



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

In re:)
)
Chubb National Insurance Company (NAIC #10052))
Great Northern Insurance Company (NAIC #20303)) Examination No. 0904-19-TGT
Vigilant Insurance Company (NAIC #20397))
Pacific Indemnity Insurance Company (NAIC #20346))

ORDER OF THE DIRECTOR

NOW, on this 19th day of JULY, 2012, Director John M. Huff, after consideration and review of the market conduct examination reports of Chubb National Insurance Company (NAIC #10052) (hereafter referred to as "Chubb National"), Great Northern Insurance Company (NAIC #20303) (hereafter referred to as "Great Northern"), Vigilant Insurance Company (NAIC #20397) (hereafter referred to as "Vigilant"), and Pacific Indemnity Insurance Company (NAIC #20346) (hereafter referred to as "Pacific"), report number 0904-19-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3 (3) (a), and the Stipulations of Settlement ("Stipulations"), does hereby adopt such report as filed. After consideration and review of the Stipulations, reports, relevant work papers, and any written submissions or rebuttals, the findings and conclusions of such report are deemed to be the Director's findings and conclusions accompanying this order pursuant to §374.205.3(4).

This order, issued pursuant to §§374.205.3(4) and 374.280, and §374.046.15. RSMo (Cum. Supp. 2011), is in the public interest.

IT IS THEREFORE ORDERED that Chubb National, Great Northern, Vigilant, Pacific and the

Division of Insurance Market Regulation having agreed to the Stipulations, the Director does hereby approve and agree to the Stipulations.

IT IS FURTHER ORDERED that Chubb National, Great Northern, Vigilant and Pacific shall not engage in any of the violations of law and regulations set forth in the Stipulations and shall implement procedures to place the Company in full compliance with the requirements in the Stipulations and the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times.

IT IS FURTHER ORDERED that Chubb National shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of \$68,000 payable to the Missouri State School Fund

IT IS FURTHER ORDERED that Great Northern shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of \$2,000 payable to the Missouri State School Fund

IT IS FURTHER ORDERED that Vigilant shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of \$4,000 payable to the Missouri State School Fund

IT IS FURTHER ORDERED that Pacific shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of \$7,000 payable to the Missouri State School Fund

IT IS SO ORDERED.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of my office in Jefferson City, Missouri, this 19th day of JULY, 2012.


John M. Huff
Director



DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690. Jefferson City. Mo. 65102-0690

RECEIVED
JUL 18 2012

DEPT OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

TO: Chubb National Insurance Co.
15 Mountain View Road
Warren, NJ 07061

RE: Chubb National Insurance Co. (NAIC #10052)
Missouri Market Conduct Examination #0904-19-TGT

STIPULATION OF SETTLEMENT
AND VOLUNTARY FORFEITURE

It is hereby stipulated and agreed by John M. Huff, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration, hereinafter referred to as "Director," and Chubb National Insurance Co. (NAIC #10052), (hereafter referred to as "Chubb"), as follows:

WHEREAS, John M. Huff is the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration (hereafter referred to as "the Department"), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State in Missouri; and

WHEREAS, Chubb has been granted a certificate of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, the Department conducted a Market Conduct Examination of Chubb and prepared report number 0904-19-TGT; and

WHEREAS, the report of the Market Conduct Examination revealed that:

1. In three instances, Chubb applied a 20% reduction on private passenger auto policies. The basis for the discount was not adequately documented in violation of 20 CSR 500-4.100(7)(D)(I).

2. In eight instances, Chubb failed to apply the Company's special rates and conditions to personal auto policies that the Examiners determined met or exceeded the criteria for the special rates and conditions. Failing to apply the special rates resulted in unfair discrimination in violation of §379.470.1.¹
3. In three instances, Chubb applied the wrong territory factor for the city of Town and Country due to a printing error in the Company's Rate and Rule Manual in violation of §379.321.1.
4. In two instances, Chubb applied an underwriter rate modification reducing premium on homeowners policies. The basis for applying the discount was not adequately documented in violation of §§379.321.1 and 379.356.1.
5. In three instances, Chubb applied a loss-free credit reducing premium on homeowners policies, but did not correctly apply one of the factors in determining the credit in violation of §§379.321.1 and 379.356.1.
6. In five instances, Chubb failed to inform policy owners of a 25% surcharge for property rented to others. Failure to disclose this material fact violated §375.144(2).
7. In one instance, the Company's adjuster did not include both parties listed on a policy on a claim settlement check. The failure to include both parties on the check violated 20 CSR 100-8.040(3)(8)1.

