

Market Conduct Examination

KEYSTONE INSURANCE COMPANY
AND
AAA MID-ATLANTIC INSURANCE COMPANY
OF NEW JERSEY

PHILADELPHIA, PENNSYLVANIA

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE
Division of Consumer Protection Services

Market Conduct Examination Section

Report Adopted: January 26, 2006

MARKET CONDUCT EXAMINATION

of the

KEYSTONE INSURANCE COMPANY

And

AAA MID-ATLANTIC INSURANCE COMPANY OF NEW JERSEY

Located in

PHILADELPHIA, PENNSYLVANIA

as of

July 30, 2004

BY EXAMINERS

of the

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF CONSUMER PROTECTION SERVICES
MARKET CONDUCT EXAMINATION SECTION

REPORT ADOPTED: January 26, 2006

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I. INTRODUCTION

A. SCOPE OF EXAMINATION

This is a report of the Market Conduct and Anti-Fraud Compliance activities of AAA Mid-Atlantic Insurance Company of New Jersey and Keystone Insurance Company (hereinafter referred to as AAA Mid-Atlantic, Keystone or the Companies). In this report, examiners of the New Jersey Department of Banking and Insurance (NJDOBI) present their findings, conclusions and recommendations as a result of their examination. The Market Conduct Examiners were Esther Turner, Examiner-in-Charge, William Sonntag and Patricia Wilson-Covington.

The scope of the examination included private passenger automobile insurance sold by the Companies in New Jersey. On AAA Mid-Atlantic, the examiners evaluated the Company's compliance with the FAIR ACT and pertinent statutes and regulations that govern automobile insurance rating, underwriting and anti-fraud compliance. The examiners also conducted a targeted, population-wide database review on both AAA Mid-Atlantic and Keystone Insurance Company for the purpose of determining if the Companies correctly applied territorial rate factors and passive restraint discounts. The review period for the examination was January 1, 2003 to December 31, 2003. The examiners conducted their fieldwork at the Companies' offices in Philadelphia, Pennsylvania between March 15 and April 22, 2004. On various dates following the fieldwork, the examiners completed additional review work and report writing.

The examiners randomly selected files and records from computer listings and documents provided by the Companies. The random selection process is in accordance with the National Association of Insurance Commissioner's (NAIC) Market Conduct Handbook. In addition, the examiners used the NAIC Handbook, Chapter VIII – Conducting the Property and Casualty Examination, as a guide to examine the Companies and write this report.

B. ERROR RATIOS

Error ratios are the percentage of files reviewed which an insurer handles in error. A file is counted as an error when it is mishandled or the insured is treated unfairly, even if no statute or regulation is applicable. If a file contains multiple errors, the examiners will count the file only once in calculating error ratios. However, any file which contains more than one error will be cited more than once in the report.

In the event that the insurer corrects an error as a result of a consumer complaint or due to the examiners' findings, the error will be included in the error ratio. If the insurer corrects an error independent of a complaint or NJDOBI intervention, the error is not included in the error ratios. For the purpose of the database analyses conducted during this review, the examiners define an exception as a file or record in a database that does not meet specified criteria as set forth in computer queries. The file or record has not been reviewed in depth by an examiner.

Whenever the examiners find that a company commits a type of error with sufficient frequency, they will cite the errors as an improper general business practice. If an error constitutes an improper general business practice, the examiners have stated this in the report that follows.

The examiners sometimes find improper general business practices of an insurer that may be technical in nature or which did not have an impact on a consumer. Even though such a practice would not be in compliance with applicable law, the examiners do not count each of these files as an error in determining error ratios. Whenever such business practices do have an impact on the consumer, each of the files in error will be counted in the error ratio. The examiners indicate in the report that follows whenever they did not count any particular files in the error ratio.

