

**DELAWARE DEPARTMENT OF INSURANCE**  
**MARKET CONDUCT EXAMINATION REPORT**

**Cumberland Mutual Fire Insurance Company**  
**Authority # 13684-19-HO-720**

**633 Shiloh Pike**  
**Bridgton, NJ 08302**

**As of**

**June 30, 2019**

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

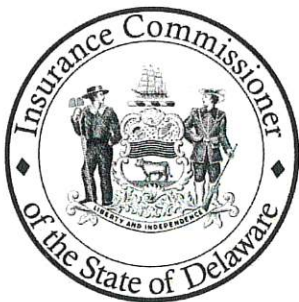
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of June 30, 2019 on

**Cumberland Mutual Fire Insurance Company**

is a true and correct copy of the document filed with this Department.

Attest By:

A handwritten signature in blue ink, appearing to read "Trinidad Navarro", written over a horizontal line.



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 11 day of June, 2020.

A handwritten signature in blue ink, appearing to read "Trinidad Navarro", written over a horizontal line.

Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

**Cumberland Mutual Fire Insurance Company**

AS OF

June 30, 2019

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



In Witness Whereof, I have hereunto set my hand  
and affixed the official seal of this Department at the  
City of Dover, this 11 day of June, 2020.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro  
Insurance Commissioner

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Honorable Trinidad Navarro  
Insurance Commissioner  
State of Delaware  
1351 West North Street  
Suite 101  
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Examination Authority Number 13684-19-HO-720 and pursuant to statutory provisions including 18 *Del. C.* §§ 318-322, a Market Conduct Examination has been conducted of the affairs and practices of:

**Cumberland Mutual Fire Insurance Company – NAIC #13684**

The examination was performed as of June 30, 2019.

The examination was conducted off-site, performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the Department, or other suitable locations.

The report of examination herein is respectfully submitted.

## EXECUTIVE SUMMARY

Cumberland Mutual Fire Insurance Company, hereinafter referred to as the Company or Cumberland, is a property-casualty insurance company, primarily writing personal and commercial insurance in Delaware, Maryland, New Jersey and Pennsylvania. The Company's main office is located at 633 Shiloh Pike, Bridgeton, New Jersey.

This was a desk audit focusing on the Company's activities related to its Personal Lines Property line of business in the following areas of operation: Complaint Handling, Underwriting and Rating, and Claims Handling. The examination period was January 1, 2018 through June 30, 2019.

Special emphasis was placed on reviewing the steps involved in determining the Dwelling Coverage amount selected by the customer and the use of any Inflation Protection coverage provisions. This is discussed in the Underwriting and Rating section of this report.

The following exceptions were noted during the review of Underwriting and Rating, and Claims Handling.

### **1 Exception**

#### **18 Del. C. § 4123 Permissible cancellations**

*After coverage has been in effect for more than 60 days or after the effective date of a renewal policy a notice of cancellation shall not be issued unless it is based upon at least 1 of the following reasons:*

- (1) Nonpayment of premium;*
- (2) Discovery of fraud or material misrepresentation made by or with the knowledge of the named insured in obtaining the policy, continuing the policy or in presenting a claim under the policy;*
- (3) Discovery of willful or reckless acts or omissions on the part of the named insured which increase any hazard insured against;*
- (4) The occurrence of a change in the risk which substantially increases any hazard insured against after insurance coverage has been issued or renewed;*
- (5) A violation of any local fire, health, safety, building or construction regulation or ordinance with respect to any insured property or the occupancy thereof which substantially increases any hazard insured against;*
- (6) A determination of the Insurance Commissioner that the continuation of the policy would place the insurer in violation of the insurance laws of this State;*
- (7) Real property taxes owing on the insured property have been delinquent for 2 or more years and continue delinquent at the time notice of cancellation is issued.*

The Company canceled a secondary homeowners policy for no longer having the supporting primary homeowners policy, which is not a permissible reason.

### **1 Exception**

#### **18 Del. Admin. C. § 902-1.2.1.1 Prohibited Unfair Claim Settlement Practices**

*1.2.1.1 Misrepresenting pertinent facts or insurance policy provisions relating to coverage at issue.*

The Company failed to comply with the provisions of the policy requiring payment to the mortgagee by issuing a check to the named insured and not including the mortgagee's name on a check.

### **8 Exceptions**

#### **18 Del. Admin. C. § 902-1.2.1.5 Prohibited Unfair Claim Settlement Practices**

*1.2.1.5 Failing to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements have been received by the insurer.*

The Company failed to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements have been received by the insurer.

