

**IN THE DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION
STATE OF MISSOURI**

In Re:)
)
FEDERAL INSURANCE COMPANY) **Market Conduct Exam No. 1104-28-TGT**
(NAIC #20281))
)
)

ORDER OF THE DIRECTOR

NOW, on this 5th day of JANUARY 2016, Director John M. Huff, after consideration and review of the market conduct examination report of Federal Insurance Company (NAIC #20281) (hereafter referred to as “Federal”), report number 1104-28-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3(3) (a)¹, and the Stipulation of Settlement and Voluntary Forfeiture (“Stipulation”), does hereby adopt such report as filed. After consideration and review of the Stipulation, report, relevant work papers, and any written submissions or rebuttals, the findings and conclusions of such report are deemed to be the Director’s findings and conclusions accompanying this order pursuant to §374.205.3(4).

This order, issued pursuant to §374.205.3(4), §374.280, and §374.046.15. RSMo (Cum. Supp. 2012), is in the public interest.

IT IS THEREFORE ORDERED that Federal and the Division of Insurance Market Regulation having agreed to the Stipulation, the Director does hereby approve and agree to the Stipulation.

IT IS FURTHER ORDERED that Federal shall not engage in any of the violations of law and regulations set forth in the Stipulation and shall implement procedures to place Federal in full compliance with the requirements in the Stipulation and the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times.

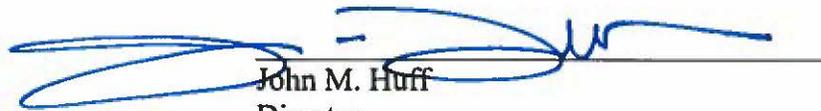
IT IS FURTHER ORDERED that Federal shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the

¹ All references, unless otherwise noted, are to Missouri Revised Statutes 2000 as amended.

Voluntary Forfeiture of \$84,500 payable to the Missouri State School Fund.

IT IS SO ORDERED.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of my office in Jefferson City, Missouri, this 5th day of JANUARY, 2016.



John M. Huff
Director



**IN THE DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION
STATE OF MISSOURI**

In Re:)
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FEDERAL INSURANCE COMPANY) **Market Conduct Exam No. 1104-28-TGT**
(NAIC #20281))
)

**STIPULATION OF SETTLEMENT
AND VOLUNTARY FORFEITURE**

It is hereby stipulated and agreed by the Division of Insurance Market Regulation (hereinafter “the Division”) and Federal Insurance Company (NAIC #20281) (hereinafter “Federal”) as follows:

WHEREAS, the Division is a unit of the Missouri Department of Insurance, Financial Institutions and Professional Registration (hereinafter, “the Department”), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State in Missouri; and

WHEREAS, Federal has been granted a certificate of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, the Division conducted a Market Conduct Examination of Federal;

WHEREAS, the Market Conduct Examination report of Federal revealed:

1. In one instance, Federal applied a credit without a schedule worksheet supporting the credit in violation of §287.947 and §287.937.
2. In one instance, Federal applied an incorrect credit to a policy in violation of §287.947, 20 CSR 500-4.100 (7) (D) and 20 CSR 500-6.950 (3) (4) (5) & (7).
3. In seventy nine instances, Federal failed to use a mandatory endorsement form for workers compensation policies in violation of §287.955.3 and 20 CSR 500-6.100 (1).
4. In five instances, Federal failed to complete, bill and return premium to the insured within 120 days of policy expiration or cancellation in violation of §287.955.3 and 20 CSR 500-6.500 (2) (A).
5. In thirty eight instances, Federal failed to file an individual rating plan for large

deductible workers compensation insurance policies in violation of §287.947.

6. In seven instances, Federal incorrectly calculated the second injury fund surcharge in violation of §287.310.9 and §287.715.

WHEREAS, the Division and Federal have agreed to resolve the issues raised in the Market Conduct Examination through a voluntary settlement as follows:

A. **Scope of Agreement.** This Stipulation of Settlement and Voluntary Forfeiture embodies the entire agreement and understanding of the signatories with respect to the subject matter contained herein. The signatories hereby declare and represent that no promise, inducement or agreement not herein expressed has been made, and acknowledge that the terms and conditions of this agreement are contractual and not a mere recital.

B. **Remedial Action.** Federal agrees to take remedial action bringing it into compliance with the statutes and regulations of Missouri and agree to maintain those remedial actions at all times. Such remedial actions shall include, but not be limited to, the following:

1. Federal agrees that it will make individual risk filings with the Director for all large deductible workers compensation insurance policies with Missouri premium or exposure. Such filings shall be made within 30 days after the effective date of the policy.

