

**PRELIMINARY MARKET CONDUCT  
EXAMINATION REPORT**

**OF**

**GRANITE STATE INSURANCE COMPANY**

**AS OF**

**AUGUST 31, 2010**

**COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

**Property and Casualty Division  
Market Conduct Section**

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## INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a target examination has been made of the private passenger automobile line of business written by Granite State Insurance Company at its offices in Alpharetta, Georgia and Wilmington, Delaware.

The examination commenced May 9, 2011, and concluded August 8, 2011. Andrea D. Baytop and William T. Felvey, examiners of the Bureau of Insurance participated in the work of the examination. The examination was called in the Examination Tracking System on November 5, 2010 and was assigned the examination number of VA199-M29. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

## COMPANY PROFILE

Granite State Insurance Company was incorporated under the laws of New Hampshire on June 28, 1874 as Granite State Fire Insurance Company. The word "Fire" was deleted from the title on April 23, 1959. Effective December 29, 1993, the company redomesticated to Pennsylvania.\*

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\* Source: Best's Insurance Reports, Property & Casualty, 2010 Edition.

The table below indicates when the company was licensed in Virginia and the lines of insurance that the company was licensed to write in Virginia during the examination period. All lines of insurance were authorized on the license dates except as noted in the table.

<b>GROUP CODE: 012</b>	<b>GSIC</b>
<b>NAIC Company Number</b>	23809
LICENSED IN VIRGINIA	3/1/1911
LINES OF INSURANCE	
Accident and Sickness	X
Aircraft Liability	X
Aircraft Physical Damage	X
Animal	
Automobile Liability	X
Automobile Physical Damage	X
Boiler and Machinery	X
Burglary and Theft	X
Commercial Multi-Peril	X
Credit	10/26/2000
Farmowners Multi-Peril	X
Fidelity	X
Fire	X
General Liability	X
Glass	X
Homeowners Multi-Peril	X
Inland Marine	X
Miscellaneous Property	X
Ocean Marine	X
Surety	X
Water Damage	X
Workers' Compensation	X

The table below shows the company's premium volume and approximate market share of business written in Virginia during 2009 for those lines of insurance included in this examination.\* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
<b>Granite State Insurance Company</b>		
Private Automobile Liability	\$265,234	0.01%
Private Automobile Physical Damage	\$171,155	0.01%

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\* Source: The 2009 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

## SCOPE OF THE EXAMINATION

The examination included a detailed review of the company's private passenger automobile line of business written in Virginia for the period beginning September 1, 2009, and ending August 31, 2010. This review included policy terminations, claims handling, forms, statutory notices, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the company's operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Examiners' Notes. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the company failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a business practice. These violations are the basis for any settlement offer that is made by the Bureau of Insurance (Bureau) as a result of this Report.

In Part Three, the examiners cite any violations that are not considered a business practice. Also included in this section are recommendations regarding the company's practices that are not violations of Virginia insurance laws but require some action by the company. This section does not form the basis of any settlement offer made by the Bureau.

The examiners may not have discovered every unacceptable or non-compliant activity in which the company engaged. The failure to identify, comment on, or criticize

specific company practices does not constitute an acceptance of the practices by the Bureau.

### **STATISTICAL SUMMARY**

The files selected for the review of the policy terminations and claims handling were chosen by random sampling of the various populations provided by the company. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

	<u>GSIC</u>	<u>Population</u>				
		<u>Sample Requested</u>	<u>FILES REVIEWED</u>	<u>FILES NOT FOUND</u>	<u>FILES WITH ERRORS</u>	<u>ERROR RATIO</u>
<u>PPA</u>						
<u>Private Passenger Auto</u>						
All Other Cancellations	<u>68</u> 30	<u>68</u> 30	30	0	8	27%
Nonrenewals	<u>747</u> 21	<u>747</u> 21	21	0	4	19%
<u>Claims</u>						
PPA <sup>1</sup>	<u>61</u> 36	<u>61</u> 36	33	0	24	73%

Footnote <sup>1</sup> The company incorrectly provided motorcycle policies for the claims review when they were excluded from the scope of the examination.

## **PART ONE - THE EXAMINERS' OBSERVATIONS**

This section of the Report contains all of the observations that the examiners provided to the company. These include all instances where the company violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the company violated any other Virginia laws applicable to insurers.

