



# **Market Conduct Examination**

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New Jersey Skylands Insurance Company  
New Jersey Skylands Insurance  
Association

Basking Ridge, New Jersey

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND  
INSURANCE

Office of Consumer Protection Services  
Market Conduct Examination Section

Date Report Adopted: October 30, 2007

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REPORT  
of the  
MARKET CONDUCT EXAMINATION  
of  
New Jersey Skylands Insurance Company  
And  
New Jersey Skylands Insurance Association

located in

Basking Ridge, NEW JERSEY

as of

May 2, 2006

BY EXAMINERS

of the

STATE OF NEW JERSEY

DEPARTMENT OF BANKING AND INSURANCE  
OFFICE OF CONSUMER PROTECTION SERVICES

MARKET CONDUCT EXAMINATION SECTION

DATE REPORT ADOPTED: October 30, 2007

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# I. INTRODUCTION

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This is a report of the Market Conduct activities of New Jersey Skylands Insurance Company and New Jersey Skylands Insurance Association (hereinafter referred to as NJ Skylands or the Company). 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.

## A. SCOPE OF EXAMINATION

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The scope of the examination included private passenger automobile insurance sold by the Companies in New Jersey. The examiners evaluated NJ Skylands' compliance with the FAIR ACT and the regulations and statutes pertaining to automobile underwriting, terminations, claims and fraud prevention and detection efforts. The review period for the examination was January 1, 2004 to December 31, 2004. The examiners conducted their fieldwork at the Company's office in Basking Ridge, New Jersey between January 3, 2006 and March 31, 2006. On various dates following the fieldwork, the examiners completed additional review work and report writing. The Market Conduct Examiners were Examiner-in-Charge Marleen J. Sheridan, Robert J. Only, Thomas H. Goehrig and John M. Sivon.

The examiners randomly selected files and records from computer listings and documents provided by the Company. 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 Company and write this report.

## B. ERROR RATIOS

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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 that 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.

There are errors cited in this report that define practices as specific acts that an insurer commits so frequently that it constitutes an improper general business practice. Whenever the examiners find that the errors cited constitute an improper general business practice, they have stated this in the report.

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

The examiners submitted written inquiries to Company representatives on the errors cited in this report. These inquiries provided New Jersey Skylands the opportunity to respond to the examiners' findings and to provide exceptions to the statutory and/or regulatory errors or mishandling of files reported. In response to these inquiries, New Jersey Skylands agreed with some of the errors cited in this report. On those errors with which the Company disagreed, the examiners evaluated the individual merits of each response and gave due consideration to all comments. In some instances, the examiners did not cite the files due to the Company's explanatory responses. In others, the errors remained as cited in the examiners' inquiries. For the most part, this is a report by exception.

## C. COMPANY PROFILE

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New Jersey Skylands Insurance Association (NJSIA), a reciprocal exchange, and its subsidiary, New Jersey Skylands Insurance Company (NJSIC), a traditional stock insurance company, were founded in early 2002 by OneBeacon Insurance and established offices in Basking Ridge, New Jersey in May 2002. The personal automobile insurance business of the former CGU Insurance Companies was transferred to these entities beginning in August 2002.

New Jersey Skylands Insurance Association and New Jersey Skylands Insurance Company are managed by New Jersey Skylands Management LLC (NJSM), an attorney-in-fact. NJSM is a wholly owned subsidiary of OneBeacon, LLC.

New Jersey Skylands Management LLC also sells and services homeowner insurance products for OneBeacon Insurance in the state of New Jersey as

well as serves on a contractual basis to provide claim handling services to other insurance companies.

## II. RATING AND UNDERWRITING

### A. INTRODUCTION

The examiners reviewed randomly selected policy files from New Jersey Skyland's database run of 72,852 in-force vehicles during the period January 1, 2004 through December 31, 2004. The examiners checked for compliance with all applicable statutes and regulations, including: N.J.S.A. 17:29A-6 and **15** (filed and approved rating methodologies), N.J.S.A. 17:29A-38 (reduction of rates for operators 65 years or older), N.J.S.A. 17:29A-46 (uniform application of underwriting guidelines), N.J.A.C. 11:3-15 (coverage selection forms), N.J.A.C. 11:3-35, (automobile insurance underwriting rules), N.J.S.A. 39:6A-4.1 and N.J.A.C. 11:3-21 (PIP rate discounts). These requirements are related to NAIC Standards of Chapter VIII: "Conducting Property and Casualty Insurance Examinations of the Market Conduct Handbook."

### B. ERROR RATIOS

The examiners calculated error ratios for each random sample by applying the procedure outlined in the introduction of this report. Error ratios are itemized separately for the review samples as indicated in the chart that follows.

#### RANDOM ERROR RATIOS

REVIEW SAMPLE	FILES REVIEWED	FILES IN ERROR	ERROR RATIO
New Business	75	34	45%
Renewals	200	1	0.5%
Total Random Review	275	35	13%

#### DATABASE REVIEW

Sample	Records Reviewed	Errors	Error Ratio
Select Territorial Review	194	143	74%

## C. EXAMINERS' FINDINGS

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### **1. Coverage Selection Form Errors – 31 Files in Error – Improper General Business Practice**

**N.J.A.C. 11:3-15.7(a)** states that, for all new policies, an insurer or an insurance producer shall receive a completed Coverage Selection Form signed by the named insured, which indicates the prospective insured's coverage choices. This regulation further specifies that coverage shall not become effective until the signed Coverage Selection Form is received from the named insured. The examiners found four new business files where the policy became effective even though the coverage selection form was incomplete. The examiners also found 27 new business policy files that did not, contrary to **N.J.A.C. 11:3-15.7(a)**, contain the required Coverage Selection Form.

