MARKET CONDUCT EXAMINATION

PRINCETON INSURANCE COMPANY

PRINCETON, NEW JERSEY

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

Division of Enforcement and Consumer Protection
Market Conduct Examination Section

Report Adopted: July 8, 2004

CONFIDENTIAL

MARKET CONDUCT EXAMINATION

of the

PRINCETON INSURANCE COMPANY

Located in

PRINCETON, NEW JERSEY

as of

January 23, 2003

BY EXAMINERS

Of the

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF CONSUMER PROTECTION SERVICES

MARKET CONDUCT EXAMINATION UNIT
DATE REPORT ADOPTED: July 8, 2004

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I. INTRODUCTION

This is a report of the Market Conduct activities of the Princeton Insurance Company (hereinafter referred to as PIC or the Company). In this report, examiners of the New Jersey Department of Banking and Insurance (hereinafter referred to as the Department or NJDOBI) present their findings, conclusions and recommendations as a result of their market conduct examination. The Market Conduct Examiners were Monica Koch, Examiner-in-Charge, Robert Greenfield and Robert Only.

A. Scope of Examination

The scope of the market conduct examination included a re-examination of the Company's handling of credit balances and unearned premium on terminated and inforce medical malpractice policies. The market conduct examiners checked for compliance with **N.J.S.A. 17:29C-4.1, N.J.S.A. 17:29AA-1 et seq.** and recommendations outlined in the Department's 1994 adopted market conduct report. Specific emphasis was placed on compliance with recommendation numbers 3 and 4 of the 1994 report which stated that the Company and its agents must refund or offset accounts with pending credit balances within a time frame not to exceed 60 days from the date that the balance occurs in the account. The Company agreed to comply with this time frame during the recommendation compliance phase of the 1994 examination.

The market conduct examiners reviewed business conducted by the Company during the period January 1, 2000 to January 23, 2003. This examination covered the Company's New Jersey business activities only, and includes analysis of credit balances that occurred between January 1, 2000 and December 31, 2001. The examiners completed their fieldwork at the Company's, Princeton, New Jersey office. The examiners completed additional review work and the writing of the report on various dates thereafter.

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 Market Conduct Examiners Handbook. In addition, the examiners used the NAIC Handbook, Chapter VIII-Conducting the Health Examination, as a guide to write this report.

B. Error Ratios

Error ratios are the percentage of files that the examiners found to be handled in error. Each file either mishandled or not handled in accordance with applicable state statutes or regulations is an error. Even though a file may contain multiple errors, the examiners counted the file only once in calculating the 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 Company corrected an error as a result of a consumer complaint or due to the examiners' findings, the error is included in the error ratio. If the Company corrects an error independent of a complaint or NJDOBI intervention, the error is not included in the error ratios.

For the purposes of the electronic database analyses, the examiners define an exception as a record in a database that does not meet specific criteria as set forth in database 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.

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 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 PIC the opportunity to respond to the examiners' findings and provide exception to the cited errors or mishandling of files reported herein. In response to these inquiries, PIC agreed with some of the errors cited in this report. On those errors with which the Companies disagreed, the examiners evaluated the 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

Princeton Insurance Company (PIC), formed in 1982 as a wholly owned subsidiary of the Health Care Insurance Company (HCIC), provides professional liability insurance to physicians, surgeons and allied health care professionals. HCIC is a successor to the Health Care Insurance Exchange (HCIE), which was established in 1976 to provide medical malpractice insurance for New Jersey hospitals and staff physicians. In 1990, HCIE reorganized as a stock company with New Jersey hospitals as its stockholders. In that same year, Princeton Risk Retention was formed as a subsidiary of PIC. In 2000, Medical Liability Mutual Insurance Company (MLMIC) acquired PIC.

As of December 31, 2001, Princeton Insurance Company had 109,695 policyholders in 16 states. This includes but is not limited to hospitals, physicians, allied health professionals, and workers compensation policyholders. PIC employs 324 staff members

at its Princeton, N.J. location and another 27 employees at 10 locations throughout its 16-state operating territory.

II. Policyholder Service: Resolving Credit Balances

A. Introduction

The Department completed a market conduct examination on Princeton Insurance Company in 1994 as a result of a December 1989 financial examination that revealed a considerable number of credit balances that remained unresolved in excess of four months. As a result, the financial examiners recommended that the Company review its credit balances every quarter, and to issue refunds on a timely basis. In response to the recommendations that appeared in the 1994 market conduct examination and post-examination compliance correspondence, PIC agreed to review credit balances on a monthly basis and resolve credit balances within 60 days. In June 1995, PIC issued instructions to all applicable staff, advising that credit balances should be resolved within 60 days. The current exam was designed to determine the extent to which the Company has implemented the 60-day resolution period.

