



Market Conduct Examination

CHUBB INSURANCE COMPANY
OF NEW JERSEY
Whitehouse Station, New Jersey

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE
Division of Insurance, Office of Consumer Protection Services
Market Conduct Examination Unit

Report Adopted: October 10, 2003

MARKET CONDUCT EXAMINATION
of
CHUBB INSURANCE COMPANY OF NEW JERSEY

located in

WHITEHOUSE STATION, NEW JERSEY

as of

April 25, 2003

BY EXAMINERS

of the

STATE OF NEW JERSEY

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF INSURANCE

OFFICE OF CONSUMER PROTECTION SERVICES

MARKET CONDUCT EXAMINATION UNIT

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I. INTRODUCTION AND SCOPE OF EXAMINATION

This is a report of the Market Conduct activities of the Chubb Insurance Company of New Jersey (hereinafter referred to as Chubb or the Company). In this report, examiners of the New Jersey Department of Banking and Insurance (NJDOBI) present their findings, conclusions and recommendations as a result of their examination. The Market Conduct Examiners were Examiner-in-Charge Marleen J. Sheridan, Robert J. Only, Thomas H. Goehrig, Ralph J. Boeckman, Virgil Downtin and Marcus K. Rosser.

The scope of the examination included private passenger automobile insurance and homeowner insurance sold by the Company in New Jersey. The examiners evaluated Chubb's compliance with the FAIR ACT and the regulations and statutes pertaining to automobile underwriting and terminations. Additionally, the examiners reviewed Chubb's compliance with certain regulations and statutes that pertain to homeowner and dwelling fire insurance. The review period for the examination was January 1, 2002 to March 24, 2003. The examiners conducted their fieldwork at the Chubb offices in Whitehouse Station, New Jersey between March 24, 2003 and April 11, 2003. On various dates following the fieldwork, the examiners completed additional review work and report writing.

The examiners randomly selected files and records from computer listings and documents provided by the Company. The random selection process is in accordance with the National Association of Insurance Commissioner's (NAIC) Market Conduct Handbook. In addition, the examiners used the NAIC Handbook, Chapter VI – Conducting the Property and Casualty Examination as a guide to examine the Company and write this report.

A. ERROR RATIOS

Error ratios are the percentage of files reviewed which an insurer handles in error. A file is counted as an error when it is mishandled or the insured is treated unfairly, even if no statute or regulation is applicable. If a file contains multiple errors, the examiners will count the file only once in calculating error ratios. However, any file that contains more than one error will be cited more than once in the report. In the event that the insurer corrects an error as a result of a consumer complaint or due to the examiners' findings, the error will be included in the error ratio. If the insurer corrects an error independent of a complaint or NJDOBI intervention, the error is not included in the error ratios.

Whenever the examiners find that a Company commits a type of error with sufficient frequency, they will cite the error as an improper general business practice. If an error constitutes an improper general business practice, the examiners have stated this in the report that follows.

The examiners sometimes find improper general business practices of an insurer that may be technical in nature or which did not have an impact on a consumer. Even though such a practice would not be in compliance with applicable law, the examiners do not count each of these files as an error in determining error ratios. Whenever such business practices do have an impact on the consumer, each of the files in error will be counted in the error ratio. The examiners indicate in the report that follows whenever they did not count any particular files in the error ratio.

The examiners submitted written inquiries to Company representatives on the errors cited in this report. This provided Chubb the opportunity to respond to the examiners' findings and to provide exception to the statutory and/or regulatory errors or mishandling of files reported herein. In response to these inquiries, Chubb agreed with some of the errors cited in this report. On those errors with which the Company disagreed, the examiners evaluated the individual merits of each response and gave due consideration to all of its comments. In some instances, the examiners did not cite the files due to the Company's explanatory responses. In others, the errors remained as cited in the examiners' inquiries.

II. AUTOMOBILE POLICY REVIEW

A. TERMINATIONS

During the review period, Chubb cancelled seven policies within the first 60 days and nonrenewed 133 policies under the 2% rule (N.J.S.A. 17:29C- 7.1b). The examiners randomly selected files and calculated error ratios in accordance with the procedures outlined in Section I of this report. The examiners' findings are presented in the sections that follow.