**SEE APPENDIX A-1 FOR LIST OF POLICIES IN ERROR**

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### **2. Incorrect Territory Assignment – 143 Vehicles in 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. During a select population review of 194 vehicles in which the insured's vehicle was principally garaged at his or her residence in Turnersville, N.J., the examiners determined that 143 vehicles were rated in the incorrect territory. Turnersville is located in Gloucester County N.J., which is defined in the Company's manual as territory 14. NJ Skylands erroneously rated 4 vehicles in territory 12 (Camden Suburban), 138 vehicles in territory 13 (Camden County balance) and one vehicle in territory 27 (Cape May, Cumberland and Ocean Counties). Therefore, the Company rated these vehicles contrary to the territorial rate definitions that were included in the filed and approved rate plan. Notably, these errors resulted in premium overcharges. As an example, the base premium for the 15/30 split bodily injury limit for territory 14 is \$562, compared to \$714 for incorrect territory 13 (a base premium overcharge of \$152 on this coverage alone). In addition, the incorrect territory 12 premium is \$642 compared to the correct territory 14 premium of \$562 (a base premium overcharge of \$80 on this coverage alone).

**SEE APPENDIX A-2 FOR LIST OF POLICY VEHICLES IN ERROR**

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### **3. Miscellaneous Errors**

- a. **Failure to Rate Policy in Correct Tier - 2 Files in Error**

Pursuant to **N.J.S.A. 17:29A-6** and **15**, an insurer is required to charge rates in strict conformity with its rating system as filed with and approved by the Commissioner. The Company rated policy **0120017370** in Tier 3 with a rating factor of 1.00. However, the insured qualified for placement in Tier 1, with a rating factor of 0.80. This resulted in an overall premium overcharge of 20% on coverages subject to factor relativities. The Company agreed with this finding.

NJ Skylands erroneously rated policy **0220000843** in Tier 1P, which is the Company's highest preferred tier. However, the insured did not select physical damage coverage, which is a prerequisite to eligibility in this tier. This error resulted in an undercharge. NJ Skylands agreed with this finding.

b. **Failure to Issue Passive Restraint Discount- 2 Files/3 Vehicles in Error**

In accordance with **N.J.S.A. 17:29A-6 & 15** and the company's filed and approved rating manual, NJ Skylands is required to provide a discount of 20% or 30% to the Personal Injury Protection premium for vehicles equipped with passive restraint devices. These include automatic seat belts and air bags. The examiners found two files, **0220000749** and **0220000705**, in which three vehicles did not receive the PIP discount.

c. **Failure to Suspend Physical Damage Coverage – 1 File in Error**

**N.J.A.C. 11:3-36.5 (b) 1** states that an insurer may defer the mandatory inspection requirement on new business policies for a period of seven calendar days following the effective date of coverage. **N.J.A.C. 11:3-36.7(a)** requires an insurer to suspend physical damage coverage if the inspection is not conducted prior to the expiration of this deferral period. Policy number **0220000544** became effective on August 20, 2004, and the vehicle was not inspected until 12 calendar days later, on September 1, 2004. The Company was unable to provide documentation that physical damage coverage was suspended during this five-day period.

d. **Failure to Inspect Vehicle – 1 File in Error**

According to **N.J.A.C. 11:3-36.3(a)**, no insurer shall provide automobile physical damage insurance coverage prior to conducting an insurance inspection when an additional automobile is added to a policy unless permitted by **N.J.A.C. 11:3-36.4** or the insurer has filed an inspection waiver as part of its underwriting guidelines. NJ Skylands did not file such a waiver, and therefore erroneously waived the inspection of a vehicle that the insured added to policy **0120003299**. The Company agreed with the examiners' finding.

# III. POLICY TERMINATIONS

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## A. INTRODUCTION AND SCOPE OF REVIEW

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During the review period January 1, 2004 to December 31, 2004, New Jersey Skylands Insurance Company and New Jersey Skylands Association cancelled 323 new business policies within the first 60 days, and cancelled 299 policies beyond the first 60 days. In the same period, the Companies non-renewed 1,984 policies. While conducting the terminations review, the examiners checked for compliance with applicable statutes and regulations such as N.J.S.A. 17:29C-6 through 10 (automobile insurance terminations, proof of mailing and notice of cancellations), N.J.S.A.17:33B-15 & 16, N.J.A.C. 11:3-34 and N.J.A.C. 11:3-40 (Coverage for eligible persons), N.J.A.C. 11:3-35.4 (underwriting rules for eligible persons), N.J.S.A. 17:29A-6 and 15, (filed and approved underwriting guidelines with respect to termination selection criteria) and N.J.A.C. 11:3-8 (non-renewal of auto policies). These requirements are related to NAIC Standards 22 to 25 (Terminations) of Chapter VIII Section F of the Market Conduct Handbook.

## B. ERROR RATIO CHART

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The examiners reviewed a total of 125 randomly selected automobile termination files and found a total of 29 termination files to be in error. The errors in the following chart are itemized by type of termination and reflect the error ratio in each termination category.