On the current examination, the Company provided the examiners with a computer-generated report that listed all monthly credit balances that occurred during the review period of January 1, 2000 through December 31, 2001 for all physician/individual and hospital/institutional policies. The review period included two calendar years to permit the examiners to track the 60-day resolution period on credit balances that occurred in December 2000 and January 2001, as well as the remainder of calendar year 2001.

From a population of 4,692 polices, PIC provided the examiners with an electronic list of 1,412 policies that had at least one credit balance. From this computer listing, the examiners performed queries to identify those credit balances that appeared three or more consecutive times in the dataset. The examiners excluded all policies with credit balances that occurred only once or twice (resulting in resolution either within 30 or 60 days, in compliance with the maximum 60-day recommendation) in the monthly credit balance list, or where the balances changed from one month to the next. The latter would indicate effort to resolve the credit balance and would therefore not be considered an error. The purpose of this analysis was to identify those credit balances that remained unchanged for more than 60 days to determine whether the Company was in compliance with the recommendations stated in the 1994 Market Conduct report.

B. Credit Balance Errors and Exceptions

The examiners queried the electronic computer runs provided by the Company and found a total population of 1,412 in-force policies that contained credit balances. Of these, 278 policies contained repeating credit balances that the Company held unresolved for more than 60 days. The total dollar amount of the credit balances that were held beyond 60 days was $10,596,094.

The examiners determined that the 278 policies contained a total of 372 credit balances. It should be noted that the examiners defined the random review population as credit balances rather than policies, because a single policy could contain multiple credit balances in which only some were not resolved in a timely manner. The examiners randomly selected and reviewed a total of 100 credit balances from the total number of 372 credit balances that comprised the review population. For informational purposes, these 100 credit balances occurred on a total of 89 policies.

Overall, the examiners found a total of 80 credit balances in error in the random selection of 100 credit balances, for an error ratio of 80%. The following charts itemize these errors by individual physician and hospital accounts. The first chart represents the examiner's findings based on the random sample of 100 credit balances. The second chart represents the examiners' findings based on the population-wide analysis of all 372 credit balances that occurred in the in-force population.

Chart 1 – Random Review

Type of Policy	Credit Balances Reviewed	Credit Balances in Error	Error Ratio	Amount of Credit Balances in Error
Physician	46	40	87%	$ 88,868
Hospital	44	40	91%	$1,018,189
Totals	100	80	80%	$1,107,057

Chart 2 – Database Population Review

Type of Policy	Total Credit Balances	Credit Balances in Error	Exception Ratio	Dollar Impact
Phys and Hosp	372	278	74.73%	$10,596,094

C. Examiners' Findings

1. Failure to Resolve Credit Balances within 60 Days
36 Errors (17 Processed by Company, 19 Processed by Agents)

a. Failure of Company to Resolve Credit Balances – 17 Files in Error

From the credit balance database provided by the Company, the examiners found 17 policies in which PIC failed to resolve credit balances within 60 days. The average delay was 8 months beyond the 60-day period specified in the Company's instructions to applicable staff in 1995 and as recommended in the 1994 examination report. The longest period of delay was 18 months. In response an inquiry, PIC agreed with the examiners' findings on these policies, and further stated that its procedure on hospital

accounts is to "…either offset existing debits with credits or, at the hospital's request, hold the credits until the balances have been paid. According to the Company, the latter occurs as a result of the hospital's desire to reduce its overall level of accounting complexity. However, this method is problematic in that it permits resolution of existing credit balances only when the risk or exposure increases, resulting in a debit; or, at the very least, upon renewal of the policy. In either scenario, the credit balance may remain unresolved for several months.

Overall, however, the Company attributed the above delays to the need for the Financial Management Department to research and verify certain information with the Underwriting Department before credit balance refunds could be processed. Notwithstanding the asserted need for this activity, PIC should develop means to expedite resolution of credit balances to comply with the 60-day period referenced above. Total unresolved premium as a result of this error was $71,380.49. The average credit balance in error under this error category was $4,198.85.

