MARKET CONDUCT EXAMINATION

OF

SELECTIVE INSURANCE COMPANY OF AMERICA

LOCATED IN

BRANCHVILLE, NEW JERSEY

AS OF

AUGUST 9, 2002

BY EXAMINERS

OF THE

STATE OF NEW JERSEY

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF INSURANCE

OFFICE OF CONSUMER PROTECTION SERVICES

MARKET CONDUCT EXAMINATION UNIT

DATE REPORT ADOPTED

August 6, 2003

SELECTIVE INSURANCE COMPANY OF AMERICA
MARKET CONDUCT EXAMINATION REPORT

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I. INTRODUCTION

This is a report of the Market Conduct and Anti-Fraud Compliance activities of the Selective Insurance Company of America (hereinafter referred to as Selective or the Company). In this report, market conduct examiners of the New Jersey Department of Banking and Insurance (NJDOBI) present their findings, conclusions and recommendations as a result of their examination. The Market Conduct Examiners were Examiner-in-Charge Marleen J. Sheridan, Robert J. Only, Ralph J. Boeckman, Virgil Dowtin, Tia Hammond, Marcus Rosser and Karen Silsby.

A. SCOPE OF EXAMINATION

The scope of the examination included private passenger automobile insurance provided by the Company in New Jersey. The examiners conducted a limited examination of Selective and evaluated the Company's compliance with certain New Jersey insurance laws and regulations that govern No-Fault (Personal Injury Protection) claims and fraud prevention and detection efforts. The review period for the examination was January 1, 2001 to August 9, 2002. The examiners completed their fieldwork at the Company's Branchville, New Jersey office between June 24, 2002 and August 9, 2002. Through December 2002 the examiners completed additional review work.

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 VI – Conducting the Property and Casualty Examination as a guide to the examination and the report writing process.

B. ERROR RATIOS

Error ratios are the percentage of policies that the examiners found to be handled in error. An error will be attributed to a policy or claim when it is mishandled or the insured is treated unfairly, even if no statute or regulation is applicable. Although a file may contain multiple errors, the examiners counted 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 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 corrected 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 Selective 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, Selective 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

Selected Risks Insurance Company began writing business as a mutual company in 1926. In 1928 the Company was incorporated under the laws of New Jersey and became a stock company under the name of Selected Risks Indemnity Company. The present title, Selective Insurance Company of America, was adopted on January 1, 1986 and is the lead member of the Selective Insurance Group.

The Company's corporate headquarters is located at 40 Wantage Avenue in Branchville, New Jersey. Gregory E. Murphy is the Chairman, President and Chief Executive Officer. The Company employs approximately 2,500 individuals, almost 900 at the corporate headquarters and about 1,600 in other New Jersey locations and 19 other states.

In 1993 the Company began operating under a Strategic Business Unit (SBU) management structure. Each SBU specializes in a particular market. Included are: Mercantile and Service; Contractors; Community Services and Organizations; Habitational and Recreational; Manufacturing and Processing; Personal Lines; and Bonds.

Selective's insurance business is principally produced from 20 Eastern and Midwestern states. Its products and services are sold through approximately 850 independent agents. Commercial insurance for small and medium-sized businesses, light industry and public entities represents 80% of the Company's insurance operations with personal insurance representing the other 20%.

II. CLAIMS

A. INTRODUCTION

This review covers Personal Injury Protection (PIP) claims submitted under private passenger automobile insurance. Any New Jersey PIP claim closed from January 1, 2001 through December 31, 2001 was potentially subject to a full review. During this review period, Selective closed 14,213 paid PIP claims and 672 denied PIP claims. In reviewing each claim, the examiners checked for compliance with all applicable statutes and regulations that govern the handling of claims as well as the NAIC standards related to claim handling. 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 Claims Settlement Practices), N.J.S.A. 39:6A-5 (Personal Injury Protection Benefits), N.J.A.C. 11:3-4 and 11:3-5 (Personal Injury Protection Benefit - Medical Protocols/ Diagnostic Tests and PIP Dispute Resolution Procedures), N.J.A.C. 11:3-25 (Notification by Treating Health Care Providers) and N.J.A.C. 11:3-29 (Medical Fee Schedules). These requirements relate to the NAIC Market Conduct standards of Chapter VI - Property and Casualty Insurance Examinations.

B. ERROR RATIOS

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 review consisted of one randomly selected bill from each file.

ERROR RATIO CHART

Random Sample	Files Reviewed	Files in Error	Error Ratio
Paid PIP Claims	100	37	37%
Denied PIP Claims	50	3	6%
Total	150	40	27%

C. EXAMINERS' FINDINGS

1. Failure to Pay Pip Claim within 60 Days – 30 Files in Error (Improper General Business Practice

N.J.S.A. 39:6A-5g states that a claim "shall be overdue if not paid within 60 days after the insurer is furnished written notice of the fact of a covered loss…" N.J.A.C. 11:2-17.7(b) states that "The maximum period for all personal injury protection (PIP) claims shall be 60 calendar days after the insurer is furnished written notice of the fact of a covered loss…; provided however that an insurer may secure a 45-day extension in accordance with N.J.S.A. 39:6A-5." In addition, the examiners checked for compliance with Standard number three in the claims section of the NAIC Market Conduct Examination handbook which states that the examiners should verify that claims are resolved in a timely manner. The examiners reviewed 100 paid PIP claims and found that Selective failed to settle 30 claims within the maximum 60-calendar day time frame provided by both the statute and regulation and did not secure additional

time to investigate. In response to inquiries, the Company agreed with 28 of the 30 errors cited. The Company disagreed with two of the errors and stated that the claims were paid within the statutory time frame. However, the examiners review of the Company's files and computer system revealed that Selective paid one claim two days and the other claim 107 days beyond the required time frame. The average delay on the 30 files in error is 78 days beyond 60.