<u>Review</u>	<u>Files Reviewed</u>	<u>All File Errors</u>	<u>Error Ratio</u>
60 day Cancellations	50	22	44%
Midterm Cancellations	25	1	4%
Nonrenewals	<u>50</u>	<u>6</u>	12%
Totals	125	29	23%

## C. EXAMINERS' FINDINGS

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### **1. Failure to Certify Termination Notices as True Duplicate Copies – 60 Files in Error – Improper General Business Practice**

**N.J.S.A.17:29C-10b** requires that an insurer retain a duplicate copy of the mailed termination notice which is certified to be a true copy. From the random samples, the examiners found that the Company failed to certify 27 first-60-day cancellation notices as true copies. This error also occurred on 20 mid-term cancellation notices and 13 nonrenewal notices. In response to an inquiry, NJ Skylands stated that, “It is the Company’s normal business practice to stamp all company copies as a ‘true and accurate copy’ and send same to be imaged. However, during 2004, there was an issue identified where the incorrect (unstamped) copies were sent to Imaging.” The examiners did not count these errors in the error ratio chart.

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**SEE APPENDIX B-1 FOR LIST OF FILES IN ERROR**

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**2. Failure to Provide Proof of Mailing of Termination Notices – 14 Files in Error**

**N.J.S.A. 17:29C-10a** states that no written notice of cancellation or intention not to renew sent by an insurer to an insured in accordance with the provisions of an automobile policy shall be effective unless (1) it is sent by certified mail or (2) at the time of mailing of said notice, by regular mail, the insurer has obtained from the Post Office Department a date stamped proof of mailing showing the name and address of the insured. The examiners found five non-renewed files, one mid-term cancellation file and eight policies cancelled within the first 60 days where the Company could not provide proof of mailing, contrary to **N.J.S.A. 17:29C-10**.

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**SEE APPENDIX B-2 FOR LIST OF FILES IN ERROR**

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**3. Failure to Maintain Proof of Mailing and Copy of the 15 Day Deficiency Notices - 20 Files in Error**

According to **N.J.A.C. 11:3-44.3(d)** “If, during the first 60 days that a new policy is in effect, the insurer ascertains that the applicant failed to disclose the necessary information required on the application to determine whether the applicant or any regular operator is an eligible person, the insurer shall issue a written notice to the applicant which clearly and specifically identifies the deficiencies and allows the applicant 15 days to provide the requested information. The request for information shall either be sent by certified mail or the insurer shall retain date stamped proof of mailing from the U.S. Post Office listing the name and address of the applicant...”

The examiners found 20 files that did not contain completed applications. Although it appears from file activity notes that the Company did send the 15-day written deficiency notice to the applicants requesting the additional information, it did not retain a copy of the notice. In response to the examiners’ inquiries, the Company stated “A copy of the letter issued is not

retained and is not required to be retained [pursuant to **N.J.A.C. 11:3-44.3(d)**]...(because) [t]he Company does retain the date stamped proof of mailing.” However, the examiners’ review of each file indicated that NJ Skylands did not retain the U.S. Post Office proof of mailing on all 20 files cited for error; rather, it merely retained a ledger that included a metered postage stamp and the date that postage was established.

### **SEE APPENDIX B-3 FOR LIST OF FILES IN ERROR**

#### **4. Failure to Provide Specific Reason for Declination - 2 Files in Error**

Pursuant to **N.J.S.A. 17:33B-16**, when an insurer declines automobile insurance, the insurer shall inform the applicant of each specific reason or reasons for cancellation in writing. **N.J.S.A. 17:23A-10(a)** states that in the event of an adverse underwriting decision the insurer shall provide the applicant with the specific reason or reasons for the adverse underwriting decision. The cancellation notices for terminated policy numbers **0120015145** and **0120015510** failed to state the specific events and reasons for the termination of the policy, contrary to the stated statutes. The cancellation notices merely stated, “the reason for cancellation is pursuant to **N.J.A.C. 11:3-44**, the insured has failed to provide the minimum amount of information necessary to constitute a completed written application” This is a vague and non-specific reason, and does not identify which information was omitted. In response to an inquiry the Company agreed with these errors.

#### **5. Miscellaneous Errors**

##### **a. Improper Cite Utilized on 60-Day Cancellation Notice – 1 File in Error**

During a review of policies that were cancelled within the first 60 days, the examiners found that the Company utilized an incorrect citation on the 60-day cancellation notice on file **0120015493**. The citation that appeared on the notice was “**N.J.A.C. 11:3-8.4**”, which is applicable to nonrenewals, not to policies that are cancelled within the first 60-days. In response to an inquiry, the Company agreed with this error.

##### **b. Failure to Maintain Copy of Termination Notices - 3 File in Error**

According to **N.J.A.C. 11:3-8.8**, insurance companies shall maintain a record of non-renewals for not less than five years which shall include a copy of the notice of non-renewal. The Company could not locate the nonrenewal notice for policy number **0218426809**, contrary to **N.J.A.C. 11:3-8.8**.

The examiners found that on file numbers **0120015771** and **0120016510**, NJ Skylands failed to retain a copy of the cancellation notices issued to the

insured. Failure to retain these notices is contrary to **N.J.S.A. 17:29C-10b**, which requires insurers to retain a certified copy of the original notice. The Company agreed with this error in response to the examiners' inquiries.

