

1 Respondents. The on-site examination was concluded March 30,
2 1994 and a Report of Examination ("Report") was written. All
3 policies examined had effective dates of April 12, 1989 through
4 October 24, 1993.

5 3. The National Council of Compensation Insurance ("the
6 NCCI"), a duly licensed rating organization in Arizona, makes
7 rate filings on behalf of its members with the ADOI. Workers'
8 Compensation ("WC") insurers are required by statute to belong
9 to a WC rating organization and to adhere to its rates unless
10 the insurer has filed deviations from these rates. Respondents
11 are members of the NCCI. Any reference to the filings of these
12 Companies, or their "filed rates and rules" means rates and
13 rules filed with the ADOI by these Companies or by the NCCI on
14 their behalf.

15 4. The NCCI's Schedule Rating Plan ("Plan") was approved
16 for use in Arizona July 8, 1982 by the Director. Effective
17 October 1, 1988, The Plan was amended to require insurers to
18 include within each WC file a completed schedule rating ("SR")
19 worksheet and loss prevention survey. Respondents have not
20 adopted the Plan and at the time of the Examination did not
21 write WC policies in the State of Arizona.

22 5. NNCC issued one (1) WC policy with no documentation of
23 the experience modifier used

24 6. NNCC issued three (3) WC policies where there was no
25 application to the NCCI for the experience modifiers.

26 7. NNCC issued one (1) WC policy with a different
27 experience modifier than was computed by the NCCI.

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1 8. NNCC issued two (2) WC policies where the Inter/Intra
2 State Risk Identification Number was not on the policy
3 Information Page.

4 9. NNCC issued five (5) WC policies, but failed to attach
5 the Arizona Countersignature Endorsements.

6 10. NNCC issued two (2) WC policies, but failed to use the
7 correct filed rates.

8 11. NNCC issued six (6) WC policies using prior revision
9 rates.

10 12. Respondents are members of the Insurance Services
11 Office ("ISO"), a property and casualty (P&C) rating
12 organization duly licensed by the ADOI to file rates on behalf
13 of its members. ISO files rates on behalf of Respondents.
14 Respondents have filed with the ADOI various deviations from the
15 ISO filings as well as having filed independent filings of their
16 own.

17 13. Respondents failed to document commercial package
18 ("CP") policies as follows:

19 a. NNI issued two (2) CP policies and NNCC issued
20 eleven (11) CP policies, but failed to include any documentation
21 in support of the Schedule/IRPM credits/debits.

22 b. NNCC issued one (1) CP policy, but failed to
23 adequately document the IRPM/schedule credits/debits.

24 c. NNI issued one (1) CP policy and NNCC issued ten
25 (10) CP policies where the documentation in the files was
26 different from the actual schedule credits/debits that had been
27 applied to the policies.

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d. NNCC issued twelve (12) CP policies, but failed to document its justification for changes made in the schedule or IRPM credits/debits to various sections of the policies.

14. NNCC issued thirteen (13) CP policies applying the Company's IRPM rating plan. This plan could only be applied to CP policies only if they did not qualify for an experience and schedule rating plan. These policies did not qualify for the Company IRPM program for this reason.

15. NNI issued one (1) CP policy and NNCC issued thirteen (13) CP policies applying schedule/IRPM credits/debits which exceeded the maximum individual risk characteristics percentages allowable by the Company's filed plan.

16. NNI issued one (1) CP policy and NNCC issued six (6) CP policies applying schedule credits/debits which exceeded the total maximum percentage of their filed plans.

17. NNCC issued five (5) CP policies that were eligible for schedule rating ("SR"), but the Company failed to consider them for the Plan.

18. NNCC issued two (2) CP policies where the Company applied schedule credits/debits not in accordance with its filed SR plan by the use of "Range Quotes".

19. NNCC issued fourteen (14) CP policies, but applied the IRPM and/or SR plans to achieve desired premiums.

20. NNCC issued five (5) CP policies, but failed to have experience rating ("ER") worksheets in the file.

21. NNCC issued five (5) CP policies applying an experience modifier other than the modifier that was promulgated.

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1 22. NNCC failed to apply ER to twenty-six (26) CP policies
2 which qualified for ER.