Please See Appendix A1 for Files in Error

Selective's computer system does not capture the date the Company receives a PIP bill. Therefore, the examiners could not conduct a prompt payment review of the total PIP claim population. It should also be noted that the Company's computer system does not capture interest payments on delayed claim settlements. Therefore, the examiners were unable to perform a population-wide or database review of interest payments. The Company's inability to track this information may have contributed to the Company's failure to settle claims within 60 days, as well as the following error in which the examiners cited Selective for failure to pay interest on delayed settlements.

2. Failure to Pay Interest on Delayed PIP Payments – 28 Files in Error (Improper General Business Practice)

N.J.S.A. 39:6A-5(h) requires the payment of interest on all overdue benefits. This is relative to Standard number 6 in the claims section of the NAIC Market Conduct handbook which states that "Claims (should be) properly handled in accordance with policy provisions and applicable statutes, rules and regulations." Of the 30 PIP bills on 30 files cited for late payment, the examiners found a total of 28 bills on 28 files where interest was owed and not paid. The Company agreed with the examiners' findings on these 28 claims. However, in response to an inquiry, Selective stated, "…It is … common for this type of claim to result in a large number of individual bills…. Despite this, the findings [of the examiners] are compared to the lesser number of files reviewed…This does not seem a proportionate comparison." It should be noted, however, that the examiners reviewed only one randomly selected bill from each file, and each bill constitutes one file reviewed. Thus, the total number of bills reviewed is not disproportionate to the total number of files reviewed.

Please See Appendix A2 for Files in Error

As indicated above, Selective's computer claim system does not capture interest payments. Interest is calculated manually by the claim handler. Therefore, the examiners could not perform a prompt-pay/interest payment review on Selective's population of PIP claims.

3. Failure to Maintain Record of Pertinent Communications – 2 Files in Error

N.J.A.C. 11:2-17.12(c) requires insurers to maintain records of all pertinent communications relating to a claim. The records must identify the date of the communication and the parties, and describe the substance of the communication. This is related to Standard number five in the claims section of the NAIC Market Conduct handbook which specifies that claim files (should be) accurately documented. On randomly selected PIP claim 01704809, the Company was unable to locate the file. The examiners were unable to review this PIP claim; the examiners could not reconstruct the settlement process on this file. On randomly selected PIP

claim 01508831, the examiners selected from the PIP payment ledger a bill that was submitted by Morris Imaging Associates for a June 5, 2001 date of service. However, Selective was unable to produce the actual bill. The examiners could not determine receipt date, amount billed on the actual invoice, applicability of any co-payment and other pertinent factors necessary to reconstruct settlement activity. The examiners cited noncompliance with N.J.A.C. 11:2-17.12(c) on both files. In response to the examiners' inquiries, Selective agreed with these errors.

4. Failure to Promptly Provide Claim Forms – 2 Files in Error

N.J.A.C. 11:2-17.6(c) states that every insurer, upon receiving notification of claim, shall promptly provide first party claimants with the necessary claim forms, instructions, and reasonable assistance so that claimants can comply with the policy conditions and the insurer's reasonable requirements. This regulation outlines a 10 working day response period. This requirement is also addressed in Standard number six in the claims section of the Market Conduct Examination handbook that states claims should be properly handled in accordance with policy provisions and applicable statutes, rules and regulations. Contrary to N.J.A.C. 11:2-17.6(c), Selective failed to promptly provide the necessary claim forms for two separate PIP claims that the examiners reviewed from the denied sample. Selective agreed with the examiners' findings on denied claim 01684880. The Company disagreed with the examiners' findings on denied claim file 01773892. Selective stated that the PIP application was not sent to the claimant because the Company was attempting to confirm the injured party's residency. However, the claimant was represented by an attorney who provided first notice of the claim. Selective should have sent the PIP application to the claimant's attorney within 10 working days from notice of receipt. These errors are identified in the chart that follows.

Claim Number	Date of Notice	Date PIP App Sent to Insured	Days Delayed Beyond 10
01684880	10/25/2000	02/26/2001	76
01773892	12/4/2000	02/08/2001	36

5. Failure to Date Stamp Documentation - 5 Files in Error

N.J.A.C. 11:2-17.12(b) and N.J.A.C. 11:3-10.10 state that detailed documentation and/or evidence shall be contained in each claim file in order to permit the Department to reconstruct the Company's activities relative to claims settlement. This is related to Standard number five in the claims section of the NAIC Market Conduct handbook which specifies that claim files (should be) accurately documented. All papers in the file must be dated accurately by the insurer. During a review of Selective's claims files, the examiners discovered five instances where the Company failed to date stamp the receipt date of necessary claim forms contrary to the above-referenced regulations. Selective agreed with all five errors listed below.