WHEREAS, Chubb hereby agrees to take remedial action bringing it into compliance with the statutes and regulations of Missouri and agrees to maintain those corrective actions at all times, to reasonably assure that the errors noted in the above-referenced market conduct examination reports do not recur. The remedial actions shall include the following:

1. Chubb agrees to discontinue the use of its special rates rule for all Missouri personal lines of business. Chubb will not reinstate the use of its special rates rule for Missouri personal lines of business, unless such rates are filed with and approved by the Department.
2. While not admitting any violation, Chubb will apply the special rates rule discount of 20% to the eight personal auto policyholders who the Examiners determined should receive it. Chubb will provide restitution and it will be measured by the difference between the premium amount paid by the policyholders and the amount they would have paid as if the 20% discount had been applied. Interest must be included on the difference at the rate of nine per cent (9%) per annum as required by §408.020.

¹ All references, unless otherwise noted, are to Missouri Revised Statutes 2000, as amended.

3. Chubb agrees to review all active Missouri personal auto policies from January 1, 2009 to the date of the Order closing this exam to determine if any policies qualify for the Company's special rates rule discount of 20%. Any policyholder, qualified for the special rates, who failed to receive them, shall be provided restitution with interest pursuant to the formula set out in the immediately preceding paragraph number 2. A letter will be included with all restitution payments, indicating that "as a result of a Missouri Market Conduct examination," it was found that the Company owes a refund on premium. Additionally, evidence must be provided to the Department within 120 days after the date of the Order finalizing this examination that Chubb's review has been completed and all restitution payments required under this Stipulation have been made to the policyholders.

4. Chubb agrees that all surcharges included in Missouri homeowners policies shall be disclosed to the insured on either the declarations page of the policy or in a separate standalone document to be sent to the policyholder at the time of purchase or renewal. A copy of any standalone document shall be maintained in the Company's underwriting files.

WHEREAS, Chubb, after being advised by legal counsel, does hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity for a hearing, which may have otherwise applied to the above referenced Market Conduct Examination.

WHEREAS, Chubb hereby agrees to the imposition of the ORDER of the Director and as a result of Market Conduct Examination #0904-19-TGT further agrees, voluntarily and knowingly to surrender and forfeit the sum of \$68,000.

NOW, THEREFORE, in lieu of the institution by the Director of any action for the SUSPENSION or REVOCATION of the Certificate(s) of Authority of Chubb to transact the business of insurance in the State of Missouri or the imposition of other sanctions, Chubb does hereby voluntarily and knowingly waive all rights to any hearing, does consent to undertake the remedial actions set forth in this Stipulation does consent to the ORDER of the Director and does surrender and forfeit the sum of \$68,000, such sum payable to the Missouri State School Fund, in accordance with §374.280.

The signatory below certifies that he is authorized to enter into this Stipulation on behalf of Chubb National Insurance Company.

DATED: 7/11/2012



Chairman
Chubb National Insurance Company



CHUBB GROUP OF INSURANCE COMPANIES

15 Mountain View Road, P.O. Box 1615, Warren, NJ 07061-1615

August 19, 2010
VIA UPS

Carolyn H. Kerr, Senior Counsel
State of Missouri Department of Insurance
Division of Insurance Market Regulation
301 West High Street
Suite 530
Jefferson City, MO 65102

Re: Market Conduct Examination #0904-19-TGT
Chubb National Insurance Company (NAIC #10052)

Dear Ms. Kerr:

We have received and reviewed the examiners' market conduct report sent to the Office of the President, Chubb Insurance Group, on July 20, 2010. We accept the report as written, with the following exceptions:

I. UNDERWRITING AND RATING PRACTICES

A. Forms and Filings

Finding: The examiners reviewed the Company's underwriting manual and the Company's filing with the Department and were unable to determine how the Company derived and specifically applied the 20% underwriter rate modification factor to the basic premium to all vehicles listed for three policies - 1340793601, 1321091510 & 1084622501.

The examiners also reviewed the "Special Rates and Conditions Section" of the Company's underwriting manual and were unable to determine how the Company defines the following terms to which special rates or conditions may be issued: a risk with unusual circumstances; unusual loss history; or other special factors. These underwriting terms seem vague and give the Company the option to apply an arbitrary factor and give a reduction or inflation in premium that is not specifically filed with the Department.

