

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF:

Proceedings by the Commissioner of)
Banking and Insurance, State of New Jersey,) CONSENT
with respect to Citizen United Reciprocal) ORDER
Exchange)

TO: Citizen United Reciprocal Exchange
214 Carnegie Center Suite 101
Princeton, NJ 08540

This matter, having been opened by the Commissioner of Banking and Insurance (“Commissioner”), of the Department of Banking and Insurance (“Department”), State of New Jersey, upon information that Citizen United Reciprocal Exchange (“CURE”), incorporated under the laws of the State of New Jersey and admitted to transact property and casualty insurance in New Jersey pursuant to N.J.S.A. 17:17-1 et. seq., may have violated provisions of New Jersey insurance law: and

WHEREAS the Department filed a Market Conduct Examination Report (“Report”) containing the results of the examination of private passenger automobile insurance underwriting, termination and voidance practices of CURE during the period December 1, 2013 to November 30, 2014, performed pursuant to N.J.S.A. 17:23-20 et seq., and

WHEREAS the market conduct examination revealed certain instances where CURE’s practices did not accord fully with various provisions of New Jersey insurance statutes or regulations. These instances, as fully set forth in the Report, are incorporated herein by reference; and

IT FURTHER APPEARING that, as a result of the Department's examination, CURE has taken or will take corrective measures pursuant to the recommendations contained in the Report to address the instances of nonconformance set forth in the Report, and

IT FURTHER APPEARING that this matter can be resolved upon the consent of the parties to these proceedings without resort to a formal hearing,

NOW, THEREFORE, IT IS on the 7th day of APRIL, 2016

ORDERED AND AGREED that the attached Market Conduct Examination Report of CURE will be adopted and filed as an official record of the Department; and

IT IS FURTHER ORDERED AND AGREED that CURE will continue to monitor underwriting, termination and voidance activity in order to identify instances of nonconformance with New Jersey insurance statutes and regulations and the recommendations contained in the Report; and

IT IS FURTHER ORDERED AND AGREED that CURE shall comply with New Jersey insurance statutes and regulations and the recommendations contained in the attached Report; and;

IT IS FURTHER ORDERED AND AGREED that CURE will provide the Commissioner with quarterly compliance reports for one 12-month cycle beginning July 1, 2016 based on the following schedule:

First Reporting Quarter – July 1, 2016 to September 30, 2016 and due October 31, 2016;

Second Reporting Quarter – October 1, 2016 to December 31, 2016 and due January 31, 2017;

Third Reporting Quarter – January 1, 2017 to March 31, 2017 and due April 1, 2017;

Fourth Reporting Quarter – April 1, 2017 to June 30, 2017 and due July 31, 2017.

These reports should include, which may be subject to modification after discussion with the Department: 1) a list of all policy numbers voided, cancelled within the first 60-days, cancelled at midterm and nonrenewed during the quarterly exposure period with reason for termination either by code or narrative; and 2) a list of all policy numbers referred to the Special Investigative Unit during the quarterly exposure period.

IT IS FURTHER ORDERED AND AGREED that pursuant to N.J.S.A. 17:23-24 d (1), within thirty days of the adoption of this Report, CURE shall file an affidavit with the Department's Market Conduct Unit, stating under oath that its directors have received a copy of the adopted Report.



Peter L. Hart
Director of Insurance

Consented to as to form, content and entry
Citizen United Reciprocal Exchange

By: Lena Chang
Date: March 25, 2016

**MARKET CONDUCT RE-EXAMINATION
(Exam Tracking Number NJ090 - M18)**

of

**CITIZENS UNITED RECIPROCAL EXCHANGE
(NAIC Company Number 37028)**

**Home and Local Office
214 Carnegie Center, Suite 101, Princeton, NJ 08540**

PRINCETON, NEW JERSEY

as of

July 2, 2015

BY EXAMINERS

of the

STATE OF NEW JERSEY

DEPARTMENT OF BANKING AND INSURANCE

OFFICE OF CONSUMER PROTECTION SERVICES

MARKET CONDUCT EXAMINATIONS and ANTI-FRAUD COMPLIANCE

REPORT ADOPTED: APRIL 7, 2016

TABLE OF CONTENTS

I. INTRODUCTION	1
A. SCOPE OF EXAMINATION	1
B. ERROR RATIOS	1
C. COMPANY PROFILE.....	2
D. EXECUTIVE SUMMARY.....	2
II. NEW AND RENEWAL UNDERWRITING, TERMINATIONS AND VOIDANCES.....	4
A. INTRODUCTION.....	4
B. ERROR RATIOS.....	4
C. EXAMINERS' FINDINGS – POLICY VOIDANCES AND TERMINATIONS.....	5
D. EXAMINERS' FINDINGS - TERMINATIONS ON NON-SIU POPULATION.....	9
E. EXAMINERS' FINDINGS - CLAIM HANDLING ERRORS ON SIU POPULATION.....	10
III. RECOMMENDATIONS	12
APPENDIX A – ANTI-FRAUD COMPLIANCE ERRORS	15
APPENDIX B – POLICY TERMINATION ERRORS.....	18
APPENDIX C – CLAIM ERRORS	23
IV. VERIFICATION PAGE.....	LAST PAGE



State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
CONSUMER PROTECTION SERVICES
PO Box 329
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PETER L. HARTT
Director

