

**MARKET CONDUCT EXAMINATION**  
**OF**  
**WESTFIELD INSURANCE COMPANY**  
**AS OF MARCH 28, 2005**

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## **SALUTATION**

December 27, 2005

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Denn:

In compliance with the instructions contained in Certificate of Examination Authority Number 05-705, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

### **Westfield Insurance Company**

hereinafter referred to as the "Company" or as "Westfield." is incorporated under the laws of the State of Delaware. This examination reviewed only the operations of Westfield as they impact residents, policyholders, and claimants residing in the State of Delaware. The on-site phase of the examination was conducted at 1 Park Circle, Westfield Center, Ohio 44251-5001

The examination is as of March 28<sup>th</sup>, 2005

Examination work was also done off premises and at the offices of the Delaware Department of Insurance hereinafter referred to as the "Department" or as "DDOI."

The report of examination thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The basic business areas that were examined under this examination were:

- A. Company Operations/Management
- B. Complaint Handling
- C. Marketing and Sales (Not Tested)
- D. Producer Licensing (Not Tested)
- E. Policyholder Service (Not Tested)
- F. Underwriting and Rating
- G. Claims (Not Tested)

Each business area has standards that the examination measured. Some standards have specific statutory guidance, others have specific company guidelines, and yet others have contractual guidelines. Please note that those standards in the NAIC Market Conduct

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Examiners Handbook, which do not have a Delaware Insurance Code basis, have been omitted from this examination and from the Delaware Market Conduct Examiners Handbook.

The main focus of this examination was to test the Company's compliance with Forms and Rates Bulletin No. 28, Limitations on Nonrenewals or Surcharges on Residential Homeowners Policies.

The examination also focused on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This included an analysis of how the Company communicates its instructions and intentions to its personnel, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determined whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus was then made on those areas in which the process used by management did not appear to be achieving appropriate levels of statutory and regulatory compliance.

This examination report is a report by test rather than a report by exception. This means that all standards tested are described and results indicated.

## **HISTORY AND PROFILE**

A member of the Westfield Insurance Group of companies, Westfield Insurance Company was formed as a companion carrier to Ohio Farmers Insurance Company at a time when a single enterprise was not authorized by law to write both fire and casualty forms of insurance coverages, and underwriting operations were conducted separately until the enactment of multiple line underwriting legislation. The Company was incorporated on July 12, 1929, under the laws of Ohio, and started business July 19, 1929. Operations were conducted under the name of Ohio Farmers Indemnity Company from inception until June 12, 1959, when the name was changed to Superior Risk Insurance Company. The present name was adopted on December 15, 1970. Westfield has been licensed in Pennsylvania since 1938.

Westfield is a multiple line property and casualty insurance company, writing business primarily in the Midwest and mid-Atlantic. Westfield sells its products through an independent agency force directed by the same officers and management as is directing each of the insuring companies in the Westfield Insurance Group.

## **METHODOLOGY**

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property and Casualty Insurer found in Chapter VII of the Delaware Market Conduct

Examiners Handbook which is based on applicable Delaware Statutes, Rules, and Regulations as referenced herein and the NAIC Market Conduct Examiners Handbook.

Some standards were measured using a single type of review, while others used a combination or all of the types of review. The types of review used in this examination fall into three general categories. The types of review are: Generic, Sample, and Electronic.

A "Generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the Company in response to queries by the examiner.

A "Sample" review indicates that a standard was tested through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners Handbook and the NAIC Market Conduct Examiners Handbook. The sampling techniques used are based on a 95% confidence level. This means that there is a 95% confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn.

An "Electronic" review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews 100% of the records of a particular type.

Standards were measured using tests designed to adequately measure how the examinee met the standard. The various tests utilized are set forth in the Delaware Market Conduct Examiners Handbook for a Property and Casualty Insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under Delaware law, and its source in the NAIC Market Conduct Examiners Handbook are stated and contained within a bold border.

Each standard is accompanied by a "Comment" describing the purpose or reason for the standard. A "Result" is indicated and examiner "Observations" are noted. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are kept with the appropriate standard.