Company response: The intent behind our Special Rates and Conditions section is to provide flexibility in the premium development for risks classified as "unique or unusual" due to the

exposures presented. These risks by definition are not uniform in nature and therefore do not provide a credible data base that would support an actuarially developed credit. By restricting authority to use Special Rates and Conditions to certain individuals, the Company is attempting to maintain consistency in its application to unique risks.

Special Rates and Conditions is filed and approved in Missouri as part of the Masterpiece Rate and Rule Manual. We believe we are utilizing a filed and approved plan acceptable to Missouri.

The Company accepts that based on the examiner's findings, there are some inconsistencies with the way in which the Special Rates and Conditions provision has been applied or documented. The Company is re-examining its use of the provision and will make adjustments to address the Insurance Department's concerns. Our intent is to modify our Homeowners and Personal Auto filings to allow for more specific description of risk characteristics associated with an explicit range of credits / debits attributable to each characteristic, similar to the templates shown in EXHIBIT A. If these templates are satisfactory with the Department, we will proceed with such a filing accordingly. However, since we were acting in good faith in the application of this section, we request that any criticisms are waived in anticipation of a revised filing which addresses the examiner's concerns.

B. Underwriting and Rating

Personal Auto Underwriting (New and Renewal)

Finding: The examiners determined the below listed policies met or exceeded the criteria for the Company's special rates and conditions, however, the Company did not rate these policies under the rates and conditions provision with the applicable credits even though they met or exceeded the criteria based on their unique risks. Policies: 1302900303, 1341006001, 1343969802, 1075164101, 1119994506, 1124781104, 1239449492, 1265998201.

Company response: Upon review of the underwriting notes for each of the above eight policies, the application of the Special Rates and Conditions was never requested (as per the Rule) by either the Insured or the Company. Thus, these policies were correctly rated. We believe we are utilizing a filed and approved plan acceptable to Missouri.

2. Homeowners Active Underwriting and Rating (New and Renewal)

Finding: The Company's rating manual shows the territory factor for the city of Town and Country as a territory 55, and the base premium as \$692 for the Deluxe House with Contents. The Company calculated the

territory factor for the city of Creve Coeur, which was not listed in the territory listings page, using the factor 47 (rest of county) and the base premium of \$753 for the Deluxe House with Contents. The Territory Factor is incorrect, causing an overcharge to the insured in the amount of \$644. Policy 1064735001.

The Company made a filing with the Department on September 4, 2006 (Filing No. 05-3990HO-RR) to create a new territory 55. However, the Company failed to update their Masterpiece rate and rule manual reflecting this new filing. Policies 1075720702, 1329591801.

Company response: We researched this issue and determined that the territory factor was programmed correctly as territory 47, however, the Rate and Rule manual had been printed incorrectly and was showing the territory as 55. Please note that this was not a rating or filing error but rather a typographical error in our Rate and Rule manual which did not affect any premiums. The rate and rule manual was corrected on May 18, 2010.

Finding: The Company applied an underwriter rate modification, which reduced the premium on the five policies listed below. This underwriting discount was given pursuant to the Company's underwriting manual, General Rules - Special Rates and Conditions, by which the insured met the Special rates criteria. The Company did not show where the specific applicable percentage credits, based on the unique risk characteristics, are filed in the Company's underwriting manual and with the Department. Policies 1119959605, 1237660513, 1138843108, 1329591801, 1084622501.

Company response: The intent behind our Special Rates and Conditions section is to provide flexibility in the premium development for risks classified as "unique or unusual" due to the exposures presented. These risks by definition are not uniform in nature and therefore do not provide a credible data base that would support an actuarially developed credit. By restricting authority to use Special Rates and Conditions to certain individuals, the Company is attempting to maintain consistency in its application to unique risks.

Special Rates and Conditions is filed and approved in Missouri as part of the Masterpiece Rate and Rule Manual. We believe we are utilizing a filed and approved plan acceptable to Missouri.

The Company accepts that based on the examiner's findings, there are some inconsistencies with the way in which the Special Rates and Conditions provision has been applied or documented. The Company is re-examining its use of the provision and will make adjustments to address the Insurance Department's concerns. Our intent is to modify our Homeowners and Personal Auto filings to allow for more specific description of risk characteristics associated

with an explicit range of credits / debits attributable to each characteristic, similar to the templates shown in EXHIBIT A. If these templates are satisfactory with the Department, we will proceed with such a filing accordingly. However, since we were acting in good faith in the application of this section, we request that any criticisms are waived in anticipation of a revised filing which addresses the examiner's concerns.