2. Federal agrees to utilize all endorsements that are required to be utilized in Missouri by the NCCI forms manual for the coverage or line of business being written.

3. Federal agrees that audits on workers compensation insurance policies with Missouri premium or exposure shall be completed, billed and premiums returned within 120 days of policy expiration or cancellation unless a) a delay is caused by the policyholder's failure to respond to reasonable audit requests provided that the requests are timely and adequately documented or b) a delay is by mutual agreement of the policyholder and the Company that issued the policy, provided that the agreement is adequately documented.

4. Federal has paid restitution in the amount of \$25 plus interest at the rate of 9% per annum on policy number 71640805-12.

C. **Compliance.** Federal agrees to file documentation with the Division within 180 days of the entry of a final order of all remedial action taken to implement compliance with the terms of

this stipulation and to document the payment of restitution required by this Stipulation.

D. **Voluntary Forfeiture.** Federal agrees, voluntarily and knowingly, to surrender and forfeit the sum of \$84,500, such sum payable to the Missouri State School Fund, in accordance with §374.280.

E. **Other Penalties.** The Division agrees that it will not seek penalties against Federal, other than those agreed to in this Stipulation, for the conduct found in Market Conduct Exam Report 1104-28-TGT.

F. **Non-Admission.** Nothing in this Stipulation shall be construed as an admission by Federal, this Stipulation being part of a compromise settlement to resolve disputed factual and legal allegations arising out of the above referenced market conduct examinations.

G. **Waivers.** Federal, after being advised by legal counsel, does hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity for a hearing, and review or appeal by any trial or appellate court, which may have otherwise applied to the above referenced Market Conduct Examinations.

H. **Changes.** No changes to this stipulation shall be effective unless made in writing and agreed to by all signatories to the stipulation.

I. **Governing Law.** This Stipulation of Settlement and Voluntary Forfeiture shall be governed and construed in accordance with the laws of the State of Missouri.

J. **Authority.** The signatories below represent, acknowledge and warrant that they are authorized to sign this Stipulation of Settlement and Voluntary Forfeiture.

K. **Effect of Stipulation.** This Stipulation of Settlement and Voluntary Forfeiture shall not become effective until entry of a Final Order by the Director of the Department of Insurance, Financial Institutions and Professional Registration (hereinafter the "Director") approving this Stipulation.

L. **Request for an Order.** The signatories below request that the Director issue an Order approving this Stipulation of Settlement and Voluntary Forfeiture and ordering the relief

agreed to in the Stipulation, and consent to the issuance of such Order.

DATED: 1/4/2016

Angela L. Nelson
Angela L. Nelson
Director, Division of Insurance
Market Regulation

DATED: 1/4/2016

Stewart Freilich
Stewart Freilich
Senior Regulatory Affairs Counsel
Division of Insurance Market Regulation

DATED: 12/23/2015

Colette M. Perri
Colette M. Perri
Assistant Secretary
Federal Insurance Company

DATED: 12/31/15

Richard S. Brownlee III
Richard S. Brownlee, III
Counsel for Federal Insurance Company

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION



FINAL MARKET CONDUCT EXAMINATION REPORT
Of the Property and Casualty Business of

Federal Insurance Company
NAIC # 20281

MISSOURI EXAMINATION # 1104-28-TGT

NAIC EXAM TRACKING SYSTEM # MO341-M69

January 4, 2016

Home Office
Chubb Group
15 Mountain View Road
Warren, NJ 07059

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FOREWORD

This is a targeted market conduct examination report of Federal Insurance Company, (NAIC Code # 20281). This examination was conducted at the DIFP office located in Jefferson City, Missouri.

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products, or files does not constitute approval thereof by the DIFP.

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- "Company" or "Federal" refers to Federal Insurance Company;
- "CSR" refers to the Missouri Code of State Regulation;
- "DIFP" refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- "Director" refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- "Division" refers to the Department of Labor, Division of Workers' Compensation;
- "NAIC" refers to the National Association of Insurance Commissioners;
- "NCCI" refers to the National Council on Compensation Insurance, Inc., and;
- "RSMo" refers to the Revised Statutes of Missouri.

SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§287.937, 374.110, 374.190, 374.205, 375.445, 375.938, and 375.1009, RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DIFP regulations and to consider whether the Company's operations are consistent with the public interest. The primary period covered by this review is January 1, 2006, through December 31, 2011, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination was a targeted examination involving the following business functions and lines of business: complaints, underwriting, and terminations for workers compensation policies.

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark for underwriting and trade practices is 10%. The NAIC benchmark error rate for claims practices is seven percent (7%). Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized, however, for reviews not applying the general business practice standard.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

COMPANY PROFILE

History of the Chubb Group

The following company profile was provided to the examiners by the Company.

The Chubb Group traces its origins to the partnership of Chubb & Son (an underwriting management organization founded in New York in 1882) and its successor Chubb & Son Inc. (incorporated under the laws of New York State in 1959) and since 1967 a wholly owned subsidiary of the Chubb Corporation. The Corporation was listed on the New York Stock Exchange in 1984, and ranks among the top 10 publicly traded insurance organizations based on revenues in the United States.

The principle property and casualty insurance company in the Group is Federal Insurance Company, a successor to the New York Marine Underwriters, which was incorporated in 1901. Federal Insurance Company is licensed in all 50 states.

Companion domestic property and casualty companies include:

- Vigilant Insurance Company (founded in 1939)
- Great Northern Insurance Company (acquired in 1960)
- The Pacific Indemnity Company and its 2 subsidiaries, Northwestern Pacific Indemnity Company and Texas Pacific Indemnity Company (acquired in 1967)
- Chubb Lloyds Insurance Company of Texas (established in 1973)
- Chubb Custom Insurance Company (established in 1980)
- Chubb Insurance Company of New Jersey (established in 1982)
- Chubb National Insurance Company (established in 1993)
- Chubb Indemnity Insurance Company (established in 1994)
- Executive Risk Indemnity Inc. and its subsidiary Executive Risk Specialty Insurance Company (acquired in 1999)

Originally Chubb & Son Inc. managed the property and casualty insurance companies within the Chubb Group. In 1998 the Federal Insurance Company replaced Chubb & Son, Inc. as the manager of the member insurers of the group.

The Group is engaged in full multiple line operations, including property, liability, marine, fidelity, surety and accident. Members of the group subscribe to virtually all rating and advisory bureaus. Each company has its primary purpose the writing of property and casualty insurance. Multiple companies afford the ability to provide specialized coverages and rates to our insured.

The Group employs some 10,100 people throughout North America, Europe, South America and the Pacific Rim. It is represented by more than 8500 independent agents and brokers worldwide. In addition to the headquarters in NJ, the Group operates from some 120 offices in 27 countries. There are two centralized claim service centers in the US, as well as claim representation in approximately 50 US branches. There are also claim offices in most overseas branches.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of Federal Insurance Company. The examiners found the following principal areas of concern:

- ◆ The Company in one instance was unable provide a schedule rating worksheet to support the schedule credit that was used during the audit which resulted in an overcharge to the insured in the amount of \$25.
- ◆ The Company in 79 instances did not list or use the endorsement WC2404406 C Missouri Employer Paid Medical. The endorsements were not attached to the policies.
- ◆ The Company on one occasion did not charge the \$100 minimum premium for Employers Liability Increased Limits Coverage. The premium was overcharged by \$5.
- ◆ The Company on five occasions failed to complete, bill and return the premium to the insured within 120 days of policy expiration or cancelation for their active and non-active policies.
- ◆ The Company on 38 occasions failed to file individual rating plans for its individually rated (negotiated) large deductible workers compensation insurance policies.
- ◆ The Company on seven occasions had a rating error as a result of the incorrect calculation that did not encompass the premium discount amount, the expense constant, and the terrorism premium. As a result, the Missouri Second Injury fund was overfunded and the policyholders were overcharged in their premiums.

The examiners requested that the Company make refunds concerning underwriting premium overcharges and claim underpayments found for amounts of \$5.00 or greater during the examination if any were found.

Various non-compliant practices were identified, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the Missouri insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

EXAMINATION FINDINGS

I. UNDERWRITING AND RATING PRACTICES

This section of the report is designed to provide a review of the Company's underwriting and rating practices. These practices included the use of policy forms, adherence to underwriting guidelines, assessment of premium, and procedures to decline or terminate coverage. Examiners reviewed how the Company handled new and renewal policies to ensure that the Company underwrote and rated risks according to its own underwriting guidelines, filed rates, and Missouri statutes and regulations.