## **REVIEW OF PROCEDURES**

The management of well-run companies generally has some processes that are similar in structure. These processes generally take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in failure of the various standards that follow this section. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements; and
- a measurement function that considers the results of the planning and execution; and

## Westfield Insurance Company

- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce inconsistent application of the intended process. The same is generally true for the absence of a means to measure the results of the application of procedures and determine that the process is performing as intended.

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

### **Procedure 13 – Complaint handling**

*Standards Affected: A8, B1-5*

*Observations:* Examiners reviewed the Westfield Group Compliance Bulletin dated March 4<sup>th</sup> 2003, regarding complaint handling procedures, and a copy of the 2004 Consumer Complaint Register. That Bulletin was clear, readable, and well structured. No conflict with Delaware statutes and regulations was noted.

According to the Company, responses to consumers regarding Delaware complaints are performed within 10 calendar days following receipt of complaint. The complaint register listed, in spreadsheet form, the complaints by consumers with detailed information regarding name, type, date, reason and disposition.

Measurement structures are limited to the Legal/Compliance Department reviewing the complaint logs on a quarterly basis. The Department looks within these logs for complaint patterns according to type or source of complaint. Significant findings are brought to the attention of the Secretary and Corporate Counsel, who is also the head of the Legal/Compliance Department. Frequency of these investigations and copies of the logs were not provided to the examiners.

The Compliance Bulletin discusses incoming complaint scenarios, distribution and internal registration of information and recording of complaints. The Company states they “periodically” disperse communications or bulletins of this type, when there have been changes in statutes or regulations regarding response time or information reporting requirements.

### **Procedure 27 – Underwriting and Selection**

*Standards Affected: A8, H6, J1-15*

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*Observations:* The Company has a written procedure manual for underwriting and selection that is clear and readable. Examiners reviewed the Westfield Group Homeowners Manuals for 2003 and 2004. The manual was last updated on October 1<sup>st</sup> 2004. Changes to underwriting procedures were noted in the 2004 Homeowners Manual. The underwriting procedure is accessible to persons subject to its provisions. No conflict with Delaware statutes and regulations was noted.

The manuals include guidelines and procedures for all underwriters to follow regarding homeowners applications. Underwriting and rating rules, forms, coverage types and policies are defined within the manual.

Procedure compliance is measured bi-monthly on selected homeowners' risks by the underwriting and examiners audit team. This team reviews underwriting guidelines including loss history, procedure compliance and file documentation to ensure accuracy. Additionally, audits of the examination team are performed monthly by another group of underwriters to look for compliance with all underwriting guidelines and procedures. Any corrections are then performed on the sampled files and the findings are distributed to the underwriting teams and management by the 15<sup>th</sup> of the following month. Policy and procedure revisions, as well as additional training recommendations, are also made during this period by management.

*Recommendations:* None

### **Procedure 28 – Cancellation**

*Standards Affected:* **A5, A8, H9, J10**

*Observations:* The Company does have a written cancellation procedure. The procedure was unambiguous, clear and readable. Examiners reviewed the Westfield Cancellation/Non Renewal Procedures for Homeowners, as well as a written summation of the processed used. The version date of the cancellation document was February 2003. According to the Company, no revisions have been made to this document during the exam period.

This cancellation document described various cancellation scenarios with processing information for the employee to follow, including: less than 60 days, 60 days or more, nonpayment, nonrenewal, and nonrenewal for closed agency. The document also included a listing of permissible grounds for cancellation/nonrenewal with statutory requirements, as well as prohibitive reasons for cancellation.

According to the Company, upon review of an individual risk where an underwriter determines cancellation is appropriate, the following steps are taken:

- The agent is advised of the reason(s) for the decision. No specific form letter is utilized.
- The underwriter completes an instruction form and sends to the Personal Lines Policy Services department.

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- The Policy Services Department prepares the required termination notice and mails to insured.

Cancellation advance notice is 10 days plus an additional five days mailing on homeowners accounts that are cancelled within 60 days of the effective date. If more than 60 days from the effective date, advance notice of cancellation is 30 days plus an additional five days for mailing. No conflict with Delaware statutes and regulations was noted.

