

**DELAWARE DEPARTMENT OF INSURANCE**

**MARKET CONDUCT EXAMINATION REPORT**

**Foremost Property and Casualty Insurance Company**

**NAIC #11800**

**Foremost Insurance Company of Grand Rapids, Michigan**

**NAIC #11185**

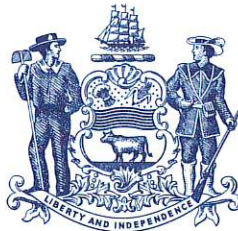
**P.O. Box 2450**

**Grand Rapids, MI 49501-2450**

**As of**

**December 31, 2018**

TRINIDAD NAVARRO  
COMMISSIONER



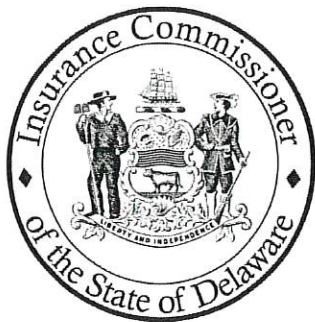
STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2018 on

**Foremost Property and Casualty Insurance Company  
Foremost Insurance Company of Grand Rapids, Michigan**

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

Attest By:



In Witness Whereof, I have hereunto set my hand  
and affixed the official seal of this Department at the  
City of Dover, this 7 day of October, 2019.

Trinidad Navarro  
Insurance Commissioner

TRINIDAD NAVARRO  
COMMISSIONER



STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION

OF THE

**Foremost Property and Casualty Insurance Company  
Foremost Insurance Company of Grand Rapids, Michigan**

AS OF

December 31, 2018

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 7 day of October, 2019.

  
\_\_\_\_\_  
Trinidad Navarro  
Insurance Commissioner

**Delaware Market Conduct Examination Report  
Foremost Property and Casualty Insurance Company  
Foremost Insurance Company of Grand Rapids, Michigan**

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Honorable Trinidad Navarro  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Examination Authority Numbers 11800-18-HO-743 and 11185-18-HO-744 and pursuant to statutory provisions including 18 *Del. C.* §318, a Market Conduct Examination has been conducted of the affairs and practices of:

**Foremost Property and Casualty Insurance Company - NAIC #11800**  
**Foremost Insurance Company of Grand Rapids, Michigan - NAIC #11185**

The examination was performed as of December 31, 2018.

The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

5600 Beechtree Lane SE,  
Caledonia, MI 49316

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the Department, or other suitable locations. The Foremost Property and Casualty Insurance Company and the Foremost Insurance Company of Grand Rapids, Michigan are hereinafter referred to as the Company, or the Foremost Companies, unless otherwise noted.

The report of examination herein is respectfully submitted.

## **EXECUTIVE SUMMARY**

This was a desk audit focusing on the Foremost Companies activities related to its Personal Property line of business in the following areas of operation: Complaint Handling, Underwriting and Rating, and Claims Handling. The examination period was January 1, 2016 through December 31, 2018.

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.

9 Exceptions: 18 *Del. C.* §2517 Adherence to filings.

*No insurer shall make or issue a contract or policy except in accordance with the filings which are in effect for the insurer as provided in this chapter or in accordance with § 2505 (exemption from filing) or § 2509 (excess rates) of this title. This section shall not apply to contracts or policies for inland marine risks as to which filings are not required.*

The Company failed to issue policies in accordance with their filed and approved rate manuals in compliance with 18 *Del. C.* §2517.

1 Exception: 18 *Del. C.* §4122(a) Notification and reasons for declination or termination.

*(a) Upon declining to insure any real or personal property subject to this subchapter, the insurer, agent or broker making such declination shall either provide the insurance applicant with a written explanation of the specific reasons for the declination or an explanation will be provided within 21 days of the timely receipt of the applicant's written request for such an explanation.*

The Company was unable to locate the written explanation of the specific reasons for the declination or an explanation sent to a declined applicant therefore it could not be provided to the examiners to ensure compliance with 18 *Del. C.* §4122(a)..