April 7, 2016

Honorable Richard Badolato
Acting Commissioner of Insurance
State of New Jersey
Department of Banking and Insurance
20 West State Street
P.O. Box 329
Trenton, N.J. 08625

Dear Acting Commissioner Badolato,

Pursuant to the authority provided in N.J.S.A. 17:23-20 through 17:23-26, 17:29B-5 and N.J.S.A. 17: 33A-15b, and in accordance with your instructions, a market conduct examination of the business practices and affairs was conducted on:

Citizens United Reciprocal Exchange NAIC Code 37028
214 Carnegie Center, Suite 101, Princeton, NJ

hereinafter referred to as "CURE" or "the Company." The field work for this examination was conducted at the Company's Princeton, NJ office, with additional review conducted in our Trenton, N.J. office. The following report is respectfully submitted on behalf of the examination team. Through a deliberative process, I certify the accuracy of the findings presented herein.

Clifton J. Day, MPA, CPM, CSM
Chief of Market Regulation and Consumer
Protection Services

I. INTRODUCTION

This is a report of the Market Conduct activities of Citizens United Reciprocal Exchange (hereinafter referred to as "CURE" or "the Company"). In this report, examiners of the New Jersey Department of Banking and Insurance ("NJDOBI") present their findings, conclusions and recommendations as a result of their examination.

A. SCOPE OF EXAMINATION

The scope of the examination included private passenger automobile insurance sold by the Company in New Jersey. The examiners evaluated the Company's compliance with statutes and regulations applicable to policy terminations and Anti-Fraud. Unless otherwise indicated, the review period for the examination was December 1, 2013 to November 30, 2014.

The examiners conducted their fieldwork at CURE's office in Princeton, New Jersey, between March 2, 2015 and May 1, 2015. On various dates following the fieldwork, the examiners completed additional review work and report writing in Trenton, N.J. The Market Conduct Examiners were Examiner-in-Charge (EIC) Robert Greenfield, William Sonntag, Richard Segin and Michael Wise. Marleen Sheridan was the Supervisor of the examination.

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 Regulation Handbook. The examiners used the NAIC Market Regulation Handbook, Chapters Sixteen (General Examination Standards) and Seventeen (Conducting the Property and Casualty Examination) as a guide to examine the Company and write this report.

B. ERROR RATIOS

Error ratios are the percentage of files reviewed which an insurer handles in error. A file is counted as an error when it is mishandled or the insured is treated unfairly, even if no statute or regulation is applicable. If a file contains multiple errors, the examiners will count the file only once in calculating error ratios. However, any file that contains more than one error will be cited more than once in the report. In the event that the insurer corrects an error as a result of a consumer complaint or due to the examiners' findings, the error will be included in the error ratio. If the insurer corrects an error independent of a complaint or NJDOBI intervention, the error is not included in the error ratios.

There may be 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 so in this report.

The examiners sometimes find improper general business practices or insurer errors 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 CURE 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, CURE 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

Reciprocal Management Corporation (RMC) organized New Jersey Citizens United Reciprocal Exchange (NJ CURE) pursuant to N.J.S.A. 17:50-1 as a reciprocal inter-insurance exchange. On March 29, 1990, the New Jersey Department of Banking and Insurance granted authority to NJ CURE to issue personal automobile inter-insurance contracts under the name of NJ CURE. The State of New Jersey issued a Certificate of Authority dated April 27, 1990 to NJ CURE; it commenced operations on June 1, 1990.

Effective August 1, 2007, NJ CURE changed its name from NJ CURE to CURE. The change was due to its expansion into Pennsylvania. CURE currently writes private passenger automobile insurance in New Jersey and in Pennsylvania.

The principal office of CURE is located at 214 Carnegie Center, Suite 101, Princeton, New Jersey. RMC serves as Attorney-In-Fact for CURE, and acts as its registered agent and general manager with the responsibility for the administration and management of its daily operations.

D. EXECUTIVE SUMMARY

This examination included a review of the Company's underwriting practices and the application of its Fraud Detection and Prevention plan. The examiners reviewed a total of 159 terminated policies and 154 Special Investigative Unit ("SIU") files.

The overall random file selection error ratio was 42%. The error ratio for non-Special Investigation Unit files was 53% and the SIU error ratio was 31%. While conducting this examination, the examiners found six improper general business practices. These include: 1) failure of Underwriting Department to refer fraud and misrepresentation to the SIU; 2) failure to refer those files to the Office of the Insurance Fraud Prosecutor (OIFP); 3) failure of SIU to promptly refer fraud and misrepresentation investigations to the OIFP; 4) policy voidance inconsistent with Power of Attorney provisions included in application package; 5) failure to provide specific reason for termination on notices issued to insured; and 6) use of unfair restrictive storage liability language on form letter to third party claimants. Notably, the examiners cited items 5 and 6 in a prior examination that was adopted in January 2011.

Additional errors include unfair denial of third party claims on policies voided at the time of claim, and inconsistent use of acceptance criteria when terminating and voiding policies. Lastly, CURE's acceptance criteria did not differentiate between new and renewal business as required by regulation.

Detailed descriptions of all reported findings appear in the sections that follow.

II. NEW AND RENEWAL UNDERWRITING, TERMINATIONS AND VOIDS

A. INTRODUCTION

During the review period, CURE's SIU processed a total of 1,048 claim and underwriting files. From among CURE's SIU and the general underwriting and claims departments, CURE voided a total of 127 policies. Not including voids or SIU referrals, CURE terminated a total of 1,771 policies as follows: 907 first 60-day cancellations, 507 midterm cancellations and 357 nonrenewals.