PLEASE SEE APPENDIX A-I.A FOR CREDIT BALANCES IN ERROR

b. Failure of Agents to Resolve Credit Balances – 19 Files in Error

From the credit balance database provided by the company, the examiners found 19 policies in which PIC failed to resolve credit balances within 60 days due to delays caused by agents. The average delay was 8.7 months beyond the 60-day period specified in the Company's instructions to applicable staff in 1995 and as recommended in the 1994 examination report. The longest period of delay was 24 months. In response to an inquiry, the examiners discovered that the Company previously agreed with the agents' requests that the agents, rather than the Company, be permitted to resolve all credit balances. However, in response to the examiners' inquiries, the Company acknowledged that the agents' involvement creates an inherent processing delay that will "…often usurp the entire 60 days that the state has given the Company to resolve the balances."

PIC further stated that many agents, regardless of an agreement, prefer that Princeton "…not speak to hospital personnel directly on collection and accounting issues…and that [t]his communication process through the intermediary of the agent can result in delays in resolving hospital collection matters." The Company further stated that, "…many agents are now paid by the hospitals on a fee basis rather than by Princeton's commission structure. Therefore, collections (and accounting) may not be an agent's priority since their income is not a function of our resolving a collection issue." Regardless of the agent's priorities, PIC is ultimately responsible for assuring that credit balances are applied in a timely manner.

Failure of agents to promptly resolve credit balances is not in accord with documentation provided to the examiners in response to the 1994 market conduct report, in which the Company indicated that it instructed all agents to resolve credit balances within 60 days. Based on the examiners' current findings, the agents have not followed these instructions, and the Company has not effectively monitored agent activity to

ensure compliance. Total unresolved premium as a result of this error was $30,191.73. The average credit balance in error under this error category was $1,589.03.

PLEASE SEE APPENDIX A-I.B FOR CREDIT BALANCES IN ERROR

2. Delay in Offsetting Credit Balances due to Debits on Other PIC Policies 17 Files in Error (Improper General Business Practice)

From the credit balance database provided by the Company, the examiners found 17 policies in which PIC failed to resolve credit balances within 60 days due to credit and debit balance offsets among multiple policies. The average delay was 3.9 months beyond the 60-day period specified in the Company's instructions to applicable staff in 1995 and as recommended in the 1994 examination report. The longest period of delay was 6 months. In response to an inquiry, the Company advised that it does not offset a credit balance on one policy if the insured has an outstanding debit balance on another PIC policy. The Company further advised that some hospitals prefer an account co-mingling arrangement as a means for the hospital to simplify its accounting and financial management. Other hospitals, however, disagree and view this arrangement to be unacceptable. Notwithstanding this variability, PIC will not apply a valid credit balance on one policy where a debit exists on another PIC policy. This method increases the likelihood that a credit balance will remain unresolved for more than 60 days. Moreover, this method of credit and debit balance offset is not supported by the Company's rating and underwriting manuals which identify premium determination and billing protocols. Total unresolved premium as a result of this error is $298,870.78. The average credit balance in error under this error category was $17,580.63. The examiners cited this as an improper general business practice because this error would occur in every situation where a debit exists on another PIC policy.

PLEASE SEE APPENDIX A-II FOR CREDIT BALANCES IN ERROR

3. Failure to Refund Credit Balances within 60 days due to Policy Endorsements (12 Random Errors - 9 Physician Policies and 3 Hospital Policies

From the credit balance database provided by the Company, the examiners found 12 policies in which PIC failed to resolve credit balances within 60 days due to delays caused by processing policy endorsements. The average delay was 3.6 months beyond the 60-day period specified in the Company's instructions to applicable staff in 1995 and as recommended in the 1994 examination report. The longest period of delay was 6 months. In response to an inquiry, PIC attributed these delays on the hospital accounts to frequent endorsement activity, resulting in multiple debits and credits. Princeton also indicated that this is particularly true with Master Physicians (MP) policies that provide coverage for interns and residents. According to the Company, considerable turnover exists both on hospital and physician policies because each year a new group of interns begin rotations, while the prior class moves to a different career development stage.

Individual physicians also transfer to different specialties within the program and their classification must be updated.

PIC further advised that it experiences lengthy delays in obtaining updated physician lists from hospitals. As an example, the Company stated that an agent may forward a list of interns and residents to be deleted from a Master Physician policy and indicate that the Company will receive information on additional physicians at a later date. As a result, the Company waits until the agent advises PIC that the premium for the additions will offset all or part of the premium for the deletions, and advise not to refund premiums until the Company obtains additional information. The company further stated that this process might result in a credit balance being unresolved for more than 60 days, depending on how quickly the institution and agent supply the updated information. Although the examiners acknowledge that institutional accounts require more activity than individual accounts, the Company is ultimately responsible for controlling the flow of information and premium between the insured, the agent and the Company. In the event that neither party provides information necessary to resolve existing credit balances within the 60-day period referenced above, the Company is obligated to apply the balance to any existing debits within this time period, or issue a premium refund where no debit exists. Notably, none of these 12 credit balances was resolved during the review period. Total unresolved premium as a result of this error is $68,726.45. The average credit balance in error under this error category was $5,727.20.