Finding: The six policies listed below did not inform the policy-owner or insured that it was charged a 25% surcharge for property rented to others. Although the declarations page indicated the policy owner or insured received the appropriate credits, the declaration page did not state the additional surcharge amount. Policies 1146918501, 1344093210, 1347876302, 1330249201, 134409321013, 1351587102.

Company response: The premium on these policies was calculated in accordance with our filed rates, taking into account all applicable credits and surcharges, and a detailed rate sheet was supplied to the policyholder's agent/broker. We found no Missouri statute or regulation requiring insurers to disclose surcharges/credits or rating information to policyholders in a Premium Summary.

Prospectively, we will address the Department's concerns by forwarding the rate sheet (which contains all applicable credits/surcharges) to policyholders. The rate sheet is currently distributed to producers only. Attached in EXHIBIT B is a sample rate sheet for your review. If this plan is acceptable with the Department, we will commence distribution of the rate sheet to the policy holders accordingly.

- C. **Personal Auto and Homeowners Terminations**
There were no issues discovered in this review.
- D. **Practices Not in the Best Interest of Consumers**
There were no issues discovered in this review.

II. CLAIMS PRACTICES

- A. **Claim Time Studies**
There were no issues discovered in this review.
- B. **Unfair Settlement and General Practices**

Finding: The Company adjustor did not include both parties that were listed on the policy on the claim settlement check. Notes in the claim file by the Company's claim supervisor state that this error would not meet the Company's audit review.

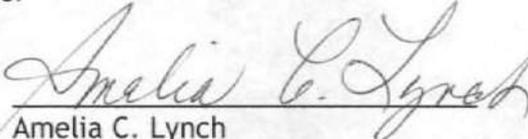
Company response: We agree that the claim settlement check was not addressed properly. This has been addressed with the individual who issued the check.

- C. **Practices Not in the Best Interest of Consumers**
There were no issues discovered in this review.

- III. **COMPLAINTS**
There were no issues discovered in this review.

We would like to thank the Insurance Market Regulation Division and its representatives for the manner in which this examination was conducted and for the courtesy and cooperation extended to our staff.

Sincerely,
Chubb & Son
a division of Federal Insurance Company
Manager

By: 
Amelia C. Lynch
Senior Vice President & Insurance Compliance Officer

Cc: D. Fiorot
M. Edgerley

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND
PROFESSIONAL REGISTRATION



FINAL MARKET CONDUCT EXAMINATION REPORT
Of the Property and Casualty Business of

Chubb National Insurance Company
NAIC # 10052

MISSOURI EXAMINATION # 0904-19-TGT

NAIC EXAM TRACKING SYSTEM # M0268-M96

July 16, 2012

Home Office
15 Mountain View Road
Warren, New Jersey, 07059

TABLE OF CONTENTS

FOREWORD	3
SCOPE OF EXAMINATION	4
COMPANY PROFILE	5
EXECUTIVE SUMMARY	7
EXAMINATION FINDINGS	8
I. UNDERWRITING AND RATING PRACTICES	8
A. Forms and Filings	9
B. Underwriting and Rating	9
C. Personal Auto and Homeowner Terminations	11
D. Practices Not in the Best Interest of Consumers	12
II. CLAIMS PRACTICES	12
A. Claims Time Study	13
B. Unfair Settlement and General Handling Practices	14
C. Practices Not in the Best Interest of Consumers	16
III. COMPLAINTS	17
IV. CRITICISMS AND FORMAL REQUESTS TIME STUDY	18
A. Criticism Time Study	18
B. Formal Request Time Study	18
EXAM REPORT SUBMISSION	19

FOREWORD

This is a targeted market conduct examination report of the Chubb National Insurance Company, (NAIC Code # 10052). This examination was conducted at the company's branch office at 8000 Maryland Avenue, Suite 1500, St. Louis, Missouri, 63105.

The Company declined a desk audit offer to be done in the office of the DIFP in Jefferson City, Missouri, even if the expenses of the examination would be much cheaper for the Company.

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products or files does not constitute approval thereof by the DIFP.

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- "Company" refers to Chubb National Insurance Company;
- "CSR" refers to the Missouri Code of State Regulation;
- "DIFP" refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- "Director" refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- "NAIC" refers to the National Association of Insurance Commissioners;
- and
- "RSMo" refers to the Revised Statutes of Missouri.

SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§374.110, 374.190, 374.205, 375.445, 375.938, and 375.1009, RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DIFP regulations and to consider whether the Company's operations are consistent with the public interest. The primary period covered by this review is January 1, 2009, through December 31, 2009, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination was a targeted examination involving the following business functions and lines of business: Company Complaints, Personal Automobile Underwriting, Personal Automobile Terminations, and Personal Automobile Paid and Non-Paid Claims, Homeowners Underwriting, Homeowners Terminations, and Homeowners Paid, and Non- Paid Claims.