The examiners conducted randomly selected compliance reviews on the above populations. While the examiners placed specific emphasis on N.J.S.A. 17:33A-15 (Insurance Fraud Prevention), N.J.A.C. 11:16-6 (Fraud Prevention and Detection Plans), N.J.S.A. 17:29C-7.1 and N.J.A.C. 11:3-8 (cancellations, nonrenewals and voidances), the examiners also reported any other regulatory errors discovered incident to this review.

B. ERROR RATIOS

The examiners calculated the following error ratios by applying the procedure outlined in the introduction of this report. As indicated below, the examiners randomly selected and reviewed a total of 313 underwriting transactions and reported an overall error ratio of 42% from among all random sample categories. The results of these reviews are discussed in Sections C through E which follow.

Random Sample Review Error Ratio Chart

<u>Random Sample</u>	<u>Files Reviewed</u>	<u>Files in Error</u>	<u>Error Ratio</u>
Terminations			
Voids UW	57	57	100%
60-Day Cancellation	29	11	38%
Cancel Mid-Term	20	<u>15</u>	75%
Nonrenewals:			
Two Percent	26	0	0%
Acceptance Criteria	<u>27</u>	<u>1</u>	4%
Terminations Subtotal	159	84	53%
Special Investigation Unit			
Underwriting	33	16	48%
Claims	<u>121</u>	<u>32</u>	26%
SIU Subtotal	154	48	31%
Overall Random Totals	313	132	42%

C. EXAMINERS' FINDINGS – POLICY VOIDANCES AND TERMINATIONS

1. Failure of Underwriting Department to Refer Policy Voidances due to Material Misrepresentation to Special Investigative Unit – 57 Files in Error (Improper General Business Practice)

Contrary to the Company's own Anti-Fraud Prevention and Detection Procedure Manual ("Manual"), CURE's underwriting staff failed to refer 57 policy voidances to its SIU. This is inconsistent with General Investigative Guidelines, Page 3 of the Manual, which states that claims professionals and underwriters are expected to promptly refer "... any issue of suspected fraud to their appropriate company SIU point of contact ..." Notably, CURE's underwriting staff, not the formally established SIU, voided all 57 policies on the basis of misrepresentation and/or omission of material facts that could constitute insurance fraud. Notably, these voidances occurred without any apparent SIU review or oversight. Consequently, CURE voided all 57 policies contrary to its own SIU section established under N.J.A.C. 11:16-6.4. The examiners cited this error as an improper general business practice.

In response to the examiners' inquiry, CURE stated that the Company "... will reinforce the requirement for referrals with the employees that are responsible for referrals to CURE's SIU..." The examiners cited this error as an improper general business practice.

See Appendix A-1 for a List of Files in Error

2. Failure to Refer SIU Files to OIFP within 30 days – 28 Files in Error (Improper General Business Practice)

N.J.A.C. 11:16-6.7 outlines applicable standards for an SIU to refer cases to the OIFP. In addition, N.J.A.C. 11:16-6.6 (b)2 states that, "The (insurer's fraud prevention) plan shall provide that all applications and claims, which meet the standard for referral set forth in N.J.A.C. 11:16-6.7, shall be referred to OIFP by the SIU as soon as practicable, but in no case later than 30 days from when the investigation is complete."

On 84 SIU files reviewed from the SIU population, CURE failed to refer 28 SIU-investigated policies to the OIFP within the required timeframe. The examiners cited this error as an improper general business practice due to the frequency of error (28/154=18%). The average referral time to OIFP in excess of the 30 days is 53 days.

See Appendix A-2 for a List of Files in Error

3. Policy Termination Inconsistent with Power of Attorney Provision of Application and Underwriting Criteria - 47 Files in Error (Improper General Business Practice)

a. Termination Inconsistent with Power of Attorney Provision in Application

As part of the new business underwriting process, CURE requires each applicant to sign and date a Power of Attorney (“POA”), advising applicants that policy voidance is the Company’s response to material omission and misrepresentation. CURE’s POA states in part that:

“I acknowledge that (Reciprocal Management Corporation), the Attorney-in-Fact for the subscribers of CURE, has informed me that the submission of complete and accurate application information to CURE is necessary for proper underwriting and rating of my application. I further acknowledge that the completeness and accuracy of this information is of the essence for the exchange of reciprocal insurance contract to be effective. I understand and agree that any material misrepresentation or omission by me in this application will void coverage from the inception date of the contract (emphasis added).”

Inconsistent with the quoted language above, the examiners found 47 policies that the Company cancelled instead of voided, even though the Company identified material misrepresentations and/or omissions on the application. In response to an inquiry, the Company disagreed, and maintained that the POA in no way impinges upon CURE’s statutory right to cancel an insurance policy when an insured knowingly provides materially false or misleading information. The Company further stated that the POA is only intended to require the subscriber to acknowledge that the policy is voidable. The examiners disagree to the extent that CURE relies on this language to justify policy voidance versus termination. As an example on policy number NC10089083, CURE specifically responded to a complainant’s attorney by stating that it voided the policy in accordance with the POA that specifies voidance as a consequence of material misrepresentation or omission.

b. Failure to Differentiate between New Business and Renewal Business Acceptance Criteria

Pursuant to N.J.A.C. 11:3-8.12(a), an insurer is required to develop “... separate acceptance criteria for new and renewal business.” Contrary to this regulation, CURE interspersed nonrenewal criteria in the new business section. CURE advised that it corrected this error in response to the examiners’ inquiries.