Procedure compliance is measured bi-monthly on cancellations/terminations by the underwriting and examiners audit team. This team of examiners inspects the underwriters' files for any inaccuracies regarding cancellation and terminations. Inspection criteria include, but are not limited to: loss history, procedure compliance and file documentation. Additionally, audits of the examination team are performed monthly by another group of underwriters to look for compliance with all underwriting guidelines and procedures associated with cancellations and terminations.

Any corrections are then performed on the sampled files and the findings are distributed to the underwriting teams and management by the 15<sup>th</sup> of the following month. Policy and procedure revisions, as well as additional training recommendations, are also made during this period by management.

Additionally on April 15<sup>th</sup> 2005, a special audit is being performed on a number of selected files (including Delaware business) to evaluate compliance with all termination and cancellation procedures. This audit will also determine the need for ongoing monitoring and/or additional auditing in the future.

*Recommendations:* None.

### **Procedure 29 – Termination**

*Standards Affected:* **A5, A8, H9, J10-11**

*Observations:* The Company does have a written termination procedure. The procedure was unambiguous, clear and readable. The examiners were provided a document entitled Westfield Cancellation/Non Renewal Procedures for Homeowners. The version date of the document was February 2003. According to the Company, no revisions have been made to this document during the exam period. See the Observations for Procedure 28 – Cancellations.

*Recommendations:* None



### **Procedure 36 – Premium Determination**

*Standards Affected: A8, J1*

*Observations:* The Company has a written premium determination procedure. Examiners reviewed the Westfield Group Homeowners Manuals for 2003 and 2004. The manual was last updated on October 1<sup>st</sup> 2004. The premium determination procedure is associated with the underwriting process within the manual.

The procedure is well structured, clear and readable. Examiners noted no conflict with Delaware statutes and regulations. Changes to premium determination procedures were noted within the 2004 Homeowners Manual. The premium determination procedure is accessible to persons subject to its provisions.

The manuals include the guidelines and procedures for all underwriters to follow regarding homeowners' applications and premium determination. A premium determination worksheet with examples is also noted within the manual to guide the underwriter through the rating and premium determination process.

Audits are conducted on a monthly basis on randomly selected new business files, which have been issued by the underwriters. The auditor reviews the application, reports and supporting business, and then includes instructions in the audit report for corrections to be made when an error is found. The underwriter then takes the necessary steps to correct the error.

Internal examiners are also used to review underwriting files. It is the auditor's responsibility to ensure all of the technical information is entered in accordance with Company policies, procedures and guidelines. If the underwriter adds any of the information incorrectly, the examiner is instructed to make the appropriate corrections, or seek the underwriter's assistance.

When revisions are made regarding premium determination procedure, the Actuarial Department directly uploads the factor revisions to the Companies IT area ("BSC") to ensure data was transferred correctly. Prior to implementation, the data is tested on two different levels for any error or inconsistency. Any potential problems are investigated and resolved. Additional audits of this data are conducted every six months.

*Recommendations:* None

### **Procedure 37 – Quotation**

*Standards Affected: A8, J1*

*Observations:* The Company has a written quotation procedure. Examiners reviewed the Westfield Group Homeowners Manuals for 2003 and 2004 and a sample comparative

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rater quotation. The manual was last updated on October 1, 2004. The manual quotation procedure is directly associated with the underwriting and premium determination procedures located within the Westfield Group Homeowners Manual.

Agents are able to quote homeowners accounts through a comparative rater–priority-data process or manually quote the account using the homeowners’ manual and/or paper copies of the rates and rules. Renewals can be manually quoted within the agency. Westfield generates the renewal declarations page 35 days in advance of the effective date of the renewal.

The manuals include the guidelines and procedures for all agents to follow regarding homeowners’ applications and manual quotes. A premium determination worksheet with examples is also noted within the manual to guide the agent through the rating, premium and quotation process.

The manual quotation procedure is well structured, clear and readable. Changes to premium determination procedures and quotations were noted within the 2004 Homeowners Manual. The quotation procedure is accessible to persons subject to its provisions. No conflict with Delaware statutes and regulations was noted.

Prospective policyholders can also be issued a quote through the use of two comparative rating companies, Priority Data Systems Inc and InsurQuote. According to Company, most Delaware agents use the Priority Data Systems application for quoting homeowner accounts, due to the fact that Westfield has agreed to pay for the cost of the quote on behalf of the agent. Both of the companies are directly supplied revised underwriting policies, rule changes and rating procedures/specifications. The rating vendors are instructed to have rates available to agents two weeks prior to the effective date of any rate policy changes.