3 23. NNI issued one (1) CP policy and NNCC issued twelve
4 (12) CP policies, but applied ER when the policies did not
5 qualify for the application of ER.

6 24. NNCC issued two (2) CP policies, but failed to use the
7 filed method of combining the experience and schedule
8 credits/debits.

9 25. NNI issued one (1) CP policy and NNCC issued
10 thirty-three (33) CP policies using the ISO Non-Loss Cost
11 Experience Rating Plan#19-400 for automobile liability and
12 #21-400 for automobile physical damage. The policies should have
13 been rated on ISO's Loss Cost Experience Rating plan #19-100 and
14 #21-100.

15 26. NNCC issued five (5) CP policies, but did not use
16 actual plan premiums in the determination of its experience
17 calculations.

18 27. NNI issued four (4) CP policies and NNCC issued
19 thirty-one (31) CP policies, but used unfiled detrend factors
20 not found in any filed plan.

21 28. NNCC issued one (1) CP policy, but failed to use all
22 known losses in the experience calculations of the general
23 liability ("GL") and automobile.

24 29. NNI issued two (2) CP policies and NNCC issued
25 sixty-five (65) CP policies, but failed to calculate the correct
26 premium entry levels for ER.

27 30. NNCC issued three (3) CP policies, but failed to
28 attach filed endorsements.

1 31. NNCC issued three (3) CP policies, but failed to send
2 notice of nonrenewal pursuant to A.R.S. § 20-1676(B).

3 32. NNI issued one (1) CP policy and NNCC issued thirteen
4 (13) CP policies, but failed to send to the insureds the
5 required sixty (60) day notice of premium increase or policy
6 change pursuant to A.R.S. § 20-1677.

7 33. NNCC issued six (6) CP policies where the premium had
8 been either increased or reduced from what the premium would
9 have been to meet a quote or competition.

10 34. NNI issued one (1) CP policy and NNCC issued twelve
11 (12) CP policies, but the files failed to contain any rating
12 worksheets. The Examiners were not able to verify rates,
13 classifications and coverage rated, or premiums charged.

14 35. NNI issued one (1) CP policy where the policy was
15 given a 45% deviation in a non-deviated company.

16 36. NNCC issued one (1) CP policy but failed to apply the
17 correct package modifier to the policy.

18 37. NNCC issued seven (7) CP policies but failed to apply
19 a package modifier.

20 38. NNCC issued seven (7) CP policies, but failed to apply
21 its small fleet credit.

22 39. NNCC issued five (5) CP policies, but did not use the
23 correct classifications.

24 40. NNCC issued one (1) CP policy, but did not use the
25 correct increased limit factor ("ILF") on automobile.

26 41. NNCC issued two (2) CP policies applying unfiled "A"
27 rates.

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1 42. NNCC issued two (2) CP policies, but did not apply the
2 filed minimum premiums to the umbrella section.

3 43. NNCC issued one (1) CP policy using prior revision
4 rates on the automobile section.

5 44. NNCC issued five (5) CP policies, but did not use the
6 correct filed excess rating factors in the determination of the
7 umbrella premiums.

8 45. NNCC issued one (1) CP policy applying a 10% debit to
9 the commercial automobile ("CA"). The policy was rated under the
10 company's "Small Fleet Credit Plan" which does not have a
11 provision for a debit modification.

12 46. NNCC issued one (1) CP policy and its renewal for two
13 (2) terms, but failed to rate for towing and rental
14 reimbursement coverages.

15 47. NNCC issued one (1) CP policy where the company quoted
16 the risk in the deviated company, however, it was issued in the
17 non-deviated company.

18 48. NNI issued one (1) CP policy and NNCC issued thirteen
19 (13) CP policies, but did not apply the correct underlying
20 premium on the umbrella section of the CP policies.