The examiners submitted written inquiries to company representatives on the errors cited in this report. This provided the Companies an opportunity to respond to the examiners' findings and to provide exception to the statutory and/or regulatory errors or mishandling of files reported herein. In response to these inquiries, AAA Mid-Atlantic agreed with some of the errors cited in this report. On those errors with which the Companies disagreed, the examiners evaluated the individual merits of each response and gave due consideration to all of its comments. In some instances, the examiners did not cite the files due to the Companies' explanatory responses. In others, the errors remained as cited in the examiners' inquiries.

C. COMPANY PROFILE

AAA Mid-Atlantic Insurance Group is comprised of Keystone Insurance Company, AAA Mid-Atlantic Insurance Company of New Jersey and AAA Mid-Atlantic Insurance Company. The Group is a wholly owned subsidiary of AAA Mid-Atlantic, Inc., an auto club affiliate of the American Automobile Association. New Jersey and Pennsylvania operations are designed to provide personal lines coverage to auto club members by an inter-company pooling agreement.

AAA Mid-Atlantic is among the largest automobile clubs in the United States, with a membership base near 3.5 million, of which approximately 5% are insured through the AAA Mid-Atlantic Group. The Group offers its members a broad spectrum of products, which include full coverage for

automobiles, personal accident, fire and extended coverage, as well as inland marine and homeowners insurance.

II. UNDERWRITING REVIEW

During the review period, AAA Mid-Atlantic issued 11,570 new business policies and renewed 64,915 policies. During this same period, Keystone issued 272 new business policies and renewed 3,321 policies. The examiners randomly selected AAA Mid-Atlantic files and calculated error ratios in accordance with the procedures outlined in Section I of this report. The examiners conducted a comprehensive rating review on these files; the results are itemized below in the chart labeled Random and Select Samples. The examiners also conducted a database review of the entire population of AAA Mid-Atlantic and Keystone's private passenger vehicles to determine proper application of the passive restraint discount, as well as correct territorial rate assignment. The results of this review are discussed below in the sections indicated. The examiners' findings are presented in the sections that follow.

A. ERROR RATIOS

Random and Select Samples

| <u>Review</u> | <u>Files Reviewed</u> | <u>Files in Error</u> | <u>Error Ratios</u> |
|------------------------------------|-----------------------|-----------------------|---------------------|
| Random Underwriting Review | 90 | 13 | 14% |
| Select Territorial Review | 15 | 15 | 100% |
| <i>Totals</i> | 105 | 28 | 27% |
| Manual Rating Select Review | | | |
| New Business | 5 | 2 | 40% |
| Renewal | 5 | 0 | 0% |
| Mail Review | | | |
| New Business | 10 | 5 | 50% |
| Renewal | 10 | 0 | 0% |

B. EXAMINERS' FINDINGS

1. Incorrect Rates Resulting from Incorrect Territory Assignment due to Amendment to Rating Plan (2 Random Files in Error, 196 AAA Database Exceptions, 10 Keystone Exceptions and 15 AAA Mid-Atlantic Select Territorial Reviews - Improper General Business Practice)

N.J.S.A. 17:29A-6 and N.J.S.A. 17:29A-15 require an insurer to charge rates in strict conformity with its rating system as approved by the Commissioner. Of the 105 AAA Mid-Atlantic files reviewed (90 underwriting files from the random review and 15 from the select review), the examiners found that the Company erroneously assigned policy numbers 12323311 and 19331254 to territory 13 instead of territory 14. This error occurred in the random sample of 90 files.

On policy number 12323311, the insured's vehicle was principally garaged at his residence in Turnersville, N.J. Although Turnersville is located in Gloucester County N.J, which is defined in the Company's manual as territory 14, AAA Mid-Atlantic erroneously rated this policy in territory 13, which is located in Camden County. The Company rated this policy contrary to the territorial rate definitions that were included in the filed and approved rate plan. This same error occurred on policy number 19331254.