1 Exception: 18 *Del. Admin. C.* §902 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.*

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The Company failed to provide, in writing, the reason for the inability to affirm or deny coverage for a claim within 30 days in compliance with 18 *Del. Admin. C.* §902

## **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, 2016 through December 31, 2018. 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 Company's personal property 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 desk audit also focuses on general business practices of the Foremost Property and Casualty Insurance Company and the Foremost Insurance Company of Grand Rapids, Michigan.

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**

### **Foremost Property and Casualty Insurance Company**

Foremost Property and Casualty Insurance Company was incorporated in the state of Indiana on April 27, 1984. It re-domesticated to Michigan on October 28, 1998 and is currently licensed in all states and the District of Columbia.

Foremost Property & Casualty Insurance Company reported Homeowners multiple peril premium in Delaware in the amount of \$1,116,119, and no Fire or Allied Lines premium in Delaware.

### **Foremost Insurance Company of Grand Rapids, Michigan**

Foremost Insurance Company of Grand Rapids, Michigan was incorporated with the title Foremost Insurance Company under the laws of Michigan on March 20, 1952, and began business on June 12, 1952, to provide insurance for buyers of house trailers. The words “Grand Rapids, Michigan” were added to its name in 1963. The company was the first to provide specialized protection for travel trailers and subsequently added insurance for motor homes as well. The company is licensed in all states and the District of Columbia.

According to its 2018 Annual Statement filed with the Department, Foremost Insurance Company of Grand Rapids, Michigan reported Fire premium in Delaware in the amount of \$938,499, Allied lines premium in Delaware in the amount of \$559,006, Homeowners multiple peril in Delaware in the amount of \$3,111,955, and Other Liability – occurrence in Delaware in the amount of \$202,195.

## **COMPLAINT HANDLING**

The Company was asked to provide a listing of all complaints pertaining to personal lines property during the examination period of January 1, 2016 through December 31, 2018. The Company was asked to include complaints received from the Delaware Department of Insurance, as well as complaints made directly to the Company on behalf of Delaware consumers. The Company provided a list of nine (9) complaints that were filed with the Company during the examination period.

The nine (9) complaint files were reviewed for compliance with the Delaware Department of Insurance laws, statutes and regulations including, but not limited to 18 *Del. C.* §2304 (17). Complaint files involving claims were reviewed for compliance with 18 *Del. C.* §2304 (26) and 18 *Del. Admin. C.* 902 §1.2.1.2. 18 *Del. C.* §2304 (17) also requires maintenance of a complete record of all complaints received, since the date of its last examination. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. The Company had never been examined by the Delaware Department of Insurance.



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There were no exceptions.

The files were also reviewed for compliance with the NAIC Market Regulation Handbook Standards Chapter 16. The Company also provided their Complaint Handling guidelines and procedures. These were reviewed and found sufficient.

## **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 a copy of their Personal Lines Property Underwriting and Rating Manuals, along with notices issued to insureds that pertain to credit information, deductibles, and disclosures used for the examination period. These were reviewed and exceptions are noted below.

### New Business Policies

The examiners were provided a total universe of 5,289 personal property policies (homeowners, condominium unit owners, rental property, mobile homes and tenants) written as new business for both companies. A random sampling of 116 policies reviewed was selected according to the NAIC Market Coordinators Handbook guidelines. Random sampling was use through ACL programming. Examination of the underwriting and rating files was performed to verify the Company's compliance with NAIC guidelines and Delaware Insurance Department bulletins and regulations.

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 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 would be requested for testing.

The examiners were able to test the rating of personal property policies in accordance with the Company's filed and approved rates.

