

**REPORT OF EXAMINATION**  
**OF THE**  
**MARKET CONDUCT AFFAIRS**  
**OF**  
**THE HANOVER INSURANCE COMPANY**

**WORCESTER, MASSACHUSETTS**

**AS OF**

**September 30, 2007**

**NAIC CODE 22292**

**NAIC ETS EXAM NO. LA071-M74**

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LOUISIANA DEPARTMENT OF INSURANCE  
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June 4, 2008

Honorable James J. Donelon  
Commissioner of Insurance  
P O Box 94214  
Baton Rouge, Louisiana 70804-9214

Sir:

Pursuant to statutory provisions and in compliance with your instructions, a targeted market conduct examination has been made of the affairs of

**THE HANOVER INSURANCE COMPANY**

**440 LINCOLN STREET**

**WORCESTER, MASSACHUSETTS 01653**

as of September 30, 2007 and the report of examination is herewith submitted.

## **FOREWORD**

A targeted market conduct examination was performed of the activities of The Hanover Insurance Company from August 28, 2005 through September 30, 2007. The examination was performed by test and all tests applied during the examination are included in this report.

### **PURPOSE AND SCOPE OF MARKET CONDUCT EXAMINATION**

In accordance with **LRS 22:1301 et. seq.**, the market conduct examination of The Hanover Insurance Company, hereinafter referred to as ("Company"), was a targeted market conduct examination authorized by the Louisiana Department of Insurance ("Department") to examine the handling of claims resulting from Hurricanes Katrina and Rita.

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws, Regulations, Directives and the National Association of Insurance Commissioners ("NAIC") Guidelines.

The ACL Program, a data manipulation program, provided by the Department was utilized in this examination. Samplings were utilized to test the Company's records and procedures. The ACL Program was used to automatically generate a random sampling of claims records. "Random" is a theoretical concept meaning that all items in a population or file (before selection) have an equal chance of appearing in the sampling.

Generally, a random or systematic sampling size of sixty (60) records will be selected for review. A minimum confidence level of ninety-five percent (95%) with a maximum error rate of five percent (5%) will be used for all samples.

The examination included, but was not limited to, the following areas of the Company's operation:

- Company Operations and
- Claims

## **COMPANY OPERATIONS**

### ***Company History***

The Company provided the following synopsis:

“The Hanover Insurance Company is a wholly-owned subsidiary of Opus Investment Management, Inc. (“Opus”) which, in turn, is a wholly-owned non-insurance subsidiary of The Hanover Insurance Group, Inc. (“THG”), a publicly traded company incorporated in Delaware.”

“The Hanover Insurance Company was incorporated under the laws of New Hampshire on October 5, 1972 with the temporary title The Hanover Insurance Co., Inc., to act as a vehicle for the transfer of the corporate domicile of The Hanover Insurance Company, New York, New York, effective on January 1, 1973. The predecessor company was incorporated and commenced business in New York on April 15, 1852. The Company originally operated under the title “The Hanover Fire Insurance Company until January 1, 1958, when the word “Fire” was deleted. Administrative offices moved from New York, New York to Worcester, Massachusetts, in November 1969.”

### ***Hurricane Claims Handling***

The Company provided the following write-up detailing its handling of the hurricane claims:

“Hurricane Katrina made landfall on August 29, 2005 bringing unprecedented devastation and destruction to Louisiana citizens and property located in the City of New Orleans and surrounding areas. The Company’s own Louisiana Branch in Kenner sustained hurricane damage and indeed some Company Claim staff residing in affected areas were faced with their own loss of home and personal property. The following timeline will set forth the major actions taken by the Company and the approximate key dates of such actions to fully respond to the needs of customers impacted by the devastation and magnitude of this catastrophe:

August 30, 2005

- Deployment of the Company’s dedicated Catastrophe Team and Management Staff to Louisiana

September 1, 2005

- Deployment of Large Loss/Commercial lines Team (Executive General Adjusters, Regional General Adjusters and Senior Adjusters)
- Deployment of Wave List/Personal lines Team (Inside and Field Property Adjusters)
- Deployment of 7 Independent Adjusting Firms (totaling approx 300 adjusters)
- Deployment of Catastrophe Assistance Supplemental Team (C.A.S.T)
  - First Notice of Loss
  - Customer Service Representatives/Adjusters
  - Administrative Support Team
- Issued advance payments to assist policy holders displaced from homes and business up to \$5000.00 when loss was reported.
  - Reconnaissance into heavily hit areas during access times to inspect and meet policyholders that were at loss sites
  - Additional advances issued upon merits of claim/inspections completed

September 7, 2005

- Claim Representatives were stationed in the offices of 12 of the hardest hit Hanover Agents in the New Orleans area to assist with loss intake, questions, advance payments and claim handling as needed

September 15, 2005

- Issued Electronic Fund Transfers (EFT) to customers as requested.
- Losses \$100,000 and greater were assigned to Hanover Staff adjusters to ensure consistency in claim handling