In order to determine the frequency of this error, the examiners identified 15 AAA Mid-Atlantic policies (identified in the above error ratio chart as Select Territorial Review) that were written in Turnersville N.J., but were rated in Camden County. Since all 15 were in error, the examiners requested the Company (Keystone and AAA Mid-Atlantic) to conduct an internal self-audit to identify the total number of policies that were affected by this error, as well as the total consumer dollar impact back to the inception date of the error. In a written response, the Company stated that 194 Turnersville policies written in AAA Mid-Atlantic were erroneously assigned to territory 13, and two others were erroneously assigned to territory 27. The Company further stated that a total of eight Keystone policies written in Turnersville were erroneously placed in territory 13; two others were erroneously written in territory 27. The Company advised that this error produced a review period overcharge of \$40,000 on all 206 policies (including both AAA Mid-Atlantic and Keystone). Including reimbursement for prior periods where applicable, the Company reported a total overcharge of \$130,000 on the 206 policies.

In response to the draft report, the Company advised that this error occurred as of April 2003, when it implemented a tier rate system that included revised territorial rate definitions. The Company mistakenly continued to utilize the superseded definitions from April 2003 forward. Further in response to the draft report, the Company advised that, as of November 2005, it refunded \$116,971 in premium overcharges.

2. Improper Tier Assignment due to Administrative License Suspension (1 Error – Improper General Business Practice)

N.J.S.A. 17:29A-6 and N.J.S.A. 17:29A-15 require an insurer to charge rates in strict conformity with its rating system as approved by the Commissioner. In addition, N.J.A.C. 11:3-19A.3(a) specifies that insurers may not use or implement any underwriting rule for a tier rating plan not filed with and approved by the Commissioner. Contrary to these requirements, AAA Mid-Atlantic assigned policy number 15333812 to Tier 1 (the highest priced tier), due to an administrative suspension (parking ticket) that arose from a non-moving violation. Such violations do not result in ineligibility pursuant to moving violation Schedules 1 and 2 as outlined in N.J.A.C. 11:3-34. In addition, such suspensions are not included in the Companies' tier underwriting guidelines.

Contrary to N.J.S.A. 17:29A-6, N.J.S.A. 17:29A-15 and N.J.A.C. 11:3-19A.3(a), the Company invalidly assigned the insured to a higher rated tier, which resulted in a premium overcharge of \$1,243. In response to the examiners' inquiries, the Company agreed with this error, stating that, "...We do not penalize customers who have received administrative suspensions for tiering or eligibility point determination." The Company further stated that the Underwriter should have realized it was an administrative suspension and changed the tier placement. AAA Mid-Atlantic also stated that it was not its intention to include administrative suspensions in its tier assignments.

In a follow-up inquiry, the examiners requested the Company to conduct an internal self-audit to identify the total number of policies that were affected by this error, as well as the total consumer dollar impact. In response, AAA stated that a total of 223 policies and 262 vehicles were identified and corrected, resulting in a total consumer premium refund of \$170,862.

3. Inability to Verify Class Code Assignment Based on Quote Process versus Written Application (3 Random files in Error)

N.J.S.A.17:29A-6 and N.J.S.A. 17:29A-15 require an insurer to charge rates in strict conformity with its rating system as approved by the Commissioner. Additionally, N.J.A.C. 11:3-44.3(a)3viii and ix specify minimum information necessary to permit insurers to rate and underwrite a policy, including the estimated annual mileage if the insurer rates by mileage, as well as intended use of the vehicle (pleasure, work, school, etc).

The examiners found that AAA Mid-Atlantic assigned class codes on three new business policies based on quotes, without obtaining mileage information necessary to rate the policy. The application that the Company used prior to implementing its tier rating plan (which became effective March 24, 2003), did not include a question for vehicle mileage. Policy applications utilized after March 24, 2003 did include mileage information. On policy numbers 2434 1030 and 0943 1627, the Company utilized its pre-tier application (form 3049NJ 04/02) which did not include a question for mileage, rather than the appropriate post-tier application that did include this information.

In response to an inquiry, AAA Mid-Atlantic agreed with the examiners; however the Company stated that during the quote process, the mileage was assigned to the vehicles based on discussion with the applicant. Upon request of supportive documentation, the Company provided the examiners with a copy of its system screen that was generated on 4/21/04 to demonstrate where the use information is captured. However, the specimen provided did not include the pertinent mileage information.