The comparative rating vendors implement a step by step, easy to follow procedure of entering the homeowners’ information to determine the home insurance proposal. A copy of the Priority Data Systems application including screen shots and sample Delaware proposal was provided to the examiners. A copy of the revised 2004 rating specifications mailed to the vendors was also supplied to the examiners. Information provided to the rating companies are in accordance with the Company’s filed rates and Company rating plan.

When revisions are made regarding the premium determination procedure, the Actuarial Department directly uploads the factor revisions to the Company’s IT area (“BSC”) to ensure data was transferred correctly. Prior to implementation, the data is tested on two different levels looking for any error or inconsistency. Any potential problems are investigated and resolved. Once the rating tested rating information is transferred to a comparative rater, no further monitoring of accuracy occurs.

Additional measurement procedures used by the Company in regards to quotations, and the underwriting process can be found within Company’s underwriting procedure.

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Compliance is measured bi-monthly on selected home owners risks by the underwriting and examiners audit team. This team of employees looks at underwriting guidelines including loss history, procedure compliance and file documentation to ensure accuracy. Additionally, audits of the examination team are performed monthly by another group of underwriters to look for compliance with all underwriting guidelines and procedures. Any corrections are then performed on the sampled files and the findings are distributed to the underwriting teams and management by the 15<sup>th</sup> of the following month. Policy and procedure revisions, as well as additional training recommendations, are also made during this period by management.

*Recommendations:* None

### **Procedure 41 – Underwriter Training**

*Standards Affected:* **A8, J1-8**

*Observations:* The information initially provided by the Company was not responsive. The Company does not have a formal written underwriter training procedure. The Examiners reviewed several items purporting to be the written procedure, but these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent. The Company did provide a written summary of the process it uses and two examples of internal training communications. The written descriptions of this process, as well as the communication examples, are well structured, clear and readable. No conflict with Delaware statutes and regulations was noted.

The Company states that the underwriting staff is notified as changes are made on the system regarding rating rules, premium rating, or underwriting rules. The updates are accomplished through communication/education meetings, e-mail communications and updates to processing manuals. Topics of industry or Company relevance are presented at monthly meetings. Examiners reviewed samples of email communications and did not observe conflicts with statutes,

The process was most recently revised on October 1, 2004, due to product line coverage changes. Monthly in person training sessions are provided to all underwriters and examiners on any procedural changes. Additionally, any state mandated compliance changes are discussed in a separate meeting for employee review.

Also see the Observations for Procedure 27 regarding additional measurement structures and audits performed by the Company that ensure underwriter training guidelines and procedure compliance.

*Recommendations:* It is recommended that the Company formulate, adopt and implement a written underwriter training procedure.

## **Procedure 42 – Underwriting File Documentation**

*Standards Affected: A8, J7*

*Observations:* The information provided by the Company was not responsive. The Company does not have a written underwriting file documentation procedure. The examiners reviewed several items purporting to be the written procedure but these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The examiners reviewed the Delaware Cancel/Nonrenewal Request form as well as a written summation of the underwriting file documentation process. These documents are well structured, clear and readable. No conflict with Delaware statutes and regulations was noted. The Company states that underwriters are required to document their thought process and rationale on an individual risk which falls outside the published acceptability guidelines. No other information regarding this “thought process and rational” documentation was provided to the examiners.

Documentation on new business and how it is physically archived within the Company was illustrated on the Delaware Cancel/Nonrenewal request form. The information is imaged archived, coded and stored within the Company’s underwriting computer systems. The information is also emailed to two departmental processors for backup. Adherence to this Standard is reviewed as part of monthly audits conducted on new business written by the underwriters.

The Company states that this process and forms used for archiving information were not revised during the examination period. The audit process described in Procedure 27 is also used to ensure underwriter file documentation process compliance.

*Recommendations:* It is recommended that the Company formulate, adopt and implement a written underwriting file documentation procedure.