Because of the time and cost involved in reviewing each policy/underwriting file, the examiners utilize sampling techniques in conducting compliance testing. A policy/underwriting file is reviewed in accordance with 20 CSR 100-8.040 and the NAIC Market Regulation Handbook. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.930 – 375.948 and §375.445) and compared with the NAIC benchmark error rate of ten percent (10%). Error rates in excess of the NAIC benchmark error rate are presumed to indicate a general practice contrary to the law. Error rates indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

The examiners requested the Company's underwriting and rating manuals for the line of business under review. This included all rates, guidelines, and rules that were in effect on the first day of the examination period and at any point during that period to ensure that the examiners could properly rate each policy reviewed.

The examiners also reviewed the Company's procedures, rules, and forms filed by or on behalf of the Company with the DIFP. The examiners randomly selected the policies for review from a listing furnished by the Company.

The examiners also requested a written description of significant underwriting and rating changes that occurred during the examination period for underwriting files that were maintained in an electronic format.

An error can include, but is not limited to, any miscalculation of the premium based on the information in the file, an improper acceptance or rejection of an application, the misapplication of the Company's underwriting guidelines, incomplete file information preventing the examiners from readily ascertaining the Company's rating and underwriting practices, and any other activity indicating a failure to comply with Missouri statutes and regulations.

Workers Compensation Review

Reviews are conducted to confirm that workers compensation carriers that issue large deductible, non-standard policies, in addition to traditional workers compensation policies, are in compliance with the rate filing requirements found in §§287.310, 287.947, RSMo, and 20 CSR 500-6.950.

Workers Compensation carriers are also evaluated to ensure total premiums are being reported as well as correct methods for determining assessments and remittance of the required second injury fund and administrative surcharges. The review includes carriers' deductible policy forms and rules for compliance with §287.310 Subsection 4, RSMo, regarding the presumption that a net reporting plan is offered unless the insured elects a gross reporting plan.

NCCI statistical data is reviewed to analyze utilization of Individual Rate Premium Modification (IRPM), also known as schedule rating, in the form of applied debits or credits. Schedule rating is intended to be used to accurately rate an individual employer's business operation. Descriptions of the risk categories are to be based on loss-related factors that can be objectively determined.

A. Forms and Filings

The examiners reviewed the Company's policy and contract forms to determine its compliance with filing, approval, and content requirements to ensure that the contract language was not ambiguous or misleading and was adequate to protect the insured.

The examiners discovered no errors during this review.

B. Underwriting and Rating

The examiners reviewed applications for coverage that were issued, modified, or declined by the Company to determine the accuracy of rating and adherence to prescribed and acceptable underwriting criteria.

The following are the results of the reviews:

1. Workers Compensation (Active)

Field Size:	4,432
Sample Size:	100
Type of Sample:	Random
Number of Errors:	100

The examiners discovered the following errors during this review.

<u>Policy No</u>	<u>Date Effective</u>
71640805-12	1/01/11 – 1/01/12

The Missouri policy record file shall be maintained so as to show clearly the policy period and basis for rating.

A copy of a schedule rating worksheet justifying the use of .81 applied in the audit of 7/24/2012 for policy period 1/2/2011 to 1/1/2012 because the Company had submitted a worksheet displaying a .75 schedule rating credit.

References: §§287.937, 287.947.1. & 2., 374.205.2(2) RSMo and 20 CSR 100-8.040(3)(A)

According to the Company's schedule rating worksheet, the credit applicable was 25% or .75. However, the audit of 7/24/2012 incorrectly applied a credit of 19% or .81 creating an overall premium overcharge. The \$25 overcharge plus the nine percent interest is due until the examination is settled.

References: §§287.947.1 & 2., 287.950.2., 408.020, RSMo, and 20 CSR 500-4.100(7)(D) and 20 CSR 500-6.950(3), (4), (5), & (7)