### **2 Exceptions**

#### **18 Del. Admin. C. § 902-1.2.1.13 Prohibited Unfair Claim Settlement Practices**

*1.2.1.13 Failing when requested to promptly provide an explanation of the basis in the insurance policy in relation to facts or applicable law for denial of a claim or for the offer of a compromise settlement. Such explanation may be made verbally but when given, must be documented in the claims file.*

The Company failed to provide an explanation of the basis in the insurance policy for the denial of a claim or a compromise settlement in two paid claims.

### **2 Exceptions**

#### **18 Del. C. § 2304(16)f. Unfair Claim Settlement Practices**

*The following are hereby defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:*

*(16) Unfair claim settlement practices – No persons shall commit or perform with such frequency as to indicate a general business any of the following:*

*f. Not attempting in good faith to effectuate prompt, fair, and equitable settlement of claims to which liability has become reasonably clear.*

The Company failed to settle two claims in a timely and reasonable manner.

## **SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted pursuant to the authority granted by 18 *Del. C.* §§ 318 - 322 and covered the experience period of January 1, 2018 through June 30, 2019. The purpose of the examination was to determine compliance by the Company with applicable Delaware laws and regulations.

The examination was a targeted market conduct examination of the Cumberland Mutual Fire Insurance Company's Homeowners insurance business in the following areas of operation: Complaint Handling, Underwriting and Rating, and Claims Handling.

## **METHODOLOGY**

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While the examiner's report on the errors found in individual files, the examination also focuses on general business practices of the Company.

The Company identified the universe of files for each segment of the review. Based on the universe sizes, random sampling was utilized to select the files reviewed during this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables company management to review these areas of concern in order to determine the potential impact upon company operations or future compliance.

Throughout the course of the examination, company officials were provided status memoranda, which referenced specific policy and/or claim numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. Written summaries were provided to the Company on the exceptions found. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and to review written summaries provided on the exceptions found.

## **COMPANY HISTORY AND PROFILE**

The Company was established in 1844 as a mutual insurance company pursuant to an Act of the Legislature of the state of New Jersey. The Company was authorized to write fire insurance policies in the state and subsequently obtained authority to write various types



of property and casualty insurance policies. Additionally, the Company has obtained certificates of authority to write various lines of property and casualty insurance business in the states of Delaware, Maryland, Pennsylvania and Ohio. Presently, the Company is writing business in all states where authorized with the exception of Ohio.

In 1982, the Company established Cohanzick Holding Company, Inc. a wholly owned holding company which established Cumberland Insurance Company, Inc., a wholly owned subsidiary of Cohanzick Holding Company, Inc. and a licensed insurer authorized and doing business in the same states as the Company.

In 2000, the Company merged with the Chester County Mutual Insurance Company with the Company being the surviving entity by merger. Subsequently, in 2003, the Company and Mutual Fire Insurance Company of Calvert County merged, with the Company being the surviving entity.

At present, the Company maintains two offices, its main office located at 633 Shiloh Pike, Bridgeton, New Jersey and an office in Mansfield, Ohio primarily housing IT support personnel.

According to its 2018 Annual Statement filed with the Department, the Company reported Homeowners Multiple Peril direct written premium in Delaware in the amount of \$2,627,952.

## **COMPLAINT HANDLING**

The Company was asked to provide a listing of all personal property complaints received during the examination period. The Company provided one complaint received and closed during the examination period of January 1, 2018 through August 31, 2019. This complaint was not relevant to the Data Call requirements for complaints filed in Delaware and was, therefore, not reviewed. No other complaints were filed during the examination period noted above.

The Company provided a copy of its Complaint Handling guidelines and procedures which were reviewed.

An examination of the complaint file and the guidelines and procedures was performed to verify the Company's compliance with applicable Delaware Statutes and Regulations, Insurance Department Bulletins and NAIC Market Regulation Handbook Standards in Chapter 16.

No exceptions were noted.

## **UNDERWRITING AND RATING**

The examination of Underwriting and Rating was conducted and performed in accordance with the laws and regulations of the state of Delaware and the Delaware

Department of Insurance. The Company provided copies of its Homeowners Underwriting and Rating Manuals, along with notices issued to insureds that pertain to credit information, deductibles, forms, endorsements and disclosures used for the examination period. These were reviewed and no exceptions were noted. A random sample of 21 forms and endorsements were selected to verify their approval by the Delaware Department of Insurance. All 21 were verified via SERFF. A random sample of 12 notices and/or disclosures were selected and reviewed to verify their compliance with Delaware requirements.