See Appendix A-3 for a List of Files in Error

4. Inconsistent Application of Acceptance Criteria, Terminations and Voidances – 2 Policies in Error

Pursuant to N.J.A.C. 11:3-8.12(a), an insurer may utilize written acceptance criteria "... by which an insurer accepts or rejects new business, and/or renews or nonrenews existing business." Also, N.J.A.C. 11:3-8.10(a) outlines standards under which an insurer may cancel an insurance policy. Lastly, an insurer may void a policy ab initio due to an applicant's or insured's material misrepresentation in connection with any application for insurance, renewal of insurance or a claim for benefits under an insurance policy. The examiners found two policies in which CURE inconsistently applied its acceptance criteria to cancellations and voidances.

a. **Erroneously Adding Previously Undisclosed Household Operator whose License was Suspended (Policy Number NC10088421)**

Policy number NC10088421 inceptioned on January 9, 2014. During a mid-term underwriting review, CURE became aware that the insured may have misrepresented the total number of household residents. The SIU conducted an investigation and concluded on August 11, 2014 that the insured failed to disclose two household residents during the underwriting review. The insured failed to cooperate by refusing to talk to company SIU investigators. The license of one undisclosed resident was suspended. On August 12, 2014, the Company issued instructions to the underwriting department to endorse the policy by adding both undisclosed operators, and then nonrenew the policy when the current term expired.

The examiners note that such an endorsement is inconsistent with Section D (FRAUD), Item 2 of the Company's Eligibility Acceptance Criteria, Edition Date 10/2009 v. 3. This Section indicates that CURE will not issue or renew a policy where an applicant or household driver "... knowingly provide(s) materially false or misleading information ... at the time of application, upon renewal or upon submission of a claim."

The examiners further note that CURE's Acceptance Criteria, Section C (Driver/Resident Information), Item 2, Edition Date 10/2009, prohibit any rated driver that does not maintain a valid driver's license or a driver that is unable to obtain a driver's license within 60 days from policy inception. As noted above, one of the drivers was suspended with no evidence of license eligibility within 60 days from the add endorsement date. CURE nevertheless added this driver, contrary to its acceptance criteria. Additionally, CURE knowingly assessed premium on an ineligible and suspended driver, contrary to the rating plan filed with and approved by the Commissioner pursuant to N.J.S.A. 17:29A-6 and observed pursuant to N.J.S.A. 17:29A-15.

b. Failure to Reject Ineligible Applicant due to Incomplete Application
(Policy Number NC10098941)

Pursuant to CURE's Acceptance Criteria, Section E (Cooperation and Provisions of Information, Item 2, Edition Date 10/2009), the Company "... will not issue a policy to an applicant if the applicant/named insured failed to provide the minimum information necessary to accurately rate and underwrite the policy." On policy number NC10098941, the insured failed to complete that section of a new business application that requires the vehicle license plate number of the vehicle to be insured. Notwithstanding this omission, CURE nevertheless issued a policy on July 22, 2014 without attempting to obtain this information.

On August 22, 2014, the insured was involved in a collision with a third party, who filed a liability claim on August 23, 2014. While investigating this claim, CURE determined that the insured vehicle was commercially registered and therefore ineligible for coverage. In response, CURE voided this policy ab initio. The examiners inquired as to why CURE would issue a policy where the insured failed to provide essential information necessary to rate and underwrite the risk. In response, the Company stated that "the application contained all of the information that CURE needed to initially rate and underwriting the policy. The vehicle license plate is not necessary to rate and underwrite the policy." The examiners disagree to the extent that: 1) CURE requires this information on its application and that failure to complete an application is grounds for rejection under Acceptance Criteria Section E, Item 2; 2) a commercial license plate number contains the prefix "X" which identifies the vehicle as commercial and therefore ineligible; and 3) CURE relied on this omission to void coverage to inception. Contrary to N.J.A.C. 11:3-8.12(a), the Company failed to comply with its acceptance criteria by writing this policy without a complete application.

See Appendix A-4 for a List of Files in Error

5. Unfair Denial of Third Party Claims on Policy Voidances – 2 Policies in Error

N.J.S.A. 17:29B-4(9)(f) requires insurers to attempt in good faith to effectuate prompt, fair and equitable settlements of claims in which liability is reasonably clear. In addition, N.J.A.C.11:2-17.8(i) prohibits an insurer from denying a claim when it is reasonably clear that partial/full benefits are due. Lastly, in *Citizen United Reciprocal Exchange v. Perez* A-3100-11T1-Appellate Division, September 13, 2013, the court ruled that an insurer is obligated to extend benefits to innocent third parties where the first party policy is voided due to misrepresentation. In violation of these provisions, the examiners found two claims in which CURE denied coverage to a third party claimant where the CURE driver was liable for the loss. The reason for denial was no coverage due to policy voidance.

