



Market Conduct Examination

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY

Bridgeton, New Jersey

STATE OF NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE

Division of Consumer Protection Services
Market Conduct Examination Unit

Report Adopted June 29, 2004

CONFIDENTIAL

REPORT

Of the

MARKET CONDUCT EXAMINATION

Of the

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY

Located in

BRIDGETON, NEW JERSEY

As of

SEPTEMBER 3, 2003

BY EXAMINERS

Of the

STATE of NEW JERSEY

DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF CONSUMER PROTECTION SERVICES
MARKET CONDUCT EXAMINATION SECTION

Date Report Adopted: June 29, 2004

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I. INTRODUCTION

This is a report of the Market Conduct activities of the Cumberland Mutual Fire Insurance Company (hereinafter referred to as Cumberland 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 market conduct examination.

A. SCOPE AND PURPOSE OF THE EXAMINATION

The purpose of this examination was to evaluate Cumberland Mutual Fire Insurance Company's compliance with certain regulations and statutes that pertain to homeowner and dwelling fire insurance. Areas of review included rating, underwriting and terminations. This examination covered the Company's New Jersey homeowner and dwelling fire insurance business activities during the period January 1, 2001 through December 31, 2001. This review period was selected to permit analysis of the Company's handling of a merger that occurred between Cumberland Mutual and Chester County Mutual Insurance Company. Between February 19, 2003 and March 21, 2003 the examiners completed their field work at the Company's Bridgeton, New Jersey office. On various dates thereafter, the examiners completed additional review work and the writing of the report. The Market Conduct Examiners included Esther Turner, Examiner-in-Charge, Tia Hammond, Denise Banks and Karen Silsby. 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 NAIC Market Conduct Handbook.

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 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

constitute 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 Cumberland the 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, Cumberland 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 of its 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.

C. COMPANY PROFILE

Cumberland was established in 1844 in Bridgeton, New Jersey as The Cumberland Mutual Fire Insurance Company to write property insurance in New Jersey. In 1982, Cumberland Insurance Company, Inc. was organized as a fully owned subsidiary of Cumberland Mutual Fire Insurance Company for the purpose of writing Workers Compensation and General Liability coverages. In 2000, through the merger with Chester County Mutual Insurance Company of Downingtown, Pennsylvania, Cumberland became licensed to conduct business in the states of Pennsylvania, Delaware and Maryland.

Cumberland maintains four offices. The home office is located at 633 Shiloh Pike, Bridgeton, New Jersey. The commercial lines underwriting department occupies a separate office at 164 Main Street, Bridgeton, New Jersey. A Company branch office is located at 410 Boot Road, Downingtown, Pennsylvania and a computer center is located at 380 N. Main Street, Mansfield, Ohio.

II. POLICY TERMINATIONS

A. INTRODUCTION

During the review period of January 1, 2001 to December 31, 2001, Cumberland cancelled 5,374 policies beyond the first 60 days, of which 884 were cancelled for nonpayment of premium. Cumberland cancelled 5,342 new business applications within the first 60 days. In the same period, the Company nonrenewed 1,131 policies. The examiners randomly selected and reviewed 90 nonrenewals, of which 40 were from a select review and 125 cancellations, of which 25 were nonpays. In the section that follows, the examiners list the errors found by type. The examiners checked for compliance with applicable statutes and regulations including N.J.A.C. 11:1-20.2 (nonrenewal and cancellation notice requirements), N.J.A.C. 11:1-20.3 (policy provisions relating to cancellation or nonrenewal) and N.J.A.C. 11:1-20.4 (cancellation and nonrenewal underwriting guidelines). These requirements relate to the standards identified by the National Association of Insurance Commissioners (NAIC).

B. TERMINATION ERROR RATIOS

The examiners calculated error ratios for the termination review by applying the procedure outlined in the introduction of this report. The following chart itemizes the review sample, the number of errors and the error ratio by type of termination.