During the examination, the Company self-reported they had inadvertently neglected to include a \$25 expense constant to the base rate on the Rate pages R-10 – R-13 for the Dwelling Fire and Homeowners Insurance Program's rate manuals, which were filed effective 10/15/2014. The \$25 expense constant premium was included as part of the rates filed in SERFF with the filing effective 10/15/2014, as part of the Indicators and Exhibits, and continued to be applied, however the revised published rate manual does not reflect the additional charge.

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This resulted in the following exceptions:

**4 Exceptions: 18 Del. C. §2517 Adherence to filings.**

The Company failed to issue policies in accordance with their filed and approved rate manual, resulting in discrepancies ranging from \$19 to \$25.

*Recommendation:* It is recommended that the Company file corrections to Rate pages R-10 – R13 for the Dwelling Fire and Homeowners Insurance Program’s rate manuals. The Company should also institute a self-audit process or self-testing procedures to ensure rates generated by their rating system reconcile with their filed rate manual pages, in accordance with 18 Del. C. §2517.

Renewal Policies

The examiners were provided a total universe of 18,524 personal property policies (homeowners, condominium unit owners, rental property, mobile homes and tenants) renewed during the examination period for both companies. A random sampling of 116 policies reviewed was selected according to NAIC Market Coordinators Handbook guidelines. Random sampling was use through ACL programming. Examination of the underwriting and rating files was performed to verify the Company's compliance with NAIC guidelines and Delaware Insurance Department bulletins and regulations.

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 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 would be requested for testing.

The examiners were able to test the rating of personal property policies in accordance with the Company’s filed and approved rates.

During the Examination, the Company self-reported they had inadvertently neglected to include a \$25 expense constant to the base rate on the Rate pages R-10- R-13 for the Dwelling Fire and Homeowners Insurance Program's rate manuals, which were filed effective 10/15/2014. The \$25 expense constant premium was included as part of the effects filed in SERFF with the filing effective 10/15/2014, as part of the Indicators and Exhibits, and continued to be applied, however the revised published rate manual does not reflect the additional charge.

This resulted in the following exceptions:

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**5 Exceptions: 18 Del. C. §2517 Adherence to filings.**

The Company failed to issue policies in accordance with their filed and approved rate manual, resulting in discrepancies ranging from \$15 to \$24. In addition, the manual rating process revealed a rating error resulting in a \$3 overcharge.

*Recommendation:* It is recommended that the Company file corrections to Rate pages R-10 – R13 for the Dwelling Fire and Homeowners Insurance Program’s rate manuals. It is also recommended that the Company review its interpolation programming calculations to ensure what is being produced reconciles with the filed rating manuals, in accordance with 18 Del. C. §2517.

The Company should also institute a self-audit process or self-testing procedures to ensure what is being generated by their rating system reconciles with their filed rate manual pages.

Terminated Policies

The examiners were provided a total universe of 230 personal property policies (Condominium Unit Owners, Condominium Landlord, Dwelling Fire One & Three, Manufactured Home, Landlord Manufactured Home, Homeowners ACV & CL (Credit & Loss), and Tenants) that were terminated at the request of the Company during the examination period. A sample of 84 terminated policies were selected and reviewed on-site. There were no exceptions.

Declinations

The examiners were provided a total universe of 343 personal property solicitations (Condominium Unit Owners, Condominium Landlord, Dwelling Fire One & Three, Manufactured Home, Landlord Manufactured Home, Homeowners ACV & CL (Credit & Loss), and Tenants) that were declined by the Company during the examination period. A sample of 84 declinations was selected and reviewed on-site.

The following exception was noted:

**1 Exception: 18 Del. C. §4122(a) Notification and reasons for declination or termination**

The Company was unable to locate the written explanation of the specific reasons for the declination or an explanation sent to a declined applicant, therefore it could not be provided to the examiners to ensure compliance with the above Code.

*Recommendation:* It is recommended that the Company provide additional training to ensure the written explanation of the specific reasons for the declination or an

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explanation sent to a declined applicant are made and kept, in compliance with 18 *Del. C.* §4122(a).