September 2005

- The Company leased 4500 sq ft office in Baton Rouge to set up a base of operations for the Catastrophe Team and to provide customer service assistance.
- Three mobile vans displaying the Hanover logo (to improve visibility to Hanover customers) were sent to heavily damaged areas.
- In September/October of 2005, a dedicated Katrina Team consisting of CSR, Adjusters and Admin group evolved from our C.A.S.T group in Worcester, Massachusetts, this helped in consistency of procedures and claim handling

November 2005

- To handle loss issues of Wind vs. Water a dedicated team was developed to ensure consistent claim handling and resolution.
  - This team was moved to Worcester, Massachusetts in November of 2005 to provide better flexibility and staffing resources.
  - This team consisted of 10 adjusters and 1 manager
  - Re-inspections of heavily flooded areas were conducted to ensure appropriate scoping of the wind vs. flood and estimating of the covered damages

December 2005

- In December of 2005 a Catastrophe Office was established in Atlanta, Georgia to handle commercial claims under \$100,000.
  - This office consisted of 15 adjuster and 3 managers”

## **CLAIMS REVIEW**

The Company provided a file of all claims for Hurricanes Katrina and Rita from August 28, 2005 through September 30, 2007. The file was analyzed using ACL and the following categories and amounts were found:

<u>Type of Claim</u>	<u>No. of Claim Lines</u>	<u>No. of Claims</u>	<u>Paid Amount</u>
Closed	32,673	9,232	\$143,744,183
Open *	282	130	\$ 4,113,100
Denied **	<u>1,931</u>	<u>1,533</u>	<u>\$ 14,178</u>
Total	34,886	10,895	\$147,871,461

\* Paid Amount includes partial payments on claims and ALE payments.

\*\* Paid Amount includes payments for ALE.

### *Closed Claims Review*

A random sample of sixty (60) closed paid claims was selected from a listing provided by the Company for the period of August 28, 2005 through September 30, 2007. The files were reviewed to determine the time taken to pay the claims and to determine if the files contained adequate documentation. Also, the files were reviewed to determine if the adjustment of the claims was conducted in accordance with the statutes and regulations.

It was found that three (3) claims in the sample had no payments made within thirty (30) days after receipt of the estimate as required by the statutes. This is not in compliance with **LRS 22:658 A.(1)** which states:

**"All insurers issuing any type of contract, other than those specified in R.S.22:656, R.S. 22:657, and Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, shall pay the amount of any claim due any insured within thirty days after receipt of satisfactory proofs of loss from the insured or any party in interest..."**

It is recommended that the Company implement procedures to ensure that all claims are paid in accordance with the above statute.

The Company provided the following response to the exception:

"Upon review of [two of the claims in question] we find that payment of an undisputed [amount] was inadvertently delayed while waiting for documentation

regarding other portions of the claim. This is not in accordance with our normal business practice. In fact for [one of these claims] upon receipt of the claim file in home office, the claim was paid within 48 hours.”

“With respect to [the third claim] we find that the file was received on 11/15/05, reviewed and authorized for payment nine days later on 11/24/05. We cannot account for the delay in payment [claim paid on 1/30/06] other than that it appears this file must have been accidentally misplaced.”

All of the claims in this sample were paid in an average of fourteen (14) days after receipt of proof of loss from the adjuster.

It was found that the initiation of the loss adjustment for all of the claims in the sample was started within thirty (30) days after notification of the loss as required by the statutes. The initiation of the loss adjustment of the claims in the sample was started in an average of three (3) days after notification of the loss.

In one (1) case, it was found that a \$1,000 deductible had been deducted from the estimate. The policy in effect at the time of the claim showed a \$500 deductible. The Company stated that the incorrect deductible amount was picked up from the renewal policy and not from the policy in effect at the time of the loss. The Company refunded the \$500 difference to the insured when this was pointed out by the examiner.

In two (2) other cases, it was found that an incorrect deductible amount had been used in the estimates. In these cases, the Company did not issue a refund because an ALE advance of \$1,500 had been issued to the insured but this advance had not been accounted for with receipts for the ALE. This advance more than covered the amount of the error in the deductible.

### *Open Claims Review*

A random sample of sixty (60) open paid claims was selected from a listing provided by the Company for the period of August 28, 2005 through September 30, 2007. The files were reviewed to determine the time taken to pay the claims and to determine if the files contained adequate documentation. Also, the files were reviewed to determine if the adjustment of the claims was conducted in accordance with the statutes and regulations. Sixteen (16) of the claims in the sample had been closed by the time the examination commenced.

