

EXECUTIVE SUMMARY

The Kansas Insurance Department (KID) performed a market conduct examination of Travelers. The period of examination was January 1, 2007 through July 31, 2008. The exam focused on private passenger auto and homeowners lines of business. The Travelers companies also write numerous other lines, including workers compensation, commercial multiple peril, fire, inland marine, and allied lines among others.

The examiners reviewed the Company personal lines underwriting, rating manuals, claims, and complaints. A series of meetings were held with the Travelers staff that focused on their current operations. To supplement and verify the understanding of how the Company does business, a series of samples were selected for review to verify their procedures and practices in claims, underwriting and rating. There was an error discovered in rating homeowner policies, as well as a three cancellation notices were found to be in violation. There were no major issues noted with complaint or claim handling.

The Company passed most tests; and in terms of delivering good service to its insureds, the examiners were impressed with the overall positive and professional performance by the Travelers staff and management to their policyholders. However, the exam team has made recommendations on several policy and procedure issues.

LIST OF RECOMMENDATIONS

Underwriting and Rating

1. On the homeowners line of business, the rates charged for policy coverage were not in accordance with filed rates. The formula programmed into the Quantum homeowners system was slightly different than the formula filed with KID and resulted in either an overcharge or undercharge to the consumer. This affected 94 % of their homeowners book of business. There were a total of 8,995 policies that were overcharged an amount totaling \$36,369, and 8,471 policies that were undercharged an amount totaling \$41,107. This is a violation of K.S.A. 40-955(a)&(g).

Travelers needs to re-file their Quantum homeowners rule to reflect the correct way the age of the insured is to be calculated. Travelers needs to refund the excess premium to their 8,995 customers that were overcharged in their Quantum Homeowners program for the incorrect calculation of age of insured factor.

Examiner Notes:

The Company filed and received KID approval effective July 26, 2009 to amend the Quantum HO Rule 420—Age of Insured—to align the description of the rule with the actual system calculation of the insured's age. Refund checks were sent to overcharged policyholders on 10/19/10.

2. With regard to auto nonrenewals, the Company exceeded the 10% error tolerance level for Standard 16, which deals with whether nonrenewals comply with policy provisions and state laws. While there was no one specific issue with their nonrenewal procedures, there were three areas that collectively caused them to fail this portion of the

standard. Travelers needs to review their nonrenewal procedures to ensure they are handled appropriately.

Examiner Note:

Travelers indicated they will conduct additional staff training and reinforce existing training as appropriate.

3. The wording on Travelers auto cancellation notices, PL2900 and PL2901, did not have the complete wording on the notice as outlined in K.S.A. 40-3118(b) and must be updated.

Examiner Note:

The company has re-filed auto cancellation notices PL-2900 and PL-2901 effective August 1, 2009 to comply with K.S.A. 40-3118(b).

4. Travelers homeowners cancellation notice, PL-4201A, states, "Any excess of paid premium (if not tendered) will be refunded on demand". Kansas Statute K.S.A. 40-2,112(d) requires that the unearned premium collected has to be returned with the notice except in certain situations. Travelers indicated that, "Refunds are included with cancellations as a matter of course in Kansas. The message mentioned is part of our countrywide template and does not apply to insureds in the state of Kansas." However the exam team feels that this could be confusing to Kansas policyholders. Travelers should revise their homeowners termination notice and remove the reference to excess premium "refunded on demand."

Examiner Note:

Travelers indicated they will amend PL-4201A to remove the language referencing premium "refunded on demand". Confirmation of this change should be provided to KID within 30 days of the date of this report.

CLAIM HANDLING

1. For first party claims, Travelers was not in the practice of sending a denial letter to an insured when the amount of damage to an individual's automobile is below the deductible. It is the exam team's recommendation that the Company start sending letters to their insureds confirming the claim is closed for no pay because the amount of damage is below the policy deductible.

2. For third party claims, Travelers needs to review their claim handling procedures to ensure on all denied claims that the third party claimant is notified when claims are denied, and that the notification is documented in the claim file.

Examiner Note:

Based on this recommendation, Travelers has agreed to send letters to insureds who do not receive payment due to the application of the deductible. These letters will confirm that the claim is being closed with no payment.