21 CONCLUSIONS OF LAW

22 1. By making adjustments to full manual premiums
23 developed for WC risks without documenting or adequately
24 documenting facts supporting the adjustments in the policy
25 files, NNCC violated A.R.S. § 20-400.01(B). By developing
26 premiums for these policies on the basis of such adjustments,
27 NNCC violated A.R.S. § 20-400.01(A).

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1 2. NNCC violated A.R.S. §§ 20-357(E) and 20-359(A) by
2 issuing WC policies which were not in accordance with WC
3 filings, including the Plan and deviations therefrom, filed by
4 NNCC and by the NCCI on its behalf.

5 3. By calculating the premiums of certain WC insureds
6 differently than those of other insureds having substantially
7 like insuring, risk and exposure factors, or expense elements,
8 NNCC unfairly discriminated between insureds in violation of
9 A.R.S. §§ 20-356(1) and 20-448(C).

10 4. By failing to attach countersignature endorsements to
11 WC policies, NNCC violated A.R.S. § 20-229(A).

12 5. By making adjustments to full manual premiums
13 developed for CP risks without adequately documenting facts
14 supporting the adjustments in policy files, NNCC and NNI
15 violated A.R.S. § 20-400.01(B) and (D). By issuing policies
16 rated without adequate documentation, NNCC and NNI violated
17 A.R.S. § 20-400.01(A).

18 6. NNCC and NNI violated A.R.S. § 20-400.01(A) by
19 developing premiums for CP risks in a manner not consistent with
20 filings made by NNCC and NNI pursuant to A.R.S. § 20-385(A).

21 7. By misclassifying risks and determining their rates on
22 the basis of the misclassifications, NNCC violated A.R.S. §
23 20-400.01(B) and (C). By developing premiums based upon these
24 misclassifications, NNCC violated A.R.S. § 20-400.01(A).

25 8. By using unfiled rates, NNCC and NNI violated A.R.S.
26 § 20-385(A).

27 9. By calculating the premiums of certain CP insureds
28 differently than those of other insureds having substantially

1 like insuring, risk and exposure factors, or expense elements,
2 NNCC and NNI unfairly discriminated between insureds in
3 violation of A.R.S. §§ 20-383(A) and 20-448(C).

4 10. By failing to include documentation in the files of CP
5 policies to verify the rates and premiums charged, NNCC and NNI
6 violated A.R.S. § 20-400.01(D).

7 11. By failing to attach filed endorsements to CP
8 policies, NNCC violated A.R.S. § 20-1113(7).

9 12. By failing to send to CP insureds the required notice
10 of nonrenewal, NNCC violated A.R.S. § 20-1676(B).

11 13. By failing to send to the insured notices of premium
12 increase or substantial reduction in coverage of CP policies at
13 least sixty (60) days before the expiration date of the policy
14 NNCC and NNI violated A.R.S. § 20-1677(A).

15 14. By reducing premiums, not charging premiums or
16 increasing premiums in an effort to meet a quote or competition,
17 NNCC violated A.R.S. § 20-451(A).

18 15. Grounds exist for the entry of all provisions of the
19 following Order.

20 ORDER

21 Respondents having admitted the jurisdiction of the
22 Director to enter the Order set forth herein, having waived the
23 Notice of Hearing, and having consented to the entry of the
24 Order set forth hereinafter, and there being no just reason for
25 delay:

26 **IT IS HEREBY ORDERED THAT:**

27 1. Respondents shall cease and desist from failing to
28 develop WC and CP policies in accordance with their filings;

1 from failing to document facts supporting policy premiums; from
2 unfairly discriminating against insureds; from failing to
3 develop and document premiums in accordance with ER and SR
4 plans; from failing to timely mail notices of premium increase
5 or policy change to insureds; from using rating procedures which
6 result in certain insureds' paying different premiums than
7 others having substantially like insuring, risk and exposure
8 factors; from classifying risks other than pursuant to filed
9 rates and rules; from failing to send notices of nonrenewal;
10 from decreasing or increasing premium to meet a quote or
11 competition and from charging rates other than those filed with
12 the ADOI.