It was found that seven (7) claims in the sample had no payments made within thirty (30) days after receipt of the estimate as required by the statutes. This is not in compliance with **LRS 22:658 A.(1)** which states:

**"All insurers issuing any type of contract, other than those specified in R.S.22:656, R.S. 22:657, and Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, shall pay the amount of any claim due any insured within thirty days after receipt of satisfactory proofs of loss from the insured or any party in interest..."**

It is recommended that the Company implement procedures to ensure that all claims are paid in accordance with the above statute.

The Company provided the following response to the exception:

"With regard to the 7 files found to have been paid outside the statutory time frame, we respectfully request that the Department consider the exceptional volume of claims, the difficult working situation generally presented by Katrina, the logistical issues presented by flooded roads and condemned areas. In addition, we would point out the following:

- Payments were made on all 7 exception claims;

- 5 of these claims were complicated by difficulty determining flood vs. wind damage, (in fact on one claim the house had been reduced to a roof lying on the slab foundation). This could not be reasonably concluded within 30 days;
- 1 claim had been received in our Baton Rouge Cat HQ on November 18, 2005 approved for payment on November 28, 2005 and due to a clerical error closed without payment 5 days later. Once the file arrived in Home Office it was reviewed on December 28, 2005, the error was found, and the file was paid the same day. Thus, this error was completely inadvertent and was the result of the tremendous volume of claims being processed.”

All of the claims in this sample were paid in an average of fourteen (14) days after receipt of proof of loss from the adjuster.

It was found that the initiation of the loss adjustment for all of the claims in the sample was started within thirty (30) days after notification of the loss as required by the statutes. The initiation of the loss adjustment of the claims in the sample was started in an average of three (3) days after notification of the loss.

It was found that fifty (50) of the sixty (60) open claims in the sample (83%) were in litigation at the time of the examination.

On one (1) claim, it was found that an incorrect deductible amount was used in the estimate. The Company refunded the difference to the insured when this was pointed out by the examiner.

### *Denied Claims Review*

The Company provided a listing of claims that were either denied or closed without payment during the period of August 28, 2005 through September 30, 2007. A random sample of sixty (60) claims was selected from this listing. The claims were reviewed to determine the reason for denial or closure. A summary of the reasons is presented in the following table:

<b><u>Reason for Closure or Denial</u></b>	<b><u>Number of Claims</u></b>
Claim below deductible	29
Not a denied claim*	20
Insured did not pursue claim	4
Duplicate claim	2
No damage	1
No coverage for fallen tree	1
No coverage for food loss	1
Insured sent checks back but not reissued	1
Insured would not cooperate on looting claim	1
Total	60

\* These claims had some features paid and some features closed without payment.

It was found that an incorrect deductible was used in one (1) claim and the claim was denied because the amount of damage was below the deductible. When it was pointed out to the Company that an incorrect deductible was used, the Company agreed that a payment was due and the payment was issued to the insured.

### ***Additional Living Expense***

The Company provided the following explanation of the Additional Living Expense (ALE) payments provided to the insureds:

“The Hanover Insurance Group issued Additional Living Expense payments in 2 different situations.

1. Civil Authority – Under the civil authority section of the policy there was up to 14 days of coverage.

- Payment under the Civil Authority coverage was directed to those insureds that lived in the parishes or towns that were restricting re-entry after the storm

2. Additional Living Expense

- ALE payments were issued to those insureds that had a covered cause of loss that made the residence premises uninhabitable

3. Calculation

- ALE was calculated based on documentation presented by the insured to our adjusters or
- ALE was calculated on a per diem basis using the attached form if the insured did not have any records to present to the adjuster”

### ***General Comments***

In several cases, it was noted that the ALE payment was in the form of an advance given to the insured soon after the claim was reported. If the insured did not present any receipts for the ALE expenses, then the advance was deducted from the dwelling damage payment when it was paid.

## COMMENTS AND RECOMMENDATIONS

### CLAIMS REVIEW

It was found that three (3) claims in the closed claims sample had no payments made within thirty (30) days after receipt of the estimate as required by the statutes. This is not in compliance with **LRS 22:658 A. (1)**. It is recommended that the Company implement procedures to ensure that all claims are paid in accordance with the above statute.

It was found that seven (7) claims in the open claims sample had no payments made within thirty (30) days after receipt of the estimate as required by the statutes. This is not in compliance with **LRS 22:658 A. (1)**. It is recommended that the Company implement procedures to ensure that all claims are paid in accordance with the above statute.

## CONCLUSION

I, Richard S. Robison, do solemnly swear and affirm that I am an examiner for the Commissioner of Insurance of the State of Louisiana and that, as such, I was assigned to conduct a targeted examination of the market conduct activities of

### **THE HANOVER INSURANCE COMPANY**

### **WORCESTER, MASSACHUSETTS**

That I made such examination and the above and foregoing is a true and correct copy of my report of such company and the same is true and correct to the best of my knowledge, information and belief.

I would like to acknowledge the courteous cooperation of the Company's Officers and Employees.

Respectfully submitted,



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**Richard S. Robison**  
**Louisiana Department of Insurance**