

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

In Re:

THE HANOVER INSURANCE COMPANY  
(NAIC #10324)

)  
) Market Conduct Investigation  
) Number 10118-22292-PC  
)

ORDER OF THE DIRECTOR

NOW, on this 19<sup>TH</sup> day of MAY, 2014, Director John M. Huff, after consideration and review of the market conduct investigation of The Hanover Insurance Company (NAIC #22292) (hereafter referred to as "Hanover") investigation number 10118-22292-PC, conducted by the Division of Insurance Market Regulation pursuant to §374.190<sup>1</sup> and the Stipulation of Settlement ("Stipulation"), does hereby issue the following orders:

This order, issued pursuant to §374.046.15, RSMo (Cum. Supp. 2013) and §374.280 is in the public interest.

IT IS THEREFORE ORDERED that Hanover and the Division of Insurance Market Regulation having agreed to the Stipulation, the Director does hereby approve and agree to the Stipulation.

IT IS FURTHER ORDERED that Hanover shall not engage in any of the violations of law and regulations set forth in the Stipulation and shall implement procedures to place Hanover in full compliance with the requirements in the Stipulation and the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times.

IT IS FURTHER ORDERED that Hanover shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept,


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

the Voluntary Forfeiture of \$3,750, 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 19<sup>th</sup> day of MAY, 2014.

  
John M. Huff  
Director



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

In Re: )  
)  
THE HANOVER INSURANCE ) Market Conduct Investigation #10118-22292-PC  
COMPANY (NAIC # 22292) )  
)

**STIPULATION OF SETTLEMENT  
AND VOLUNTARY FORFEITURE**

It is hereby stipulated and agreed by the Division of Insurance Market Regulation (hereinafter "the Division"), and The Hanover Insurance Company (NAIC #22292) (hereinafter referred to as "Hanover"), as follows:

WHEREAS, the Division is a unit of the Missouri Department of Insurance, Financial Institutions and Professional Registration (hereinafter, "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, Hanover has been granted a certificate of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, the Division conducted a Market Conduct Investigation of Hanover; and

WHEREAS, the Market Conduct Investigation revealed that:

1. In 4 instances, Hanover failed to file individual rate plans for large deductible policies in violation of §287.310<sup>1</sup> and §287.947;
2. In 3 instances, Hanover used NCCI forms subsequent to the withdrawal effective date in violation of §287.310;
3. In 1 instance, Hanover used an unfiled terrorism rate in violation of §287.947;
4. Hanover did not follow the filed NCCI algorithm to rate policies because the experience modification factor was calculated before the deductible credit was applied in violation of §287.955;

5. Discrepancies were found in the calculation of the Second Injury Fund Surcharge in violation of §287.310;

6. Discrepancies were found in the calculation of the Administrative Surcharge in violation of §287.310;

7. Losses reimbursed by the employer were reported to the NCCI on a gross basis even though there was no evidence that the insureds elected the gross reporting option in violation of §287.310.4, §287.350 and 20 CSR 100-8.040.

WHEREAS, the Division and Hanover have agreed to resolve the issues raised in the Market Conduct Investigation as follows:

A. **Scope of Agreement.** This Stipulation of Settlement and Voluntary Forfeiture embodies the entire agreement and understanding of the signatories with respect to the subject matter contained herein. The signatories hereby declare and represent that no promise, inducement or agreement not herein expressed has been made, and acknowledge that the terms and conditions of this agreement are contractual and not a mere recital.

B. **Remedial Action.** Hanover agrees to take remedial action bringing it into compliance with the statutes and regulations of Missouri and agrees to maintain those remedial actions at all times, to reasonably assure that the errors noted in the above-referenced market conduct investigation do not recur. Such remedial actions shall include, but are not limited to, the following:

1. Hanover agrees to file individual rating plans for all individually rated large deductible workers compensation insurance policies with Missouri premium or exposure within 30 days of the effective date of the policy;

2. Hanover agrees to review all policies where NCCI forms were used subsequent to their withdrawal effective date to determine if the use of the withdrawn form impacted premium. If a policyholder was overcharged as a result of the use of the withdrawn form, the premium overcharge must be refunded to the policyholder along with nine percent (9%) interest per annum pursuant to §408.020. A letter must be included with the payment indicating that "as a result of a Missouri

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Market Conduct Investigation," it was found that a refund was due to the insured.

3. Hanover agrees to review all individually rated large deductible workers compensation insurance policies with Missouri premium or exposure to determine if an unfiled terrorism rate was used and to determine if such use impacted premium. If a policyholder was overcharged as a result of the use of an unfiled terrorism rate, the premium overcharge must be refunded to the policyholder along with nine percent (9%) interest per annum pursuant to §408.020.