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark error rate for claims practices is seven percent (7%) and for other trade practices is ten percent (10%). Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized, however, for reviews not applying the general business practice standard.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

COMPANY PROFILE

The following company profile was provided to the examiners by the Company.

The Chubb Group traces its origins to the partnership of Chubb & Son (an underwriting management organization founded in New York in 1882) and its successor Chubb & Son Inc. (incorporated under the laws of New York State in 1959) and since 1967 a wholly owned subsidiary of the Chubb Corporation. The corporation was listed on the New York Stock Exchange in 1984, and ranks among the top publicly traded insurance organizations based on revenues in the United States.

The principle property and casualty insurance company in the group is Federal Insurance Company, a successor to the New York Marine Underwriters, which was incorporated in 1901. Federal Insurance Company is licensed in all 50 states.

Companion domestic property and casualty companies include:

- Vigilant Insurance Company (founded in 1939);
- The Great Northern Insurance Company (acquired in 1960);
- The Pacific Indemnity Company and its two subsidiaries, Northwestern Pacific Indemnity Company and Texas Pacific Indemnity Company acquired in 1960;
- Chubb Lloyds Insurance Company of Texas (established in 1973);
- Chubb Custom Insurance Company (established in 1980);
- Chubb Insurance Company of New Jersey (established in 1982);
- Chubb National Insurance Company (established in 1993);
- Chubb Indemnity Insurance Company (established in 1994);
- Executive Risk Indemnity Inc. and its subsidiary Executive Risk Specialty Insurance Company (acquired in 1999).

Originally, Chubb & Son Inc. managed the property and casualty insurance companies within the Chubb Group. In 1998, the Federal Insurance Company replaced Chubb & Son, Inc. as the manager of the member insurers of the group.

The Group is engaged in full multiple line operations, including property, liability, marine, fidelity, surety and accident. Members of the group subscribe to virtually all

rating and advisory bureaus. Multiple companies afford the ability to provide specialized coverage's and rates to our insured's.

The Group employs some 11,600 people throughout North America, Europe, South America and the Pacific Rim. It is represented by more than 8500 independent agents and brokers worldwide. In addition to the headquarters in NJ, the Group operates from some 120 offices in 28 countries. There are two centralized claim service centers in the US, as well as claim representation in approximately 50 US branches. There are also claim offices in most overseas branches.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of Chubb National Insurance Company. The examiners found the following principal areas of concern:

The examiners found three violations in the Company's automobile filings

The examiners found eight violations in its active automobile underwriting.

The examiners found 13 violations in the active homeowners underwriting.

The examiners found one violation in its automobile comprehensive paid claims.

The examiners requested that the Company make refunds concerning underwriting premium overcharges and claim underpayments found for amounts greater than \$5.00 during the examination if any were found.

EXAMINATION FINDINGS

I. UNDERWRITING AND RATING PRACTICES

This section of the report is designed to provide a review of the Company's underwriting and rating practices. These practices included the use of policy forms, adherence to underwriting guidelines, assessment of premium, and procedures to decline or terminate coverage. Examiners reviewed how the Company handled new and renewal policies to ensure that the Company underwrote and rated risks according to their own underwriting guidelines, filed rates, and Missouri statutes and regulations.

Because of the time and cost involved in reviewing each policy/underwriting file, the examiners utilize sampling techniques in conducting compliance testing. A policy/underwriting file is determined in accordance with 20 CSR 100-8.040 and the NAIC Market Regulation Handbook. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.930 – 375.948 and §375.445) and compared with the NAIC benchmark error rate of ten percent (10%). Error rates in excess of the NAIC benchmark error rate are presumed to indicate a general business practice contrary to the law. Errors indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

The examiners requested the Company's underwriting and rating manuals for the line of business under review. This included all rates, guidelines, and rules that were in effect on the first day of the examination period and at any point during that period to ensure that the examiners could properly rate each policy reviewed.

The examiners also reviewed the Company's procedures, rules, and forms filed by or on behalf of the Company with the DIFP. The examiners systematically selected the policies for review from a listing furnished by the Company.

The examiners also requested a written description of significant underwriting and rating changes that occurred during the examination period for underwriting files that were maintained in an electronic format.