PLEASE SEE APPENDIX A-III FOR CREDIT BALANCES IN ERROR

4. Systems Limitation Resulting in Erroneous Credit Balances on Errors and Omissions Coverage
(11 Physician Policies in Error)

The examiners reviewed the credit balance database provided by the company and found 11 policies that contained a recurring credit balance of $306.00. The average delay was 11.9 months beyond the 60-day period specified in the Company's instructions to applicable staff in 1995 and as recommended in the 1994 examination report. The longest period of delay was 22 months. In response to an inquiry, PIC advised that this error occurred due to a computer system limitation that prohibited the underwriter from debiting a policy as a result of additional premium associated with an endorsement for Errors and Omissions coverage. As a result, the premium that was posted to the account was not assigned to any coverage, resulting in excess premium that resulted in a false credit balance. It should be noted that coverage was provided to the physicians. Although this error did not result in a credit balance that was actually owed to the insured, it did cause a credit balance on the system that required resolution – in this case, actually applying written premium to incurred exposure. Total unresolved premium as a result of this error was $3,366.

PLEASE SEE APPENDIX A-IV FOR CREDIT BALANCES ERROR

5. Failure to Promptly Reconcile Deposit Premium Downpayments and Actual Underwritten Premium (2 Random Errors on Hospital Policies)

From the credit balance database provided by the Company, the examiners found two new business policies in which PIC failed to resolve credit balances within 60 days due to delays in applying the difference between deposit or estimated premium and the actual premium that was established after the Company completed its underwriting review. This is inconsistent with the 60-day period specified in the Company's instructions to applicable staff in 1995 and as recommended in the 1994 examination report.

a. On policy number MP00000445, the deposit premium exceeded the actual premium, resulting in a credit balance of $8,203.74 that remained unresolved for 12 months. Resolution occurred when the policy expired. Ultimately, this credit balance was applied to debits that accrued during the policy period in which the policy was actually in effect. Although the Company attributed this error to delays in the underwriting and communication process between the agent, the insured and the Company, the latter is ultimately responsible for controlling the flow of information in a manner that permits adherence to the 60 day resolution period outlined in the 1994 report and as addressed in the Company's instructions to staff in 1995.

PLEASE SEE APPENDIX A-V FOR CREDIT BALANCE IN ERROR

b. On policy number CH00002110, the examiners found a credit balance in the amount of $625,047 that remained unresolved for four months as a result of the Company's failure to promptly offset a deposit premium that was collected at the time of application, with actual premium that was derived through actual risk analysis. In response to an inquiry, PIC advised that the insured provided, and the company posted, a deposit premium of $1,228,694 on December 15, 2000 for policy period February 1, 2001 to 2002. On February 27, 2001, the insured's finance company submitted payment for what became the actual premium of $1,853,741; however, PIC did not post this payment to the account until almost four months later, on June 18, 2001. In addition, PIC advised the examiners that the $1,228,694 deposit bill of December 15, 2000 for the 2/1/01-02 policy period "…was removed from the system (on June 14, 2001) leaving temporarily a false credit balance of $1,853,741" which was resolved promptly. Delays in posting the premium finance company's payment, as well as delays in offsetting the actual amount owed with the deposit premium caused the Company's system to identify a $625,047 credit balance that remained unresolved for four months. This balance was ultimately resolved as a result of exposure changes and the policy period being changed to December 31, 2000 to 2001 at the insured's request. In response to the examiners' inquiries, PIC advised that, although the system did reflect this credit balance, the amount was not actually owed to the insured. While the examiners agree that this is true based on premium received and ultimately credited, the Company's accounting method, which included the delays outlined above, created an unresolved balance that existed on the system. Had PIC attempted to resolve this balance within 60 days, it is possible that

the underwriter would have noticed much sooner than four months that the actual premium payment of $1,853,741 was not credited to the account at the time of payment.