On policy number NC10098941, CURE received a subrogation demand from a third party carrier on November 28, 2014. The Company denied liability coverage twice, once on December 19, 2014 and again on February 21, 2015. The reason for denial was no coverage due to policy voidance. CURE finally paid this claim on March 4, 2015, or 96 days from receipt of the third party carrier's subrogation claim. Since the denials of December 19, 2014 and February 21, 2015 were defective, the examiners also cited an unnecessarily delayed settlement, contrary to N.J.A.C. 11:2-17.7(c)2.

On policy number NC10091850, CURE denied coverage for the same reason as policy number NC10098941 stated above. CURE received notice of loss on April 2, 2014. The examiners noted that the CURE driver was liable for the loss and issued an inquiry to the Company, requesting the reason for denial. In response, CURE advised that, "The claims representative mistakenly denied the claim. The claim has been opened and will be processed accordingly." CURE issued payment on April 16, 2015 in response to the examiners' inquiries. Since CURE's claim denial was defective, the examiners cited an unnecessarily delayed settlement, contrary to N.J.A.C. 11:2-17.7(c)2. Considering the loss date of April 2, 2014 and the payment date of April 16, 2015, the Company delayed settlement on this claim for a period of 334 days after the allowable 45 day period.

See Appendix A-5 for a List of Files in Error

D. EXAMINERS' FINDINGS – TERMINATIONS ON NON-SIU POPULATION

1. Failure to Provide Specific Reason on Termination Notices - 36 Files in Error (Improper General Business Practice)

N.J.S.A. 17:23A-10a(1) requires an insurer to either provide the applicant, policyholder or individual proposed for coverage with the specific reason or reasons for an adverse underwriting decision in writing or advise the person that upon written request the consumer may receive the specific reason or reasons in writing. N.J.S.A. 17:23A-2a defines "adverse underwriting decision" to include cancellation or nonrenewal for any reason other than failure to pay premium. Pursuant to N.J.A.C. 11:3-8.11(c), insurers must include the specific reason for cancellation on the notice of termination or state that the reason will be provided upon the insured's request.

Contrary to the above statute and the regulation, CURE failed on 36 policies to provide the specific reason for termination. In response to an inquiry, the Company advised that it "...believed the reasons provided to the insured were sufficient for the insured to understand the specific reason for the policy termination ... we also agree that the notices in the cited examples could have been more specific." The examiners did not include these 36 errors in the error ratios because the subject matter is extraneous to substantive underwriting and

SIU activity and would negatively skew overall results. However, corrective action is nevertheless necessary. See Recommendations Section.

See Appendix B-1 for a List of Files in Error

The examiners previously cited CURE for failure to provide the specific reason on termination notices in a Market Conduct Examination report dated January 5, 2011.

2. Failure to Adhere to Company's Acceptance Criteria - 1 File in Error

Pursuant to N.J.A.C. 11:3-8.12(d), the only acceptance criteria that may be used to non-renew a policy are those that were in effect at the initiation of the policy period during which a notice of non-renewal is issued. The Company nonrenewed policy number NC00045799 due to "any policy where more than one accident is reported to CURE during the experience period where the operator in the loss is not a rated driver on the policy is not eligible for renewal." The Company non-renewed the above mentioned policy on February 9, 2014. However, the acceptance criterion listed on the non-renewal notice did not become effective until April 24, 2015. Implementation of this acceptance criterion prior to its effective date is contrary to N.J.A.C. 11:3-8.12(d).

See Appendix B-2 for this File in Error

E. EXAMINERS' FINDINGS – CLAIM HANDLING ERRORS ON SIU POPULATION

1. Restrictive Storage Fee Liability Language in Form Letter - 1 File in Error (Improper General Business Practice)

N.J.A.C. 11:2-17.10(a)9 requires insurers to provide notice to a claimant three working days prior to the termination of payment for automobile storage charges. CURE's acknowledgement of loss form letter utilized on policy number NC10098941 contains the following language:

"If your vehicle is currently collecting storage, we will not be responsible for any storage prior to you notifying CURE of your loss, and after three (3) working days from the date of this correspondence."

This statement erroneously notifies claimants that CURE will not be responsible for storage that accrued during the period between the date of loss and the notice of loss. Additionally, the phrase "... after three (3) working days from the date of this correspondence (emphasis added)" fails to provide three working days' notice starting from the actual letter receipt date. CURE's language provides inadequate notice due to accrued mail time after the date of the correspondence. In response to an inquiry, the Company stated that, "Although CURE disagrees with the examiners' conclusion CURE advised that it would

remove the phrase “We will not be responsible for any storage prior to notifying CURE of your loss” from its form letters. Since this language appears in a form letter used on all claims, the examiners cited this error as an improper general business practice.

The examiners cited this error as an improper general business practice in the Market Conduct Examination report that the Department adopted on January 5, 2011.

See Appendix C-1 for this File in Error

2. Failure to Maintain a Complete Claim File - 1 Void/Claim File in Error

N.J.A.C. 11:2-17.12(b) requires a company to maintain a complete claim file in order to permit the Commissioner’s representatives to reconstruct the insurer’s activities relative to claims settlement. The Company voided policy number NC10087481, and issued a premium refund to the insured. However, the letter that CURE routinely sends to an insured explaining the premium refund was not included in the claim file. In response to an inquiry, and contrary to N.J.A.C. 11:2-17.12(b), CURE advised that it was unable to locate the letter that accompanied this refund.

See Appendix C-2 for this File in Error

The examiners cited this error in the Market Conduct Examination report that the Department adopted on January 5, 2011.