### **TERMINATION REVIEW**

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

#### **Company-Initiated Cancellations – Automobile Policies**

##### **NOTICE MAILED PRIOR TO THE 60<sup>TH</sup> DAY OF COVERAGE**

The Bureau requested automobile cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period.

The company did not have any cancellations in this category for review.

##### **NOTICE MAILED AFTER THE 59<sup>TH</sup> DAY OF COVERAGE**

The Bureau requested automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy.

The company did not have any cancellations in this category for review.

**All Other Cancellations - Automobile Policies**NONPAYMENT OF PREMIUM

The Bureau requested 15 automobile cancellations that were initiated by the company for nonpayment of the policy premium. The examiners reviewed all of these files. As a result of this review, the examiners found no overcharges and undercharges totaling \$38.90.

- (1) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiner found three violations of § 38.2-2208 B of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.

REQUESTED BY THE INSURED

The Bureau requested 15 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed all of these files. As a result of this review, the examiners found no overcharges and undercharges totaling \$33.00.

- (1) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found one violation of § 38.2-2212 F of the Code of Virginia. The company failed to obtain a written request from the insured to cancel his policy.
- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to honor the date of cancellation requested by the insured.

**Company-Initiated Nonrenewals - Automobile Policies**

The Bureau requested 21 automobile nonrenewals that were initiated by the company. The examiners reviewed all of these files.

The examiners found three violations of § 38.2-2208 B of the Code of Virginia.

The company failed to obtain valid proof of mailing the refusal to renew notice to the lienholder.

**Other Law Violations**

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found one violation of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

**CLAIMS REVIEW**

The examiners reviewed 33 automobile claims for the period of September 1, 2009 through August 31, 2010. Three files were motorcycle claims and they were not reviewed. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. The examiners found overpayments totaling \$2,347.00 and underpayments totaling \$1,627.75 during the review of these files. The net amount that should be paid to claimants is \$1,627.75 plus six percent (6%) simple interest.

- (1) The examiners found ten violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found nine violations of 14 VAC 5-400-40 A. The company

obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim.

- a. In six instances, the company failed to inform an insured of his Transportation Expense coverage when the file indicated the coverage was applicable to the loss.
- b. In three instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM).

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found five violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (4) The examiners found two violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found ten violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim, or failed to pay a claim in accordance with the insured's policy provisions.

- a. In two instances, the company failed to pay the proper sales and use tax,

title fee, and/or license fee on a first party total loss settlement.

- b. In three instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.
- c. In three instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expense coverage.
- d. In two instances, the company failed to pay the claim in accordance with the policy under the insured's Other Than Collision or Collision coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found four violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company. The company failed to provide a copy of the estimate to the insured.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found one violation of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.
- (8) The examiners found one violation of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- (9) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make prompt, fair, and equitable

settlement of a claim in which liability was reasonably clear.

- (10) The examiners found 13 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

These findings occurred with such frequency as to indicate a general business practice.

- (11) The examiners found 11 violations of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured authorizing payments directly to the medical provider.

These findings occurred with such frequency as to indicate a general business practice.

- (12) The examiners found four occurrences where the company failed to comply with the provisions of the insurance contract.
- a. In one instance, the company failed to include the lienholder on the first party payment.
  - b. In three instances, the company paid an insured more than he was entitled to receive under the terms of his policy.

**Other Law Violations**

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found one violation of § 46.2-1602.1 of the Code of Virginia. The company failed to obtain a non-repairable certificate from the DMV because the damage to a late model automobile, titled Virginia, exceeded 75 percent of its actual cash value.

**REVIEW OF FORMS**

The examiners reviewed the company's policy forms and endorsements used during the examination period and those that are currently used for the line of business examined. From this review, the examiners verified the company's compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for the line of business listed below, the Bureau requested copies from the company.

**Automobile Forms****POLICY FORMS USED DURING THE EXAMINATION PERIOD**

The company provided copies of 25 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

**POLICY FORMS CURRENTLY USED BY THE COMPANY**

The examiners found no additional forms to review.

**REVIEW OF STATUTORY NOTICES****General Statutory Notices**

- (1) The examiners found one violation of § 38.2-604 B of the Code of Virginia. The company's long form Notice of Information Collection and Disclosure Practices did not contain all of the information required by this statute.
- (2) The examiners found one violation of § 38.2-604.1 B of the Code of Virginia. The company's long form Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by this statute.