An error can include, but is not limited to, any miscalculation of the premium based on the information in the file, an improper acceptance or rejection of an application, the misapplication of the Company's underwriting guidelines, incomplete file information preventing the examiners from readily ascertaining the Company's rating and underwriting practices, and any other activity indicating a failure to comply with Missouri statutes and regulations.

A. Forms and Filings

The examiners reviewed the Company's policy and contract forms to determine its compliance with filing, approval, and content requirements to ensure that the contract language is not ambiguous or misleading and is adequate to protect those insured.

The examiners discovered that the Company underwriter applied a rate modification in three private passenger automobile policies that amounted to a 20% reduction to the basic premium to all vehicles insured on each of the three respective policies. This underwriting rate modification was given pursuant to the Company's underwriting manual, General Rules – Special rates and conditions, by which the insureds met the Special rates criteria by either insuring any single vehicle worth \$100,000.00, or more than five vehicles.

The examiners reviewed the Company's underwriting manual and the Company's filing with the Department and were unable to determine how the Company derived and specifically applied the 20% underwriter rate modification factor to the basic premium to all vehicles listed for the three policies.

The examiners also reviewed the "Special Rates and Conditions Section" of the Company's underwriting manual and were unable to determine how the Company defines the following terms to which special rates or conditions may be issued: a risk with unusual circumstances; unusual loss history; or other special factors. These underwriting terms seem vague and give the Company the option to apply an arbitrary factor and give a reduction or inflation in premium that is not specifically filed with the Department.

Policy Numbers: 1340793601 1321091510 1084622501

Reference: §§ 379.321.1, and 379.356.1, RSMo

B. Underwriting and Rating

The examiners reviewed applications for coverage that were issued, modified, or declined by the Company to determine the accuracy of rating and adherence to prescribed and acceptable underwriting criteria.

1. Personal Auto Underwriting (New and Renewal)

Field Size:	217
Sample Size:	106
Type of Sample:	Random
Number of Errors:	8
Error Ratio:	8%

The examiners determined the below listed policies met or exceeded the criteria for the Company's special rates and conditions. The Company did not rate these policies under the rates and conditions provision with the applicable credits even though they met or exceeded the criteria based on their unique risks.

Policy Numbers:

1302900303 1341006001 1343969802 1075164101 1119994506
1124781104 1239449492 1265998201

Reference: § 379.470.1 RSMo.

2. Homeowners Active Underwriting and Rating (New and Renewal)

Field Size:	325
Sample Size:	50
Type of Sample:	Random
Number of Errors:	13
Error Ratio:	26%

The Company's rating manual shows the Territory Factor for the city of Town and Country as a territory 55, and the base premium as \$692.00 for the Deluxe House with Contents. The Company calculated the Territory Factor for the city of Creve Coeur, which was not listed in the territory listings page, using the factor 47 (rest of county) and the base premium of \$753.00 for the Deluxe House with Contents. The Territory Factor is incorrect, causing an overcharge to the insured in the amount of \$644.00.

Policy Number: 1064735001

Reference: §§ 379.321.1, and 408.020, RSMo.

The Company made a filing with the Department on September 4, 2006, (Filing No. 05-3990HO-RR) to create a new territory 55. However, the Company failed to update their Masterpiece rate and rule manual reflecting this new filing.

The Company failed to file with the director every manual of classification, rules, underwriting rules and rates, every rating plan, and every modification of the foregoing which it uses and the policies and forms to such rates are applied.

Policy Numbers: 1075720702 and 1329591801(unit 1)

Reference: §379.321.1, RSMo.

The Company applied an underwriter rate modification, which reduced the premium on the two policies listed below. This underwriting discount was given pursuant to the Company's underwriting manual, General Rules- Special rates and conditions, by which, the insured met the Special rates criteria. The Company did not show where the specific applicable percentage credits based on the unique risk characteristics are filed in the Company's underwriting manual and with the Department.

Policy Numbers:

1119959605 1084622501

Reference: §§ 379.321.1, and 379.356.1, RSMo.

The Company applied a loss-free credit which reduced premium on the three policies listed below. The credit was given pursuant to the Company's underwriting manual, but was not properly applied as one of the steps in the manual for applying a loss-free credit was not followed.

Policy Numbers:

1237660513 1138843108 1329591801

Reference: §§ 379.321.1 and 379.356.1 RSMo

The five policies listed below did not inform the policy-owner or insured that it was charged a 25% surcharge for property rented to others. Although the declarations page indicated the policy owner or insured received the appropriate credits, the declaration page did not state the additional surcharge amount.