On policy number 33333458, the Company utilized its tier application (form 3049NJ 03/03) which includes the question for distance to work. However, the insured did not answer the question related to mileage. In response to an inquiry, the Company stated that the usage was obtained from the original quote. The examiners reviewed the quote and found that it did not include information on mileage.

The examiners cited all three of these applications as incomplete within the context of **N.J.A.C. 11:3-44.3(a)3viii and ix**

4. Failure to Provide Correct Class Code (5 Random Files in Error)

N.J.S.A. 17:29A-6 and **N.J.S.A. 17:29A-15** require insurers to charge rates in strict conformity with the rating system filed with and approved by the Commissioner. Contrary to these statutes, the examiners found that, of the 90 files reviewed, the Company applied the incorrect class code on three renewal policies and two new business policies. Of the five policies in error, one was overcharged and the remaining four were undercharged. In response to an inquiry, the Company agreed with the examiners' findings.

PLEASE SEE APPENDIX A-2 FOR FILES IN ERROR

5. Failure to Rate Policy in Correct Territory (1 Random File in Error)

N.J.S.A. 17:29A-6 and **N.J.S.A. 17:29A-15** require insurers to charge rates in strict conformity with the rating system filed with and approved by the Commissioner. Contrary to these statutes, the examiners found on policy number 47323909 that the Company applied the incorrect

territory number 3 bodily injury base rate of \$144 instead of the correct territory number 24 bodily injury base rate of \$109. Not including other coverages, this error resulted in a bodily injury base rate overcharge of \$35. However, since this error affected all other coverages on the policy, e.g., collision, comprehensive, etc., the actual overcharge is greater than \$35. In response to an inquiry, the Company agreed with the examiners findings. This error was unrelated to the errors outlined in Section II.B.1 above.

6. Improper Tier Assignment (1 Random File in Error)

N.J.S.A. 17:29A-6 and **N.J.S.A. 17:29A-15** require insurers to charge rates in strict conformity with the rating system filed with and approved by the Commissioner. Contrary to these statutes, the examiners found that the Company rated policy number 4810 3834 in tier number 1, the most expensive tier, instead of correct tier number 3. AAA Mid-Atlantic incorrectly rated the policy as if an ineligible operator resided in the household. In response to an inquiry, the Company agreed with the examiners' finding. This error caused a \$405 overcharge. The Company advised that it would issue a policy credit to offset this error.

7. Sample Rate Calculation (2 Select Sample Files in Error)

Upon request, the AAA Mid-Atlantic underwriting staff provided the examiners with itemized manual rate calculations for 10 files. These are identified in the above error ratio chart under the heading Manual Rating. The calculations included multi-car, passive restraint, anti-theft, primary health insurance and one-driver/two-car household discounts where applicable. The examiners checked all calculations and found the following errors:

On new business policy number 4334 1179 and policy number 2333 4884, the Company assigned class codes based on quotes without obtaining mileage information to rate the policy. In response to an inquiry, the Company neither agreed nor disagreed with these errors. The Company stated that the distance to work is captured during the quote process; however, the examiners were unable to verify the assignment of the class code. This error type was also found in the random sample review and appears in Section II.B.3 above. **C. MAIL REVIEW**

On April 19, 2004, the examiners conducted a mail review at AAA Mid-Atlantic's Philadelphia, PA location. The Philadelphia review consisted of 20 packages (five New Business packages for members, five New Business packages for non-members, five Renewal packages for members, five Renewal packages for non-members). The examiners checked AAA Mid-Atlantic's mail operation to verify that new business and renewal packages were sent in a timely fashion and to determine if AAA Mid-Atlantic included all required notices and informational disclosures. The examiners found the following error:

1. Failure to Provide Notice to the Insured explaining Tier Rating System and Applicant/Insured Placement within the Tier System (5 Mail Review Errors)