Review Sample	Files Reviewed	Files with 1 or more Errors	Error Ratio
Nonrenewals			
Homeowner	28	28	100%
Dwelling Fire	<u>22</u>	<u>22</u>	100%
<i>Sub-total</i>	50	50	100%
Select Review – Agency Termination			
Homeowner	20	20	100%
Dwelling Fire	<u>20</u>	<u>20</u>	100%
<i>Sub-total</i>	40	40	100%
Cancellations First 60 Day			
Homeowner	26	26	100%
Dwelling Fire	<u>24</u>	<u>24</u>	100%
<i>Sub-total</i>	50	50	100%
Midterm			
Homeowner	49	30	61%
Dwelling Fire	<u>26</u>	<u>20</u>	77%
<i>Sub-total</i>	75	50	67%
Overall Totals:	215	190	88%*

C. EXAMINERS' FINDINGS

1. **Failure to Include the Complaint Statement on Termination Notices** **(190 out of 190 Possible Files in Error - Improper General Business Practice)**

N.J.A.C. 11:1-20.2(h) states that, "All notices of nonrenewal or cancellation except those for nonpayment of premium, must contain a statement which shall be clearly and prominently set out in boldface type or other manner which draws the reader's attention advising the insured that the insured may file a written complaint about the cancellation or nonrenewal with the New Jersey Department of Banking and Insurance, Division of Enforcement and Consumer Protection, PO Box 325, Trenton, New Jersey 08625-0325. The statement shall also advise the insured to contact the Department of Banking and Insurance immediately, in the event he or she wishes to file a complaint."

Contrary to N.J.A.C. 11:1-20.2(h) and as an improper general business practice, the examiners found that Cumberland failed to include the complaint statement on 56 Homeowner Cancellations, 44 Dwelling Fire Cancellations, 48 Homeowner Nonrenewals, and 42 Dwelling Fire Nonrenewals. The Company agreed with the examiners' findings.

SEE APPENDIX A-1 FOR LIST OF POLICIES IN ERROR

2. **Failure to Properly Document and Comply with the Notice Requirements on Agency Termination Files** **(40 Files in Error – Improper General Business Practice)**

N.J.A.C. 11:1-20.4(b)13i allows an insurer to nonrenew a policy due to agency termination, provided that the insurer documents that "...replacement coverage at comparable rates and terms has been provided to the insured, and the insurer has informed the insured, in writing, of his or her right to continue coverage with the insurer." **N.J.A.C. 11:1-20.4(b)13ii** also requires the insurer to inform "...the insured, in writing, of the right to continue coverage with the insurer..."

Further, **N.J.A.C. 11:1-20.8(a) 1-5** states that every non-renewal based on agency termination must be supported by the following documentation:

1. explanation of the basis of the insurer's termination of the agency contract;
2. an explanation of why the individual risk must be nonrenewed as a result of the agency termination and why coverage should not be continued through referral to another active agent of the insurer or written by the insurer on a direct basis;

3. evidence of the provision of replacement coverage to the insured, where applicable;
4. copy of the insured's statement consenting to the termination of coverage, where applicable; and
5. copy of the written notice issued by the insurer advising the insured of his or her right to continue coverage with the insurer.

Contrary to the aforementioned regulations, the Company failed to document the requirements listed in N.J.A.C. 11:1-20.4(b)13 and N.J.A.C. 11:1-20.8(a) 1-5. Of the 90 nonrenewal files reviewed, 40 were agency termination files pulled from a select sampling (20 homeowner policies and 20 dwelling fire policies). Since this error occurred whenever the Company terminated an agency, this constitutes an improper general business practice. In response to an inquiry, the Company agreed with the examiners' findings.

SEE APPENDIX A-2 FOR LIST OF POLICIES IN ERROR

3. Failure to Provide Standard or Reason and Factual Basis For Cancellation and Nonrenewal
(93 Files in Error; 11 Mail Review Errors – Improper General Business Practice)

N.J.A.C. 11:1-20.2(g) states that no cancellation shall be valid unless the notice contains the standard or reason upon which the termination is premised and specifies in detail the factual basis upon which the insurer relies. Contrary to the regulation, on 37 homeowner cancellations, 18 dwelling fire cancellations, 27 homeowner nonrenewals, 11 dwelling fire nonrenewals and 11 mail review files, the examiners found that the Company did not provide the standard or reason upon which the termination is premised or specify in detail the factual basis for the cancellation and nonrenewal. As an example, on policy number CD0613107, the reason stated is “Any other reasons in accordance with our underwriting guidelines for personal lines coverage”. In response to an inquiry, the Company agreed with the examiners’ findings.