<u>Policy No.</u>	<u>Policy No.</u>	<u>Policy No.</u>
71714112 - 08	71720515 - 11	71655615 - 09
71723940 - 11	71633121 - 08	71603615 - 09
71632915 - 12	71740169 - 10	71735715 - 10
71716019 - 11	71628917 - 12	71726806 - 08
71733162 - 08	71701451 - 08	71711913 - 08
71704810 - 08	71714098 - 09	71713431 - 08
71724977 - 08	71714098 - 08	71712655 - 11
71721655 - 09	71717409 - 09	71711855 - 08
71707654 - 10	71720416 - 08	71733373 - 11
71723341 - 10	71718307 - 09	71704797 - 09
71705241 - 09	71603776 - 09	71634628 - 10
71720549 - 11	71734780 - 08	71632600 - 08
71653081 - 09	71609441 - 09	71705869 - 10
71653081 - 10	71656114 - 10	71636353 - 10
71738369 - 11	71734666 - 11	71714807 - 10
71718255 - 08	71636050 - 08	71645701 - 09
71717803 - 08	71648177 - 10	71645701 - 10
79935329 - 12	71635932 - 08	79539863 - 11
71634405 - 08	73232741 - 09	71655602 - 09
71719635 - 08	71618091 - 09	71655162 - 11
	71624470 - 10	71717760 - 08

71719645 - 09	76319100 - 09	71655639 - 09
71719125 - 11	71711905 - 10	71637316 - 09
71711470 - 12	71719482 - 09	71714245 - 08
71708662 - 08	71721972 - 11	71624974 - 08
71708662 - 10	71635009 - 10	71718787 - 09
71641919 - 09	71656129 - 11	

The Company did not list or use endorsement WC 240406 C Missouri Employer Paid Medical. The endorsement was not attached to the policy.

The extension of forms included and attached information page of the following 79 policies, did not list endorsement WC 240406 C Missouri Employer Paid Medical, effective August 28, 2005. The form is a mandatory endorsement for Missouri Workers' Compensation policies. NCCI files all forms on behalf of all carriers. The Missouri Employer Paid Medical endorsement states that this form must be used to notify employers of their right to pay and not have medical-only claims affect the employer's experience modification.

As a result, of the Company not attaching the WC 240406 C Missouri Employers Paid Medical as part of the workers' compensation insurance policy, the employers were not aware of their right not to have medical claim of less than \$1,000 not affect their experience modification calculation.

References: §287.955.3. RSMo, 20CSR 500-6.100(1) and NCCI Item filings DR-2005-01 and MO- 2005-06

<u>Policy No</u>	<u>Audit Days</u>
71624974 - 08	142
71655584 - 08	177
71655550 - 10*	194

The Company failed to complete, bill and return the premium to the insured within 120 days of policy expiration or cancellation for the three listed policies. The policy files did not contain adequate documentation that the delay was caused by the policyholder's failure to respond to reasonable and timely requests or that a delay was by mutual agreement of the policyholder and insurance company.

* means that the policy was noted for other violations in this report.

References: §287.310 RSMo and 20CSR 500-6.500(2)(A)

<u>Policy No</u>	<u>Date Effective</u>
71603735 - 08	09/01/2007
71707625 - 08	09/01/2007
71727575 - 08	01/01/2007
71624197 - 09	04/01/2008

71645428 - 09	05/11/2008
79540832 - 09	11/01/2008
71640953 - 10	01/01/2009
71655550 - 10*	01/01/2009
71655703 - 10	08/10/2009
71703247 - 10	01/01/2009
71704434 - 10	07/01/2009
71713941 - 10	01/01/2009
79540832 - 10	11/01/2009
71727569 - 11	12/31/2010
71632527 - 11	01/01/2010
71631294 - 08	12/31/2007
71640953 - 09	01/01/2008

The Company failed to file individual rating plans for the 17 individually rated (negotiated) large deductible workers compensation insurance policies.

* means that the policy was noted for other violations in this report.

References: §287.947.1 RSMo and 20 CSR 500-6.950(3), (4), (5), & (7)

There were 319 additional policies from the population outside the sample in error as a result of the incorrect calculation of the premium discount amount, the expense constant, and the terrorism amount. in which the Company has reimbursed the insured in the amount of \$13,365.47 with nine percent interest per annum for a total refund amount of \$41,827.49.

References: §§287.947.1. & 2.and 287.715, RSMo

C. Cancellations, Non-Renewals, Rescissions, and Declinations

The examiners reviewed policies that the Company terminated at or before the scheduled expiration date of the policies and policies that were rescinded by the Company after the effective date of the policy.

The following are the results of the reviews:

1. Workers Compensation (Non-Active)

Field Size:	645
Sample Size:	100
Type of Sample:	Random
Number of Errors:	30

The examiners discovered the following errors during this review.

<u>Policy No</u>	<u>Audit Days</u>
71637169 - 09	166
79573806 - 11	167

The Company failed to complete, bill and return the premium to the insured within 120 days of policy expiration or cancellation for the two listed policies. The policy files did not contain adequate documentation that the delay was caused by the policyholder's failure to respond to reasonable and timely requests or that a delay was by mutual agreement of the policyholder and insurance company.