Claim Number	Document
01657841	PIP Application
01707096	PIP Application
01755033	PIP Application
01689721	PIP Bill Dated January 30, 2001
01780553	PIP Application

6. Miscellaneous Errors

a. Payment of PIP Bill Prior to Receipt of the PIP Application – 1 Error

During the examiners' review of claim 01801335 it was noted that the Company issued letters on April 16, 2001 to the insured and July 20, 2001 to the provider, advising that the claim could not be processed until the insured returned a completed application for PIP benefits. After sending these letters, the Company paid the medical bills without ever receiving the completed application. Payment of this claim without a properly completed application impeded the Company's ability to comply with N.J.A.C. 11:2-17.7(a) and (b), which require insurers to investigate and adjudicate claims upon written notice of a covered loss. The PIP application is part of the mechanism by which the insurer determines if the injuries are covered. In response to an inquiry, the Company stated that, "Although it was requested on several occasions, the PIP Application was not received. This is an isolated instance where the adjuster apparently processed the bills as a courtesy to the insured because it was Emergency Room treatment and one MRI only. This is not a general practice. Bills received are denied if the completed PIP Application is not received."

b. Failure to Settle PIP Claim - 1 File in Error

N.J.S.A. 39:6A-5g and N.J.A.C. 11:2-17.7(b) require an insurer to pay PIP benefits within 60 days of notice of loss unless the Company requests a 45 day extension. N.J.A.C. 11:2-17.8(b) requires any denial to the claimant shall be confirmed in writing and shall be kept in the appropriate claim file. This is related to Standards three and 11 in the claims section of the NAIC Market Conduct Examination handbook. Standard number three states that the examiners should verify that all claims are resolved in a timely manner. Standard number 11 states that denied and closed-without-payment claims (should be) handled in accordance with policy provisions and state law. On claim file 01720092 that appeared in the denied sample, the examiners discovered that Selective failed to issue either a payment or denial notice to a provider whose medical bill for $1,264 was received on March 23, 2000. In response to an inquiry, the Company agreed with the error. The examiners recommend that this bill be processed (either paid or denied) as soon as possible, with interest if paid. See recommendations section.

c. Failure to Issue an Explanation of Benefits

N.J.A.C. 11:3-37.10(a) states that automobile insurers shall develop and utilize an Explanation of Benefits (EOB) form. This relates to Standard number six in the claims section of the Market Conduct Examination handbook that states claims should be properly handled in accordance with policy provisions and applicable statutes, rules and regulations. Contrary to the regulation, there was no indication in claim file 01684799 that Selective sent an EOB to the insured. The Company agreed with this error.

D. SUMMARY

The examiners reviewed 100 paid PIP claims and found 37 claims in error for an error ratio of 37%. In addition, the examiners reviewed 50 denied PIP claims and found three claims in error for an error ratio of 6%. They discovered two improper general business practices: failure to pay PIP claims in a timely manner, and failure to pay interest on delayed PIP

payments. Other errors included failure to date-stamp documentation and failure to promptly provide claim forms. In the prior market conduct examination report which was adopted November 18, 1998, the examiners cited Selective for failure to pay PIP claims timely and, as an improper general business practice, failure to pay interest on overdue PIP payments. Although the Company agreed in its response to the 1998 report and recommendations to improve its timeliness in the payment of PIP claims and interest, the examiners found the same errors during the current examination. Notably, failure to pay interest occurred as an improper general business practice on both the prior and current examinations.

III. ANTI-FRAUD COMPLIANCE

A. INTRODUCTION

The examiners conducted specific anti-fraud compliance reviews on claims, underwriting and Special Investigations Unit (SIU) files. Any claim closed from January 1, 2001 through December 31, 2001, as well as any new business application, non-renewal and cancellation processed during that period was subject to review. During this review period Selective closed a total of 31,321 PIP, collision, comprehensive, property damage and bodily injury claims. In addition, the Company processed 548 new business applications, 628 non-renewals, 3701 mid-term cancellations and 185 sixty-day cancellations. The examiners reviewed random samples from these populations. The examination focused on Selective's implementation of its claim and underwriting fraud prevention and detection plan that was filed with and approved by the Department. This evaluation included a review of SIU files, SIU databases, training records and the Company's Anti-Fraud Prevention Detection Procedures Manual. 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. ERROR RATIOS

The examiners calculated the following error ratios by applying the procedure outlined in the introduction of this report. The claim counts include both paid and denied claims. Chart number 1, identified as Random Sample Review Error Ratio Chart, is a summary of errors from of the entire scope of review including identification and investigation of potentially fraudulent activity. Chart number 2 is a population review of salvage file handling. Chart 3 is a summary of the examiners' findings with respect to fraud prevention training. The results of these reviews are discussed in Section C which follows.