SEE APPENDIX A-3 FOR LIST OF POLICIES IN ERROR

4. Failure to Utilize Underwriting Guidelines in Effect to Nonrenew Policies - Improper Nonrenewals
(10 Files in Error)

N.J.A.C. 11:1-20.4(g) states that only those guidelines which are in effect at the inception date of the original policy or any subsequent renewal of that policy, as applicable, may be utilized by the insurer to cancel or nonrenew during that policy period. Cumberland’s underwriting guidelines state that a homeowner policy may be nonrenewed for “Two or more losses

in the last three years where payment was \$1000 or more. We are prohibited from using weather related damage or a third party criminal act.” Contrary to the aforementioned regulation and the Company’s underwriting guidelines, Cumberland included weather related damages, a third party criminal act or a combination thereof, to nonrenew seven homeowner and three dwelling fire policies. In response to an inquiry, the Company agreed with the examiners’ findings.

SEE APPENDIX A-4 FOR LIST OF POLICIES IN ERROR

D. MISCELLANEOUS ERRORS

1. Failure to Issue Cancellation Notice Within First 60 Days (2 Files in Error)

N.J.A.C. 11:1-20.4(l) states that nothing shall prohibit an insurer from canceling a policy which has been in effect for less than 60 days at the time the notice of cancellation is mailed or delivered. Our review of compliance with this regulation relates to Standard number 24 (Termination Practices) of the NAIC Handbook, which states that examiners should verify that cancellation/nonrenewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured. Contrary to the aforementioned regulation, Cumberland failed to send notice of cancellation within 60 days of policy inception on two homeowner policies, each of which did not qualify for coverage under Cumberland’s underwriting guidelines. In each case, the notice was issued beyond this 60-day period. In response to an inquiry, the Company agreed with the examiners’ findings.

SEE APPENDIX A-5 FOR LIST OF POLICIES IN ERROR

2. Improper Cancellations (1 File in Error)

N.J.A.C. 11:1-20.4(g) requires that only guidelines which are in effect at the inception date of the original policy may be utilized by the insurer to cancel coverage during the policy period. Contrary to the aforementioned regulation, the Company improperly cancelled dwelling fire policy number CD0655259 for “previous lapse in coverage”. This reason is not listed in its underwriting guidelines. In response to an inquiry, the Company agreed with the examiners’ finding.

3. Failure to Send Cancellation Notice between 30 and 120 Days (1 File in Error)

N.J.A.C. 11:1-20.2(d) states that no notice of cancellation shall be valid unless it is mailed or delivered by the insurer to the insured no more than 120 days nor less than 30 days prior to the effective date of cancellation. Our review of compliance with this regulation relates to Standard number 24 (Termination Practices) of the NAIC Handbook, which states that examiners should verify that cancellation/nonrenewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured. Contrary to the aforementioned regulation, Cumberland failed to send the notice of cancellation within the required time frames on dwelling policy number CD 0607394. The Company issued the notice on September 10, 2001 with a termination date of October 2, 2001, which is 22 days notice instead of the required minimum 30 days. Cumberland agreed with this finding.

E. MAIL REVIEW

On March 11, 2003 and March 13, 2003 the examiners conducted a mail review at Cumberland's Bridgeton, New Jersey office. This review consisted of one homeowner first 60 day cancellation, two homeowner midterm cancellations, one dwelling fire midterm cancellation, one dwelling fire policy first 60 day cancellation, six homeowner nonrenewals and four dwelling fire nonrenewals. The examiners checked for compliance with proof of mailing requirements (N.J.A.C. 11:1-20.2(i)2) and applicable minimum notice requirements on terminations (N.J.A.C. 11:1-20.2(d) through (h)), and found the following:

1. Failure to Provide Summary of Rights (15 Mail Review, 5,342 Rejected Applications, 4,490 Midterm Cancellation and 1,131 Nonrenewal Errors – Improper General Business Practice)

N.J.S.A. 17:23A-10a(2) states that, " In the event of an adverse underwriting decision, the insurance institution ... responsible for the decision shall provide the ... policyholder ... with a summary of the rights established under subsection b. of this section and sections 8 and 9 of this act." Contrary to N.J.S.A. 17:23A-10a(2), the Company failed to provide a summary of rights on six dwelling fire policies and nine homeowner policies found in the mail review. In response to an inquiry, the Company agreed with the examiners' findings. Further, Cumberland advised that it is not the Company's standard practice to provide a Summary of Rights. Failure to provide this notice constitutes an improper general business

practice. Therefore, all policies that were cancelled, nonrenewed and rejected were done so contrary to **N.J.S.A. 17:23A-10a(2)**.