# IV. CLAIMS REVIEW

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## A. INTRODUCTION

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This review covers Personal Injury Protection (PIP) claims, property damage, collision and comprehensive claims submitted under private passenger automobile insurance. Any New Jersey claim closed during calendar year 2004 was subject to review. In reviewing each claim, the examiners checked for compliance with all applicable statutes and regulations that govern timeliness requirements in settling first and third party claims. The examiners conducted specific reviews, placing particular emphasis on N.J.S.A. 17:29B-4(9) and N.J.A.C. 11:2-17 (Unfair claim and settlement practices) N.J.A.C. 11:3-10.3 (timely vehicle damage inspections), N.J.A.C. 11:16-2.4 (Insurer reporting requirements), N.J.A.C. 11:3-10.5 (timeliness of settlement and notification of delay), N.J.S.A. 39:6A-4.6(medical fee schedules) and N.J.S.A. 39:6A-5 (Payment of Personal Injury Protection Benefits). These requirements relate to the NAIC Market Conduct standards, Section G, of Chapter VIII Property and Casualty Insurance Examinations.

## B. ERROR RATIOS

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The examiners calculated the error ratios by applying the procedure outlined in the introduction of this report. Error ratios are itemized separately based on the review samples as indicated in the following charts. The PIP review consisted of one randomly selected billing from each file.

<u>Random Claim Sample</u>	<u>Files Reviewed</u>	<u>Files in Error</u>	<u>Error Ratio</u>
Paid PIP	50	0	0%
Denied PIP	50	1	2%
Paid Property Damage & Physical Damage	100	10	10%
Denied Property Damage & Physical Damage	<u>50</u>	<u>3</u>	6%
Random Total	250	14	6%

## C. EXAMINERS' FINDINGS

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### **1. Failure to Report Salvage to the NICB within the Required Timeframe - 5 Files in Error**

**N.J.A.C. 11:16-2.4(a)2** requires an insurer to report all losses involving motor vehicle salvage, retained by an insured or a third party, to the NICB within five working days after the sale of the salvage. Contrary to this requirement, the examiners found that New Jersey Skylands failed to report salvage disposition of three collision and two property damage total loss claims. In response to inquiries, the Company agreed with the examiners findings on four claims and disagreed with one claim. On claim **70008147**, the Company stated that its claim note printout dated January 15, 2004 confirmed that it notified the NICB via ISO claim search. The examiners disagree, as the vehicle was not inspected, deemed a total loss and paid until March 4, 2004.

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**SEE APPENDIX C-1 FOR A LIST OF FILES IN ERROR**

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### **2. Failure to Issue Delay Notices and Failure to issue Timely Delay Notices on First Party Physical Damage and Third Party Property Damage Claims – 4 Files in Error**

**N.J.A.C. 11:3-10.5(b)** and **N.J.A.C. 11:2-17.7(e)** state that, if the insurer is unable to settle the claim within the time periods specified, the insurer must send the claimant written notice by the end of the payment periods. This notice must specify the reason for the delay. **N.J.A.C. 11:3-10.5(b)** and **N.J.A.C. 11:2-17.7(e)** also require an insurer to send an updated, written notice of delay every 30 and 45 days respectively thereafter, until all elements of the claim are paid or denied.

Contrary to the above regulations, New Jersey Skylands failed to issue the required delay notices on one comprehensive claim and three property damage claims. On denied comprehensive claim **70008308**, the insured notified the Company of loss on January 22, 2004. Although the Company properly issued a delay letter on February 20, 2004, it did not issue the required, updated letter that was due on March 22, 2004. This claim was ultimately settled on April 14, 2004. On denied property damage claim **70007982**, the insured reported the loss on January 19, 2004. Although a delay notice was due on March 4, 2004, the Company did not actually send a delay letter until April 14, 2004, or 87 days after notice of loss. This is contrary to **N.J.A.C. 11:2-17.7(e)**. Lastly, the Company failed altogether to issue the required delay notices on paid property damage claim **70010482** and denied property damage claim **70008731**. The Company agreed with the examiners' findings.

### **3. Failure to Inform Third Party of Rental Entitlement – 3 Files in Error**

According to **N.J.A.C. 11:2-17.10(a)8**, when an insurer acknowledges receipt of a property damage liability claim, the insurer must inform the claimant as to what extent he or she will be entitled to payment for rental of an automobile or other substitute transportation. The examiners reviewed 35 property damage claims and found that the Company failed to inform three claimants of their entitlement to a rental vehicle. The Company agreed with the examiners' findings on each of these claims.

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**SEE APPENDIX C-2 FOR A LIST OF FILES IN ERROR**

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### **4. Failure to Inspect Physical Damage Claim within 7 Working Days – 2 Files in Error**

In accordance with **N.J.A.C. 11:3-10.3(a)**, if the insurer intends to exercise its right to inspect, or cause to be inspected by an independent appraiser, damages prior to repair, it shall have seven working days following receipt of notification of claim to inspect the claimant's damaged property at a place and time reasonably convenient to the claimant, provided that the claimant has not refused to make the property available for inspection. Contrary to the regulation, New Jersey Skylands failed to inspect two collision claims within the appropriate time period. In response to inquiries, the Company agreed with the examiners' findings.