N.J.A.C. 11:3-19A.3(e) requires an insurer to provide a notice explaining the insurer's tier rating system and the applicant/insured's placement within the system. Contrary to this regulation, the examiners found that the Company failed to provide this notice in five New Business packages for non-members. In response to an inquiry, the Company disagreed with the examiners' findings. The Company stated that there is no difference in form insertions for members and non-members relating to any New Jersey forms and/or endorsements. The Company further stated that, "If the assembled sample packages for non-members did not contain the tier rating notice, this was an error in assembling of these particular samples packages." The examiners note that an assembling error is subject to regulatory requirements. **PLEASE SEE APPENDIX B-1 FOR FILES IN ERROR**

IV. ANTI-FRAUD COMPLIANCE REVIEW

The examiners conducted anti-fraud compliance reviews on AAA Mid-Atlantic's Special Investigation Unit (SIU) files that were opened during the review period. This review excluded Keystone Insurance Company. The examination focused on AAA- Mid-Atlantic's implementation of its claim and underwriting fraud prevention and detection plan that was filed with and approved by the Department. This evaluation included a review of 10 randomly selected SIU claim files, 10 SIU application files and 10 SIU referrals to the Office of the Insurance Fraud Prosecutor (OIFP). The examiners placed specific emphasis on N.J.S.A. 17:33A-15 (Insurance Fraud Prevention) and N.J.A.C. 11:16-6 (Fraud Prevention, Detection Plans and training records).

A. ERROR RATIOS

| <u>Review</u> | <u>Files Reviewed</u> | <u>Files In Error</u> | <u>Error Ratios</u> |
|-------------------|-----------------------|-----------------------|---------------------|
| SIU Claims | 10 | 3 | 30% |
| SIU Applications | 10 | 0 | 0 |
| Referrals to OIFP | 10 | 1 | 10% |
| Random Total | 30 | 4 | 13% |

B. EXAMINERS' FINDINGS

1. Failure to Report Motor Vehicle Salvage to the National Insurance Crime Bureau (2 Files in Error)

N.J.A.C. 11:16-2.4(a) 2 states that all losses involving motor vehicle salvage shall be reported to the National Insurance Crime Bureau (NICB) within five working days after the sale of salvage. Contrary to N.J.A.C. 11:16-2.4(a) 2, AAA Mid-Atlantic did not report two claims to the NICB. In response to an inquiry, the Company agreed with the examiners' findings. The two SIU files in error are 04-0134-15 (salvage date February 2, 2004) and 02-1416-09 (salvage date November 15, 2002).

2. Failure to Report Motor Vehicle Theft to the NICB (1 File in Error)

N.J.A.C. 11:16-2.4(a)1 states that all thefts of a motor vehicle, or any of its major component parts, shall be reported to the NICB within two working days from the receipt of sufficient information from the insured. On SIU file 03-1260-09, the vehicle was reported stolen 10/16/03, but the Company did not report to the NICB until 04/19/04. Contrary to **N.J.A.C. 11:16-2.4(a)1**, the Company delayed issuing this report by a total of 126 working days. The Company agreed with the examiners' findings in response to an inquiry.

3. Failure to Refer Cases to the Office of the Insurance Fraud Prosecutor (1 File in Error)

N.J.A.C. 11:16-6.7(a) requires that upon completion of its investigation, an SIU shall refer its investigation file to the Office of the Insurance Fraud Prosecutor (OIFP). Contrary to **N.J.A.C. 11:16-6.7(a)**, the Company failed to refer SIU file number 03-0908-14 to the OIFP.

The examiners determined that the insured vehicle was reported stolen on 8/1/2003. The vehicle was subsequently recovered abandoned, with damage from an apparent accident. Although the vehicle was damaged, the SIU filed revealed that the vehicle's ignition was not defeated, signifying that a key was used to start the vehicle. The SIU closed this file and did not forward its investigative findings to the OIFP. The Company agreed with the examiners' findings and stated in part that, "Failure to refer this case to OIFP was an error on behalf of the investigator assigned to the case." The Company provided documentation verifying that this case was forwarded to the OIFP as a result of this examination.