SEE APPENDIX A-6 FOR LIST OF MAIL REVIEW POLICIES IN ERROR

III. RATING, UNDERWRITING AND POLICYHOLDER SERVICE

A. INTRODUCTION

The examiners reviewed randomly selected policy files from Cumberland’s database runs of 69,713 homeowners policies and 18,106 dwelling fire policies written or renewed between January 1, 2001 to December 31, 2001. 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-4d (rate reductions for structures equipped with operative smoke detection devices), all of which relate to NAIC Standards of Chapter VI - Conducting Property and Casualty Insurance Examinations of the Market Conduct Examination Handbook.

B. ERROR/EXCEPTION 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.

Review	Files	Files	Error
Category	Reviewed	In Error	Ratio
Random Underwriting-			
HO	50	6	12%
DF	<u>50</u>	<u>1</u>	2%
Total	100	7	7%
Manual Rating Review			
HO	6	0	0%
DF	<u>4</u>	<u>0</u>	0%
Total:	10	0	0%
Mail Review	20	10	50%

C. EXAMINERS' FINDINGS

1. Failure to Apply 2% Rate Reduction on Structures Equipped with Smoke Detection Devices (6 Random Files in Error)

N.J.S.A. 17:29A-6 and **15** require insurers to charge rates in strict conformity with the rating system filed with and approved by the Commissioner. **N.J.S.A. 17:29A-4(d)** requires insurers to give a rate reduction for fire insurance on structures equipped with operative smoke detection devices. In addition, Standard One of the Underwriting and Rating Guidelines of the N.A.I.C. Market Conduct Examiners Handbook specifies that, "The rates charged for the policy coverage (should be) in accordance with filed rates..."

Of the 100 files randomly selected and reviewed, the Company failed to apply a 2% rate reduction on six Homeowner policies where structures equipped with operative smoke detection devices were present and identified on the application. The average premium overcharge was \$10.50. Failure to provide this discount is contrary to the aforementioned statute. In response to an inquiry, the Company agreed with the examiners' finding on all six homeowner policies.

Based on an error ratio of 6%, and an overall population of 87,819 policies, approximately 5,269 policies (6% of the population) may not have received this discount.

PLEASE SEE APPENDIX B-1 FOR FILES IN ERROR

2. Failure to Correctly Apply Fire Protection Class Code (1 Random File in Error)

N.J.S.A. 17:29A-6 and **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 applied the incorrect Fire Protection Class Code B, instead of Code A, on dwelling fire policy number CD 0654049. In response to an inquiry, the Company agreed that the policy was incorrectly classified. The Company stated that the policyholder was not actually overcharged as a result of this error because Cumberland granted a credit due to its merger with Chester County Mutual. This credit is a percentage offset of Cumberland's higher premium rate to insure that Chester policyholder premium would not increase as a result of the transfer. The following section explains this in greater detail. Further, the Company stated that it corrected its file so that future renewals will be calculated using the correct Protection Class Code A.

3. Sample Rate Calculations (No Errors)

Upon request, Cumberland's underwriting staff provided the examiners with itemized, manual rate calculations on 10 of the files (6 homeowner and 4 dwelling fire) that comprised the random sample. The calculations included discounts for new home and protective devices, wind deductible credits, all perils deductibles and preferred homeowner discounts. The examiners found that Cumberland provided all eligible policies with the appropriate discount.

D. OTHER FINDINGS

1. Chester County Mutual and Cumberland Mutual Merger

Chester County Mutual Insurance Company merged with and into the Cumberland Mutual Fire Insurance Company on October 1, 2000. A tentative approval of the filing regarding the proposed merger was granted by the Commissioner on May 10, 2000 and the final approval was granted on September 15, 2000. The Department accepted Chester's and Cumberland's proposal for a 5-year transitional period which includes: 1) year 1, no change in premium; 2) year 2 through year 4, maximum increase of 15%; and 3) after year 4, transitional rating would be suspended, thus designating full integration into the Cumberland rating system.