PLEASE SEE APPENDIX A-VI FOR CREDIT BALANCES IN ERROR

6. Miscellaneous Credit Balance Delay Errors
2 Random Errors (1 Physician Policy and 1 Hospital Policy)

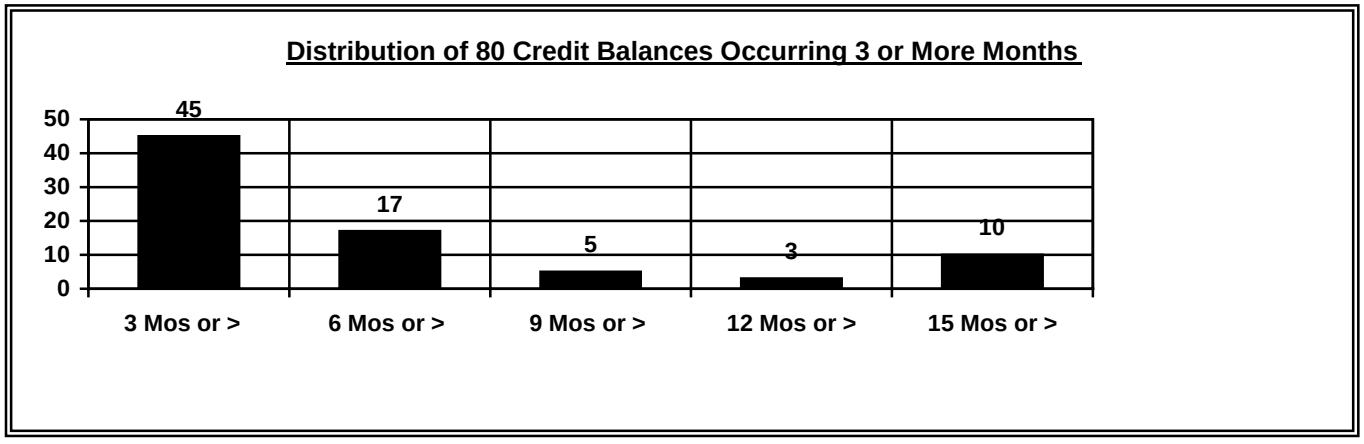
a. On physician policy number PS00015446, an endorsement for $917.72 was billed on July 7, 2000, and the insured made full payment on July 18, 2000. On August 22, 2000, the insured submitted another payment in the same amount, thus duplicating the prior payment which resulted in a credit balance of $917.72. Contrary to the 60-day resolution period outlined in the 1994 report and as addressed in the Company's instructions to staff in 1995, PIC did not credit the physician account until November 2, 2000, or 72 days later.

b. On hospital policy number HA00002153, a credit balance of $313.42 occurred at the time of renewal. Although PIC had no indication that the insured would reject the renewal offer, the insured did not submit the renewal premium by the due date, resulting in a debit balance. Rather than apply the credit balance to offset the renewal debit, PIC instead waited to receive the renewal premium and ultimately applied the credit balance to a subsequent underwriting period. Overall, PIC held this credit balance for approximately 90 days, which is inconsistent with the resolution period outlined in the 1994 report and as addressed in the Company's instructions to staff in 1995.

PLEASE SEE APPENDIX A-VII FOR CREDIT BALANCES IN ERROR

D. Time Summary On Resolution of Credit Balances

The following chart summarizes all 80 outstanding credit balances in 90-day increments. As noted, 45 credit balances (60%) were resolved between three and five months after they accrued, while 17 (21%) were resolved between 6 and 8 months. As noted, 10 credit balances (12.5%) were resolved in excess of 15 months after they accrued.



As the above chart indicates, PIC resolves the majority of all credit balances within the first 90-day period, or within three months beyond the allowable period of 60-days. The examiners found a total of 567 months in error among all 80 credit balances. Based on these values, the average delay in processing credit balances is 7.08 months.

E. Summary and Comparison with 1994 Market Conduct Exam

The 1994 adopted market conduct examination report identified over $3,500,000 in monthly credit balances that remained unresolved for greater than 60 days during the period August 1993 to November 1993. As a result of these delays, the Department recommended that the Company implement means to assure that all future credit balances were resolved within 60 days. In response to the compliance phase of the adopted 1994 report, PIC agreed to establish and implement procedures that would assure adherence to this recommendation. This included monthly credit balance reports, both at the company and agency level, as a means to permit continuous monitoring and resolution of credit balances.