C. OTHER FINDINGS

1. Fraud Prevention and Detection

N.J.A.C. 11:16-6.1 et seq. outlines specific requirements for the approval of an insurer's Fraud Prevention and Detection Plan in accordance with **N.J.S.A. 17:33A-15**. The requirements include general requirements and filing format, SIU duties, personnel qualifications and unit composition, training programs and manuals, fraud prevention and detection plans, referrals to OIFP and record retention. The examiners submitted various inquiries to the Company requesting documentation verifying its compliance with the aforementioned regulations. The examiners found no errors in this review.

V. RECOMMENDATIONS

AAA Mid-Atlantic and Keystone Insurance Company, where applicable, should inform all responsible personnel and third party entities who handle the files and records cited as errors in this report of the examiners' recommendations and remedial measures that follow in the report sections indicated. The examiners also recommend that the Companies establish procedures to monitor compliance with these measures.

Throughout this report, the examiners cite and/or discuss all errors found. If the report cites a single error, the examiners often include a "reminder" recommendation because if a single error is found, more errors may have occurred.

The examiners acknowledge that during the examination, the Companies agreed and had already complied with, either in whole or in part, some of the recommendations stated in this report. For the purpose of obtaining proof of compliance and for the Companies to provide its personnel with a document they can use for future reference, the examiners have listed all recommendations below.

A. GENERAL INSTRUCTIONS

All items requested for the Commissioner and copies of all written instructions, procedures, recommended forms, etc. should be sent to the Commissioner, c/o Clifton J. Day, Manager of the Market Conduct Examinations and Anti-fraud Compliance Unit, Mary Roebing Building, 20 West State Street, PO Box 329, Trenton, N.J. 08625, within thirty (30) days of the date of the adopted report.

On all policies to be reopened due to a refund of credit, the letter should be sent to the insured with an accompanying cover letter containing the following first paragraph:

"During a recent review of our policy files by market conduct examiners of the New Jersey Department of Banking and Insurance, they found that we (failed to correctly rate your territory)/(failed to assign your class code correctly)/(assigned you to an incorrect rating tier). Enclosed is our (payment/credit) in the amount of (insert amount) to correct our error. We have re-rated your policy to provide you with this payment/credit on all eligible policies and policy periods.

B. UNDERWRITING

1. AAA Mid-Atlantic must issue written instructions to all appropriate personnel stating that, pursuant to **N.J.S.A. 17:29A-6** and **N.J.S.A. 17:29A-15**, insurers are required to apply the rate methodology, applicable territorial definitions and territorial rates that are filed with and approved by the Commissioner. The Company should also advise all applicable staff that amended rules, definitions and rate methodologies must be followed on their respective effective dates.
2. The Companies must issue the appropriate credits or refunds on the 196 policies and all other policies listed in Section II.B.1 that were cited for incorrect territorial assignment. A credit or refund should also be applied to policy number 47323909 cited in Section II.B.5 as a result of an incorrect territorial assignment. The Company must provide the Commissioner with a report outlining policy number, date and amount of overcharged premium returned or credited for all policy periods in error, retroactive to the first period in which the error occurred.
3. In order to comply with **N.J.S.A. 17:29A-6** and **N.J.S.A. 17:29A-15** AAA Mid-Atlantic must issue written instructions to all appropriate personnel stating that Administrative Suspensions for non-moving violations should not be used in the tier rating system. A copy of these instructions should be provided to the Commissioner.
4. The Companies must issue the appropriate credits or refunds on the 223 policies listed in Section II.B.2 that were identified as having been placed in a higher-rated tier due to administrative license suspensions. The Company must provide the Commissioner with a report outlining policy number, date and amount of overcharged premium returned or credited for all policy periods in error, retroactive to the first period in which the error occurred.
5. AAA Mid-Atlantic should consistently utilize a complete application form that includes mileage in order to assure assignment of proper use and class codes.
6. The Companies should issue a written reminder to all applicable underwriting personnel stating that applicants must be assigned to the proper class code to assure compliance with **N.J.S.A. 17:29A-6** and **N.J.S.A. 17:29A-15**, and the underwriting and rating systems filed with and approved by the Commissioner. The Company should demonstrate that it provided a refund or credit to the insured on policy number 34334530
7. The Companies should remind all appropriate staff that applications must be properly underwritten to assure proper tier placement. The Company should demonstrate that it provided a refund or credit to the insured on policy number 48103834.