**Statutory Vehicle Notices**

- (1) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company's Accident Point Surcharge notice failed to include the information required by this statute.
- (2) The examiners found one violation of § 38.2-2202 B of the Code of Virginia. The company failed to provide the Optional Uninsured Motorist Limits Coverage notice in the precise language as required by this statute.
- (3) The examiners found one violation of § 38.2-2230 of the Code of Virginia. The company failed to have available for use a rental reimbursement notice that contained all of the information required by this statute.

**Other Notices**

The company provided copies of eight other notices including applications that were used during the examination period.

The examiners found five violations of § 38.2-517 A 3 of the Code of Virginia.

The company's glass claims script did not properly disclose the use of a Third Party Administrator.

**REVIEW OF THE COMPLAINT-HANDLING PROCESS**

A review was made of the company's complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

**REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES**

The Bureau requested a copy of the company's information security program that protects the privacy of policyholder information. The company submitted its security information as required by § 38.2-613.2 of the Code of Virginia.

The company provided its information security procedures.

## **PART TWO – CORRECTIVE ACTION PLAN**

As stated in the Scope of the Examination, only those violations identified by the examiners as business practices of the company will be considered in the settlement offer. Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the company, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms and notices, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

### **General**

Granite State Insurance Company shall:

Provide a Corrective Action Plan (CAP) along with its response to this Report.

### **Termination Review**

Granite State Insurance Company shall:

- (1) Correct the errors that caused the undercharges.
- (2) Calculate return premium according to the filed rules and policy provisions.
- (3) Obtain valid proof of mailing the notice of cancellation or refusal to renew notice to the lienholder.

**Claims Review**

Granite State Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited During the Examination." By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.
- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular emphasis should be given to rental benefits available under UMPD and Transportation Expense coverage.
- (6) Make notification to the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (7) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
- (8) Provide copies of repair estimates prepared by or on behalf of the company to insureds.
- (9) Include a correct statement of coverage under which claim payments are issued to the insured.

- (10) Obtain written authorization from an insured prior to issuing payments directly to a medical provider.

### **Review of Statutory Notices**

Granite State Insurance Company shall:

- (1) Amend the glass script to comply with § 38.2-517 A 3 of the Code of Virginia.
- (2) Amend the long form Information Collection and Disclosure Practices notice to comply with § 38.2-604 B of the Code of Virginia.
- (3) Amend the Notice of Financial Information Collection and Disclosure Practices notice to comply with § 38.2-604.1 B of the Code of Virginia.
- (4) Amend the Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.
- (5) Amend the Optional Uninsured Motorist Limits Coverage notice to comply with § 38.2-2202 B of the Code of Virginia.
- (6) Amend the rental reimbursement notice to comply with § 38.2-2230 of the Code of Virginia.

### **PART THREE – EXAMINERS' NOTES**

The examiners also found violations that did not appear to rise to the level of business practices by the company. The company should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

#### **Termination**

- Failure to obtain a written request of cancellation from the insured.
- Failure to honor the cancellation date requested by the insured.
- Failure to file an SR-26 with DMV within 15 days of the cancellation date.

#### **Claims**

- Failure to deny a claim or part of a claim, in writing, and failure to keep a copy of the written denial in the claim file.
- Failure to comply with the provisions of the insurance contract.

#### **RECOMMENDATIONS**

We recommend that the company take the following actions:

#### **Termination**

- The company should revise the statement on its proof of mailing to more clearly indicate that the USPS postal receipts correspond to the mailing list.
- The company should file a revision to its Rule 24 B to clarify that the installment fee is charged to every renewal payment and the installment fee is only waived for the down payment of new business policies.

**Claims**

- The company should use the terms "Other Than Collision" coverage and "Medical Expense Benefits" coverage in written communications to the insured.
- The company should advise the insured of the specific coverage under which the payment is made instead of listing "collision/comprehensive."
- The company should advise the insured of the "Appraisal" clause found in PP 01 99 when advising the insured of the company's internal appeals process to appeal a final settlement or liability decision.

**Forms**

- The company should revise the "Index of Major Provisions of the Policy," PJ CW 0105, to correct the formatting errors.

**Statutory Notices**

- The company should add the BOI's TDD telephone number to its "Important Notice Regarding Your Insurance."
- The company should revise its "Notice of Information Practices," VA0006 (08/97), to comply with § 38.2-604 C of the Code of Virginia and this notice should be given at the time of application.
- The company should revise its application, VA UAPP 07/03, to comply with §§ 38.2-2210 and 38.2-2234 A 1 of the Code of Virginia.
- The company should revise its "Important Notice Regarding Your Insurance Policy," VA0007 (02/04) to reference the term "Other Than Collision" and not "Comprehensive." The company should also clarify that standard auto endorsement, "Transportation Expenses Coverage-Virginia" provides rental reimbursement coverage.