Policy Numbers:

1146918501 1344093210 1347876302 1330249201

1351587102

Reference: §375.144(2), RSMo.

C. Personal Auto and Homeowners Terminations

The examiners reviewed policies the carrier terminated at or before the scheduled expiration date of the policies and policies that were rescinded by the Company after the effective date of the policy.

1. Personal Auto Terminations

Field Size:	3
Sample Size:	3
Type of Sample:	Census
Number of Errors:	0
Error Ratio:	0%

The examiners discovered no general business practice issues in this review.

2. Homeowners Terminations

Field Size:	3
Sample Size:	3
Type of Sample:	Census
Number of Errors:	0
Error Ratio:	0%

The examiners discovered no general business practice issues in this review.

D. Practices Not in the Best Interest of Consumers

The examiners also looked for items that were not in the best interest of consumers. Not only could these practices be harmful to the insured, they may expose the company to potential liability.

The examiners discovered no general business practice issues in this review.

II. CLAIMS PRACTICES

This section of the report is designed to provide a review of the Company's claims handling practices. Examiners reviewed how the Company handled claims to determine the timeliness of handling, accuracy of payment, adherence to contract provisions, and compliance with Missouri statutes and regulations.

To minimize the duration of the examination, while still achieving an accurate evaluation of claim practices, the examiners reviewed a statistical sampling of the claims processed. The examiners requested a listing of claims paid and claims closed without payment during the examination period for the line of business under review. The review consisted of Missouri claims selected from a listing furnished by the Company with a date of closing from January 1, 2009, through December 31, 2009.

A claim file is determined in accordance with 20 CSR 100-8.040 and the *NAIC Market Regulation Handbook*. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.1000 – 375.1018 and

§375.445) and compared with the NAIC benchmark error rate of seven percent (7%). Error rates in excess of the NAIC benchmark error rate[s] are presumed to indicate a general business practice contrary to the law. Errors indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

A claim error includes, but is not limited to, any of the following:

- An unreasonable delay in the acknowledgement of a claim;
- An unreasonable delay in the investigation of a claim;
- An unreasonable delay in the payment or denial of a claim;
- A failure to calculate claim benefits correctly; and
- A failure to comply with Missouri law regarding claim settlement practices.

The examiners reviewed the claim files for timeliness. In determining timeliness, examiners looked at the duration of time the Company used to acknowledge the receipt of the claim, the time for investigation of the claim, and the time to make payment or provide a written denial.

Missouri statutes require the Company to disclose to first-party claimants all pertinent benefits, coverage or other provisions of an insurance policy under which a claim is presented. Claim denials must be given to the claimant in writing, and the Company must maintain a copy in its claim files.

A. Claims Time Studies

To test for compliance with timeliness standards, the examiners reviewed claim records and calculated the amount of time taken by the Company for claims processing. They reviewed the Company's claims processing practices relating to (1) the acknowledgement of receipt of notification of claims; (2) the investigation of claims; and (3) the payment of claims or the providing of an explanation for the denial of claims.

DIFP regulations require companies to abide by the following parameters for claims processing:

- Acknowledgement of the notification of a claim must be made within 10 working days;
- Completion of the investigation of a claim must be made within 30 calendar days after notification of the claim. If more time is needed, the Company must notify the claimant and send follow-up letters every 45 days; and
- Payment or denial of a claim must be made within 15 working days after investigation of the claim is complete.

The examiners discovered no issues or concerns.

B. Unfair Settlement and General Handling Practices

In addition to the Claim Time Studies, examiners reviewed the Company's claim handling processes to determine compliance with contract provisions and adherence to unfair claims statutes and regulations. Whenever a claim file reflected that the Company failed to meet these standards, the examiners cited the Company for noncompliance.

1. Private Passenger Auto Comprehensive Paid Claims

Field Size:	2
Sample Size:	2
Type of Sample:	Census
Errors:	1
Error Ratio:	50%

The Company adjustor did not include both parties that were listed on the policy on the claim settlement check. Notes in the claim file by the Company's claims supervisor state that this error would not meet the Company's audit review.

Claim Number: 047509028125

Reference: 20 CSR 100-8.040(3)(B)1 and the Company's claims procedures

2. Private Passenger Auto Collision Paid Claims

Field Size:	9
Sample Size:	9
Type of Sample:	Census
Errors:	0
Error Ratio:	0%

The examiners discovered no general business practice issues in this review.

3. Private Passenger Auto Total Loss Paid Claims

Field Size:	4
Sample Size:	4
Type of Sample:	Census
Errors:	0
Error Ratio:	0%

The examiners discovered no general business practice issues in this review.

