....a written notice of intent to cancel or refusal to renew. The required notice shall be provided...at least 30 days prior to the effective date of cancellation, or in the case of nonrenewal, 30 days prior to the end of the policy period. The notice shall contain a statement of the specific reason(s)...of cancellation or refusal to renew. On October 17, 2002, the Company issued a nonrenewal with a twenty-day advance notification. The specific reason for nonrenewal was not included in the notice to the insured.

The Company issued a cancellation based on one accident involving three (3) vehicles but justifying the cancellation as driver had three (3) individual claims. The explanation read as follows:

The specific reason for this action is AT FAULT ACCIDENTS as follows:

<u>D/O/L</u>	<u>Claim No.</u>	<u>Name of Claimant</u>
10/10/02	867-10-02	Alonzo Donaldson
10/10/02	866-10-02	Charles Barbour, Jr.
10/10/02	865-10-02	Ray Williams

## CLAIMS

NOTE: This portion of the examination is designed to provide a view of how the company treats claimants and whether that treatment is in compliance with applicable statutes, rules and regulations. Claim practices of a company are examined to ensure timely response to claims correspondence, efficiency of handling, accuracy of payment, compliance to the District of Columbia Code and Regulations, and adherence with underlying contract provisions. Taken under consideration was the reasonable promptness to pertinent written communication with respect to claims arising under policies.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-1

The initial contact by the Company with the claimant is within the required time frame.

Comments: This standard has no direct statutory requirement.

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-2

Timely investigations are conducted

Comments: This standard has no direct statutory requirement.

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-3

Claims are resolved in a timely manner

Comments: This standard has no direct statutory requirement

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-4

The Company responds to claim correspondence in a timely manner

Comments: This standard has no direct statutory requirement.

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-5

Claims files are adequately documented

Comments: This standard has no direct statutory requirement.

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-6

Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.

Comments: This standard has no direct statutory requirement

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-7

Company uses the reservation of rights and excess of loss letters when appropriate

Comments: This standard has no direct statutory requirement

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-8

Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner

Not applicable. Company writes only commercial liability policies.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-9

The Company claim forms are appropriate for the type of product

Comments: This standard has no direct statutory requirement.

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-10

Claim files are reserved in accordance with the Company's established procedures.

Comments: This standard has no direct statutory requirement.

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-11

Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

Comments: This standard has no direct statutory requirement

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-12

Canceled benefit checks and drafts reflect appropriate claim handling practices.

Comments: This standard has no direct statutory requirement.

Findings: The Company met the standard.

Observations: None

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-13

Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

Comments: This standard has a direct statutory requirement, i.e., D.C. Official Code § 31-2231.17(a)(7) that states in part that no person shall compel insureds or beneficiaries to institute suits to recover amounts due under its policies by offering substantially less than the amounts ultimately recovered in actions brought by the insureds or beneficiaries.

Findings: The Company met the standard.

Observations: The Company had three (3) claims in litigation. Correspondence received from the Company attorney's was reviewed.

NAIC Market Conduct Examinations Handbook – Chapter VIII, Section G Standard G-14

Loss statistical coding is complete and accurate.

Not applicable. Company only writes commercial liability policies

## **NATIONAL INTERCOMPANY ARBITRATION AGREEMENT**

Comments: D.C. Official Code § 31-2405(i) states in part that every automobile liability or physical damage insurer doing business in the District of Columbia shall be a member of the Nationwide Intercompany Arbitration Agreement known hereinafter as “NIAA” sponsored by the Committee on insurance arbitration.

Finding: The Company is in violation of D.C. Official Code § 31-2405(i) by virtue of its non-member status.

Observation: The Company takes the position that by virtue of their DC certificate of authority (license to write taxicab liability insurance) it is a member of the NIAA.

## **SUMMARY OF SIGNIFICANT ISSUES**

In the specific area of “Prior Examination Findings”, the examiners noted the following issues:

Failure to comply with D.C. Official Code §§ 31-2502.29 and 31-803(1)(a) and the failed to comply with the terms and conditions of its policy.

In the specific area of “Marketing and Sales”, the examiners noted the following issues:

Failure to comply with D.C. Official Code §§ 31-2331.03 and 2231.03.

In the specific area of “Underwriting and Rating”, the examiners noted the following issues:

Failure to comply with D.C. Official Code §§ 31-2703(g) and 31-803(a)(1).

In the specific area of “Marketing and Sales”, the examiners noted the following issues:

Failure to comply with D.C. Official Code § 31-2405(i).

**ACKNOWLEDGMENT AND CONCLUSION**

In addition to the undersigned, William McCune, Supervisory Market Conduct Examiner and Mia Powell reviewed the supporting work papers and assisted in the preparation of the written report.

Respectfully submitted,

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Jeffery Johnson, AIE  
Insurance Examiner for the District of Columbia  
Department of Insurance, Securities and Banking