Of the 50 randomly selected homeowners policies and 50 randomly selected dwelling fire policies, the examiners found that 18 were homeowner conversions (one homeowner policy was from the Sample Rate Calculation) and 12 were dwelling fire conversions. The examiners found no errors in the Company's processing and rating of the Chester Mutual files.

2. New Home Premium Credit

The examiners reviewed 50 homeowner and 50 dwelling fire underwriting files from the random sample to determine if Cumberland issued the appropriate New Home Premium credit for homes less than 11 years old. Of these, seven homeowner and five dwelling fire policies qualified for this discount. This review was designed to check for compliance with **N.J.S.A. 17:29A-6** and **15** and Standard One of the Underwriting and Rating Section of the NAIC M.C.E. Handbook. In reviewing the Company's filed and approved underwriting manual, the examiners noted that each credit is computed by the age of the home as of the effective year of policy minus the year of construction. The credits range from 5% - 15%. In no instance did the examiners find any errors on the seven homeowner and five dwelling fire policies that qualified for the New Home Credit discount.

E. MAIL REVIEW

On March 11, 2003 the examiners conducted a mail review at Cumberland's New Jersey location. The examiners reviewed five dwelling fire new business packages, five homeowner new business packages, five dwelling renewal packages and five homeowner renewal packages. The examiners checked Cumberland's mail operation to verify that new business and renewal packages were sent in a timely fashion, and to determine if Cumberland included all required notices and informational disclosures. The examiners found the following error:

**1. Failure to State the Effect of Non-Payment of Premium by its Due Date
(10 Mail Review Errors- Improper General Business Practice)**

N.J.A.C. 11:1-20.2(c) states that a renewal must clearly state the effect of nonpayment of the premium by the due date. Contrary to the regulation, the examiners found that of the five homeowner and five dwelling fire renewal packages reviewed, the Company failed to state the effect of non-payment of premium by its due date on all 10 renewal notices, constituting an improper general business practice. In response to an inquiry, the Company agreed with the examiners' finding.

PLEASE SEE APPENDIX B-2 FOR FILES IN ERROR

IV. RECOMMENDATIONS

Cumberland should inform all responsible personnel and third party entities that handle the files and records cited as errors in this report of the examiners' recommendations and remedial measures which follow in the report sections indicated. It is also recommended that the Company establish procedures to monitor compliance with these measures.

Whenever the examiners cited a single error, the report includes a "reminder" recommendation because a single error may be an indication of others.

The examiners acknowledge that the Company has agreed with and has already complied with, either in whole or in part, some of the recommendations during the examination. 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 included all recommendations below.

A. GENERAL INSTRUCTIONS

For all items requested for the Commissioner and copies of all written instructions, procedures, policies, recommended forms and premium refunds, copies of each accompanying letter described below, computer runs, etc., should be sent to the Commissioner, c/o Clifton Day, Manager of Market Conduct Examinations and Anti-Fraud Compliance Unit, 20 West State Street, PO Box 329, Trenton, NJ 08625, within thirty (30) days of the date of the adopted report.

On all policies to be reopened with additional payment as recommended, the letter should be sent to the insured with an accompanying cover letter containing the following first paragraph (variable language is included in parentheses):

PREMIUM REFUND/ADJUSTMENT

"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 discount your (Dwelling Fire Insurance/Homeowner Policy) due to being eligible for a (protective device credit/rating adjustment). Enclosed is our (payment/credit) in the amount of (insert amount) to correct our error. We have rerated your policy to provide you with this discount on all eligible policies and policy periods."

B. TERMINATIONS

1. In order to comply with N.J.A.C. 11:1-20.2(h), Cumberland must revise its termination notices to include a statement advising the insured that he or she may file a written complaint with the New Jersey Department of Banking and Insurance, Division of Consumer Protection Services, PO Box 325, Trenton, NJ 08625-0325.
2. In order to comply with N.J.A.C. 11:1-20.4(b) 13 and N.J.A.C. 11:1-20.8(a)1-5, the Company should issue written instructions to all appropriate personnel instructing them to document agency termination files. Such documentation should include but not be limited to information in section II.C.2.
3. In order to comply with N.J.A.C. 11:1-20.2(g), Cumberland should issue written instructions to all appropriate personnel advising them to provide the standard or reason and factual basis for cancellation on the notice.
4. In order to comply with N.J.A.C. 11:1-20.4(g), Cumberland should issue written instructions to all appropriate personnel directing them to adhere to the Company's underwriting guidelines when cancelling or nonrenewing a policy. The instructions should state that the Company is prohibited from using weather-related losses and third party criminal acts to nonrenew a policy.
5. Pursuant to N.J.A.C. 11:1-20.4(I), the Company should remind appropriate personnel that cancellation notices for policies in effect less than 60 days must be mailed or delivered within the first 60 days of the policy.
6. Pursuant to N.J.A.C. 11:1-20.2(d), the Company should remind all appropriate personnel that cancellation notices must be mailed no less than 30 days and no more than 120 days prior to the effective date of the cancellation.
7. Cumberland should issue written instructions to all appropriate personnel setting forth the requirement of N.J.S.A. 17:23A-10a(2), which states in the event of an adverse underwriting decision, the insurer must provide a summary of rights to the policyholder.