In the current review, however, the examiners found a total of $10,596,094 in credit balances that remained unresolved for more than 60 days during the period January 1, 2000 through December 31, 2001. Delays ranged from a low of 3 months to a high that was in excess of 24 months. The examiners also found that, contrary to the recommendations in the 1994 adopted report and based on the current examination error ratio of 80%, PIC has neither effectively monitored nor addressed agent and Company activity, or inactivity, that increases the likelihood of delays in processing credit balances.

It should be noted that the Company advised the examiners that, as of January 1, 1995, PIC "…changed the billing process for (hospital) accounts from an agent-bill process to direct-bill in an effort to improve timeliness of resolving all premium accounting issues including credit balances." The examiners' findings suggest that additional internal and agency oversight is needed in order for the Company to achieve an acceptable level of compliance.

III. RATING

A. Introduction and Scope

The examiners reviewed 75 randomly selected physician policy files from the in-force population of 4,692 policies. The examiners checked for compliance with **N.J.S.A. 17:29AA-1 et seq,** and the rating manual filed with the Commissioner. The examiners focused on proper use of base rates with respect to medical specialty such as general surgery, internal medicine, etc., limits of liability and proper assignment to standard, preferred, preferred plus and Princeton preferred risk classifications.

B. Error Ratios

The examiners calculated error ratios for this sample by applying the procedures outlined in the introduction of this report. As indicated in the following chart, the examiners found one rating error out of 75 files reviewed, for an error ratio of 1.3%.

Review Sample	Files Reviewed	Files In Error	Error Ratio
Physicians	75	1	1.3%

C. Examiners' Findings

1. Failure to Charge Correct Base Rate (1 File in Error)

Pursuant to **N.J.S.A. 17:29AA-1 et seq.**, insurers are required to charge only those rates that are filed with the Commissioner. PIC's rating manual on file with the Department indicated that the correct standard base rate for non-surgical pediatric coverage with $1 million/$3 million limits for the period January 1, 2001 to January 1, 2002 was $8,673. However, on policy number PS000177881, the examiners found that PIC charged a superceded base rate of $7,852 that was in effect during the prior calendar year. Failure to apply the correct standard base rate is contrary to **N.J.S.A. 17:29AA-1 et seq.**, and resulted in an undercharge of $786.

IV. AGENT LICENSING

A. INTRODUCTION

Princeton Insurance Company writes medical malpractice and professional liability insurance for New Jersey Hospitals, physicians, and health care professionals. The Company utilizes independent agents, and maintains agency agreements with all of its appointed agents/agencies. During the review period, Princeton Insurance Company had 74 active agencies that serviced and produced new business on behalf of the Company. The Company terminated six agencies during the review period. The examiners reviewed Company records of agency appointments and terminations including the proper notification and timeliness requirements of **N.J.S.A. 17:22A-15 and N.J.A.C. 11:17-2.9**.

B. EXAMINERS' FINDINGS

1. Failure to File Notice of Agency Appointment with NJDOBI 50 Files in Error - Improper General Business Practice

Pursuant to **N.J.S.A. 17:22A-15(c)** and **N.J.A.C. 11:17-2.9(a)2**, "An insurance company contracting with a licensed producer shall be responsible to advise the Department of that relationship by filing a notice within 15 days after the execution of the contract (which identifies) the company's name and reference number; the producer's name and reference number; and the effective date of the contract." The examiners found a total of 50 agency files that did not document that the Department was notified of these appointments. In response to the examiners' inquiries, the Company advised that records on this notice were either non-existent or incomplete. The company was unable to confirm compliance with this requirement.

PLEASE SEE APPENDIX B-1 FOR FILES IN ERROR

V. RECOMMENDATIONS

Princeton Insurance Company should inform all responsible personnel and applicable third party entities who handle the files and records cited as errors in this report of the remedial measures which follow in the report sections indicated. The examiners also recommend that the Company 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 Company 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

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 Day, Manager of the Market Conduct Examination 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 files to be reopened as recommended, the payment should be sent to the insured with an accompanying cover letter containing the following first paragraph (variable language is include in parentheses):

"During a recent review of our files by market conduct examiners of the New Jersey Department of Banking and Insurance, they found that we failed to timely refund your account in the amount of (insert amount). Enclosed is our (check) (confirmation of a premium credit) for that amount to correct the error."

B. Policyholder Service

1. In order to comply with the recommendations outlined in the 1994 market conduct examination, Princeton Insurance Company should issue written instructions to all Company personnel, field agents and their managers, that they must refund or offset accounts with pending credit balances within 60 days.