References: §287.310 RSMo and 20CSR 500-6.500(2)(A)

<u>Policy No</u>	<u>Date Effective</u>
71647950 - 08	03/01/2007
71616671 - 08	04/01/2007
71718931 - 08	04/15/2007
71639018 - 08	06/30/2007
71644425 - 08	09/28/2007
71639926 - 08	11/15/2007
71655616 - 08	11/29/2007
71716257 - 09	04/30/2008
71603797 - 09	07/01/2008
71655537 - 09	07/01/2008
71628217 - 09	10/01/2008
71712553 - 09	12/31/2008
71737107 - 10	01/01/2009
71707625 - 10	09/01/2009
71718022 - 10	09/01/2009
71719498 - 11	01/01/2010
71633408 - 11	05/01/2010
71725908 - 11	06/21/2010
71656159 - 11	07/31/2010
71645428 - 12	05/11/2011
71603733 - 12	08/01/2011

The Company failed to file individual rating plans for the 21 individually rated (negotiated) large deductible workers compensation insurance policies.

References: §287.947.1 RSMo and 20 CSR 500-6.950(3), (4), (5), & (7)

<u>Policy No</u>	<u>Amount of Overcharge</u>	<u>Interest</u>	<u>Total Refund</u>
71624942	\$6.00	\$3.22	\$9.22
71637348	\$102.00	\$62.05	\$164.05
71638066	\$30.00	\$14.08	\$44.08
71701786	\$22.00	\$10.86	\$32.86
71733226	\$29.00	\$6.92	\$35.92
71734786	\$114.00	\$45.45	\$159.45
79573806	\$402.00	\$115.69	\$517.69

The Company had the following rating error as a result of the incorrect calculation that did not encompass the premium discount amount, the expense constant, and the terrorism premium. As a result, the Missouri Second Injury Fund was overfunded and the listed policyholders were overcharged in their premiums. The Company has reimbursed these insured's the amount of the overcharge plus nine percent interest per annum.

References: §§287.287.947.1. & 2. and 287.715, RSMo

II. COMPLAINTS

This section of the report is designed to provide a review of the Company's complaint handling practices. Examiners reviewed how the Company handled complaints to ensure it was performing according to its own guidelines and Missouri statutes and regulations.

Section 375.936(3), RSMo, requires companies to maintain a registry of all written complaints received for the last three years. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the Company.

The examiners verified the Company's complaint registry, dated January 1, 2006, through December 31, 2011. The registry contained a total of three workers compensation complaints. They reviewed all that went through DIFP and one that did not come through the Department, but went directly to the Company.

The review consisted of a review of the nature of each complaint, the disposition of the complaint, and the time taken to process the complaint as required by §375.936(3), RSMo, and 20 CSR 300-2.200(3)(D) (as replaced by 20 CSR 100-8.040(3)(D), effective 7/30/2008).

The examiners discovered no issues or concerns.

III. CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri law requires companies to respond to criticisms and formal requests within 10 calendar days. Please note that in the event an extension was requested by the Company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within that time period, the response was not considered timely.

A. Criticism Time Study

<u>Calendar Days</u>	<u>Number of Criticisms</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	37	100%
Received outside time-limit, incl. any extensions	0	0%
No Response	<u>0</u>	<u>0%</u>
Total	37	100%

References: §374.205.2(2), RSMo, and 20 CSR 100-8.040

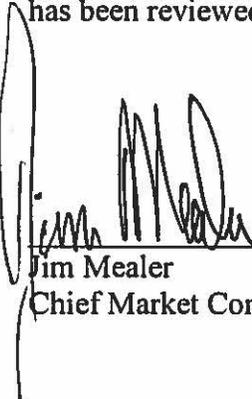
B. Formal Request Time Study

<u>Calendar Days</u>	<u>Number of Requests</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	42	100%
Received outside time-limit, incl. any extensions	0	0%
No Response	<u>0</u>	<u>0%</u>
Total	42	100%

References: §374.205.2(2), RSMo, and 20 CSR 100-8.040

EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of Federal Insurance Company (NAIC #20281), Examination Number 1104-28-TGT. This examination was conducted by Gary T. Meyer, Gerald Michitsch, Darren Jordan, and Shelly Herzing. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated October 16, 2013. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.



Jim Mealer

Chief Market Conduct Examiner

1/4/16

Date