C. RATING AND UNDERWRITING

8. Cumberland should issue written instructions to appropriate personnel advising that policies that insure structures equipped with protective devices must receive the correct rating discount pursuant to N.J.S.A. 17:29A-4(d) and N.J.S.A. 17:29A-6 and 15.

9. The Company must issue the appropriate credits or refunds on the six homeowner policies cited in section III.C.1 in this report. Cumberland should also research its entire book of business to identify all policies that qualify for this discount and either issue refunds or policy credits. The company must provide the Commissioner with a report outlining the policy numbers, the named insureds, amount returned or credited for all policy periods in error, retroactive to the first period in which the error occurred.

10. Pursuant to **N.J.S.A. 17:29A-6** and **15**, the Company should remind all appropriate personnel to apply the correct fire protection class codes on all policies.

11. In order to comply with **N.J.A.C. 11:1-20.2(c)**, the company should issue written instructions to all appropriate personnel that the renewal notice must clearly state the effect of not paying the premium by the due date. A copy of the revised notice form that includes the required statement should be sent to the Commissioner prior to use.

D. QUARTERLY COMPLIANCE REPORTS

12. On policy terminations as specified below, Cumberland should provide the Commissioner with quarterly compliance reports for one 12-month cycle beginning July 1, 2004, based on the following schedule:

First Reporting Quarter – July 1, 2004 to September 30, 2004 and due October 31, 2004.

Second Reporting Quarter – October 1, 2004 to December 31, 2004 and due January 31, 2005.

Third Reporting Quarter – January 1, 2005 to March 31, 2005 and due April 30, 2005.

Fourth Reporting Quarter – April 1, 2005 to June 30, 2005 and due July 31, 2005.

These reports should include:

- a) Policy terminations for cause (other than for agency termination) – a list that contains terminated policy numbers by quarter and effective date of termination, including an affirmation that the notices:
 - i) clearly advised the policyholders of the right to file a complaint with the New Jersey Department of Banking and Insurance;
 - ii) clearly advised the insured of the underwriting standard, reason or factual basis for terminating the policy;

- iii) included the summary of rights as addressed in recommendation number 7 above.
- b) Policy Termination due to Agency termination – a list that contains terminated policy numbers by quarter and effective date of termination, including an affirmation that:
- i) the Company has advised the insured why the policy is being nonrenewed as a result of the agent’s termination;
 - ii) replacement coverage at comparable rates and terms has been provided to the insured, and the insurer has informed the insured in writing of his or her right to continue coverage with the insurer;
 - iii) the insurer has informed the insured, in writing, of his or her right to continue coverage with the insurer and the insured has agreed, in writing, to the cancellation or nonrenewal based on the termination of his or her appointed agent.

For items 12.a and 12.b above, the examiners will randomly select policy numbers during the compliance phase of this examination and then request copies of termination notices or other documentation that demonstrates compliance with the above disclosure requirements.