2. The Company should develop means to more effectively monitor the effectiveness of the monthly credit balance reports that are currently in use. PIC should also implement

oversight procedures to assure that Company underwriters and agents are taking appropriate action to resolve credit balances within a period not to exceed 60 days. These procedures should emphasize that the Company should not pend credit balances indefinitely until the insured or agent initiates activity on the account. A copy of these procedures should be provided to the Commissioner for review.

3. The Company should research its entire in-force book of business to ensure that any existing credit balance that has pended for more than 60 days is offset against any premium due or refunded directly to the insured where no debits exists. Upon completion of this project, the Company should provide the Commissioner with a computer run that itemizes the current credit balance status of each policy that was reviewed. The computer run should include the following fields: Policy Number, Month and Year where the same credit balance appears beyond 60 days, Amount of the Credit Balance, Date Credit Balance was Resolved, Agent Code, Effective Date of Policy. A separate report with the same fields should be provided to demonstrate the status of all policies that appear in Appendix A-I through A-VII.

4. Princeton Insurance Company should cease its practice of not offsetting a credit balance on one PIC policy where an insured has an outstanding debit balance on another PIC policy. Each policy, as well as any associated credit balances, should be resolved timely, and independent of any other policies that the insured may own.

5. The Company should develop a plan to improve resolution timeframes of credit balances that result from endorsements on physician and hospital accounts. This plan should include means to address delays caused by the insured, the agent, Company personnel and any other personnel that may be involved in this process. Princeton Insurance Company should provide the Commissioner with a copy of this plan prior to implementation.

6. Princeton Insurance Company should review its computerized rating system to assure that the system error that did not recognize premium receipts for Errors and Omissions Coverage has been corrected. The Company should provide the Commissioner with a summary of the results of this review.

7. The Company should remind all applicable personnel and agents of the necessity to promptly reconcile deposit premium and actual premium. This reminder should clearly state that deposit premium that exceeds actual premium constitutes a credit balance that is subject to the maximum 60-day resolution period specified in the 1994 examination report.

8. Princeton Insurance Company should remind all applicable personnel of the importance of promptly posting premium receipts to an account.

9. In those instances where the Company has entered into special agreements in which agents are provided complete authority to handle hospital and physician accounts, the Company must develop and implement oversight methodologies that ensure proper and

timely resolution of credit balances. The Company should provide the Commissioner with a copy of any policies and procedures designed to achieve this oversight.

C. AGENT LICENSING

10. In order to comply with **N.J.S.A. 17:22A-15(c)** and **N.J.A.C. 11:17-2.9(a)**, Princeton Insurance Company must issue written instructions to all appropriate personnel stating that the Company is required to provide the Department with a notice of agency appointment within 15 days after the contract becomes effective.

Failure of Company to Resolve Credit Balances within 60 days
(17 Random Errors - 1 Physician/Individual Policy and 16 Hospital/Institutions Policies)

POLICY NUMBER	CREDIT BALANCE AMOUNT	MONTHS TO RESOLVE
MP00000084	$4,314.88	14
SM00002014	$1,978.65	14
CH00000093	$ 790.64	3
MP00015453	$ 789.51	17
MP00015137	$ 125.17	3
MP00015301	$12,861.14	5
MP00015461	$4,547.00	7
MP00015304	$2,090.81	6
MP00009042	$ 295.37	9
MP00000482	$20,293.00	18
SM00000087	$ 324.23	5
HA00002173	$ 810.66	4
SM00002014	$3,157.09	4
MP00015424	$10,752.56	7
MP00015459	$4,728.00	3
MP00007272	$ 487.16	10
MP00015137	$3,034.62	8

Failure of Agents to Resolve Credit Balances within 60-Days
(19 Random Errors - 17 Physician/Individual Policies and 2 Hospital/Institutional Policies)

POLICY NUMBER	CREDIT BALANCE AMOUNT	MONTHS TO RESOLVE
PS00001817	$ 10.00	24
PS00006819	$ 159.53	4
PS00011612	$104.34	7
PS00013909	$3,126.28	6
PS00013933	$94.93	8
PS00014753	$ 72.24	6
PS00004009	$ 150.89	5
PS00013507	$ 4,398.27	4
PS00015420	$ 2,738.02	4
PS00015421	$ 2,907.75	4
PS00015917	$ 40.44	6
PS00016499	$ 1,066.50	8
PS00016482	$ 714.78	9
PS00017494	$ 1,435.26	22
PS00017808	$4.06	6
MX00000048	$41.41	17
MP00015443	$3,421.31	18
PS00002171	$9,500.00	3
PS00014302	$246.16	5