1. Error Ratios

<u>REVIEW</u>	<u>FILES REVIEWED</u>	<u>FILES IN ERROR</u>	<u>ERROR RATIO</u>
Auto Cancellations:			
60 Day	7	1	14%
2% Nonrenewals	<u>50</u>	<u>22</u>	44%
Random Total	57	23	40%

2. Examiners' Findings

a. Nonspecific Reason on Nonrenewal Notices – Improper General Business Practice (20 Files in Error)

In accordance with N.J.A.C. 11:3-8.3(f)1, a notice of nonrenewal shall not be valid unless it includes dates and other facts necessary for identification of the incident. In addition to the other errors outlined below, the company did not provide dates of loss where they were required. Due to the high error ratio of 40% (20 of 50 files reviewed), the Company's failure to comply with the regulation constitutes an improper general business practice. Chubb agreed with these errors.

POLICY NUMBER	REASON ON NOTICE TO INSURED	ERROR CODE
15982239	Loss History/MVR Activity (9 points or more)	1
15949152	Greater than 8 points	1
15778164	Loss Frequency	1
15975976	Over 8 points	1
15975571	Losses	1
15984261	Due to NJ 2% Rule	4
15922081	Due to Losses	1
15927744	Ineligible Operator has over 9 Points	1
15960118	Due to Losses	1
1597753	Misleading Information	2

POLICY NUMBER	REASON ON NOTICE TO INSURED	ERROR CODE
15960079	Losses	1
15960440	Misleading Information	2
15978218	Due to Loss Activity	1
15939084	Loss History	1
15991407	Does not meet Underwriting Criteria	3
15956645	Misleading Information	2
15956893	Adverse Loss History	1
15952726	Unacceptable MVR activity within the 3 year experience for insured drivers	4
15903028	The insured or operator under the policy in the 5 years immediately preceding renewal has had at least two at fault accidents	1
15928586	The insured or operator under the policy in the 5 years immediately preceding renewal has had at least two of the following: Two at fault accidents	1

ERROR CODES

1. No date associated with the incident.
2. No description or identification of information deemed to be misleading.
3. No description or identification of underwriting criteria and events and/or circumstances deemed to be contrary to Company's underwriting criteria.
4. No dates and other facts identifying the incidents.

b. Failure To Comply with Selection Criteria on 2% Nonrenewal

(5 Files in Error)

Pursuant to N.J.S.A. 17:29C-7.1(2) and N.J.A.C. 11:3-8.6(c)2, no insurer shall refuse to renew a policy under the 2% rule unless the insured or operator insured under the policy in the five years immediately preceding renewal has had at least two of the following or any combination thereof: (a) an at-fault accident; (b) a moving violation which was assessed at least four automobile insurance eligibility points; or (c) had been required, but failed to maintain coverage mandated by N.J.S.A. 39:6A-4. Although five policies were valid nonrenewals under other sections of the applicable regulation, Chubb nonrenewed these policies for reasons that do not comply specifically with the 2% rule [N.J.S.A. 17:29C-7.1(2) and N.J.A.C. 11:3-8.6(c)2]. Three of these files were counted in error in Section 2a above. Chubb agreed with the errors.

POLICY NUMBER	NONRENEWAL REASON	CORRECT NONRENEWAL CITE
15875955	Household member (who is not a named insured) is currently suspended for operating a vehicle under the influence.	<u>N.J.A.C. 11:3-8.4</u>
15957753	Misleading information	<u>N.J.A.C. 11:3-8.5(a)1i</u>
15964402	Misleading information in connection with a claim.	<u>N.J.A.C. 11:3-8.5(a)1i</u>
15960440	Misleading information	<u>N.J.A.C. 11:3-8.5(a)1i</u>
15956645	Misleading information	<u>N.J.A.C. 11:3-8.5(a)1i</u>

c. Failure to Write Policy for Eligible Person

(1 File in Error)

N.J.S.A.17:33B-15b and N.J.A.C. 11:3-40.3(a) require a company to insure all eligible persons who meet its underwriting rules. Chubb cancelled policy **15992694** because the insured was previously cancelled for non-payment of premium under a prior Chubb policy. The company agreed that this was an invalid reason to cancel a new policy with an eligible driver.