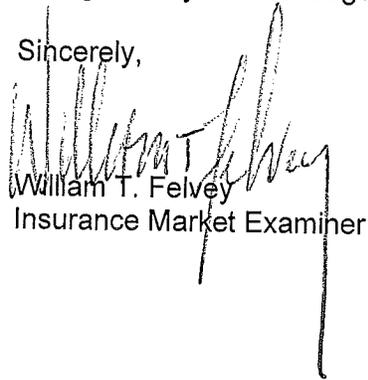
**SUMMARY OF PREVIOUS EXAMINATION FINDINGS**

This is the first time the Virginia Bureau of Insurance has conducted an examination of the company.

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the officers and employees of the company during the course of the examination is gratefully acknowledged.

Sincerely,



William T. Felvey  
Insurance Market Examiner

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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October 3, 2011

VIA UPS 2<sup>ND</sup> DAY DELIVERY

Allan L. Wadsworth  
Manager, Regulatory Affairs  
Law Department  
Chartis U.S.  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038

RE: Market Conduct Examination  
Granite State Insurance Company (NAIC# 23809)  
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of September 1, 2009 through August 31, 2010. The Preliminary Market Conduct Examination Report has been drafted for the company's review.

Enclosed with this letter is a copy of the Preliminary Market Conduct Examination Report (Report) and copies of review sheets that have been withdrawn or revised since August 8, 2011. Also enclosed are several technical reports that will provide you with the specific file references for the violations listed in the Report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the company, I would urge you to closely review the Report. Please provide a written response. If the company disagrees with an item(s) or wishes to further comment on an item(s), please respond to the item(s) in Part I of the Report using the format of the Report. The company does not need to respond to any particular item in Part I if it agrees with the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the company provides written documentation to support its position. If the company uses the same format (headings and numbering) as found in the Report, it is much easier to follow the company's points.

Secondly, the company should respond to the corrective action plan (CAP) outlined in Part II of the Report. In some cases, the issues that should be addressed may be broader than those that are in the CAP. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the company should outline the actions it is taking to prevent those issues from becoming a business practice.

Thirdly, if the company has comments it wishes to make regarding the Examiners' Notes in Part III of the Report, please use the same headings and numbering for the comments.

Of course, should the company wish to comment on any other part of the Report, please reference the heading of the section where the item is found.

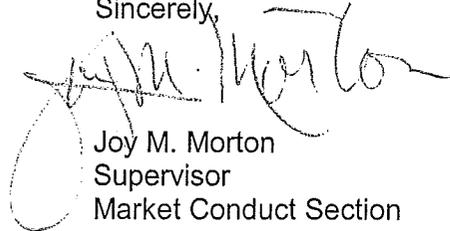
Finally, we have enclosed a CD containing an Excel spreadsheet that the company must complete and return to the Bureau with the company's response. This spreadsheet lists the files in which the examiners identified underpayments (claims).

The company's response(s) and the spreadsheet mentioned above must be returned to the Bureau by November 7, 2011.

After the Bureau has received and reviewed the company's response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by November 7, 2011.

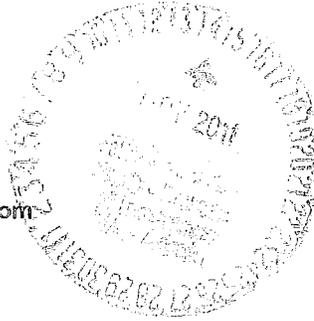
Sincerely,

A handwritten signature in black ink, appearing to read "Joy M. Morton". The signature is written in a cursive style with a large loop at the beginning.

Joy M. Morton  
Supervisor  
Market Conduct Section  
Property & Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

JMM  
Enclosure

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**CHARTIS**

November 10, 2011

**Via UPS Express Mail**

Ms. Joy M. Morton, Supervisor  
Market Conduct Section  
Property & Casualty Division, 5<sup>th</sup> floor  
Virginia Bureau of Insurance  
State Corporation Commission  
1300 E. Main Street  
Richmond, Virginia 23219

Re: **GRANITE STATE INSURANCE COMPANY (NAIC#23809)**  
Private Passenger Automobile Market Conduct Examination  
September 1, 2009 – August 31, 2010  
Response to Preliminary Report

Dear Ms. Morton:

This is in response to your letter dated October 3, 2011 and the Granite State Insurance Company Private Passenger Automobile preliminary examination report. We appreciate the additional time granted to review the materials to provide a response on behalf of the Company.