1. Random Sample Review Error Ratio Chart

Random Sample	Files Reviewed	Files in Error	Error Ratio
Claims:			
PIP	114	0	0
BI	26	0	0
Collision	35	0	0
Comprehensive	24	0	0
Property Damage	31	0	0
Total Claims	230	0	0
Underwriting:			
New Business	58	0	0
60 Day Cancellation	31	0	0
Mid-Term Cancellation	30	0	0
Non-Renewal	40	0	0
Total Underwriting	159	0	0
SIU files	70	0	0
Salvage	50	0	0
Random Totals	509	0	0

2. Salvage Population Review Error Ratio Chart

Records Reviewed	Errors	Ratio
145	1	<1%

3. Fraud Training Population Review Error Ratio Chart.

Review	Records Reviewed	Errors	Error Ratio
Basic Entry Level	12	12	100%
Continuing Education-Claims	94	43	46%
Continuing Education-Underwriting	24	24	100%
SIU Personnel	7	0	0
Total	137	79	58%

C. EXAMINER'S FINDINGS

Pursuant to N.J.A.C. 11:16-6.5(a), insurers are required to provide on an annual basis all claims adjusting, underwriting and SIU personnel with Basic Entry Level and Continuing Education training in the area of insurance fraud prevention and detection. The examiners requested and reviewed Selective's master fraud prevention and detection training records in order to evaluate the Company's compliance with this requirement. The results of this review revealed that Selective did not meet the minimum training requirements specified in N.J.A.C. 11:16-6.5(a), et seq. The examiners' findings are as follows:

1. Failure to Provide Basic Entry Level Training to Non-SIU Personnel (Improper General Business Practice)

Pursuant to N.J.A.C. 11:16-6.5(a)2 iii, insurers are required to provide a total of nine non-SIU Basic Entry Level training hours annually 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 within 180 days from commencement of employment. Based on the review of the Company's training records, the examiners found that Selective did not provide any of its 12 new employees with the minimum number of Basic Entry Level training hours for calendar year 2001. As noted in Appendix B1, Selective provided these 12 employees with 34 out of a total of 108 required training hours. Selective did not provide any training for two of these employees.

Please See Appendix B1 for Training Summary

2. Failure to Provide Continuing Education Training to Non-SIU Claims Personnel (Improper General Business Practice)

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 personnel in the

area of internal and external claim fraud detection and reporting. Based on the examiner's review of the Company's training records, the examiners found that Selective did not provide its 43 non-SIU claims representatives with the minimum number of four Continuing Education Training hours for calendar year 2001. As noted in Appendix B3, Selective provided 49 out of a total of 172 required training hours. Selective did not provide any training to 21 of these employees.

Please See Appendix B3 for Training Summary

3. Failure to Provide Continuing Education Training to Non-SIU Underwriting Personnel (Improper General Business Practice)

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 Underwriting personnel in the area of internal and external claim fraud detection and reporting. Based on the examiner's review of the Company's training records, the examiners found that Selective did not provide any of its 24 non-SIU underwriting representatives with any Continuing Education Training for calendar year 2001.

Please See Appendix B2 for Training Summary

In response to the examiners' inquiries, Selective disagreed with the above training errors. Specifically, Selective stated that training could not be conducted during calendar year 2001 because the Department delayed in approving the Company's Fraud Prevention and Detection Plan, which included its training outline. The Company also disagrees that training should be conducted on a calendar year basis. The examiners disagreed. The Department disapproved the Plan that Selective submitted for review on August 3, 2000. The Department's disapproval was based on substantive deficiencies that were not in compliance with N.J.A.C. 11:16-6 et seq. The following chart highlights Selective's filings and the Department's response:

Date Filing Received	Department Response	Date Department Responded
August 3, 2000	Disapproved due to training and other deficiencies	October 23, 2000
December 1, 2000	Disapproved due to training and other deficiencies	February 14, 2001
March 22, 2001	Disapproved due to Training deficiencies	April 3, 2001
June 26, 2001	Approved	August 1, 2001

Based on the above, the Department did not delay in approving Selective's Plan; rather, the Company submitted multiple filings that the Department disapproved until such time that the Company submitted an acceptable Plan.

Selective also disagreed with the examiners' application of a calendar year (January 1 to December 31) as the time period for measuring the completion of mandated training. The Company stated that N.J.A.C. 11:16-6.5(a)iii defines the training period as "per year", and that this could be defined as any 12-month period. It should be noted, however, that Selective's fraud prevention plan does not make this distinction, and it does not establish which month of the year

constitutes the beginning of the 12-month training period. Absent such a delineation, it is appropriate to apply a calendar year standard.

4. Agency Draft Authority/Fraud Prevention Training

N.J.A.C. 11:16-6.5(a) 1 and 2 require all adjusters, claims processors, underwriters, SIU investigators and SIU specialists to receive Basic Entry Level and Continuing Education Training in the prevention and detection of insurance fraud. The training requirements outlined in the regulation are applicable to all claims adjusting and underwriting personnel. While reviewing the Company's claim files, the examiners found four claims that were paid by certain independent agents. The examiners inquired as to whether Selective provided fraud prevention training to these agents. In response, Selective advised that it does not mandate training to its 116 independent agents because they are not employees of the Company, but independent contractors who work for multiple insurers. Selective advised the examiners that agents settled a total of 4,029 claims during the review period, with an average claim payment of $986. Based on this average, Selective's agents paid a total of $3,972,594 in claim settlements. In this case, Selective has delegated fiduciary responsibilities to the agents, i.e, settlement authority, currently capped at $2,500, for payment of claims that are subject to N.J.S.A. 17:33A-1 through 13, as well as N.JA.C. 11:16-6.5(a)1 and 2. Although this is a matter of first impression and Selective's independent agents do not appear to be employees for purposes of N.J.A.C. 11:16-6.5(a)2iii, such personnel given claims adjusting authority by the Company should receive training in the prevention and detection of insurance fraud.