B. UNDERWRITING

During the period of January 1, 2002 - December 31, 2002, Chubb issued 5,022 quotes and 2,938 new business policies. In addition, the Company has an in force population of 20, 999 policies. The examiners randomly selected files and calculated error ratios in accordance with the procedures outlined in Section I of this report. The examiners' findings are presented in the sections that follow.

1. Error Ratios

<u>REVIEW</u>	<u>FILES REVIEWED</u>	<u>FILES IN ERROR</u>	<u>ERROR RATIOS</u>
Quotes	116	0	0
New Business	81	0	0
Mail Review	<u>20</u>	<u>0</u>	0
Random Total	217	0	

2. Examiners' Findings

a. Procedure used by Company to Issue an Automobile Policy

The examiners found that if an applicant requests a quote and/or policy, Chubb follows the process outlined below. It takes the Company approximately two business days (steps 1 and 2) to issue a quote to the applicant. The examiners' review revealed that Chubb issues most quotes within one day of the request from the consumer. In many cases the agent issues a quote the same day as requested. Out of 116 quotes reviewed, 65 quotes were issued the same day, 28 were issued by the next day and 23 were issued within two to five days. The following is an average quote and policy writing timeline for Chubb. According to the Company the entire process from initial contact with the producer until issuance of the policy can take between 12 and 22 business days.

New Business Quoting Process

- DAY 1** – The consumer contacts a Chubb agent to request a quote for automobile insurance. Agent faxes worksheet to Chubb to obtain the quote.
- DAY 2** – Chubb processes the completed quote request and returns it to the agent. Agent contacts the consumer and presents the quote.
- DAY 3** – Consumer completes application and Coverage Selection Form in agent's office. Agent sends the application, all required forms and supporting documentation to the Chubb Personal Lines Service Branch.

Policy Issuance Procedures

- DAY 1** - Chubb receives the application.
- DAY 4** - Chubb completes an eligibility review; application is considered complete at this stage but if additional information is necessary, it may be requested from the consumer via the agent.
- DAY 5** - Chubb binds coverage.

As the above time line reveals, Chubb's quote and application processing methodology typically results in a minimum of eight business days to provide coverage to an applicant. Once the Company receives a completed unbound application and all required forms and documentation at the Chubb Personal Lines Service Branch, coverage is bound within five business days. However, in response to an inquiry, the Company states that coverage is bound immediately for existing Chubb customers moving to New Jersey from out of state. Additionally, a policy may be immediately bound in emergency situations where an applicant requires immediate coverage (i.e. new car purchases).

C. ADVERTISING

During a review of Chubb's web site (www.chubb.com), the examiners attempted to get information for automobile insurance in New Jersey. After choosing the *Automobiles* tab on the *Chubb Personal Insurance* page, they were unable to select the State of New Jersey to learn about auto coverage. Therefore, a consumer who may be interested in Chubb automobile insurance cannot get information from the Company's web page, and may mistakenly believe that Chubb does not offer automobile insurance in New Jersey.

III. HOMEOWNER POLICY REVIEW

During the review period, Chubb had 11,983 homeowner policies in force and terminated 18 homeowner policies for cause. The Company had a total population of 2,530 terminated policies which included insured’s request, nonpayment of premium and cancelled/rewritten terminations. The examiners randomly selected files and calculated error ratios in accordance with the procedures outlined in Section I of this report. The examiners’ findings are presented in the sections that follow.

A. TERMINATIONS

1. Error Ratios

<u>REVIEW</u>	<u>NUMBER OF FILES REVIEWED</u>	<u>FILES IN ERROR</u>	<u>ERROR RATIO</u>
HO Terminations	18	12	67%

2. Examiners’ Findings

a. Failure to Provide Factual Basis For Cancellation (12 Files in Error)

According to N.J.A.C. 11:1-20.2(g), no nonrenewal or cancellation shall be valid unless the notice contains the standard or reason upon which the termination is premised and specifies in detail the factual basis upon which the insurer relies. Contrary to the regulation, the examiners found that the Company did not provide the factual basis for cancellation on 12 homeowner policy cancellation notices.