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**SEE APPENDIX C-3 FOR A LIST OF FILES IN ERROR**

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## **D. MISCELLANEOUS ERRORS**

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### **a. Failure to Send Right of Recourse Letter- 1 File in Error**

**N.J.A.C. 11:3-10.4(c)** requires insurers to provide first or third party claimants with written notice of the right of recourse at the time a total loss settlement draft is issued, and to retain a copy of the notice in the claim file. Contrary to this regulation, New Jersey Skylands failed to provide this notice on property damage claim **70013024**. The Company agreed with the examiners' findings.

### **b. Failure to Respond Timely to a Pre-Certification Request/Improper Denial of Benefits- 1 File in Error**

**N.J.A.C. 11:3-4.7(c)4** requires insurers to respond within three business days to pre-certification requests by insureds or providers. On claim **70012931**, the physician submitted a precertification request by fax on October 26, 2004. The company did not respond to this request. Consequently, on November 8, 2004, the physician initiated the treatment plan outlined in the precertification request. Failure to respond to this precertification request is contrary to **N.J.A.C. 11:3-4.7(c)4**.

It should be noted that, upon receipt of the provider's invoice, the Company denied payment on December 3, 2005 due to lack of medical necessity. However, **N.J.A.C. 11:3-4.7(g)** prohibits denial of benefits due to medical necessity where the provider has properly submitted a precertification request. The physician did indeed submit such a request as outlined above.

c. **Incorrect Payment of PIP Bill - 1 File in Error**

Although the medical director denied a bill for claim number **70008858** because clinical documentation did not support the medical necessity of the procedure, the Company paid the claim nevertheless. NJ Skylands acknowledged that the bill was paid in error. The examiners did not count this file in the error ratio chart.

# V. ANTI-FRAUD COMPLIANCE

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## A. INTRODUCTION

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The examiners conducted specific anti-fraud compliance reviews on claims and underlying underwriting issues. The examination focused on NJ Skylands' implementation of its claim and underwriting fraud prevention and detection plan that was filed with and approved by the Department, as well as fraud and prevention training records. 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 and Detection Plans).

## B. EXAMINERS' FINDINGS

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### 1. File Review for Anti-Fraud Compliance

The examiners reviewed 250 claim files which consisted of paid and denied PIP, collision, comprehensive and property damage claims. In addition, the examiners reviewed 75 new business policies, 200 renewed files, 50 non-renewals, 25 mid-term cancellations and 50 sixty-day cancellations. The examiners found no anti-fraud compliance errors in this review.

### 2. Failure to Provide Basic Entry Level Training to Non-SIU Personnel

Pursuant to N.J.A.C. 11:16-6.5(a)2 iii, Basic Entry Level training shall be no less than nine hours of classroom instruction in the area of fraud detection and prevention. This regulation also specifies that all new employees must receive the minimum number of Basic Entry Level training hours within 180 days from commencement of employment. Based on the review of the Company's training records, the examiners found that NJ Skylands did not provide four new employees with the minimum number of Basic Entry Level training hours for calendar year 2004.

**PLEASE SEE APPENDIX D-1 FOR TRAINING SUMMARY**

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### 3. Failure to Provide Continuing Education Training to Non-SIU Personnel

Pursuant to N.J.A.C. 11:16-6.5(a)2iii, insurers are required to provide a total of four Continuing Education training hours on an annual basis to all non-SIU claims and underwriting personnel. Based on the examiner's review

of the Company's training records, the examiners found that NJ Skylands did not provide one non-SIU claims representative and one policy underwriter with the minimum number of four Continuing Education Training hours for calendar year 2004.

**PLEASE SEE APPENDIX D-2 FOR TRAINING SUMMARY**

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## VI. RECOMMENDATIONS

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New Jersey Skylands 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 New Jersey Skylands 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 New Jersey Skylands had agreed and had already complied with, either in whole or in part, some of the recommendations. For the purpose of obtaining proof of compliance and for the Company to provide its personnel with a document they can use for future reference, the examiners have listed all recommendations below.

### A. GENERAL INSTRUCTIONS

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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.

### B. RATING, UNDERWRITING AND POLICYHOLDER SERVICES

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1. The Company should issue written instructions to all appropriate in-house and field personnel stating that **N.J.A.C. 11:3-15.7(a)** directs an insurer or an insurance producer to require a Coverage Selection Form signed by the insured which indicates the prospective insured's coverage choices. Coverage shall not become effective until the signed Coverage Selection Form is received from the named insured.
2. The Companies must issue the appropriate credits or refunds for the 143 vehicles listed in Section IIC2 that were cited for 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. The Company should also research its entire book of business to identify and remediate any additional vehicles that are incorrectly rated in territories 12, 13, 14 and 27. The results of this review should be reported to the Commissioner.

3. NJ Skylands should issue written instructions to all underwriting personnel stating that **N.J.S.A. 17:29A-6** and **15** require an insurer to charge rates in strict conformity with its rating system as filed with and approved by the Commissioner. The instructions should state that underwriters must:
  - a) place policies in the correct rating tier;
  - b) provide a passive restraint discount for eligible vehicles.
4. The company should issue the appropriate refund or credit, retroactive to the inception date of coverage for each vehicle that did not receive a passive restraint discount on policies **0220000749** and **0220000705**. The Company should place policy **0120017370** in the correct tier and issue an appropriate refund or credit.
5. The Company should issue a written reminder to all appropriate in-house and field personnel regarding the requirements of the physical damage inspection program (**N.J.S.A. 17:33B-35** through **37**) and **N.J.A.C. 11:3-36**). Subject matter should include, but not limited to: notices required and to whom they are to be sent, time frames to be met and the Company's obligation to suspend coverage if the inspection is not completed.