Please See Appendix B4 for Randomly Selected Files in Error

5. Failure to Maintain Database of Fraudulent Claims and Underwriting Information

N.J.A.C. 11:16-6.4(b) 4 requires an insurer's SIU to maintain a database of fraudulent claims and underwriting information. In addition, N.J.A.C. 11:16-6.4(b) 5 requires insurers to inform insurance underwriters of ineligible risks by reason of prior fraudulent activities through records maintained in the database specified in N.J.A.C. 11:16-6.4(b) 4. The examiners reviewed Selective's SIU database and determined that it did not include the minimum information specified by the regulation. Specifically, the database did not include the names, addresses or other identifying information regarding all the parties to the investigation, even though much of the required information was input by the SIU and maintained in the Company's separate claims database.

The examiners were not able to establish an OIFP file population for the purpose of determining compliance with N.J.S.A. 17:33A-9 and N.J.A.C. 11:16-6.7 et seq. (mandatory referrals to OIFP). Although the files reviewed did not constitute a random sample, the examiners were able to extract 13 OIFP referrals that appeared in the random selection of 509 claims files from the general population. The examiners found no substantive errors in Selective's handling of these 13 OIFP referrals. However, the Company's ability to monitor the quality and timeliness of referrals to the OIFP may be impeded by not maintaining a population record of (or at least the ability to extract) OIFP referrals from the general and SIU population.

6. Failure to Notify NICB of Sale of Salvage within 5 Working Days - 1 File in Error

N.J.A.C 11:16-2.4(a)2 states that "All losses involving motor vehicle salvage…shall be reported to the NICB within five working days after the sale of salvage; or, if the insured is permitted to retain salvage, within five working days after the date of loss payment." The examiners conducted a population review of all 145 salvage claims that were closed during the review period and found that Selective failed to report the sale of salvage to the NICB on one file within five working days as required by the regulation. This error is itemized below.

Claim Number	Date Salvage Sold	Date of Loss Payment	Date NICB Notified of Sale	Working Days Beyond 5
01779253	1/12/01	1/30/01	1/30/01	6

D. POLICY TERMINATION ERRORS ON ANTI-FRAUD REVIEW SAMPLES

While conducting the anti-fraud underwriting file reviews, the examiners found four non-anti-fraud-related underwriting error types. The following chart identifies the sample population and corresponding error ratios. The examiners' findings are as follows:

Type of Termination	Files Reviewed	Files in Error	Error Ratio
60 Day Cancellation	31	12	39%
Non-Renewal	40	24	60%
Total Underwriting	71	36	51%

1. Failure to Include the Specific Reason for Termination in the Nonrenewal Notice – 24 Errors (Improper General Business Practice)

N.J.A.C. 11:3-8.3(f)1 states that " No notice of nonrenewal shall be valid unless it includes the designated provision(s) of this subchapter under which action is being taken and the correct facts which bring the insured under the provision(s), including dates and any other facts necessary for identification of the incidents." In addition, N.J.S.A. 17:29C-7.1a specifies that an insurer may not nonrenew a policy under the 2% regulation unless the nonrenewal meets certain statutory criteria defined at N.J.S.A. 17:29C-7.1a(2). These requirements are related to Standard Sixteen: Termination Practices in the underwriting and rating section of the NAIC handbook which maintains that nonrenewal/cancellation notices (must) comply with policy provisions, state laws, and Company guidelines.

The examiners reviewed forty randomly selected nonrenewal notices. Of the forty notices that were reviewed, twenty-four of the nonrenewals were based upon the 2% rule. The reason for nonrenewal that was provided on the twenty-four notices advised: "IN ACCORDANCE WITH N.J.A.C. 11:3-8.5(a)2." This statement fails to specify the information relied upon by the Company in nonrenewing these policies. Selective agreed with the twenty-four errors cited.

Please see Appendix C1 for Files in Error

2. Improper Cite Utilized on 60-Day Cancellation Notices – 12 Errors (Improper General Business Practice)

During a review of policies that were cancelled within the first 60 days, the examiners found that the Company utilized an incorrect citation on 60-day cancellation notices. The citation that appeared on the notice was "N.J.A.C. 11:3-8.4(a)", which is applicable to nonrenewals, not to policies that are cancelled within the first 60-days. These 12 errors occurred on a review population of 31 files, or 39%, that Selective cancelled within the first 60 days. In response to an inquiry the Company stated, "We agree that the regulation cited as the reason for cancellation pertains to non-renewal and is therefore incorrect. Please note that we attribute this to a typing error rather than a procedural error."

Please see Appendix C2 for Files in Error

3. Failure to Include the Correct Regulation on Nonrenewal Notices – 4 Files in Error

N.J.A.C. 11:3-8.5(a)2 allows an insurer to nonrenew 2% of the insurer's in-force voluntary market policies in each rating territory. On four policies, the examiners found that the Company's nonrenewal notices failed to inform the insureds of the correct authority for nonrenewing the policy. The notice referenced a non-existent regulation (N.J.A.C. 11:3-8(a)2). The Company agreed, and attributed the error to the typist who prepared the notice.