### **A. COMPANY OPERATIONS/MANAGEMENT**

*Comments:* The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to provide a view of what the Company is and how it operates. It is typically not based on sampling techniques. It is more concerned with structure. This review is not intended to duplicate financial examination review but is important in establishing an understanding of the examinee.

**Standard A 9**

*NAIC Market Conduct Examiners Handbook - Chapter VI, §A, Standard 9*  
**The Company cooperates on a timely basis with examiners performing the examinations.**  
 18 Del. C. §318(a), §320(c), §508(b), §520(b) 3

*Comment:* Review for this Standard is by “generic” methodology. This Standard has a direct insurance statutory requirement. This Standard is aimed at assuring that the Company is cooperating with the state in the completion of an open and cogent review of the Company’s operations in Delaware. Cooperation with examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and minimizing cost.

*Results:* **Pass**

*Observations:* During the course of the examination Westfield was provided with 33 Information Requests (IR items) which all came in on time. Eight memos and criticisms were issued during the exam and all eight of those were replied to on time.

**Table A9-1 Company Response Time Test**

| Type                     | Issued | Received On-Time | Received Early | Overdue | % Pass      |
|--------------------------|--------|------------------|----------------|---------|-------------|
| Information Request (IR) | 33     | 33               | 0              | 0       | <b>100%</b> |
| Memos and/or Criticisms  | 8      | 8                | 0              | 0       | <b>100%</b> |
| Totals                   | 41     | 41               | 0              | 0       | <b>100%</b> |

Although the scope of the examination changed during the course of the exam, the Company replied to all memos or criticisms by their response due dates.

*Recommendations:* None

**B. COMPLAINTS/GRIEVANCES**

*Comments:* Evaluation of the standards in this business area is based on Company response to various information requests (IR items) and complaint files at the Company. In this business area, "complaints" includes "grievances." 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware definition of a complaint is: "...any written communication primarily expressing a grievance."

**Standard B 1**

NAIC Market Conduct Examiners Handbook - Chapter XVII, §B, Standard 1  
**All complaints or grievances are recorded in the required format on the Company complaint register.**  
 18 Del. C. §2304(17); Del. Reg. 101§2.1.7

*Comments:* Review methodology for this Standard is generic. This Standard has a direct insurance statutory requirement. This Standard is concerned with whether the Company keeps formal track of complaints or grievances as required by statute. An insurer is required to maintain a complete record of all the complaints received. The record must indicate the total number of complaints since the last examination, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint.

*Results:* **Pass**

**Standard B 2**

NAIC Market Conduct Examiners Handbook - Chapter XVII, §B, Standard 2  
**The Company has adequate complaint/grievance handling procedures in place and communicates such procedures to policyholders.**  
 18 Del. C. §318(a), §508(b), §2304(17)

*Comments:* Review methodology for this Standard is generic. This Standard has a direct insurance requirement. This Standard is concerned with whether the Company has an adequate complaint handling procedure and whether the Company communicates complaint handling procedures to its members or policyholders.

*Results:* **Pass**

*Observation:* A random sample of complaint files was reviewed from the complaint logs for 2002 - 2003. The review tested the adequacy of information provided to the complainant.

**Complaint Sample Results                      Table B2-1**

| <b>Type</b> | <b>Sampled</b> | <b>Pass</b> | <b>Fail</b> | <b>NA</b> | <b>% Pass</b> |
|-------------|----------------|-------------|-------------|-----------|---------------|
| Complaints  | 23             | 23          | 0           | 0         | <b>100%</b>   |
| Totals      | 23             | 23          | 0           | 0         | <b>100%</b>   |

*Recommendations:* None

**Standard B 3**

*NAIC Market Conduct Examiners Handbook - Chapter XVII, §B, Standard 2*  
**The Company takes adequate steps to finalize and dispose of the complaint/grievance in accordance with applicable statutes, rules and regulations, and contract language.**  
 18 Del. C. §318(a), §508(b), §2304(17)

*Comments:* Review methodology for this Standard is by “sample” methodology. Reasonable disposition is inferred by the fact that disposition information is required to be noted in the complaint log. This Standard is concerned with whether the Company deals with the subject matter in a complaint/grievance.

*Results:* **Pass**

*Observation:* A random sample of complaint files was reviewed from the complaint logs for 2002 - 2004. The review tested the quality of the handling of the subject matter in the complaint and whether issues raised were fully addressed by responses.