## C. TERMINATIONS

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6. NJ Skylands should issue written instructions to all appropriate personnel setting forth the requirements that:
  - a) **N.J.S.A. 17:29C-10b** specifies that no notice of cancellation or notice not to renew a policy shall be effective unless the insurer has retained a duplicate copy of the mailed notice, which is certified to be a true copy;
  - b) **N.J.S.A. 17:29C-10a** requires an insurer to send a termination notice by certified mail or at the time of mailing of said notice, by regular mail, the insurer has obtained from the Post Office Department a date stamped proof of mailing showing the name and address of the insured;

- c) A written 15 day notice identifying any application deficiencies is to be provided to the applicant as required by **N.J.A.C. 11:3-44.3(d)**. The Company must retain a stamped proof of mailing, listing the name and address of the applicant for the 15 day deficiency notice;
  - d) In order to comply with **N.J.S.A. 17:33B-16** and **N.J.S.A. 17:23A-10(a)**, the termination notice must state the event(s), date(s) of occurrence and any other applicable information that identifies the exact reason for terminating coverage. Additionally, when an insurer declines automobile insurance, the insurer must inform the applicant of the reason for cancellation in writing.
7. NJ Skylands should issue written reminders to all appropriate personnel stating that:
- a) A 60 day cancellation notice should not reference **N.J.A.C. 11:3-8.4**, which is applicable to nonrenewals;
  - b) All records of non-renewals must be maintained for no less than five years, in accordance with **N.J.A.C. 11:3-8.8**.

## **D. CLAIMS**

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8. NJ Skylands should issue written instructions to all appropriate personnel stating that:
- a) **N.J.A.C. 11:16-2.4(a)2** requires insurers to report to the NICB all losses involving salvage, including salvage retained by a first or third party claimant, within five working days after the loss payment;
  - b) Pursuant to **N.J.A.C. 11:3-10.5(b)** and **N.J.A.C. 11:2-17.7(e)**, insurers are required to send an updated written notice of delay every 30 or 45 days, respectively, until all elements of the claim are paid or denied;
  - c) **N.J.A.C. 11:2-17.10(a)8** requires that once liability is established, insurers must inform claimants of their entitlement to a rental automobile and/or substitute transportation during the period that the vehicle is unavailable for use. The Company should contact the three claimants referenced in Section IVC3 to determine if transportation expenses were incurred and if reimbursement is warranted. The results should be reported to the Commissioner;

- d) Pursuant to regulation **N.J.A.C. 11:3-10.3(a)**, insurers are required to inspect vehicle damages within seven working days upon receipt of notice of claim.
9. The Company should issue a written reminder to all appropriate personnel, including outside vendors when applicable, stating that:
- a) Pursuant to **N.J.A.C. 11:3-10.4(c)**, insurers are required to provide first and third party claimants with a written notice of the right of recourse at the time of a total loss settlement and to retain a copy of the notice in the claim file;
  - b) Pursuant to **N.J.A.C. 11:3-4.7(c)4**, insurers are required to respond within three business days to pre-certification requests by insureds or providers;
  - c) The Medical Director's reports should be reviewed prior to authorizing payment of services;
  - d) Pursuant to **N.J.A.C. 11:3-4.7(g)**, insurers are prohibited from denying PIP benefits where insurers fail to respond to a provider's properly submitted precertification request.

## **E. ANTI-FRAUD COMPLIANCE**

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10. NJ Skylands should issue written instructions to all appropriate training and supervisory SIU personnel stating that:
- a) **N.J.A.C. 11:16-6.5(a)1** requires insurers to provide Basic Entry Level Training and Continuing Education Training for all adjusters, claim processors, underwriters and SIU investigators;
  - b) **N.J.A.C. 11:16-6.5(a)2iii** requires insurers to provide no less than nine hours of Basic Entry Level Training and no less than four hours of Continuing Education Training annually for claims and underwriting personnel.

## APPENDIX A – RATING, UNDERWRITING AND POLICYHOLDER SERVICES

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### 1. Coverage Selection Form Errors – 31 Files in Errors

POLICY NUMBER	POLICY NUMBER
0120010177 *	0120017163 *
0120016993 *	0120017062 *
0220000316	0220000371
0220000368	0220000586
0220000407	0220000494
0220000444	0220000737
0220000489	0220000700
0220000577	0220000767
0220000600	0220000790
0220000606	0220000620
0220000660	0220000450
0220000705	0220000905
0220000732	0220000434
0220000749	0220000490
0220000802	0220000498
0220000907	

