

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

In Re:)
)
GREAT NORTHERN INSURANCE) **Market Conduct Exam No. 1104-29-TGT**
COMPANY (NAIC #20303))

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 Great Northern Insurance Company (NAIC #20303) (hereafter referred to as "Great Northern"), report number 1104-29-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 Great Northern 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 Great Northern shall not engage in any of the violations of law and regulations set forth in the Stipulation and shall implement procedures to place Great Northern 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.

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

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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GREAT NORTHERN INSURANCE) **Market Conduct Exam No. 1104-29-TGT**
COMPANY (NAIC #20303))

**STIPULATION OF SETTLEMENT
AND VOLUNTARY FORFEITURE**

It is hereby stipulated and agreed by the Division of Insurance Market Regulation (hereinafter “the Division”) and Great Northern Insurance Company (NAIC #20303) (hereinafter “Great Northern”) 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, Great Northern 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 Great Northern;

WHEREAS, the Market Conduct Examination report of Great Northern revealed:

1. In twenty instances, Great Northern incorrectly calculated the second injury fund surcharge in violation of §287.310.9 and §287.715.

WHEREAS, the Division and Great Northern 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.** Great Northern 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. Great Northern agrees that if it writes any large deductible workers compensation insurance policies with Missouri premium or exposure, it will make individual risk filings with the Director within 30 days after the effective date of the policy.

2. Great Northern 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. Great Northern 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.

C. **Compliance.** Great Northern 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. **Penalties.** The Division agrees that it will not seek penalties against Great Northern for the conduct found in Market Conduct Exam Report 1104-29-TGT.

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

F. **Waivers.** Great Northern, 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 Examination.

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

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

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

J. **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.

K. **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



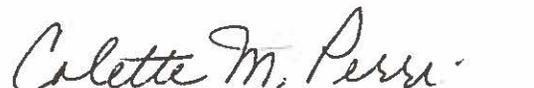
Angela L. Nelson
Director, Division of Insurance
Market Regulation

DATED: 1/4/2016



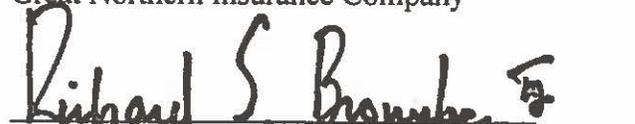
Stewart Freilich
Senior Regulatory Affairs Counsel
Division of Insurance Market Regulation

DATED: 12/23/15



Colette M. Perri
Assistant Secretary
Great Northern Insurance Company

DATED: 12/31/15



Richard S. Brownlee, III
Counsel for Great Northern 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

Great Northern Insurance Company
NAIC # 20303

MISSOURI EXAMINATION # 1104-29-TGT

NAIC EXAM TRACKING SYSTEM # MO341-M70

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 Great Northern Insurance Company, (NAIC Code # 20303). 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 "Great Northern" refers to Great Northern 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 Great Northern Insurance Company. The examiners found the following principal areas of concern:

- ◆ The Company on 20 occasions had rating errors 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 for their active and non-active policies .

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 their 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:	88
Sample Size:	88
Type of Sample:	Census
Number of Errors:	18

The examiners discovered the following errors during this review.

The Company had the following rating errors 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.

<u>Policy No</u>	<u>Amount of Overcharge</u>	<u>Interest</u>	<u>Total Refund</u>
71617034	\$279.00	\$78.15	\$357.15
71617604	\$1,038.00	\$566.12	\$1,604.12
71624107	\$28.00	\$12.14	\$40.14
71641081	\$41.00	\$19.23	\$60.23
71646629	\$32.00	\$18.95	\$50.95
71704376	\$48.00	\$22.10	\$70.10
71705522	\$21.00	\$11.74	\$32.74
71705569	\$33.00	\$14.90	\$47.90
71706354	\$19.00	\$10.64	\$29.64
71710431	\$12.00	\$5.96	\$17.96
71710498	\$32.00	\$13.67	\$45.67
71714210	\$17.00	\$8.72	\$25.72
71721017	\$12.00	\$2.93	\$14.93
71721149	\$9.00	\$5.35	\$14.35
71721694	\$172.00	\$96.68	\$268.68
71724907	\$63.00	\$24.62	\$87.62
71726558	\$13.00	\$6.99	\$19.99
71727666	\$89.00	\$29.39	\$118.39

References: §§287.310.9, 287.947.1. & 2., and 287.715, RSMo.

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

The examiners reviewed policies that the carrier 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: 14

Sample Size: 14
 Type of Sample: Census
 Number of Errors: 2

The examiners discovered the following errors during this review.

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.

<u>Policy No</u>	<u>Amount of Overcharge</u>	<u>Interest</u>	<u>Total Refund</u>
71700971	\$20.00	\$11.55	\$31.55
71707383	\$119.00	\$63.05	\$182.05

References: §§287.310.9, 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, RSMo, and 20 CSR 100-8.040.

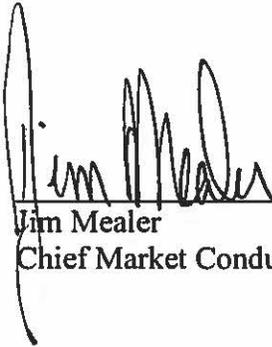
B. Formal Request Time Study

<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, 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 Great Northern Insurance Company (NAIC #20303), Examination Number 1104-29-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