F 1222475 F 1280582 F 1385662 F 1503635

4. Failure to Include Correct Information on Nonrenewal Notices – 40 Errors

N.J.A.C. 11:3-8.3(f)2 requires that Notices of Nonrenewal shall include or be accompanied by the statement prescribed in that regulation, which advises the insured of the right to file a complaint with the Department. Selective's notice does provide this notification, but the Department's address was incorrectly listed. The notice lists CN 329 as the address as opposed to the correct P.O. Box 329 address. The notice also misstates the Department of Banking and Insurance as the Department of Insurance. In response to an inquiry, the Company advised that the changes on the form were an oversight during a form revision process. The Company agreed to correct the form. The examiners did not include this error in the error ratio, as is it unlikely that these errors adversely affected these insureds.

See Appendix C3 for Files in Error

E. SUMMARY

The examiners randomly reviewed 230 claim files, 159 underwriting files and 70 SIU files and found 13 claims in which Selective referred an SIU investigation to the Office of Insurance Fraud Prosecutor. The examiners found no errors with these referrals. In addition, the examiners conducted a population review of 145 salvage claims and found one claim in error (delayed notification to the National Insurance Crime Bureau of the sale of salvage), for an error ratio of less than 1%.

The examiners found that Selective did not provide 12 claims representatives the minimum hours of Basic Entry Level Training as required by N.J.A.C. 11:16-6.5 (a) 2iii. In addition, the examiners found that Selective did not provide 24 underwriters and 43 claims representatives with four hours of Continuing Education Training as required by N.J.A.C. 11:16-6.5(a) 2iii. A review of the claim files revealed that Selective extends draft authority to agents who have not received fraud prevention and detection training mandated by N.J.A.C. 11:16-6.5(a) 1and 2.

The examiners also found 2 improper general business practices on termination files that were reviewed from the anti-fraud compliance review sample. These practices include failure to state the specific reason for nonrenewal on the termination notice, and use of an incorrect regulatory citation as the authority for nonrenewing policies.

IV. RECOMMENDATIONS

Selective should inform all responsible personnel and third party entities who handle the files and records cited as errors in this report of the examiners' recommendations and remedial measures that follow in the report sections indicated. The examiners also recommend that the 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 J. Day, Manager of the Market Conduct Examinations and Anti-fraud Compliance Unit, Mary Roebling Building, 20 West State Street, PO Box 329, Trenton, N.J. 08625, within thirty (30) days of the date of the adopted report.

On files reopened as recommended, the letter that provides a claim adjustment 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 claim files by market conduct examiners of the New Jersey Department of Banking and Insurance, they found we have (failed to pay) interest on your Personal Injury Protection claim. Enclosed is our payment in the amount of (insert amount) to correct our error."

B. CLAIMS

1. Selective must issue written instructions to all appropriate claims personnel stating that:

   a) N.J.S.A. 39:6A-5g and N.J.A.C. 11:2-17.7(b) require an insurer to settle PIP claims within 60 calendar days after receipt of written notice of the loss.
   b) If the claim cannot be settled within 60 days, the Company may secure a 45 day extension, so long as it is secured within the 60 day period, pursuant to N.J.S.A. 39:6A-5g and N.J.A.C. 11:2-17.7(b).
   c) Interest must be paid on overdue PIP benefits when a claim payment is issued after the maximum payment period set forth under N.J.S.A. 39:6A-5h.

2. Selective must review all PIP claims paid during the review period and identify those claims where the aggregate interest payable to a payee (for all PIP claims reviewed) is $5 or more.

The Company should calculate and pay the interest for the period of delay as required by N.J.S.A. 39:6A-5h. Selective must issue payment of interest owed for each claim, including the 28 claims cited in this report for failure to pay interest. See the General Instructions of these recommendations for language to be included in the cover letter that is sent with the interest payment.

3. Selective must provide a computer report to the NJDOBI of all PIP claims reopened. The report must indicate the claim number, amount of overdue payment, date of loss, date of initial payment, interest paid and check/draft number.

4. Selective must reopen PIP file number 01720092 to evaluate the $1,264 medical provider bill that was received on March 23, 2000. If paid, the Company must include interest in its settlement. If denied, the written notice must explain the exact reason for denial. A copy of all correspondences, as well as the ultimate resolution of this claim, should be provided to the Commissioner.

5. Selective must issue written instructions to all appropriate claims personnel stating that:

a) All documentation contained in the claim file must be date stamped when received.
b) Insurers are required to maintain records of all pertinent communications relating to a claim pursuant to N.J.A.C. 11:2-17.6(c).
c) Insurers are required to provide first party claimants with all forms necessary to make a claim within 10 working days from notice of claim pursuant to N.J.A.C. 11:2-17.6(c). This includes Applications for Personal Injury Protection Benefits.

6. Selective should remind all appropriate personnel that:

a) N.J.A.C. 11:2-17.8(b) requires claim denials to be in writing and copies to be kept in the appropriate claim file.
b) The Company must require a signed Application for Personal Injury Protection Benefits to be received before any medical bills may be paid under the PIP coverage.
c) An explanation of benefits (EOB) form must be provided with the payment of benefits for expenses incurred for treatment of injuries, pursuant to N.J.A.C. 11:3-37.10.

7. Selective should revise its PIP claim processing methodology to assure timeliness in processing PIP claims. Revisions should also include the ability to identify the need for and payment of interest on delayed PIP settlements.