III. RECOMMENDATIONS

CURE 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.

Non-compliant activity was identified in this report 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 New Jersey law and regulations. When applicable, corrective action for other jurisdictions should be addressed.

The examiners acknowledge that during the examination, CURE agreed and had already complied with, either in whole or in part, some of the recommendations listed below. 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, Chief of Market Regulation and 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.

B. EXAMINERS' FINDINGS-POLICY VOIDANCES AND TERMINATIONS ON SPECIAL INVESTIGATIVE UNIT POPULATION

1. The Company must issue written instructions to all appropriate personnel stating that policies must be referred to the SIU in order to determine the appropriate response to material misrepresentation and/or omissions of material facts.
2. In order to comply with N.J.A.C. 11:16-6.6(b)2, the Company must issue written instructions to appropriate personnel stating that all applications and claims, which meet the standard for referral set forth in N.J.A.C. 11:16-6.7, shall be referred to the SIU as soon as practicable,

but in no case later than 30 days from when the investigation is complete.

3. CURE must revise its New Jersey Anti-Fraud Prevention and Detection Plan Protocol to address recommendations 1 and 2 above, and to provide a mechanism to correct the fraud-related errors outlined in this report. Accordingly, CURE must refile its New Jersey Anti-Fraud Prevention and Detection Plan Protocol with the Commissioner as required by **N.J.A.C. 11:16-6.9(b)** and (C).
4. In order to comply with **N.J.S.A. 17:29C-7(E)**, CURE must revise the Power of Attorney portion of the application package in a manner that is consistent with its eligibility criteria. The Company must revise this document to reflect amendments to its acceptance criteria and its New Jersey Anti-Fraud Prevention and Detection Plan Protocol pursuant to recommendation 3 above.
5. In order to further comply with **N.J.A.C. 11:3-8.12(a)**, CURE must differentiate between new business and renewal business protocols in its acceptance criteria.
6. CURE should identify and implement improvements designed to detect applicant ineligibility prior to issuing a policy. Where an application is incomplete, and that missing information is necessary to properly rate and underwrite the policy, CURE should seek that information prior to binding coverage rather than relying on voidance at a later date.
7. In order to assure compliance with **N.J.S.A. 17:29B-4(9)(f)**, **N.J.A.C. 11:2-17.8(i)** and **Citizen United Reciprocal Exchange v. Perez**, CURE must issue written instructions to all applicable staff, stating that liability coverage must be afforded to innocent third parties even though CURE's at-fault driver's coverage was voided.

C. EXAMINERS' FINDINGS – TERMINATIONS ON NON-SIU POPULATION

8. CURE must issue written instruction to all appropriate personnel stating that, **N.J.S.A. 17:23A-10a(1)** and **N.J.A.C. 11:3-8.11(c)** require an insurer to state the specific reason for termination, or notify the insured that upon request, the reason will be provided.
9. The Company must issue a written reminder that **N.J.A.C. 11:3-8.12(d)** only allows acceptance criteria that are in effect at the initiation of the policy period to nonrenew a policy.

D. EXAMINERS' FINDINGS – CLAIM HANDLING ERRORS ON SIU POPULATION

10. CURE shall remind appropriate personnel that N.J.A.C. 11:2-17.12(b) requires the Company to maintain a complete claim file in order to permit the Commissioner's representatives to reconstruct the insurer's activities relative to claims settlement.

11. Pursuant to N.J.A.C. 11:2-17.10(a)9, CURE must revise its third party notice of loss form to reflect that storage charges that accrue between the date of loss and notice of loss are not automatically excludable. CURE must also issue written instructions to all appropriate staff advising that issuance of this notice on the third, or sooner, working day prior to termination of storage liability does not provide three working days' notice of termination. CURE must develop procedures to assure that the notice is mailed with sufficient advance timing that the consumer is afforded three working days after receipt of the notice to address removal of the vehicle.

APPENDIX A – Anti-Fraud Compliance Errors

1. Errors on Policy Voidances – 57 Files in Error (Improper General Business Practice)

Policy Numbers

NC10091874	NC10092567	NC10094711	NC10096481	NC10096073
NC10102472	NC10090810	NC10105269	NC10099595	NC10090705
NC10094608	NC10091379	NC10091599	NC10098729	NC10088498
NC10103038	NC10098941	NC10097274	NC10091850	NC10096978
NC10092805	NC10103831	NC10095139	NC10092490	NC10088615
NC10097672	NC10088773	NC10101451	NC10100358	NC10086879
NC10086774	NC10092151	NC10101825	NC10083936	NC10089177
NC10094664	NC10100509	NC10094472	NC10095708	NC10088638
NC10088287	NC10104795	NC10087193	NC10099675	NC10095269
NC10099130	NC10095511	NC10091137	NC10097903	NC10095385
NC10095604	NC10097157	NC10087183	NC10093459	NC10088186
NC10100513	NC10087067			