No exceptions were noted.

#### New Business Policies

The examiners were provided a total universe of 364 Homeowners new business policies from the examination period of January 1, 2018 through June 30, 2019. A random sample of 84 policies was selected according to the NAIC Market Regulation Handbook guidelines. Examination of the underwriting and rating files was performed to verify the Company's compliance with applicable Delaware Statutes and Regulations, Insurance Department Bulletins and NAIC Market Regulation Handbook Standards in Chapters 16 & 17.

The rate testing consisted of manual rating to ensure the amount of premium being generated by the Company's computer system is in accordance with the Company's filed and approved rates. This process involved the use of rating worksheets with algorithms matching the rating manuals. Due to the complexity and time-consuming nature of manually rating, the selections were reduced to 10 randomly selected policies to be tested for rating accuracy.

The Company agreed that should there be any inconsistencies noted, additional policies may be requested for testing. The examiners were able to test and verify the rating of the policies in accordance with the Company's filed and approved rates.

No exceptions were noted during review.

#### Renewal Policies

The examiners were provided a total universe of 3,799 Homeowners renewal policies for the examination period of January 1, 2018 through June 30, 2019. A random sample of 115 policies was selected according to the NAIC Market Regulation Handbook guidelines. Examination of the underwriting and rating files was performed to verify the Company's compliance with applicable Delaware Statutes and Regulations, Insurance Department Bulletins and NAIC Market Regulation Handbook Standards in Chapters 16 & 17.

The rate testing consisted of manual rating to ensure the amount of premium being generated by the Company's computer system is in accordance with the Company's filed and approved rates. This process involved the use of rating worksheets with algorithms matching the rating manuals. Due to the complexity and time-consuming nature of

manually rating, the selections for personal property were reduced to 10 randomly selected policies to be tested for rating accuracy.

The Company agreed that should there be any inconsistencies noted, additional policies may be requested for testing. The examiners were able to test and verify the rating of personal property policies in accordance with the Company's filed and approved rates.

No exceptions were noted during review.

#### Terminated Policies

The examiners were provided a total universe of 89 Terminated Homeowners policies for the experience period of January 1, 2018, through June 30, 2019. Terminations included Company cancellations, declinations, non-renewals and insured request. The selections consisted of homeowners, condominium owners and tenant policies. It was noted that two policies for mobile homes were included in the universe. Since mobile homes were not part of the review, the two mobile home policies were removed. Because of the small sample size, all 87 Homeowners policies were reviewed (46 Cancellations, 17 Non-Renewals, 24 Insured requested). Examination of the underwriting files was performed to verify the Company's compliance with applicable Delaware Statutes and Regulations, Insurance Department Bulletins and NAIC Market Regulation Handbook Standards in Chapters 16 & 17.

The following exception was noted.

#### **1 Exception: 18 Del. C. § 4123 Permissible cancellations**

The Company canceled a secondary homeowners policy for no longer having the supporting primary homeowners policy, which is not a permissible reason.

*Recommendation:* It is recommended that the Company provide additional training to ensure cancellation reasons comply with 18 Del. C. § 4123.

#### Inflation Protection

Special emphasis was placed on reviewing the steps involved in determining the Dwelling Coverage amount selected by the customer and the use of any Inflation Protection coverage provisions. The examiners were provided with these steps and our synopsis follows.

The primary means used in determining building coverage is the 360Value replacement cost calculation tool from ISO Verisk. Agents use this tool during the new business process to assist customers in determining the proper amount of coverage. This replacement cost calculator is built into the Company's point of sale system and their agents are required to complete a calculation on every property risk submission.

The Company retains a copy of the application and the agent's 360Value replacement cost calculation.

Inflation protection can be purchased at set amounts. If inflation protection is not selected by a customer, the Company applies an automatic amount based on its assessment of the residential replacement cost index as provided by ISO Verisk.

The Company looks to its agents to work with their policyholders to ensure the appropriate limit of coverage is in place for both new and renewal policies. Agents are aware of the Company's inflation protection process and may request a change to the coverage amount currently selected on a policy. As long as the requested amount is supported by a current replacement cost calculation using the 360Value tool, the change is applied to the policy at renewal.

## **CLAIMS HANDLING**

The examination of claims was conducted and performed in accordance with the laws and regulations of the state of Delaware and the Delaware Department of Insurance. The Company provided the requested claim file documents and its procedures and reference materials related to the handling of claims used for the examination period. These were reviewed and found appropriate.