A letter must be included with the payment indicating that "as a result of a Missouri Market Conduct Investigation," it was found that a refund was due to the insured.

4. Hanover agrees to review all large deductible workers compensation insurance policies with Missouri premium or exposure issued from January 1, 2006 to the date of the order finalizing this investigation to determine if there were errors in the calculation of premium, Second Injury Fund Surcharge or Administrative Surcharge. If the policyholder is entitled to a refund of premium, the Company must issue any refund due to the insured, bearing in mind that an additional payment of nine per cent (9%) interest per annum is also required, pursuant to §408.020. A letter must be included with the payment, indicating that "as a result of a Missouri Market Conduct examination," it was found that a refund was due to the insured. If the Second Injury Fund is owed additional payments, such payments shall be made to the fund with any applicable interest and penalties together with any amended filings required by the Division of Workers Compensation. If the Administrative surcharge was underpaid, such payments that are owed, with any applicable interest and penalties, shall be paid to the Department of Revenue within 90 days of the date of the Order finalizing this investigation. In addition, if underpayments are discovered, the Company must file an amended return on its Administrative Surcharge calculation in a manner satisfactory to the Premium Tax Section of the Department within 90 days of the date of the order finalizing this investigation.

5. Hanover agrees to report all large deductible workers compensation insurance policies with Missouri premium or exposure on a net basis unless the employer exercises the right to purchase a gross reportable deductible plan.

6. Hanover agrees to review all individually rated large deductible workers

compensation insurance policies with Missouri premium or exposure issued from January 1, 2006 to the date of the Order closing this investigation to determine if losses were improperly reported on a gross basis. If losses were improperly reported on a gross basis, Hanover shall determine if the incorrect use of gross reporting negatively affected the e-mod. Since a negative impact on an emod can impact the employer for a period of three years, Hanover shall take reasonable steps to evaluate the impact on the employer for a period of three years after the employer's emod was negatively impacted and refund any amount of premium that was overpaid due to the negatively impacted emod. If any policyholder is entitled to a refund of premium as a result of incorrectly reporting losses on a gross basis, Hanover must issue any refund due to the insured, bearing in mind that an additional payment of nine per cent (9) interest per annum is also required pursuant to §408.020. A letter must be included with the payment indicating that "as a result of a Missouri Market Conduct Investigation," it was found that a refund was due to the insured.

C. **Compliance.** Hanover agrees to file documentation with the Division within 90 days of the entry of a final order of any remedial action taken to implement compliance with the terms of this stipulation and to document payment of restitution required under the terms of this stipulation.

D. **Voluntary Forfeiture.** Hanover agrees, voluntarily and knowingly, to surrender and forfeit the sum of \$3,750 such sum payable to the Missouri State School Fund, in accordance with §374.280.

E. **Other Penalties.** The Division agrees that it will not seek penalties against Hanover, other than those agreed to in this Stipulation, for the conduct found in Market Conduct Investigations 10118-22292-PC.

F. **Waivers.** Hanover, 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, and review or appeal by any trial or appellate court, which may have otherwise applied to the above referenced Market Conduct Investigation.

G. **Changes.** No changes to this stipulation shall be effective unless made in writing and agreed to by all signatories to the stipulation.

H. **Governing Law.** This Stipulation of Settlement and Voluntary Forfeiture shall be governed and construed in accordance with the laws of the State of Missouri.

I. **Authority.** The signatories below represent, acknowledge and warrant that they are authorized to sign this Stipulation of Settlement and Voluntary Forfeiture.

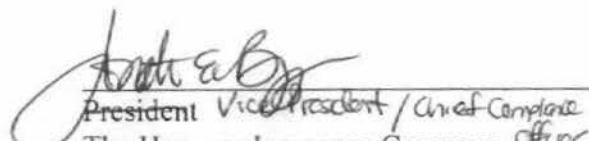
J. **Effect of Stipulation.** This Stipulation of Settlement and Voluntary Forfeiture shall not become effective until entry of a Final Order by the Director of the Department of Insurance, Financial Institutions and Professional Registration (hereinafter the "Director") approving this Stipulation.

K. **Request for an Order.** The signatories below request that the Director issue an Order approving this Stipulation of Settlement and Voluntary Forfeiture and ordering the relief agreed to in the Stipulation, and consent to the issuance of such Order.

DATED: May 14, 2014

  
Stewart Freilich  
Senior Regulatory Affairs Counsel  
Division of Insurance Market Regulation

DATED: April 16, 2014

  
President Vice President / Chief Compliance  
The Hanover Insurance Company Officer