As you are aware, the personal auto business written on Granite State was previously a part of the AIG Personal Auto Group business that was sold to Farmers on July 1, 2009. Prior to the acquisition, the business was in the process of moving off of Granite State and onto a company that was sold. In September 2009 there were only 758 auto policies in force. By March 2010, all of these policies had been moved.

As a result of the acquisition, a decision was made by Farmers to consolidate all independent agent sold business into the Foremost brand and close the Agency Auto office and decommission the systems. This transition has been occurring over the last year. There are currently 8 employees left in the Agency Auto office and the system has been shut down. The Agency Auto operation will be completely closed as of December 16, 2011.

Chartis  
175 Water Street – 18<sup>th</sup> floor  
New York, New York 10038  
www.chartisinsurance.com

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November 10, 2011  
Ms. Joy M. Morton  
Virginia Bureau of Insurance  
Granite State MCE response

Since the business has been moved and the operation and systems have been or will be permanently closed, there is no corrective action as outlined in the report.

Enclosed please find the completed restitution worksheet. Please be advised that the original last entry was withdrawn by Ms. Andrea Baytop and reduced the payment owed by \$250 (see ref no. CPA 036 on attached spreadsheet). The spreadsheet enclosed reflects this adjustment.

Thank you for your cooperation in this matter.

Sincerely,



Allan L. Wadsworth  
Manager, Market Conduct Unit  
Chartis U.S.

[www.Allan.Wadsworth@Chartisinsurance.com](mailto:www.Allan.Wadsworth@Chartisinsurance.com)

**Enclosures** – Restitution spreadsheet -1 page

Cc: Richard Dunlevy, Chartis  
Maura Popp – Farmers' Group  
Flo Dyson – Farmers' Group

Jmorton VA PP Auto GS response 111011

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
TDD/VOICE: (804) 371-9206  
<http://www.scc.virginia.gov/division/boi>

November 15, 2011

**VIA UPS 2<sup>ND</sup> DAY DELIVERY**

Allan L. Wadsworth  
Manager, Regulatory Affairs  
Law Department  
Chartis U.S.  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038

RE: Market Conduct Examination  
Granite State Insurance Company (NAIC# 23809)  
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of November 10, 2011. Based upon the Bureau's review of the company's letter, we are now in a position to conclude this examination. Enclosed are the Final Market Conduct Examination Report of Granite State Insurance Company (Report) and corresponding technical reports.

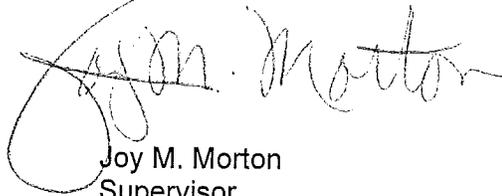
Based on the Bureau's review of the Report and the company's response, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-510 A 10, 38.2-517 A 3, 38.2-604 B, 38.2-604.1 B, 38.2-1905 A, 38.2-1906 D, 38.2-2201 B, 38.2-2202 B, 38.2-2208 B, 38.2-2212 F, and 38.2-2230 of the Code of Virginia and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-60 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, looping initial "J".

Joy M. Morton  
Supervisor  
Market Conduct Section  
Property & Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

JMM

Allan L. Wadsworth  
Manager, Market Conduct Unit  
Law Department  
New York, New York 10038  
(212) 458-7026 Telephone  
(212) 458-2697 Facsimile  
Allan.Wadsworth@chartisinsurance.com

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**CHARTIS**

December 15, 2011

**Via UPS Express Mail**

090089

Ms. Joy M. Morton, Supervisor  
Market Conduct Section  
Property & Casualty Division, 5<sup>th</sup> floor  
Virginia Bureau of Insurance  
State Corporation Commission  
1300 E. Main Street  
Richmond, Virginia 23219

Re: **GRANITE STATE INSURANCE COMPANY (NAIC#23809)**  
Private Passenger Automobile Market Conduct Examination  
September 1, 2009 – August 31, 2010  
Settlement Offer

Dear Ms. Morton:

This is in response to your letter dated November 18, 2011 for the Granite State Insurance Company Private Passenger Automobile Examination. We appreciate the additional time granted to assemble the order and process the requested check on behalf of the Company.