The Company provided a list of Paid, Closed Without Payment and Denied Claims. All claims in the sample were reviewed for compliance with Delaware Statutes and Regulations, Insurance Department Bulletins and NAIC Market Regulation Handbook Standards in Chapters 16 & 17.

### Paid Claims

The Company was requested to provide a listing of all Paid Claim files during the examination period of January 1, 2018 through June 30, 2019. A universe of 196 files was provided to the Examiners. A random sample of 76 files was selected according to the NAIC Market Regulation Handbook guidelines. The Examiners reviewed all 76 files for compliance with applicable Delaware Statutes and Regulations, Insurance Department Bulletins and NAIC Market Regulation Handbook Standards in Chapters 16 & 17.

The following exceptions were noted.

### **1 Exception: 18 Del. Admin. C. § 902-1.2.1.1 Prohibited Unfair Claim Settlement Practices**

The Company failed to comply with the provisions of the policy requiring payment to the mortgagee by issuing a check to the named insured and not including the mortgagee's name on a check.

*Recommendation:* It is recommended that the Company provide additional training to ensure compliance with 18 Del. Admin. C. § 902 1.2.1.1.

### **3 Exceptions: 18 Del. Admin. C. § 902-1.2.1.5 Prohibited Unfair Claim Settlement**

## **Practices**

The Company failed to provide a coverage decision within 30 days or provide a reason why such a decision could not be made in three paid claims.

*Recommendation:* It is recommended that the Company provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.5.

### **2 Exceptions: 18 *Del. Admin. C.* § 902-1.2.1.13 Prohibited Unfair Claim Settlement Practices**

The Company failed to provide an explanation of the basis in the insurance policy for the denial of a claim or a compromise settlement in two paid claims.

*Recommendation:* It is recommended that the Company provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.13.

### **2 Exceptions: 18 *Del. C.* § 2304(16)f. Unfair Claim Settlement Practices**

The Company failed to settle claims in a timely and reasonable manner in two paid claims.

*Recommendation:* It is recommended that the Company provide additional training to ensure compliance with 18 *Del. C.* § 2304(16)f.

### Closed Without Payment Claims

The Company was asked to provide a listing of all personal property claims Closed Without Payment during the examination period of January 1, 2018 through June 30, 2019. The Company provided a universe of 43 Closed Without Payment claims. Examination of the 43 claims files was performed to verify the Company's compliance with Delaware Statutes and Regulations, Insurance Department Bulletins and NAIC Market Regulation Handbook Standards in Chapter 16 & 17.

The following exceptions were noted:

### **5 Exceptions: 18 *Del. Admin. C.* § 902-1.2.1.5 Prohibited Unfair Claim Settlement Practices**

The Company failed to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements have been received by the insurer.

*Recommendation:* It is recommended that the Company provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.5.

### Denied Claims

The Company was asked to provide a listing of all personal property claims denied during the examination period of January 1, 2018 through June 30, 2019. The Company provided a universe of 17 denied claims. Examination of the 17 claims files was performed to verify the Company's compliance with applicable Delaware Statutes and Regulations, Insurance Department Bulletins and NAIC Market Regulation Handbook Standards in Chapters 16 & 17.

No exceptions were noted.

## **CONCLUSION**

As stated in the Scope of Examination section, the purpose of the examination was to determine compliance by the Cumberland Mutual Fire Insurance Company with applicable Delaware laws and regulations relating to Homeowners insurance business.

The recommendations made below identify corrective measures the Department finds necessary as a result of the Exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended that the Company provide additional training to ensure cancellation reasons comply with 18 *Del. C.* § 4123 (Underwriting and Rating)
2. It is recommended that the Company provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.1. (Claims Handling)
3. It is recommended that the Company provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.5. (Claims Handling)
4. It is recommended that the Company provide additional training to ensure compliance with 18 *Del. Admin. C.* § 902 1.2.1.13. (Claims Handling)
5. It is recommended that the Company provide additional training to ensure compliance with 18 *Del. C.* § 2304(16)f. (Claims Handling)

The examination conducted by Joe Krug, Mark Plesha, Jim Myers and Karen Gerber is respectfully submitted.



Mark Plesha, CPCU, AIE, MCM,  
CWCP, AIS, IR  
Examiner-in-Charge  
Market Conduct  
Delaware Department of Insurance

I, Mark Plesha, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 13684-19-HO-720.



Mark Plesha, CPCU, AIE, MCM, CWCP, AIS, IR