C. MAIL REVIEW

8. AAA Mid-Atlantic should remind all appropriate personnel that, in order to comply with N.J.A.C. 11:3-19A.3(e), the Company must provide to the insured a notice explaining the insurer's tier rating system and the applicant/insured's placement within the tier system.

D. ANTI-FRAUD COMPLIANCE

9. Pursuant to N.J.A.C. 11:16-2.4(a)2, AAA Mid-Atlantic should remind all appropriate SIU personnel that all losses involving motor vehicle salvage shall be reported to the NICB within five working days after the sale of the salvage; or, if the insured is permitted to retain salvage, within five working days after the loss payment.
10. Pursuant to N.J.A.C. 11:16-2.4(a)1, AAA Mid-Atlantic should remind all appropriate personnel that all motor vehicle thefts must be reported to the NICB within two working days from the receipt of sufficient notice from the insured.
11. AAA Mid-Atlantic should remind SIU personnel that upon completion of an investigation, the SIU shall refer cases to the OIFP based on the standards outlined in N.J.A.C. 11:16-6.1 et seq.

APPENDIX A – UNDERWRITING ERRORS

1. Incorrect Rates Resulting from Use of Incorrect Rating Territory

Random Policy No

12323311
19331254

15 Select Review Files In Error

Policy No.

2800 3260
3142 3877
3633 4195
4232 5598
4632 2760
4632 5841
2433 4597
4720 5428
4032 3480
0820 5318
2642 3409
0222 3651
0730 5303
2433 4377
5030 4881

2. Failure to Provide the Correct Class Code (5 Random Files In Error)

| Policy Number | Policy Status | Assigned Class Code | Correct Class Code | Assigned Factor | Correct Factor | Rate Impact |
|---------------|---------------|---------------------|--------------------|-----------------|----------------|--------------|
| 2033 3658 | Renewal | 48750 | 48760 | 1.25 | 1.50 | Undercharged |
| 3433 4530 | New | 41660 | 41650 | 1.40 | 1.15* | Overcharged |
| 4333 5697 | New | 41500 | 41510 | 1.10 | 1.25 | Undercharged |
| 0432 3129 | Renewal | 41540 | 41560 | 1.10 | 1.50 | Undercharged |
| 2033 2993 | Renewal | 41440 | 41450 | 1.10 | 1.25 | Undercharged |

APPENDIX B – MAIL REVIEW ERRORS

1. **Failure to Provide Notice to the Insured Explaining Tier Rating System and the Applicant/Insured Placement in the System (5 Mail Review Errors)**

Policy No.

1434 2082
1343 5365
1343 5877
1344 1431
1434 2298

VERIFICATION PAGE

I, Esther Turner, am the Examiner-in-Charge of the Market Conduct Examination of AAA Mid-Atlantic Company of New Jersey conducted by examiners of the New Jersey Department of Banking and Insurance. This verification is based on my personal knowledge as acquired in my official capacity.

The findings, conclusions and recommendations contained in the foregoing report represent, to the best of my knowledge, a full and true statement of the Market Conduct examination of AAA Mid-Atlantic Company of New Jersey as of July 30, 2004.

I certify that the foregoing statements are true. I am aware that if any of the foregoing statements made by me is willfully false, I am subject to punishment.

Date

Esther Turner
Examiner-In-Charge
New Jersey Department
of Banking and Insurance