**Complaint Sample Results      Table B3-1**

| <b>Type</b> | <b>Sampled</b> | <b>Pass</b> | <b>Fail</b> | <b>NA</b> | <b>% Pass</b> |
|-------------|----------------|-------------|-------------|-----------|---------------|
| Complaints  | 23             | 23          | 0           | 0         | <b>100%</b>   |
| Totals      | 23             | 23          | 0           | 0         | <b>100%</b>   |

*Recommendations:* None

**Standard B 4**

*NAIC Market Conduct Examiners Handbook - Chapter XVII, §B, Standard 4*  
**The time frame within which the Company responds to complaints/grievances is in accordance with applicable statutes, rules and regulations.**

*Comments:* Review methodology for this Standard is by “sample” methodology. In the case of complaints/grievances concerning claims, direct time requirements are found in regulation. This Standard is concerned with whether the Company has a timely response to complaints/grievances.

Delaware’s complaint handling section uses a 15 day standard for response to complaints.

*Results:* **Pass**

*Observations:* A random sample of complaint files was reviewed from the complaint logs for 2001 and 2003. The review tested the timing of the initial response to written complaints.

**Complaint Sample Results Table B4-1**

| Type       | Sampled | Pass | Fail | NA | % Pass |
|------------|---------|------|------|----|--------|
| Complaints | 23      | 23   | 0    | 0  | 100%   |
| Totals     | 23      | 23   | 0    | 0  | 100%   |

*Recommendations:* None

**Standard B 5**

*NAIC Market Conduct Examiners Handbook - Chapter XVII, §B, Standard 4*  
**Documentation of complaints is adequate and in accordance with applicable statutes, rules and regulations.**  
 18 Del. C. §318(a), §508(b), §2304(17)

*Comments:* Review methodology for this Standard is by “sample” methodology. This Standard is concerned with whether the Company has adequate documentation to demonstrate handling and disposition of the complaint.

*Results:* **Pass**

*Observations:* A random sample of complaint files from the complaint logs for 2002 and 2004 were requested for review by the examiners. The concerns tested with this Standard include:

- That the documentation of the complaint file is sufficient to demonstrate that there was appropriate disposition of the complaint.

**Complaint Sample Results Table B5-1**

| Type       | Sampled | Pass | Fail | NA | % Pass |
|------------|---------|------|------|----|--------|
| Complaints | 23      | 23   | 0    | 0  | 100%   |
| Totals     | 23      | 23   | 0    | 0  | 100%   |

*Recommendations:* None

**F. UNDERWRITING AND RATING**

*Comments:* The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, presentations made to the examiner, and file sampling. The underwriting and rating practices portion of the examination is designed to provide a view of how the Company treats the public and whether that treatment is in compliance with applicable statutes, rules and regulations. It is typically determined by testing a random sampling of files and applying various tests to the sampled files. It is concerned with compliance issues.

Delaware Forms and Rates Bulletin No. 28 is concerned with the inappropriate use of surcharges for weather and vandalism related losses. In addition, it is also concerned with terminations based on weather and vandalism loss. During this examination,



information was gathered to determine the extent, if any, to which the Company surcharges or terminates coverage for these types of loss. The following table is intended as aid to quantify that activity.

**Table F-Intro-1 Underwriting Statistics - 2004**

| Description  |      |
|--|------|
| Delaware Total Population of Issued HO policies – 2004                     | 8379 |
| Issued HO Files Sampled.   | 100  |
| Issued HO Files with Any Surcharge   | 215  |
| Issued HO Files with Surcharge for Bulletin 28 Restricted Reason           | 215  |
| Delaware Total Population of HO Policies Terminated for Loss History- 2004 | 3    |
| Files Terminated for 3 or more losses – All Kinds                          | 0    |
| Files Terminated for 3 or more losses – Weather or Vandalism Losses        | 0    |
| Files Terminated for 2 losses – All Kinds                                  | 1    |
| Files Terminated for 2 losses – Weather or Vandalism Losses                | 0    |
| Files Terminated for 1 loss – All Kinds                                    | 2    |
| Files Terminated for 1 loss – Weather or Vandalism Loss                    | 0    |