V. APPENDICES

APPENDIX A – Policy Terminations

1. Failure to Include Complaint Statement on Termination Notices (190 Files in Error – Improper General Business Practice)

1	0344316	39	0426755	77	0489450	115	0614801	153	0650850
2	0346023	40	0427391	78	0489769	116	0614897	154	0650999
3	0351312	41	0428063	79	0489880	117	0615172	155	0651030
4	0356153	42	0428717	80	0490173	118	0615303	156	0651166
5	0356181	43	0433845	81	0490392	119	0615519	157	0652083
6	0356285	44	0435229	82	0490534	120	0617670	158	0652665
7	0358359	45	0435863	83	0492758	121	0617882	159	0652734
8	0365366	46	0437138	84	0493139	122	0620962	160	0652846
9	0370113	47	0445099	85	0493188	123	0621006	161	0652874
10	0370490	48	0445388	86	0493343	124	0621706	162	0653032
11	0375504	49	0445459	87	0493771	125	0623740	163	0653064
12	0378535	50	0448039	88	0493908	126	0626281	164	0653143
13	0378653	51	0448270	89	0494261	127	0629054	165	0653182
14	0398485	52	0448281	90	0495440	128	0629081	166	0653296
15	0398804	53	0448701	91	0495631	129	0629449	167	0653604
16	0401360	54	0448963	92	0497238	130	0630214	168	0653680
17	0401499	55	0449311	93	0498268	131	0631550	169	0653799
18	0405306	56	0455252	94	0498271	132	0632155	170	0653824
19	0411512	57	0455996	95	0498445	133	0632166	171	0654060
20	0415319	58	0456061	96	0499260	134	0632525	172	0654122
21	0416074	59	0456910	97	0499427	135	0632528	173	0654136
22	0417801	60	0460261	98	0499733	136	0632809	174	0654266
23	0418575	61	0468983	99	0499807	137	0633020	175	0654278
24	0418600	62	0476578	100	0499841	138	0633367	176	0654281
25	0418840	63	0482572	101	0499894	139	0637520	177	0654403
26	0418892	64	0483118	102	0500095	140	0637870	178	0654428
27	0419582	65	0486251	103	0500447	141	0638423	179	0654580
28	0419811	66	0486674	104	0501834	142	0640908	180	0654661
29	0420246	67	0486769	105	0600242	143	0643004	181	0654759
30	0422822	68	0487110	106	0600525	144	0643533	182	0655090
31	0423211	69	0487232	107	0601337	145	0643608	183	0655097
32	0424359	70	0487293	108	0607394	146	0644636	184	0655108
33	0425308	71	0487317	109	0609334	147	0644757	185	0655148
34	0425690	72	0487321	110	0610271	148	0644982	186	0655259
35	0425794	73	0487925	111	0611400	149	0645014	187	0655268
36	0426086	74	0487971	112	0611473	150	0646681	188	0655281
37	0426294	75	0488216	113	0611892	151	0647976	189	0655405
38	0426646	76	0488849	114	0613107	152	0650364	190	0655412

**2. Failure to Properly Document and Comply with the Notice Requirements on Agency Termination Files
(40 Files in Error – Improper General Business Practice)**

1	0417801	11	0435863	21	0629054	31	0643608
2	0418600	12	0437138	22	0632525	32	0644636
3	0419582	13	0445099	23	0632528	33	0644757
4	0424359	14	0445459	24	0633020	34	0644982
5	0425690	15	0448270	25	0633367	35	0645014
6	0425794	16	0448701	26	0637520	36	0646681
7	0426086	17	0448963	27	0637870	37	0650364
8	0426294	18	0449311	28	0640908	38	0650999
9	0426755	19	0455996	29	0643004	39	0651030
10	0435229	20	0456061	30	0643533	40	0651166

**3. Failure to Provide Standard or Reason and Factual Basis For Cancellation and Nonrenewal
(93 Files in Error; 11 Mail Review Errors – Improper General Business Practice)**

<u>Cancellations</u>					
1	HO 0495440	20	HO 0499807	39	HO 0499427
2	HO 0499260	21	HO 0500095	40	HO 0500447
3	HO 0501834	22	HO 0486769	41	HO 0499894
4	HO 0489450	23	HO 0494261	42	HO 0425308
5	HO 0493188	24	HO 0346023	43	HO 0492758
6	HO 0428717	25	HO 0456910	44	HO 0426646
7	HO 0358359	26	HO 0365366	45	HO 0498271
8	HO 0351312	27	HO 0445388	46	HO 0356153
9	HO 0370490	28	HO 0401499	47	HO 0448281
10	HO 0344316	29	HO 0476578	48	HO 0375504
11	HO 0490173	30	HO 0498445	49	HO 0420246
12	HO 0468983	31	HO 0370113	50	CD 0655148
13	HO 0356181	32	HO 0405306	51	CD 0626281
14	CD 0655281	33	CD 0653604	52	CD 0654281
15	CD 0652874	34	CD 0629449	53	CD 0614801
16	CD 0621706	35	CD 0615172	54	CD 0615303
17	CD 0654403	36	CD 0623740	55	CD 0600525
18	CD 0610271	37	CD 0607394		
19	CD 0632809	38	CD 0617882		