Attached please find the Settlement Offer and a check in the amount of \$18,100 payable to the Virginia State Treasurer.

Thank you again for your cooperation in this matter. We will mark our file closed in light of the settlement.

Sincerely,



Allan L. Wadsworth  
Manager, Market Conduct Unit  
Chartis U.S.

[www.Allan.Wadsworth@Chartisinsurance.com](http://www.Allan.Wadsworth@Chartisinsurance.com)

**Enclosures** – Settlement offer & check  
Cc: Richard Dunlevy, Chartis

Jmorton VA PP Auto GS settlement 12 14 11

Chartis  
175 Water Street – 18<sup>th</sup> floor  
New York, New York 10038  
[www.chartisinsurance.com](http://www.chartisinsurance.com)

Mary Bannister  
Deputy Commissioner  
Property and Casualty  
Bureau of Insurance  
P. O. Box 1157  
Richmond, VA 23218

RE: Market Conduct Examination Settlement Offer  
Examination Period: September 1, 2009 – August 31, 2010

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated November 18, 2011, concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ 38.2-510 A 10, 38.2-517 A 3, 38.2-604 B, 38.2-604.1 B, 38.2-1905 A, 38.2-1906 D, 38.2-2201 B, 38.2-2202 B, 38.2-2208 B, 38.2-2212 F, and 38.2-2230 of the Code of Virginia and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-60 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

1. We enclose with this letter a check made payable to the Treasurer of Virginia in the amount of \$18,100.00.
2. We confirm that restitution was made in accordance with the company's letter of November 10, 2011
3. We further acknowledge the company's right to a hearing before the State Corporation Commission in this matter and waive the right if this offer of settlement is accepted by the State Corporation Commission.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

Granite State Insurance Company

Adam Reed  
(Signed)

Adam Reed  
(Type or Print Name)

Assistant Vice President  
(Title)

12/12/11  
(Date)

Enclosure

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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Granite State Insurance Company has tendered to the Bureau of Insurance the settlement amount of \$18,100 by their check numbered 90013783 dated December 15, 2011, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

120120106

AT RICHMOND, JANUARY 24, 2012

CLERK'S OFFICE

COMMONWEALTH OF VIRGINIA

2012 JAN 24 P 4: 32

At the relation of the

DOCUMENT CONTROL

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2011-00242

GRANITE STATE INSURANCE COMPANY,

Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance, it is alleged that the Defendant, duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia, violated §§ 38.2-517 A 3, 38.2-604 B, 38.2-604.1 B, 38.2-1905 A, 38.2-2202 B, and 38.2-2230 of the Code of Virginia by failing to accurately provide the required notices to insureds; violated § 38.2-1906 D by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendant; violated § 38.2-2201 B by failing to obtain authorization from the insureds prior to paying the medical provider; violated §§ 38.2-2208 B and 38.2-2212 F by failing to properly terminate policies; and violated § 38.2-510 A, as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-60 B, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D, by failing to properly handle claims with such frequency as to indicate a general business practice.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code of Virginia to impose certain monetary penalties, issue cease and desist orders, and suspend or

revoke the Defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that the Defendant has committed the aforesaid alleged violations.

The Defendant has been advised of its right to a hearing in this matter, whereupon the Defendant, without admitting any violation of Virginia law, has made an offer of settlement to the Commission wherein the Defendant has tendered to the Commonwealth of Virginia the sum of Eighteen Thousand One Hundred Dollars (\$18,100), waived its right to a hearing, and confirmed that restitution was made to five consumers in the amount of One Thousand Four Hundred Sixty Dollars and Forty-two Cents (\$1,460.42).

The Bureau of Insurance has recommended that the Commission accept the offer of settlement of the Defendant pursuant to the authority granted the Commission in § 12.1-15 of the Code of Virginia.

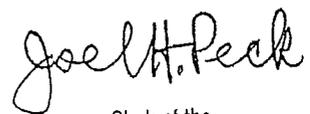
NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Bureau of Insurance, is of the opinion that the Defendant's offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The offer of the Defendant in settlement of the matter set forth herein be, and it is hereby, accepted; and
- (2) The papers herein be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:  
Allan L. Wadsworth, Manager, Market Conduct Unit, Law Department, 175 Water Street, 18<sup>th</sup> Floor, New York, New York 10038; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Mary M. Bannister.

A True Copy  
Teste:

  
Clerk of the  
State Corporation Commission