**Standard F 1**

*NAIC Market Conduct Examiners Handbook - Chapter XVII, §F, Standard 1*  
**The rates charged for the policy coverage are in accordance with filed rates.**  
 18 Del. C. §318(a), §508(b), §2304(25) a, §2316, & §3904, §4124

*Comments:* Review for this Standard is by “generic,” “sample,” and “electronic” methodology. This Standard has a direct insurance statutory requirement. It is file specific. It is necessary to determine if the Company is in compliance with rating systems which have been filed with and approved by DDOI. Rates should not be unfairly discriminatory. Wide-scale application of incorrect rates by a Company may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a company is engaged in unfair competitive practices.

*Results:* **Pass**

*Observations:* A random sample of files as noted in the following table was reviewed from the listing of contracts in force during the examination period. Concerns tested with this standard include:

- The Company does not use surcharges prohibited in DDOI Forms and Rates Bulletin No. 28.

**Table F1-1 Underwriting Sample Results**

| Type                 | Sampled | Pass | Fail | NA | % Pass      |
|----------------------|---------|------|------|----|-------------|
| Individual HO Issued | 100     | 100  | 0    | 0  | <b>100%</b> |
| Totals               | 100     | 100  | 0    | 0  | <b>100%</b> |

*Recommendations:* None

**Standard F 11**

*NAIC Market Conduct Examiners Handbook - Chapter XVII, §F, Standard 11*  
**The Company underwriting practices are not unfairly discriminatory. The Company adheres to applicable statutes, rule and regulations and Company guidelines in the selection of risks.**  
8 Del. C. §318(a), §508(b), §2304(25) a, §2316, & §3904, §4124

*Comments:* Review for this standard is by “generic,” “sample,” and “electronic” methodology. This Standard has a direct insurance statutory requirement. Consistent application of a Company’s underwriting rules is the primary method used to avoid unfair discrimination.

*Results:* **Pass**

*Observations:* A sample review was conducted for the issued files as well as the nonrenewed files. Concerns tested with this standard include:

- The Company does not use unfair discrimination
- The Company’s nonrenewals and cancellations are in accordance with reasons permitted under Forms and Rates Bulletin No. 28.

**Table F11-1 Underwriting Sample Results**

| Type                     | Sampled | Pass | Fail | NA | % Pass      |
|--------------------------|---------|------|------|----|-------------|
| Individual HO Issued     | 100     | 100  | 0    | 0  | <b>100%</b> |
| Individual HO Nonrenewed | 50      | 50   | 0    | 0  | <b>100%</b> |
| Totals                   | 150     | 150  | 0    | 0  | <b>100%</b> |

*Recommendations:* None

**Standard F 15**

*NAIC Market Conduct Examiners Handbook - Chapter XVII, §F, Standard 15*  
**File documentation adequately supports decisions made.**  
18 Del. C. §318(a), §508(b), §2304(25) a, §2316, & §3904, §4124

*Comments:* Review for this standard is by “generic,” “sample,” and “electronic” methodology. This Standard has a direct insurance statutory requirement. Consistent application of a Company’s underwriting rules is the primary method used to avoid unfair discrimination.

*Results:* **Pass**

*Observations:* A sample review was conducted for the issued files as well as the nonrenewed files. Concerns tested with this Standard include:

- Claims subject to Forms and Rates Bulletin No. 28 are documented.
- Reasons for denial are appropriately disclosed and documented.
- Sources for Forms and Rates Bulletin No. 28 subject claims are properly identified.
- CLUE report in files is used appropriately.
- Underwriting information supports underwriting decision made.

**Table F15-1 Underwriting Sample Results**

| Type                     | Sampled | Pass | Fail | NA | % Pass      |
|--------------------------|---------|------|------|----|-------------|
| Individual HO Issued     | 100     | 100  | 0    | 0  | <b>100%</b> |
| Individual HO Nonrenewed | 50      | 50   | 0    | 0  | <b>100%</b> |
| Totals                   | 150     | 150  | 0    | 0  | <b>100%</b> |

*Recommendations:* None

**Standard F 24**

*NAIC Market Conduct Examiners Handbook - Chapter XVII, §F, Standard 24*  
**Cancellation/Nonrenewal notices comply with policy provisions and state laws including the amount of advance notice provided to the insured and other parties to the contract.**  
 18 Del. C. §318(a), §508(b), §2304(25) a, §2316, & §3904, §4124

*Comments:* Review for this standard is by “generic,” “sample,” and “electronic” methodology. This Standard has a direct insurance statutory requirement. Consistent application of a Company’s underwriting rules is the primary method used to avoid unfair discrimination.