<u>Nonrenewals</u>					
01	HO 0448039	14	HO 0378535	27	HO 0487321
02	HO 0356285	15	HO 0419811	28	HO 0486251
03	HO 0398485	16	HO 0460261	29	HO 0487110
04	HO 0489769	17	HO 0487317	30	HO 0483118
05	HO 0487293	18	HO 0482572	31	HO 0418892
06	HO 0398804	19	HO 0418840	32	HO 0415319
07	HO 0433845	20	HO 0416074	33	HO 0455252
08	HO 0487971	21	HO 0418575	34	HO 0487925
09	HO 0422822	22	CD 0621006	35	CD 0620962
10	HO 0378653	23	CD 0615519	36	CD 0652734

11	CD 0631550	24	HO 0486674	37	CD 0600242
12	CD 0614897	25	CD 0613107	38	CD 0611400
13	CD 0601337	26	CD 0611473		

Mail Review

Nonrenewals

01	CD 0634245	04	HO 0507100	07	HO 0429601
02	HO 0440304	05	HO 0506905	08	HO 0391007
03	CD0653811	06	CD 0656410	09	CD 0656427

Cancellations

01	CD 0657842	02	HO 0372735
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4. Failure to Utilize Underwriting Guidelines in Effect to Nonrenew a Policy - Improper Nonrenewals (10 Files in Error)

Policy Number	Type of Loss	Total Losses Charged	Total Losses Based on Guidelines
01 CD 0621006	*	2	1
02 CD 0631550	*	3	1
03 CD 0378535	*	3	0
04 HO 0433845	*	3	0
05 HO 0487971	*	2	0
06 HO 0455252	**	4	0
07 HO 0416074	*	4	1
08 HO 0415319	**	4	1
09 HO 0460261	*	2	1
10 HO 0418575	**	3	0

*Weather related

** Weather related and third party criminal act

5. Failure to Issue Cancellation Notice Within First 60 Days (2 Files in Error)

Policy Number	Effective Date of Policy	Proof of Mailing	Number Of Days
01 HO 0500447	08/23/01	10/25/01	63
02 HO 0499260	06/29/01	08/30/01	62

**6. Failure to Provide Summary of Rights
(15 Mail Review Errors – Improper General Business Practice)**

Nonrenewals

01	HO 0463599	05	HO 0507100	08	HO 0429601
02	HO 0440304	06	HO 0506905	09	HO 0391007
03	CD0653811	07	CD 0656410	10	CD 0656427
04	CD 0634245				

Cancellations

01	HO 0495006	03	HO 0374659	05	HO 0372735
02	CD 0657734	04	CD 0657842		

APPENDIX B-RATING, UNDERWRITING, POLICYHOLDER SERVICE

**1. Failure to Apply 2% Rate Reduction on Structures Equipped with Smoke Detection Devices
(6 Files in Error)**

Policy Number	Cumberland Premium	Rate Impact	Amount of Overcharge
HO 0498385	\$428	2%	\$ 8.56
HO 0494116	\$526	2%	\$10.52
HO 0493791	\$567	2%	\$11.34
HO 0500763	\$506	2%	\$10.12
HO 0501051	\$505	2%	\$10.10
HO 0497757	\$619	2%	\$12.38
Total:	\$3,151		\$63.02

Average of overcharge: \$10.50 per policy

**2. Failure to State the Effect of Non-Payment of Premium by its Due Date
(10 Mail Review Errors- Improper General Business Practice)**

- 1 HO 0350221
- 2 HO 0346360
- 3 HO 0345225
- 4 HO 0346306
- 5 HO 0345374
- 6 CD 0653647
- 7 CD 0653646
- 8 CD 0656306
- 9 CD 0656305
- 10 CD 0651930

VI. VERIFICATION PAGE

1. I, Esther Turner, am the Examiner-in-Charge of the Market Conduct Examination of the Cumberland Mutual Fire Insurance Company 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.

2. 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 Cumberland Mutual Fire Insurance Company as of September 3, 2003.

3. 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