\* indicates incomplete Coverage Selection Form

## 2. Vehicle Territory Errors – 143 Total Vehicles in Error

NJ Skylands Ins Assoc				NJ Skylands Ins Co			
Policy #	City	Zip Code	Territory	Policy #	City	Territory	Zip Code
218429120	Turnersville	8012	12	119036532	Turnersville	12	8012
218429120	Turnersville	8012	12	116783568	Turnersville	13	8012
218429120	Turnersville	8012	12	118382219	Turnersville	13	8012
214132939	Turnersville	8012	13	118403596	Turnersville	13	8012
213793619	Turnersville	8012	13	118403596	Turnersville	13	8012
213917999	Turnersville	8012	13	111397122	Turnersville	13	8012
213917999	Turnersville	8012	13	116783568	Turnersville	13	8012
213918251	Turnersville	8012	13	118468523	Turnersville	13	8012
213918924	Turnersville	8012	13	118541533	Turnersville	13	8012
213793619	Turnersville	8012	13	118329307	Turnersville	13	8012
214117056	Turnersville	8012	13	118801545	Turnersville	13	8012
213790944	Turnersville	8012	13	118860609	Turnersville	13	8012
220000580	Turnersville	8012	13	118860609	Turnersville	13	8012
211399290	Turnersville	8012	13	118861803	Turnersville	13	8012
214569737	Turnersville	8012	13	116881705	Turnersville	13	8012
216099222	Turnersville	8012	13	118870630	Turnersville	13	8012
216783393	Turnersville	8012	13	120016375	Turnersville	13	8012
216783393	Turnersville	8012	13	116783568	Turnersville	13	8012
216783562	Turnersville	8012	13	116882247	Turnersville	13	8012
213348510	Turnersville	8012	13	116882247	Turnersville	13	8012
214117056	Turnersville	8012	13	116965503	Turnersville	13	8012
212631792	Turnersville	8012	13	116965503	Turnersville	13	8012
213348510	Turnersville	8012	13	116881705	Turnersville	13	8012
213380379	Turnersville	8012	13	117891126	Turnersville	13	8012
213382763	Turnersville	8012	13	118382219	Turnersville	13	8012
213382763	Turnersville	8012	13	117897008	Turnersville	13	8012
213382763	Turnersville	8012	13	118329307	Turnersville	13	8012
212647994	Turnersville	8012	13	116783568	Turnersville	13	8012
213383163	Turnersville	8012	13	118230436	Turnersville	13	8012
213793619	Turnersville	8012	13	118230470	Turnersville	13	8012
212647994	Turnersville	8012	13	118246245	Turnersville	13	8012
216783562	Turnersville	8012	13	118298184	Turnersville	13	8012
212631788	Turnersville	8012	13	118298184	Turnersville	13	8012
213383441	Turnersville	8012	13	118876410	Turnersville	13	8012
213383441	Turnersville	8012	13	117892094	Turnersville	13	8012
213722513	Turnersville	8012	13	120015086	Turnersville	13	8012
213722513	Turnersville	8012	13	118861803	Turnersville	13	8012
216882110	Turnersville	8012	13	120003033	Turnersville	13	8012
213790944	Turnersville	8012	13	120005059	Turnersville	13	8012
213383163	Turnersville	8012	13	113381160	Turnersville	13	8012

<b>Policy #</b>	<b>City</b>	<b>Zip Code</b>	<b>Territory</b>	<b>Policy #</b>	<b>City</b>	<b>Territory</b>	<b>Zip Code</b>
218854630	Turnersville	8012	13	113381160	Turnersville	13	8012
218403667	Turnersville	8012	13	120008715	Turnersville	13	8012
218403667	Turnersville	8012	13	113763730	Turnersville	13	8012
218403667	Turnersville	8012	13	120014630	Turnersville	13	8012
218425877	Turnersville	8012	13	113763730	Turnersville	13	8012
220000890	Turnersville	8012	13	120015188	Turnersville	13	8012
220000890	Turnersville	8012	13	120016080	Turnersville	13	8012
218750935	Turnersville	8012	13	120016080	Turnersville	13	8012
218381857	Turnersville	8012	13	111399223	Turnersville	13	8012
220000651	Turnersville	8012	13	120016080	Turnersville	13	8012
218381840	Turnersville	8012	13	120016375	Turnersville	13	8012
218884011	Turnersville	8012	13	120016375	Turnersville	13	8012
218884011	Turnersville	8012	13	113381160	Turnersville	13	8012
218896634	Turnersville	8012	13	118884795	Turnersville	13	8012
218896634	Turnersville	8012	13	118876410	Turnersville	13	8012
218897256	Turnersville	8012	13	118881473	Turnersville	13	8012
218900413	Turnersville	8012	13	116783417	Turnersville	13	8012
220000651	Turnersville	8012	13	116783417	Turnersville	13	8012
218750935	Turnersville	8012	13	120000004	Turnersville	13	8012
217765834	Turnersville	8012	13	118883852	Turnersville	13	8012
216977032	Turnersville	8012	13	118876410	Turnersville	13	8012
216977032	Turnersville	8012	13	118907597	Turnersville	13	8012
211022801	Turnersville	8012	13	114817488	Turnersville	13	8012
211016808	Turnersville	8012	13	119034239	Turnersville	13	8012
217765767	Turnersville	8012	13	119034255	Turnersville	13	8012
217765834	Turnersville	8012	13	113763730	Turnersville	13	8012
214132939	Turnersville	8012	13	119037419	Turnersville	13	8012
217892707	Turnersville	8012	13	113722534	Turnersville	27	8012
217896961	Turnersville	8012	13				
217897815	Turnersville	8012	13				
217899940	Turnersville	8012	13				
217899940	Turnersville	8012	13				
218246040	Turnersville	8012	13				
218246209	Turnersville	8012	13				
218381840	Turnersville	8012	13				

## APPENDIX B – POLICY TERMINATIONS

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### 1. Failure to Certify Termination Notices as True Duplicate Copies - 60 Files in Error – Improper General Business Practice