C. ANTI-FRAUD COMPLIANCE

8. Pursuant to N.J.A.C. 11:16-2.4(a) Selective should remind all claims personnel that all losses involving motor vehicle salvage, however sustained, including salvage retained by either an insured or a third party claimant, shall be reported to the NICB within five working days after the sale of salvage; or, if the insured is permitted to retain salvage, within five working days after the date of loss payment.

9. Selective must 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 per year for claims and underwriting personnel.
c) All personnel designated by the Company to adjust claims should receive training for the prevention and detection of fraud.

10. Selective must develop and maintain a SIU database of fraudulent claims and application fraud that contains at a minimum, the names, addresses and other identifying information regarding all parties to the investigation pursuant to N.J.A.C. 11:16-6.4(b) 4. Selective must provide the Commissioner with a copy or field list of the revised SIU database that demonstrates compliance with N.J.A.C. 11:16-6.4(b) 4.

D. POLICY TERMINATIONS

11. Selective must issue written instructions to all appropriate personnel stating that:

a) Non-renewal regulations are not applicable to policy cancellations and therefore should not be used on cancellation notices.
b) All non-renewal letters should clearly specify the source of the event and specific reason for termination to comply with N.J.A.C. 11:3-8.3(f)1.
c) All non-renewal notices must include the correct regulatory cite under which the termination is premised in order to be valid.

12. Selective must update its nonrenewal notice to include the following information:

a) The correct name of the Department, ie, New Jersey Department of Banking and Insurance.
b) The correct Department address, ie, P.O. Box 329 and not CN 329.

APPENDIX A-CLAIM ERRORS

1. Failure to Pay PIP Claim Within 60 Days- (30 Errors)

Policy Number	Date PIP Bill Received	Date PIP Bill Paid	Days Over 60
01644678	06/08/01	09/19/01	43
01657841	11/11/99	02/14/01	401
01659780	05/07/01	09/17/01	73
01683281	09/21/01	12/04/01	14
01735535	09/15/00	03/16/01	122
01691805	03/19/01	06/27/01	100
01748826	12/20/00	04/03/01	44
01759485	05/03/01	08/02/01	91
01774462	05/21/01	08/01/01	72
01766517	03/07/01	05/09/01	3
01783057	05/25/01	08/09/01	76
01790177	04/19/01	06/25/01	67
01793965	06/29/01	11/0601	70
01784026	04/25/01	07/03/01	9
01789720	10/09/01	12/28/01	80
01728752	05/25/01	09/07/01	45
01742000	02/12/01	04/17/01	4
01750404	01/16/01	12/04/01	262
01782092	02/07/01	07/24/01	107
01800555	07/23/01	09/23/01	3
01809124	10/17/01	12/27/01	11
01693263	10/03/00	03/29/01	177
01755033	12/27/00	03/06/01	69
01760948	10/23/00	3/28/01	156
01762234	11/16/00	02/08/01	84
01773443	04/12/01	06/22/01	11
01810898	06/22/01	09/24/01	34
01803888	6/18/01	10/22/01	66
01808310	08/07/01	11/13/01	38
01809582	08/17/01	10/13/01	15

Average Delay is 78 days beyond 60.

2. Failure to Pay Interest – (28 Errors) – Improper General Business Practice

01644678	01748826	01784026	01809124	01810898
01657841	01774462	01789720	01693263	01803888
01659780	01766517	01728752	01755033	01808310
01683281	01783057	01742000	01760948	01809582
01735535	01790177	01750404	01762234	
01691805	01793965	01800555	01773443	

APPENDIX B – ANTI-FRAUD COMPLIANCE ERRORS

1. Basic Entry Level Training

Employee	Date Hired	Training Hours Required	Training Hours Recorded	Training Hours in Error
A.L.	4/2/01	9.0	5.0	4.0
B.A.	3/5/01	9.0	3.0	6.0
H.J.	1/2/01	9.0	1.5	7.5
J.B.	4/30/01	9.0	0.0	9.0
K.D.	4/9/01	9.0	3.0	6.0
K.A.	2/20/01	9.0	2.0	7.0
M.O.	3/19/03	9.0	5.0	4.0
P.W.	3/5/01	9.0	0.0	9.0
R.D.	4/9/01	9.0	3.0	6.0
R.D.	2/26/01	9.0	5.0	4.0
S.S.	5/7/01	9.0	4.5	4.5
S.F.	1/15/01	9.0	2.0	7.0
Totals		108	34	74

APPENDIX B-ANTI-FRAUD COMPLIANCE ERRORS (CONTINUED)

2. Continuous Education Training – Underwriting

Employee Compliance	Training Hours Required	Training Hours Recorded	Training Hours in Error
C.C.	4.0	0.0	4.0
D.B.	4.0	0.0	4.0
A.D.	4.0	0.0	4.0
R.D.	4.0	0.0	4.0
K.E.	4.0	0.0	4.0
J.F.	4.0	0.0	4.0
J.H.	4.0	0.0	4.0
R.H.	4.0	0.0	4.0
G.M.	4.0	0.0	4.0
P.P.	4.0	0.0	4.0
P.W.	4.0	0.0	4.0
V.M.	4.0	0.0	4.0
A.B.	4.0	0.0	4.0
C.C.	4.0	0.0	4.0
J.C.	4.0	0.0	4.0
A.D.	4.0	0.0	4.0
C.H.	4.0	0.0	4.0
J.A.H.	4.0	0.0	4.0
G.M.	4.0	0.0	4.0
J.P.	4.0	0.0	4.0
E.R.	4.0	0.0	4.0
B.W.	4.0	0.0	4.0
M.A.	4.0	0.0	4.0
V.V.	4.0	0.0	4.0
Total	96.0	0.0	96.0