2. Failure to Refer SIU files to OIFP within 30 days – 28 Files in Error (Improper General Business Practice)

<u>Review</u>	<u>Policy Number</u>	<u>SIU Completed</u>	<u>OIFP Referral</u>	<u>Days >30</u>
SIU-Claims	NC10039240	11/24/14	12/29/14	5
SIU-Claims	NC10081745	5/6/2014	6/10/14	5
SIU-Claims	NC10087761	6/3/2014	7/28/14	25
SIU-Claims	NC10088179	7/11/2014	9/5/14	26
SIU-Claims	NC10088244	4/22/2014	6/17/14	26
SIU-Claims	NC10089156	8/19/2014	10/10/14	22
SIU-Claims	NC10090660	9/24/2014	10/30/14	6
SIU-Claims	NC10090817	6/23/2014	9/17/14	56
SIU-Claims	NC10091135	5/1/2014	6/10/14	10
SIU-Claims	NC10092506	5/19/2014	8/13/14	56
SIU-Claims	NC10093488	6/25/2014	9/17/14	54
SIU-Claims	NC10093534	4/1/2014	3/23/15	326
SIU-Claims	NC10094723	8/12/2014	10/27/14	46
SIU-Claims	NC10095028	9/25/2014	11/3/14	9
SIU-Claims	NC10095733	9/26/2014	10/30/14	4
SIU-Claims	NC10095872	8/4/2014	10/1/14	28
SIU-Claims	NC10097769	8/18/2014	11/6/14	50
SIU-Claims	NC10097902	8/6/2014	10/1/14	26

SIU-Claims	NC10098346	9/25/2014	10/30/14	5
SIU-Claims	NC10100993	10/6/2014	11/13/14	8
SIU-Claims	NC10095702	7/3/14	8/13/14	11
SIU-Claims	NC10090986	3/20/14	6/2/14	44
SIU-UW	NC10058943	4/14/14	6/16/14	33
SIU-UW	NC10077991	6/12/14	2/23/15	226
SIU-UW	NC10095829	7/9/14	9/30/14	53
SIU-UW	NC10065962	4/28/14	2/23/15	271
SIU-UW	NC10087716	4/11/14	6/10/14	30
SIU-UW	NC00063473	5/7/14	6/17/14	11

3. Policy Termination Inconsistent with Power of Attorney Provision of Application and Underwriting Criteria - 47 Files in Error (Improper General Business Practice)

<u>Review</u>	<u>Policy Number</u>	<u>Review</u>	<u>Policy Number</u>
Cancel-Midterm	NC10087848	SIU-U/W	NC10058943
Cancel-Midterm	NC10063308	SIU-U/W	NC10077991
Cancel-Midterm	NC10087784	SIU-U/W	NC10080224
Cancel-Midterm	NC10084715	SIU-U/W	NC10083677
Cancel-Midterm	NC10077104	SIU-U/W	NC10100055
Cancel-Midterm	NC10077914	SIU-U/W	NC10074201
Cancel-Midterm	NC10067632	SIU-U/W	NC10082041
Cancel-Midterm	NC10082885	SIU-U/W	NC10095944
Cancel-Midterm	NC10089813	SIU-U/W	NC10065962
Cancel-Midterm	NC10094117	SIU-U/W	NC10044295
Cancel-Midterm	NC10098044	SIU-U/W	NC10088421
Cancel-60 Day	NC10103028	SIU-Claim	NC10082164
Cancel-60 Day	NC10095216	SIU-Claim	NC10102714
Cancel-60 Day	NC10096113	SIU-Claim	NC10104346
Cancel-60 Day	NC10091720	SIU-Claim	NC10086116
Cancel-60 Day	NC10086834	SIU-Claim	NC10090986
Cancel-60 Day	NC10087696	SIU-Claim	NC10077581
Cancel-60 Day	NC10089803	SIU-Claim	NC10082478
Cancel-60 Day	NC10088282	SIU-Claim	NC00046757
Cancel-60 Day	NC10085930	SIU-Claim	NC10089083
Cancel-60 Day	NC10093277	SIU-Claim	NC10098941
Cancel-60 Day	NC10085836		
Cancel-60 Day	NC10099670		
Cancel-60 Day	NC10101998		
Cancel-60 Day	NC10097760		
Cancel-60 Day	NC10089755		

4. Inconsistent Application of Acceptance Criteria, Terminations and Voidances – 2 Policies in Error

Policy Number

NC10088421

NC10098941

5. Unfair Denial of Third Party Claims on Policy Voidances – 2 Policies in Error

Policy Number

NC10098941

NC10091850

APPENDIX B – Policy Termination Errors

1. Failure to Provide Specific Reason on Termination Notices - 36 Files in Error (Improper General Business Practice)

<u>Review</u>	<u>Policy Number</u>	<u>Void Notice Reason</u>	<u>Deficiency</u>
Voids-Claims	NC10091387	“...failed to disclose your true residency and all residents of that household. Further you provided false and misleading information in a recorded interview taken on April 16, 2014.”	Address of true residency, names of all HH members, and what info was false and misleading in the RS
Voids-Claims	NC10097067	“...failed to disclose...that the vehicle was garaged at an alternate location....”	Address of the garaged location
Voids-Claims	NC10100227	“...failed to disclose...the true garage location of the 2013 Nissan and 2013 Dodge....”	Address of the garaged location for the two vehicles
Voids-Claims	NC10089757	“..failed to disclose all residents of your household”	Names of all undisclosed HH members
Voids-Claims	NC10089725	“..you are the owner of another registered vehicle and the alternate garage location...”	Name of other vehicle and alternate garage location
Voids-Claims	NC10089315	... 2009 Chevrolet Malibu was garaged at an alternate location.	Provide the complete address of the alternate location