Cancellation Type	Policy Number	Policy Number	Policy Number
60 Day Cancellation	0120013321	0120013908	0120014971
60 Day Cancellation	0120014470	0120015493	0120014503
60 Day Cancellation	0120014399	0120015951	0120017358
60 Day Cancellation	0120017309	0120014090	0120014429
60 Day Cancellation	0120013433	0120015029	0120014946
60 Day Cancellation	0120013389	0120015145	0120013764
60 Day Cancellation	0120013879	0120015510	0120015525
60 Day Cancellation	0120013569	0120015541	0120016088
60 Day Cancellation	0120014893	0120015533	0120014589
Mid- Term	0118827382	0118884760	0118876323
Mid- Term	0120008984	0120008033	0120015494
Mid- Term	0120011168	0118792259	0118909961
Mid- Term	0120011871	0120013784	0120013120
Mid- Term	0117892537	0118878682	0113344400
Mid- Term	0120007634	0120014765	0120011871
Mid- Term	0217899928	0117769901	
Non- Renewal	0118901091	0117165130	0118800765
Non- Renewal	0120001200	0120014625	0118342301
Non- Renewal	0120009366	0118906487	0118705550
Non- Renewal	0118889055	0118343442	0118895395
Non- Renewal	0218344313		

**2. Failure to Provide Proof of Mailing of Termination Notices -14 - Files in Error**

<u>Cancellation Type</u>	<u>Policy Number</u>	<u>Policy Number</u>
60 Day Cancellation	0120016510	0120014589
60 Day Cancellation	0120015493	0120014893
60 Day Cancellation	0120013389	0120013764
60 Day Cancellation	0120013569	0120014090
Non-Renewals	0120009366	0118342301
Non-Renewals	0118884403	0117165130
Non-Renewals	0118889055	
Mid-Term Cancellation	0120008984	

**3. Failure to Maintain Proof of Mailing and Copy of the 15 Day Deficiency Notice - 20 - Files in Error**

<u>Policy Number</u>	<u>Date of Letter</u>	<u>Requested Information</u>
0120015951#	--	Proof of Residency
0120015145#	--	Coverage Selection Form
0120015771#	--	Proof of Residency
0120016942#	--	Vehicle Registration
0120013321*	11/26/03	Proof of Residency
0120014470*	1/14/04	Proof of Residency
0120013304*	11/24/03	Proof of Residency
0120013764*	12/30/03	Coverage Selection Form, Proof of Residency
0120013569*	12/22/03	Coverage Selection Form
0120014765*	2/6/04	Vehicle Registration
0120014090#	--	Proof of Residency
0120015510#	--	Coverage Selection Form, Copy of Driver License
0120015533#	--	Proof of Residency
0120017160#	--	Proof of Residency
0120013908*	12/9/03	Proof of Residency
0120014399*	1/7/04	Proof of Residency
0120013389*	11/26/03	Proof of Residency
0120014946*	2/6/04	Vehicle Registration
0120013879*	12/10/03	Vehicle Registration
0120014503*	1/20/04	Proof of Residency

\* System notes indicated that the 15 day letter was issued but the Company did not retain the proof of mailing

# Company unable to locate a proof of mailing or a system note indicating that the 15 day letter was issued

## APPENDIX C – Paid Claim Errors

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### 1. Failure to Report Salvage to the NICB within Required Time Frame – 5 Files in Error

<u>Claim Number</u>	<u>Type of Claim</u>	<u>Date of Settlement</u>
70013223	Collision	10/28/04
60004404	Collision	11/04/04
70012202	Collision	11/04/04
70008147	Property Damage	03/04/04
60002562	Property Damage	01/23/04

### 2. Failure to Inform Claimants of Rental Entitlement – 3 Files in Error

<u>Claim Number</u>	<u>Type of Claim</u>	<u>Date of Settlement</u>
70008147	Property Damage	03/04/04
70013024	Property Damage	11/03/04
70009864	Property Damage	04/30/04

### 3. Failure to Inspect Physical Damage Claim within 7 Working Days – 2 Files in Error

<u>Claim Number</u>	<u>Date of Notice</u>	<u>Date of Inspection</u>	<u>Working Days Beyond 7</u>
60003323	05/04/04	05/21/04	6
60003364	05/14/04	05/28/04	3

## APPENDIX D – ANTI-FRAUD COMPLIANCE

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### 1. Basic Entry Level Training

<u>Employee</u>	<u>Date Hired</u>	<u>Training Hours Required</u>	<u>Training Hours Recorded</u>	<u>Training Hours in Error</u>
J. O’N.	4/20/04	9.0	1	8
K. H.	1/26/04	9.0	6	3
P. V.	4/26/04	9.0	6	3
P. K.	4/5/04	<u>9.0</u>	<u>6</u>	<u>3</u>
Total		36	19	17

### 2. Continuous Education Training

<u>Employee</u>	<u>Training Hours Required</u>	<u>Training Hours Recorded</u>	<u>Training Hours in Error</u>
L. R.	4.0	3	1
A. T.	<u>4.0</u>	<u>3</u>	<u>1</u>
Total	8	6	2

## VII. VERIFICATION PAGE

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I, Marleen J. Sheridan, am the Examiner-in-Charge of the Market Conduct Examination of New Jersey Skylands Insurance Company and New Jersey Skylands Insurance Association 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 New Jersey Skylands Insurance Company and New Jersey Skylands Insurance Association as of May 2, 2006.

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.

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Date

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Marleen Sheridan  
Examiner-In-Charge  
New Jersey Department  
of Banking and Insurance