

MAR 22 2001

STATE OF ARIZONA  
DEPARTMENT OF INSURANCE

DEPT. OF INSURANCE  
BY [Signature]

<p>In the Matter of:</p> <p><b>HARTFORD INSURANCE COMPANY OF THE MIDWEST,</b></p> <p>NAIC #37478,</p> <p style="text-align: center;"><b>Respondent</b></p>	<p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p>	<p>Docket No. 01A-081-INS</p> <p><b>CONSENT ORDER</b></p>
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Examiners for the Department of Insurance (the "Department") conducted a market conduct examination of Hartford Insurance Company of the Midwest ("Hartford of the Midwest"). The Report of Examination of the Market Conduct Affairs of Hartford of the Midwest alleges that Hartford of the Midwest has violated A.R.S. §§ 20-263, 20-385, 20-400.01, 20-1631, 20-1632.01, 20-461, and A.A.C. R20-6-801.

Hartford of the Midwest wishes to resolve this matter without formal proceedings, neither admits or denies the following Findings of Fact and Conclusions of Law, and consents to the entry of the following Order.

**FINDINGS OF FACT**

1. Hartford of the Midwest is authorized to transact property and casualty insurance, including workers compensation, pursuant to a Certificate of Authority issued by the Director.
2. The Examiners were authorized by the Director to conduct a market conduct examination of Hartford of the Midwest. The on-site examination was concluded on November 17, 1995. Based on the findings the Examiners prepared the

1 "Report of Examination of Hartford Insurance Company of the Midwest" dated  
2 November 17, 1995.

3 3. The Examiners reviewed 172 first party automobile total loss claims paid  
4 by the Company during the time frame of the examination and found that Hartford of  
5 the Midwest failed to include any or all applicable sales taxes or license fees and  
6 undocumented deductions on ten claim files. These insureds were underpaid by  
7 \$494.13.

8 4. The Examiners reviewed 1,746 personal automobile policies that had  
9 effective dates during the time frame of the examination and found as follows:

10 a. Hartford of the Midwest canceled 11 policies where it required a  
11 portion or all of the renewal premium to be paid prior to the renewal term.

12 b. Hartford of the Midwest canceled 73 policies where its notice  
13 indicated that the insured had only seven days after receipt of the notice to file an  
14 objection in writing with the Director. In addition, the notice stated that an objection  
15 should be accompanied by a deposit of ten dollars.

16 c. Hartford of the Midwest renewed seven policies where it  
17 surcharged policyholders for accidents that were not substantially the insureds' fault  
18 and subsequently resulted in an increase in premium to the insureds. Five insureds  
19 were overcharged \$2,458.

20 d. Hartford of the Midwest issued three policies where it surcharged  
21 policyholders for at-fault accidents that were not documented as significantly the  
22 insureds' fault. Three insureds were overcharged \$1,647.

23 e. Hartford of the Midwest issued three policies where it failed to  
24 apply its filed at-fault accident surcharges under its SDIP program.



1 5. The Examiners reviewed 205 Commercial Package policies issued by the  
2 Company, which had effective dates during the time frame of the examination, and  
3 found as follows:

4 a. Hartford of the Midwest issued five policies where the file  
5 contained no justification for the change in schedule credits/debits.

6 b. Hartford of the Midwest issued 21 policies that were eligible for  
7 schedule rating but not considered.

8 6. The Examiners reviewed 194 Specialty policies issued by the Company  
9 which had effective during the time frame of the examination and found as follows:

10 a. Hartford of the Midwest issued 20 policies which had no  
11 documentation of IRPM/schedule credits/debits given.

12 b. Hartford of the Midwest issued two policies where it documented  
13 IRPM/Schedule credits that were different than what was used.

14 c. Hartford of the Midwest issued 17 policies that contained no  
15 justification for change in credits/debits.

16 d. Hartford of the Midwest issued 77 policies where it applied the  
17 IRPM Rating Plan as an "inappropriate pricing tool."

18 e. Hartford of the Midwest issued 109 policies where it failed to apply  
19 the filed minimum premiums.

20 **CONCLUSIONS OF LAW**

21 1. By failing to include sales tax or license fees in the settlement of claims,  
22 Hartford of the Midwest violated A.A.C. R20-6-801(H)(1)(b) and A.R.S. § 20-461(A)(6).