Voids-Claims	NC10100993	... you are the owner of additional vehicles, the alternate garage location of Chevrolet and all HH members.	Make, model and year of the additional vehicles, the alternate garage address for the Chevrolet and the names of all HH members
Voids-Claims	NC10088179	... its alternate garage location.	Provide full address.
Voids-Claims	NC10095872	...true marital status ...licensed in another state.	Indicate the marital status and name the state
Voids-Claims	NC10086788	“...failed to disclose that Juan Lopez would be the customary/usual operator of the 2001 Jeep and that the vehicle would not be garaged at the policy address and that the 2003 Ford would be primarily operated by Francisco Lopez and garaged at an alternate address.” “...when you added the 2001 Honda to the policy you failed to disclose that Jesus Lopez would be the primary operator of that vehicle and garaged at an alternate location.” “... failed to disclose all residents of your household on your application and your true residence.”	State garage locations, vehicles, HH member names and the address of the true residence
Voids-Claims	NC10092274	“failed to disclose that you were the registered owner of another vehicle.”	Include the year, make and model of the vehicle
Voids-Claims	NC10081745	“failed to disclose that it would not be garaged at the policy address.”	Include the location where the vehicle is being garaged
Voids-Claims	NC10097902	“failed to disclose household members.”	Name the HH members

Voids- Claims	NC10094723	“You further provided false and misleading information in a recorded statement taken July 24, 2014.”	State specifically, what the information was false and misleading
Voids- Claims	NC10090513	“...failed to disclose your true residency, the garage location of one of the vehicles and all household members. Additionally you provided false and misleading information in a recorded statement taken on May 21, 2014. You also failed-to disclose that the 2009 Honda Civic was co-owned with Otniel Mendoza-Ordenana and conversely failed to disclose all household was co-owned with Otniel Mendoza-Ordenana and conversely failed to disclose all household members at the Berlin, New Jersey address.”	Address of true residency, which vehicle and its garage location, names of all HH members at both the Berlin and Williamstown addresses and state the was false and misleading information in the RS
Voids- UW	NC10087067	“...Heewon, whose driving record does not meet our acceptance criteria.”	Company should list the Acceptance Criteria that the driver does not meet
Voids- UW	NC10099675	“failed to disclose that...license is currently suspended for a major violation.”	Sate major violation with occurrence and posted dates
Voids- UW	NC10086774	“..failed to disclose that within the last 36 months there have been four paid insurance losses..”	The dates of the four paid insurance losses
Voids- UW	NC10099130	“..failed to disclose all household residents”	Names of all undisclosed HH members
Voids- UW	NC10098729	All HH residents not disclosed on the App.	Must name each HH resident

Cancel-Midterm	NC10063308	"... failure to disclose all members of your household."	Name all HH members
Cancel-Midterm	NC10087848	"... failed to disclose your true marital status."	What is her marital status
Cancel-Midterm	NC10082885	"... your failure to disclose...all residents of that (true) address."	Name those HH members at the Long Branch, NJ residence
Cancel-Midterm	NC10094117	"... your failure to disclose... The 2007 Toyota is garaged at an address other than the policy address."	Address where the 2007 Toyota is garaged
Cancel-Midterm	NC10087784	"...Failed to disclose all members of your household."	Names of the undisclosed household members
Cancel-60 Day	NC10095216	"... failure to disclose all residents of your household."	Name all HH members
SIU-UW	NC10083677	"... failed to disclose your true marital status."	Indicate her true marital status
SIU-UW	NC10087716	"...2003 Honda Accord and that the vehicle is garaged at an alternate location."	Address of the garaged location
SIU-UW	NC10074510	"failed to disclose your true residency and the alternate garage location of all vehicles."	Specify true address of the residence and location of garaged vehicles.
SIU-UW	NC10077991	... fail to disclose true address & all HH members.	Indicate marital status
SIU-UW	NC10095829	Fail to disclose true marital status.	Indicate marital status

SIU- Claims	NC10086116	"... failed to disclose that the Dodge would be garaged at an alternate location."	Address of that garaged location
SIU- Claims	NC10084478	"... failed to disclose that you were the owner of additional vehicles."	Make, model and year of the additional vehicles
SIU- Claims	NC10095702	"... failed to disclose that you were the registered owner of additional vehicles."	Make, model and year of the additional vehicles
SIU- Claims	NC10082164	"... failed to disclose all household members and operators of the insured vehicle."	Names of HH members and operators of the insured vehicle
SIU- Claims	NC10082478	"failed to disclose your true marital status, all residents of household..."	Indicate the true marital status and name all HH members

2. Failure to Adhere to Company's Acceptance Criteria - 1 File in Error

Policy Number

NC00045799

APPENDIX C – Claim Errors

1. **Restrictive Storage Fee Liability Language in Form Letter - 1 File in Error (Improper General Business Practice)**

Policy Number

NC10098941

2. **Failure to Maintain a Complete Claim File - 1 Void-Claim File in Error**

Policy Number

NC10087481

IV. VERIFICATION PAGE

I, Robert Greenfield, am the Examiner-in-Charge of the Market Conduct Examination of Citizens United Reciprocal Exchange 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 contained in the foregoing report represent, to the best of my knowledge, a full and true statement of the Market Conduct examination of CURE as of July 2, 2015.

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.

8/30/15
Date

Robert Greenfield
Robert Greenfield
Examiner-In-Charge
New Jersey Department
of Banking and Insurance