POLICY NUMBER	NONSPECIFIC REASON ON TERMINATION NOTICE	DEFICIENCY
1237932001	Does not meet underwriting guidelines.	The message must state which underwriting guidelines the insured did not meet and the factual basis upon which the insurer relies.
1244296101	Does not meet underwriting guidelines.	The message must state which underwriting guidelines the insured did not meet and the factual basis upon which the insurer relies.
1235799901	Risk does not meet underwriting requirements.	The message must state which underwriting requirements were not met and the factual basis upon which the insurer relies.

POLICY NUMBER	NONSPECIFIC REASON ON TERMINATION NOTICE	DEFICIENCY
1015911308	Increased hazard in the risk assumed which could not have been reasonably contemplated by the parties at the time of assumption of the risk.	The message must state what the increased hazard is in the risk and the factual basis upon which the insurer relies.
1228981701	A substantial change or increase in hazard in the risk assumed subsequent to the date the policy was issued.	The message must state what the increased hazard is in the risk and the factual basis upon which the insurer relies.
1150455302	Fraudulent acts against the company by the insured or its representatives that materially affect the nature of the risk insured.	The message must give the facts regarding the fraudulent acts.
1071536901	Material change in risk.	The message must state the material change and the factual basis upon which the insurer relies.
1013954902	Increase hazard or material change in the risk assumed which could not have been reasonably contemplated by parties at the time of the assumption of the risk.	The message must state what the increased hazard is in the risk and the factual basis upon which the insurer relies.
1231789301	Due to change in risk-undisclosed COC risk.	The message must spell out COC- Course of Construction/Renovation.
1243633501	Increased hazard or material change in the risk assumed which could not have been reasonably contemplated by the parties at the time of assumption of the risk; the dwelling is of EIFS construction.	The message must spell out EIFS- Exterior Insulation Finishing System.*
1240568401	Increased hazard or material change in the risk assumed which could not have been reasonably contemplated by the parties at the time of assumption of the risk; the dwelling is of EIFS construction.	The message must spell out EIFS- Exterior Insulation Finishing System.*
1243012701	Increased hazard or material change in the risk assumed which could not have been reasonably contemplated by the parties at the time of assumption of the risk; the dwelling is of EIFS construction.	The message must spell out EIFS- Exterior Insulation Finishing System.*

* Chubb disagreed with these findings, stating “EIFS has received so much publicity that the meaning is understood by the public at large.” The examiners believe, however, that the average consumer may not know what EIFS construction is and therefore would not be able to determine if the company's termination is proper.

b. Termination File Review

The examiners reviewed 18 homeowner policy terminations to see if the insured had an automobile policy with Chubb and if the Company cancelled the automobile policy as well as the homeowner policy. In addition, the examiners reviewed 55 automobile terminations to determine how many of those insureds had homeowner policies and if the Company cancelled the homeowner policies when it terminated the automobile policies. The results of that review are recorded in the following charts:

1. Terminated Homeowner Files

<u>Number of Homeowner Files Reviewed</u>	<u>Number That Had Auto Policies As Well</u>	<u>Number That Had Similar Auto and HO Termination Dates</u>
18	1	0

2. Terminated Automobile Files

<u>Number of Automobile Files Reviewed</u>	<u>Number That Had HO Policies As Well</u>	<u>Number That Had Similar Auto and HO Termination Dates</u>
55	28	1

There does not appear to be a correlation between terminating and writing an automobile and homeowner policy.

B. UNDERWRITING

1. Examiners’ Findings

a. In Force Policy Review

The examiners randomly selected and reviewed 61 homeowner policies in force to determine how many of those insureds had an automobile policy with Chubb. Conversely, the examiners reviewed 108 automobile policies to determine how many of those insureds also had a homeowner policy with Chubb. The examiners’ findings are presented in the following charts:

Homeowner Policies In Force

<u>Number of HO Files Reviewed</u>	<u>Number That Had Auto Policies As Well</u>	<u>Number That Had Similar Auto and HO Inception Dates</u>
61	18	6

Automobile Policies In Force

<u>Number of Automobile Files Reviewed</u>	<u>Number That Had HO Policies As Well</u>	<u>Number That Had Similar Auto and HO Inception Dates</u>
108	49	23

The above charts indicate that 30% (18/61) of Chubb homeowner policyholders also maintain automobile insurance with the Company and that 45% (49/108) of automobile insurance policyholders also carry Chubb homeowner coverage. Additionally, when an insured has a homeowner policy as well as an automobile policy with the Company, 33% (6/18) have similar automobile and homeowner policy inception dates. Forty-seven percent of auto policies reviewed have similar inception dates as the insured's homeowner policies.