23 2. By canceling personal automobile policies for non-payment and failing to  
24 give a seven-day grace period, Hartford of the Midwest violated A.R.S. § 20-  
25 1632.01(B).

1 2. By canceling personal automobile policies for non-payment and failing to  
2 give a seven-day grace period, Hartford of the Midwest violated A.R.S. § 20-  
3 1632.01(B).

4 3. By using the incorrect language on cancellation notices regarding the  
5 right to complain to the Director and by requiring a deposit of ten dollars, Hartford of  
6 the Midwest violated A.R.S. § 20-1631(A)(1).

7 4. By surcharging for non-at-fault accidents, Hartford of the Midwest  
8 violated A.R.S. § 20-263.

9 5. By failing to apply correct surcharge fees, Hartford of the Midwest  
10 violated A.R.S. § 20-385.

11 6. By issuing specialty lines and commercial package policies with  
12 premiums developed other than on the basis of its rates and rules filed pursuant to  
13 A.R.S. § 20-385(A), Hartford of the Midwest violated A.R.S. § 20-400.01(A).

14 7. By making adjustments to full manual premium developed for rating  
15 specialty lines and commercial package policies without adequate justification for the  
16 adjustments, Hartford of the Midwest violated A.R.S. § 20-400.01(B).

17 8. Grounds exist for the entry of the following Order, in accordance with  
18 A.R.S. §§ 20-220, 20-400.03 and 20-456.

19 **ORDER**

20 **IT IS ORDERED THAT:**

- 21 1. Hartford of the Midwest shall cease and desist from:
- 22 a. Failing to include applicable taxes or license fees on claims  
23 payments.
- 24 b. Failing to provide a seven-day grace to personal automobile  
25 policies before canceling for non-payment of premium.



1 c. Failing to notify canceled insureds of their right to complain to the  
2 Director of the insurer's action within ten days after receipt of the notice, and requiring  
3 a ten dollar deposit fee.

4 d. Surcharging policyholders for accidents for which the insureds did  
5 not substantially contribute to the accident.

6 e. Failing to apply the filed surcharge fees.

7 f. Failing to provide adequate documentation in support of the  
8 credits and debits applied to commercial package and specialty lines policies.

9 g. Determining the premiums of its commercial package and  
10 specialty lines policies other than on the basis of its rates and rules filed.

11 2. Within 90 days of filed date of this Order, Hartford of the Midwest shall  
12 submit to the Arizona Department of Insurance, for approval, evidence that corrections  
13 have been implemented and communicated to the appropriate personnel, regarding all  
14 of the items listed above in the Paragraph 1 of the Order section of this Consent Order.  
15 Evidence of corrective action and communication thereof includes, but is not limited to,  
16 memos, bulletins, E-mails, correspondence, procedures manuals, print screens, and  
17 training materials.

18 3. Within 90 days of the filed date of this Order, Hartford of the Midwest  
19 shall pay \$494.13 in unpaid taxes and license fees plus one year's interest at the rate  
20 of ten percent per annum to the 10 first party total loss claimants listed in Exhibit A.

21 4. Within 90 days of the filed date of this Order, Hartford of the Midwest  
22 shall pay \$4,105.00 plus one year's interest at the rate of ten percent per annum for  
23 surcharges applied for non-at-fault accidents to the insureds listed in Exhibit B.

24 5. Each payment made in accordance with Items 3 and 4 above shall be  
25 accompanied by a letter of explanation to insureds in a form previously approved by

1 the Director. A list of payments, giving the name and address of each party paid, the  
2 amount of the payment, the amount of interest paid, and the date of payment, shall be  
3 provided to the Department within 90 days of the filed date of this Order.

4 6. The Department shall be permitted, through authorized representatives,  
5 to verify that Hartford of the Midwest has complied with all provisions of this Order.

6 7. Hartford of the Midwest shall pay a civil penalty of \$15,000 to the Director  
7 for deposit in the State General Fund in accordance with A.R.S. § 20-220(B). This civil  
8 penalty shall be provided to the Market Conduct Examinations Division of the  
9 Department prior to the filing of this Order.