APPENDIX A-II

Delay in Offsetting Credit Balances due to Debits on Other Policies
(17 Random Errors - 17 Hospital/Institution Policies)

POLICY NUMBER	CREDIT BALANCE AMOUNT	MONTHS TO RESOLVE
MP00000474	$12,720.00	3
MP00015448	$ 6,886.36	3
MP00000474	$36,011.00	3
UL00007083	$224.74	3
SM00000087	$324.23	5
SM00000038	$485.36	3
MP00000545	$3,342.48	6
SM00000038	$18,317.64	6
SM00002094	$521.72	3
HA00002169	$953.39	4
XL00001022	$810.25	5
MP00009042	$5,207.44	4
MP00015333	$16,447.98	4
MP00015333	$39,179.20	4
MP00000566	$1,469.50	4
MP00015433	$111,513.29	3
MP00015466	$44,456.20	4

APPENDIX A-III

Failure to Refund Credit Balances within 60 days due to Policy Endorsements
(12 Random Errors - 9 Physician/Individual Policies and 3 Hosp/Institution Policies)

POLICY NUMBER	CREDIT BALANCE AMOUNT	MONTHS TO RESOLVE
PS00016575	$ 8.29	3
PS00001360	$1,726.13	3
PS00018052	$ 608.04	3
PS00007842	$1,468.00	4
PS00017399	$ 53.32	4
PS00018343	$ 6.00	5
PS00005647	$15,747.79	3
PS00018520	$21,911.00	6
PS00017978	$ 796.19	4
SM00002036	$25,784.82	3
SM00000025	$ 10.82	3
MP00015452	$ 606.05	3

APPENDIX A-IV

System Limitations on Errors and Omissions Coverage
(11 Errors (Physician/Individual Policies)

POLICY NUMBER	CREDIT BALANCE AMOUNT	MONTHS TO RESOLVE
PS00001021	$306.00	19
PS00001194	$306.00	20
PS00003529	$306.00	20
PS00007095	$306.00	7
PS00007195	$306.00	8
PS00009928	$306.00	4
PS00010809	$306.00	10
PS00017113	$306.00	8
PS00017322	$306.00	9
PS00018516	$306.00	4
PST0009631	$306.00	22

APPENDIX A-V

Failure to timely Apply Deposit Bills 1 Random Error
(1 Hospital/Institutional Policy)

POLICY NUMBER	CREDIT BALANCE AMOUNT	MONTHS TO RESOLVE
MP00000445	$8,203.74	12

APPENDIX A-VI

Failure to Enter the Actual Premium vs. Deposit Bill Premium in System
(1 Random Error (1 Hospital/Institutional Policy)

POLICY NUMBER	CREDIT BALANCE AMOUNT	MONTHS TO RESOLVE
CH00002110	$625,047.00	4

APPENDIX A-VII

Miscellaneous Errors
(2 Random Errors (1 Physician/Individual Policy and 1 Hospital/Institutional Policy)

POLICY NUMBER	CREDIT BALANCE AMOUNT	MONTHS TO RESOLVE
PS00015446	$917.72	3
HA000002153	$313.42	3

APPENDIX B-I

1. Failure to File Notice of Agency Contract within 15 Days-50 Errors

Princeton Ins. Co. Agent #	DOBI Reference #
Unavailable	9140401
01210	0084257
01110	8624592
Unavailable	0230455
01056	8209204
01111	8627060
01062	8027831
01007	8016262
Unavailable	0198999
Unavailable	9250435
Unavailable	8011097
Unavailable	8934910
01360	9695632
01011	8029320
01102	9361692
01015	9617098
01005	8014436
01097	8058944
01077	8041621
Unavailable	8058731
Unavailable	8024765
01174	8033903
01361	8051385
01091	8028637
01377	9246620
01100	8027851
01088	9365152
01103	8012628
01034	8014201
01115	8043582
01038	8051823
01075	8016972
01114	8039066
01101	9588285
01135	8751367
01385	9946816
01185	9833922
01019	8012481
01069	8628557

01039	8010075
01040	8211094
01211	8042168
01099	8019513
01381	9612115
01086	8036141
01382	0109310
01338	8020009
01096	8630069
01037	8010054
01085	8034417

VERIFICATION PAGE

1. I, Monica P. Koch, am the Examiner-in-Charge of the Market Conduct Examination of Princeton 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 Princeton Insurance Company as of January 23, 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: Monica P. Koch
Examiner-In-Charge,
New Jersey Department
of Banking and Insurance