*Results:* **Pass**

*Observations:* A sample review was conducted for the issued files as well as the nonrenewed files. Concerns tested with this Standard include:

- Claims subject to Forms and Rates Bulletin No. 28 are documented.
- Reasons for denial are appropriately disclosed and documented.
- Sources for Forms and Rates Bulletin No. 28 subject to claims are properly identified.
- CLUE report in file is used appropriately.
- Underwriting information supports underwriting decision made.

**Table F24-1 Underwriting Sample Results**

| Type                     | Sampled | Pass | Fail | NA | % Pass      |
|--------------------------|---------|------|------|----|-------------|
| Individual HO Nonrenewed | 50      | 50   | 0    | 0  | <b>100%</b> |
| Totals                   | 50      | 50   | 0    | 0  | <b>100%</b> |

*Recommendations: None*

**SUMMARY**

Westfield Insurance Company is a property and casualty insurer writing a significant market share of homeowners insurance in the State of Delaware.

The examination is a part of a series of examinations of the major writers of homeowners insurance in the State of Delaware. Business areas reviewed and tested include Complaint Handling and Underwriting, with regards to the Company’s compliance with Delaware Forms and Rates Bulletin No. 28. The three major areas of focus include the use of surcharges, the process of reporting to a national database based on one or two weather-related claims and the degree to which inquiries short of a formal claim are treated. The following are a summary of these exam findings.

The Company uses a national clearing house, agency or databases for reporting claim activity. This reporting process is:

- Property theft loss and property fire loss claims are reported to the Property Insurance Loss Register (PILR). This includes all claims with any payment at or exceeding one dollar (\$1.00). This reporting is done through the Company’s mainframe computer interface with an internet site for PILR.
- Closed claims are reported to Consumer Loss Underwriting Exchange (CLUE).

No reporting takes place until the claim has been closed.

When an insured calls in, the Company representative attempts to explain the coverage based on the facts as presented. The Company does not file a claim or treat the calls as such. They let the insured decide whether or not to pursue and file a claim.

The Company does have a filing with the Department (that predates Bulletin 28) that permits the addition of a surcharge to a policy for having one or more weather-related claims. Westfield reported to the examiners a list of 8,379 policies issued in 2004. These policies were sampled as noted in TableF1-1 and no criticisms were noted. The examiners then requested a listing of all policies surcharged under the filing and the Company reported that 216 policies were surcharged for loss activity that related to weather or vandalism. A sample of 50 policies was reviewed from this listing. The examiners found that surcharges had only been applied to policies with two (2) or more losses. Westfield has had several communications with DDOI concerning Bulletin 28 and still defends its position pertaining to Bulletin 28. While no instances of a surcharge in violation of Bulletin 28 were found, the potential for a violation does exist.

## LIST OF RECOMMENDATIONS

### **IR041-Underwriter Training**

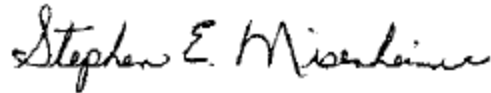
It is recommended that the Company develop a written underwriter training procedure.

### **IR042- Underwriting File Documentation**

It is recommended that the Company formulate, adopt and implement a written underwriting file documentation procedure.

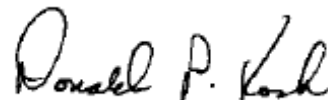
## CONCLUSION

The examination was conducted by Donald P. Koch, Stephen E. Misenheimer, and Sean Connolly and is respectfully submitted,



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Stephen E. Misenheimer, AIE, EIC  
Market Conduct Examiner-in-Charge  
Insurance Department  
State of Delaware



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Donald P. Koch, CIE  
Market Conduct Supervising  
Examiner  
Insurance Department  
State of Delaware