10 8. The Report of Examination of the Market Conduct Affairs of Hartford  
11 Insurance Company of the Midwest dated November 17, 1995, including the letter  
12 submitted in response to the Report of Examination, shall be filed with the Department  
13 after the Director has filed this Order.

14 DATED at Phoenix, Arizona this 21<sup>st</sup> day of March, 2001.

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17 Charles R. Cohen  
18 Director of Insurance  
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**EXHIBIT A**  
**FIRST PARTY AUTOMOBILE TOTAL LOSSES**

Claim No.	Sales Tax	License Fees
AC25493		\$ 0.75
MD30275	\$ 126.00	
AC40445		13.75
AC51114	\$ 2.00	
AC58352	\$ 16.67	
AC58701	\$ 15.55	
AC62053	\$ 56.10	13.75
MD70390	\$ 198.96	
AC71273	\$ 12.85	
<b>Total</b>	<b>\$ 428.13</b>	<b>\$ 28.25</b>

**FIRST PARTY AUTOMOBILE TOTAL LOSSES**  
**Claim No. Undocumented Deduction**

MD83512      \$37.75

**TOTAL REFUNDS DUE: \$494.13**

**EXHIBIT B**

**PERSONAL AUTOMOBILE**  
**Surcharges for non-at-fault accidents**

Policy No.	Overcharge \$
PAD 464576	\$190
PAD 426793	\$596
PAD 456690	\$557
PAD 456690	\$557
PAD 456690	\$558
PAD 431952	\$680
PAD 431952	\$680
PAD 471037	\$287
<b>TOTAL:</b>	<b>\$4,105</b>



1 **CONSENT TO ORDER**

2 1. Hartford Insurance Company of the Midwest has reviewed the foregoing  
3 Order.

4 2. Hartford Insurance Company of the Midwest admits the jurisdiction of the  
5 Director of Insurance, State of Arizona, neither admits nor denies the foregoing  
6 Findings of Fact, and Conclusions of Law, and consents to the entry of the foregoing  
7 Order.

8 3. Hartford Insurance Company of the Midwest is aware of its right to a  
9 hearing, at which it may be represented by counsel, present evidence, and cross-  
10 examine witnesses. Hartford Insurance Company of the Midwest irrevocably waives its  
11 right to such notice and hearing and to any court appeals related to this Order.

12 4. Hartford Insurance Company of the Midwest states that no promise of  
13 any kind or nature whatsoever was made to it to induce it to enter into this Consent  
14 Order and that it has entered into this Consent Order voluntarily.

15 5. Hartford Insurance Company of the Midwest acknowledges that the  
16 acceptance of this Order by the Director of the Arizona Department of Insurance is  
17 solely for the purpose of settling this matter and does not preclude any other agency or  
18 officer of this state or its subdivisions or any other person from instituting proceedings,  
19 whether civil, criminal, or administrative, as may be appropriate now or in the future.

20 6. George Klotzbaugh, who holds the office of  
Vice President and Compliance Director of Hartford Insurance Company of the  
21 Midwest, is authorized to enter into this Order for it and on its behalf.

22 **HARTFORD INSURANCE COMPANY OF THE MIDWEST**

23 3/7/01  
24 Date

24 By: George Klotzbaugh



1 COPY of the foregoing mailed/delivered  
2 This 22nd day of March 2001, to:

3  
4 Sara Begley  
5 Deputy Director  
6 Mary Butterfield  
7 Assistant Director  
8 Consumer Affairs Division  
9 Paul J. Hogan  
10 Chief Market Conduct Examiner  
11 Market Conduct Examinations Division  
12 Deloris E. Williamson  
13 Assistant Director  
14 Rates & Regulations Division  
15 Steve Ferguson  
16 Assistant Director  
17 Financial Affairs Division  
18 Alexandra Shafer  
19 Assistant Director  
20 Life & Health Division  
21 Nancy Howse  
22 Chief Financial Examiner  
23 Terry L Cooper  
24 Fraud Unit Chief  
25

DEPARTMENT OF INSURANCE  
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Phoenix, AZ 85018

Sheila C. Ward, Regulatory Compliance Director  
HARTFORD INSURANCE COMPANY OF THE MIDWEST  
Corporate Compliance Department  
Hartford Plaza  
Hartford, Connecticut 06115