4. Private Passenger Auto Medical Payment Paid Claims

Field Size:	1
Sample Size:	1
Type of Sample:	Census
Errors:	0
Error Ratio:	0%

The examiners discovered no general business practice issues in this review.

5. Private Passenger Auto Subrogation Paid Claims

Field Size:	3
Sample Size:	3
Type of Sample:	Census
Errors:	0
Error Ratio:	0%

The examiners discovered no general business practice issues in this review.

6. Homeowners Paid Claims

Field Size:	3
Sample Size:	3
Type of Sample:	Census
Errors:	0
Error Ratio:	0%

The examiners discovered no general business practice issues in this review.

7. Private Passenger Auto Non-Paid Claims

Field Size:	3
Sample Size:	3
Type of Sample:	Census
Errors:	0
Error Ratio:	0%

The examiners discovered no general business practice issues in this review.

8. Homeowners Non-Paid Claims

Field Size:	4
Sample Size:	4
Type of Sample:	Census
Errors:	0

Error Ratio: 0%

The examiners discovered no general business practice issues in this review.

C. Practices Not in the Best Interest of Consumers

The examiners also looked for items that were not in the best interest of consumers. Not only could these practices be harmful to the insured, they may expose the company to potential claims.

The examiners discovered no general business practice issues in this review.

III. COMPLAINTS

This section of the report is designed to provide a review of the Company's complaint handling practices. Examiners reviewed how the Company handled complaints to ensure it was performing according to its own guidelines and Missouri statutes and regulations.

Section 375.936(3), RSMo, requires companies to maintain a registry of all written complaints received for the last three years. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the company.

The examiners verified the Company's complaint registry, dated January 1, 2007, through December 31, 2009. The registry contained no complaints.

The review consisted of a review of the nature of each complaint, the disposition of the complaint, and the time taken to process the complaint as required by §375.936(3), RSMo, and 20 CSR 300-2.200(3)(D).

The examiners discovered no issues or concerns.

IV. CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri law requires companies to respond to criticisms and formal requests within 10 calendar days. Please note that in the event an extension was requested by the company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within that time period, the response was not considered timely.

A. Criticism Time Study

<u>Calendar Days</u>	<u>Number of Criticisms</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	23	100%
Received outside time-limit, incl. any extensions	0	0 %
<u>No Response</u>	<u>0</u>	<u>0 %</u>
Total	23	100%

Reference: §374.205.2(2), RSMo, and 20 CSR 100-8.040.

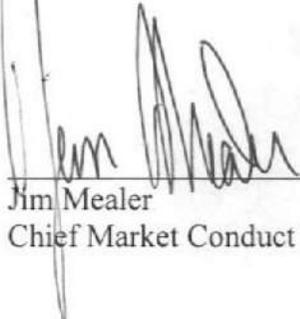
B. Formal Request Time Study

<u>Calendar Days</u>	<u>Number of Requests</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	25	100%
Received outside time-limit, incl. any extensions	0	0%
<u>No Response</u>	<u>0</u>	<u>0%</u>
Total	25	100%

Reference: §374.205.2(2), RSMo, and 20 CSR 100-8.040.

EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of Chubb National Insurance Company (NAIC #10052), Examination Number 0904-19-TGT. This examination was conducted by Gary T. Meyer, Gerald Michitsch, Darren Jordan, and Shelly Herzing. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated June 23, 2010. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.



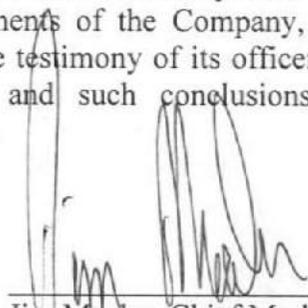
Jim Mealer
Chief Market Conduct Examiner

7/17/2012
Date

STATE OF MISSOURI)
)
COUNTY OF COLE)

VERIFICATION OF WRITTEN REPORT OF EXAMINATION

I, Jim Mealer, on my oath swear that to the best of my knowledge and belief, the attached Examination Report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as reasonably warranted from the facts.



Jim Mealer, Chief Market Conduct Examiner
Department of Insurance, Financial Institutions &
Professional Registration,
State of Missouri

Sworn to and subscribed before me this 17th day of July, 2012.


Notary

My commission expires:
May 18, 2016

(Seal)

KIMBERLY LANDERS Notary Public - Notary Seal State of Missouri Commissioned for Callaway County My Commission Expires: May 18, 2016 Commission Number: 12558402
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