APPENDIX B-ANTI-FRAUD COMPLIANCE ERRORS (CONTINUED)

3. Continuing Education Training, Claims

Employee	Training Hrs Required	Training Hrs Recorded	Training Hrs in Error
A.H.	4.0	2.0	2.0
A.J.	4.0	2.0	2.0
B.G.	4.0	2.0	2.0
B.L.	4.0	2.0	2.0
B.S.	4.0	0.0	4.0
C.D.L.	4.0	0.0	4.0
C.F.	4.0	2.0	2.0
C.B.	4.0	3.0	1.0
C.Q.	4.0	0.0	4.0
C.E.	4.0	2.0	2.0
D.H.	4.0	2.0	2.0
D.K.	4.0	3.5	0.5
D.W.	4.0	0.0	4.0
D.V.	4.0	0.0	4.0
E.M.	4.0	0.0	4.0
F.B.	4.0	0.0	4.0
G.B.	4.0	0.0	4.0
J.T.	4.0	2.0	2.0
J.L.	4.0	2.0	2.0
J.G.	4.0	2.0	2.0
K.R.	4.0	0.0	4.0
K.S.	4.0	0.0	4.0
K.Z.	4.0	2.0	2.0
K.W.	4.0	0.0	4.0
L.W.	4.0	2.0	2.0
L.F.	4.0	0.0	4.0
L.C.	4.0	2.0	2.0
M.P.	4.0	0.0	4.0
M.F.	4.0	0.0	4.0
M.P.	4.0	1.5	2.5
M.P.	4.0	0.0	4.0
N.G.	4.0	2.0	2.0
N.R.	4.0	2.0	2.0
P.L.	4.0	3.0	1.0
P.P.	4.0	0.0	4.0
R.S.	4.0	2.0	2.0
R.O'N.	4.0	0.0	4.0
R.W.	4.0	0.0	4.0

3. Continuing Education Training, Claims (Continued)

Employee	Training Hrs Required	Training Hrs Recorded	Training Hrs in Error
R.L.	4.0	0.0	4.0
R.D.	4.0	0.0	4.0
S.L.	4.0	2.0	2.0
T.J.	4.0	0.0	4.0
Totals	168	45	123

4. Claims Settled by Agents

	Claim Number	Policy Number	Draft Number
1.	20073111	F1419549	4070617
	20073111	F1419549	4070618
	20073111	F1419549	4012430
2.	20090863	F1527013	4012431
	20090863	F1527013	4012432
	20090863	F1527013	4077944
3.	01814754	F1430146	4077947
	01764698	F1322312	4067222

APPENDIX C-POLICY TERMINATION ERRORS

1. Failure to Include on the Nonrenewal Notice the Specific Reason for Termination

Policy Number	Policy Number	Policy Number	Policy Number	Policy Number
F 8093	F 1257018	F 1385662	F 1451640	F 1503635
F 58819	F 1280582	F 1388928	F 1453641	F 1519100
F 93916	F 1293856	F 1412108	F 1470750	F 1521352
F 1177322	F 1302614	F 1417334	F 1492352	F 1528687
F 1222478	F 1365317	F 1444606	F 1502828	

2. Improper Cite Utilized on 60-Day Cancellation Notices – 12 Errors

Policy Number	Policy Number	Policy Number
F 1519168	F 1520568	F 1529317
F 1519177	F 1525187	F 1531425
F 1519788	F 1525240	F 1532996
F 1519837	F 1525693	F 1534859

3. Failure to Include Correct Information on Non-renewal Notices

Policy Number	Policy Number	Policy Number	Policy Number	Policy Number
F 8093	F 1257018	F 1385662	F 1451640	F 1503635
F 58819	F 1280582	F 1388928	F 1453641	F 1519100
F 93916	F 1293856	F 1412108	F 1470750	F 1521352
F 1177322	F 1302614	F 1417334	F 1492352	F 1528687
F 1222478	F 1365317	F 1444606	F 1502828	F1520811
F168289	F1288276	F1353194	F1361033	F1365139
F143641	F149340	F1453715	F1456368	F1491069
F1493392	F418574	F1394898	F1416725	F55512

VERIFICATION PAGE

I, Marleen J. Sheridan, am the Co-Examiner-in-Charge of the Market Conduct Examination of Selective Insurance Company of America 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 with respect to personal injury protection and policy termination analysis contained in the foregoing report represent, to the best of my knowledge, a full and true statement of the Market Conduct examination of the Selective Insurance Company of America as of August 9, 2002.

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:

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

I, Clifton J. Day, am the Co-Examiner-in-Charge of the Market Conduct Examination of Selective Insurance Company of America 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 with respect to anti-fraud analysis contained in the foregoing report represent, to the best of my knowledge, a full and true statement of the Market Conduct examination of the Selective Insurance Company of America as of August 9, 2002.

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:

Clifton J. Day
Co-Examiner-In-Charge
New Jersey Department
of Banking and Insurance