13 2. Respondents shall develop and submit to the ADOI,
14 within sixty (60) days of the filed date of this Order, a
15 written action plan to require documentation in such detail that
16 the credits/debits applied to the premiums developed for the
17 risk are clearly supported by the facts.

18 3. The applicable Respondents, either NNCC or NNI
19 depending on which Company issued the policy, shall reimburse
20 the policyholders, listed in the Report, for overcharges in the
21 total net amount of \$53,681.00, plus interest at the rate of ten
22 percent (10%) per annum calculated from the date paid by the
23 insured to the date of repayment to the insured. In the event
24 that all policyholders can not be found by the Respondents for
25 the purpose of the repayments, Respondents shall comply with the
26 provisions of the Arizona Unclaimed Property Act. All
27 reimbursements shall be accompanied by a letter acceptable to
28 the Director, indicating why the refund is being sent. A list of

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reimbursements, giving the name and address of each policyholder reimbursed, the amount of the overcharge, the amount of interest paid, and the date of payment shall be filed with the ADOI within sixty (60) days of the filed date of this Order.

4. The ADOI shall be permitted, through authorized representatives, to verify Respondents have fully complied with all requirements of this Order, and the Director may separately order Respondents to comply.

5. Respondents shall pay a civil penalty of Twenty-Two Thousand Five Hundred Dollars (\$22,500.00) to the Director for remission to the State Treasurer for deposit in the State General Fund in accordance with A.R.S. §20-220(B). Said amounts shall be provided to the Market Conduct Examinations Division of the ADOI on or before July 31, 1995.

6. The February 24, 1994 Report of Examination, to include any objections to the Report by the Respondents, shall be filed with the ADOI.

DATED at Phoenix, Arizona this 16th day of August, 1995.


Chris Herstam
Director of Insurance

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CONSENT TO ORDER

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2 1. Respondents, Northwestern National Casualty Company
3 and N N Insurance Company have reviewed the foregoing Consent
4 Order.

5 2. Respondents are aware of their right to a hearing at
6 which hearing Respondents may be represented by counsel, present
7 evidence and cross-examine witnesses. Respondents have
8 irrevocably waived their right to such public hearing and to any
9 court appeals relating thereto.

10 3. Respondents admit the jurisdiction of the Director of
11 Insurance, State of Arizona, and consent to the entry of this
12 Consent Order.

13 4. Respondents state that no promise of any kind or
14 nature whatsoever was made to them to induce them to enter into
15 this Consent Order and that they have entered into this Consent
16 Order voluntarily.

17 5. Respondents acknowledge that the acceptance of this
18 Order by the Director of Insurance, State of Arizona, is solely
19 for the purpose of settling this matter against them and does
20 not preclude any other agency or officer of this state or
21 subdivision thereof from instituting other civil or criminal
22 proceedings as may be appropriate now or in the future.

23 6. Duane R. DuBois represents that as
24 Vice President & General Counsel he is an officer of Respondents, Northwestern
25 National Casualty Company and N N Insurance Company and that, as
26 such, he is authorized by them to enter into this Consent Order
27 on their behalf.

NORTHWESTERN NATIONAL CASUALTY COMPANY
N N INSURANCE COMPANY

28 July 25, 1995

(DATE)

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COPY of the foregoing mailed/delivered
this 16th day of August , 1995, to:

- Charles R. Cohen
Deputy Director
 - Gregory Y. Harris
Executive Assistant Director
 - Lewis D. Kowal
Chief Administrative Law Judge
 - Erin Klüg
Executive Assistant to the Director
 - Jimmy Potts
Market Conduct Examination Coordinator
Examinations Division
 - Saul Saulson
Supervisor
Examinations Section
 - Dean Ehler
Supervisor
Property and Casualty Section
 - Deloris E. Williamson
Assistant Director
Rates & Regulations Division
 - Gary Torticill
Assistant Director and Chief Financial Examiner
Corporate & Financial Affairs Division
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