The examiners were unable to perform similar database reviews on the total population. Chubb has two separate computer systems; homeowner data is maintained on the Masterpiece system and automobile data is retained on the CAAS system. These systems do not have a common link for the purposes of such an analysis.

IV. RECOMMENDATIONS

Chubb Insurance Company of New Jersey should inform all responsible personnel and third party entities who handle the files and records cited as errors in this report of the examiners' recommendations and remedial measures that follow in the report sections indicated. The examiners also recommend that Chubb establish procedures to monitor compliance with these measures.

Throughout this report, the examiners cite and/or discuss all errors found. If the report cites a single error, the examiners often include a "reminder" recommendation because if a single error is found, more errors may have occurred.

The examiners acknowledge that during the examination, Chubb had agreed and had already complied with, either in whole or in part, some of the recommendations. For the purpose of obtaining proof of compliance and for the Company to provide its personnel with a document they can use for future reference, the examiners have listed all recommendations below.

A. GENERAL INSTRUCTIONS

All items requested for the Commissioner and copies of all written instructions, procedures, recommended forms, etc., should be sent to the Commissioner, c/o Clifton J. Day, Manager of the Market Conduct Examinations and Anti-fraud Compliance Unit, Mary Roebling Building, 20 West State Street, PO Box 329, Trenton, N.J. 08625, within thirty (30) days of the date of the adopted report.

B. AUTOMOBILE POLICY TERMINATIONS

1. Chubb should issue written instructions to all appropriate personnel that **N.J.A.C. 11:3-8.3(f)1** requires that a notice of nonrenewal shall include the facts relied upon by the insurer in determining to nonrenew the insured. The notice must include specific dates, facts and identification of incidents.
2. Chubb should issue written instructions to all appropriate personnel that according to **N.J.S.A.17:29C-7.1(2)** and **N.J.A.C. 11:3-8.6 (c)2**, no insurer shall refuse to renew a policy under the 2% rule unless the insured or operator insured under the policy in the five years immediately preceding renewal has had at least two of the following or any combination thereof: (a) an at-fault accident; (b) a moving violation which was assessed at least four automobile insurance eligibility points; or (c) had been required, but failed to maintain coverage mandated by **N.J.S.A. 39:6A-4**.
3. The Company should remind appropriate personnel that **N.J.S.A.17:33B-15b** and **N.J.A.C. 11:3-40.3(a)** require a company to insure all eligible persons who meet its underwriting rules.
3. Chubb should revise its web page to include automobile insurance information for New Jersey Consumers. The Company should provide a copy of the written material to the Commissioner for review.

C. HOMEOWNER POLICY TERMINATIONS

5. The Company should issue written instructions to appropriate personnel that, in order to comply with N.J.A.C. 11:1-20.2(g), the Company must provide the standard or reason and factual basis for cancellation on the notices, and refrain from the use of an acronym in the explanation for the cancellation.

VERIFICATION PAGE

I, Marleen J. Sheridan, am the Examiner-in-Charge of the Market Conduct Examination of Chubb Insurance Company of New Jersey conducted by examiners of the New Jersey Department of Banking and Insurance. This verification is based on my personal knowledge as acquired in my official capacity.

The findings, conclusions and recommendations contained in the foregoing report represent, to the best of my knowledge, a full and true statement of the Market Conduct examination of Chubb Insurance Company of New Jersey as of April 25, 2003.

I certify that the foregoing statements are true. I am aware that if any of the foregoing statements made by me is willfully false, I am subject to punishment.

Date:

Marleen J. Sheridan
Examiner-In-Charge
New Jersey Department
of Banking and Insurance