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 Company does not determine the amount of insurance coverage for its customers. Rather, they offer a tool from Marshall & Swift/Boeckh to assist the applicant and agent in selecting the amount of insurance that the applicant wants for their home. However, they can use whatever estimation tool they choose. Beginning on February 17, 2018, the Company began offering the use of the Verisk Analytics 360 Value Estimated Replacement Cost Valuation.

Inflation Protection Coverage is automatically applied to Replacement Cost and Extended Replacement Cost policies at renewal for their Homeowners, Fire, Condo Homeowners, Condo Landlord, and Manufactured Home programs. The Company relies on the Xactware Residential Replacement Cost Index of Verisk for indexing factors and applies them to the policy for inflation protection. These indexing factors may vary year to year and the Company provided their factors for 2017 and 2018. What is sent out to the insured is considered the offered Coverage A amount and, as stated in the policy and the renewal cover letter, the insured may contact the Company to change the amount of insurance.

**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 documents and access to their claims system that allowed the examiners access to their procedures and reference materials related to the handling of claims used for the examination period. These were reviewed and found appropriate.

The Company also provided access to their claims system that allowed the examiners access to of all newsletters, bulletins and other documents regularly sent to claims adjusters. A random sample of these were selected and reviewed, and there were no issues with their content.

Both Companies claims are handled by the same Claims personnel, using the same processes and procedures.

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Paid Claims

The Company was asked to provide a listing of all paid property claims during the examination period. The Company provided a universe of 1,064 claims paid during the examination period of January 1, 2016 through December 31, 2018. Of the 1,064 paid claims, a random sample of 105 claims was provided to the Company for review. All 105 claims were reviewed for compliance with Delaware statutes and regulations and the NAIC Market Regulation Handbook standards in Chapters 16 & 17.

The following exception was noted.

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

The Company failed to affirm or deny coverage within 30 days or provide a written reason for the inability to do so.

*Recommendation:* It is recommended that the Company provide additional training to ensure coverage decisions are made within 30 days or provide a written reason is provided why such a decision could not be made, as required by 18 Del. Admin. C. §902.

Closed Without Payment Claims

The Company was asked to provide a listing of all property claims closed without payment (CWOP) during the examination period. The Company provided a universe of 605 CWOP claims during the examination period of January 1, 2016 through December 31, 2018. Of the 605 claims, a random sample of 83 claims was selected for review. All 83 claims were reviewed for compliance with Delaware statutes and regulations and the NAIC Market Regulation Handbook standards in Chapters 16 and 17.

No exceptions were noted.

Denied Claims

The Company was asked to provide a listing of all property claims denied during the examination period. The Company provided a universe of 490 denied claims during the examination period of January 1, 2016 through December 31, 2018. Of the 490 denied claims, a random sample of 82 claims was selected for review. All 82 claims were reviewed for compliance with Delaware statutes and regulations and the NAIC Market Regulation Handbook standards in Chapters 16 & 17.

No exceptions were noted.

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## **CONCLUSION**

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 file corrections to Rate pages R-10 – R13 for the Dwelling Fire and Homeowners Insurance Program’s rate manuals, and review its interpolation programming calculations to ensure what is being produced reconciles with the filed rating manuals, in accordance with 18 *Del. C.* §2517. (Underwriting and Rating)
2. It is also recommended that the Company institute a self-audit process or self-testing procedures to ensure what is being generated by their rating system reconciles with their filed rate manual pages, in accordance with 18 *Del. C.* §2517. (Underwriting and Rating)
3. It is recommended that the Company provide additional training to ensure the written explanation of the specific reasons for the declination or an explanation sent to a declined applicant are made and kept, in compliance with 18 *Del. C.* §4122(a). (Underwriting and Rating)
4. It is recommended that the Company provide additional training to ensure coverage decisions are made within 30 days or provide a written reason is provided why such a decision could not be made, as required by 18 *Del. Admin. C.* §902. (Claims Handling)

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



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