



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

SENTRY INSURANCE A MUTUAL COMPANY  
1800 N POINT DRIVE, STEVENS POINT WI 54481

dated April 1, 2008, and served upon the company on January 8, 2009, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 6th day of February, 2009.

Sean Dilweg  
Commissioner of Insurance

**STATE OF WISCONSIN  
OFFICE OF THE COMMISSIONER OF INSURANCE**

**MARKET CONDUCT EXAMINATION**

**OF**

**SENTRY INSURANCE A MUTUAL COMPANY  
STEVENS POINT, WISCONSIN**

**NOVEMBER 07-18, 2005**

**MARCH 10-14, 2008**

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor  
Sean Dilweg, Commissioner

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April 1, 2008

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Honorable Sean Dilweg  
Commissioner of Insurance  
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted November 07 to November 18, 2005, with a continuation examination conducted March 10 to March 14, 2008 of:

SENTRY INSURANCE A MUTUAL COMPANY

Stevens Point, Wisconsin

and the following report of the examination is respectfully submitted.

## I. INTRODUCTION

Sentry Insurance a Mutual Company (the company) had its origins in the Wisconsin Retail Hardware Association at the turn of the twentieth century. In response to dissatisfaction over insurance rates, the Wisconsin Retail Hardware Association (which has since evolved into the Midwest Hardware Association) established the Hardware Dealers Mutual Fire Insurance Company of Wisconsin, which was incorporated on June 10, 1903 and commenced business on April 8, 1904. The mutual company's name was changed to "Hardware Dealers Mutual Fire Insurance Company" in 1928.

In 1911, the Wisconsin Legislature approved the first worker's compensation law in the United States, which required employers to carry insurance as protection for employees injured on the job. The existing state licensing restrictions did not permit a single company to write both property and casualty risks. Accordingly, the Wisconsin Retail Hardware Association funded a

new mutual company to act as the companion casualty carrier with the association's property insurer, Hardware Dealers Mutual. The new company was named Wisconsin Hardware Limited Mutual Liability Insurance Company and was incorporated under the laws of the state of Wisconsin on December 19, 1913, and began business August 15, 1914.

Both companies experienced rapid growth. The passage of worker's compensation laws throughout the country, expanded opportunities; particularly for the casualty company. By 1932, both companies were licensed in every state of the United States.

At a meeting of the policyholders held on October 16, 1935, the articles of both companies were amended to permit issuance of non-assessable policies. Since January 1, 1943, all policies have been issued on a non-assessable basis. In 1963, the companies adopted the trade name of "Sentry Insurance", together with the minuteman corporate logo.

In September of 1966, the companies acquired majority financial control of Dairyland Insurance Company and its downstream subsidiaries.

In 1970 the boards of directors, the membership of which was identical, resolved to merge Hardware Dealers Mutual Fire Insurance Company into Hardware Mutual Casualty Company. On July 1, 1971, the company changed its name to "Sentry Insurance a Mutual Company."

Sentry Insurance affiliated group offers a variety of insurance coverage, including life, group health, auto, and property & casualty insurance. The mutual company also offers coverage through several subsidiaries. The company is licensed in the fifty United States, the District of Columbia, and Canada. Business is primarily written through a sales force consisting of 776 direct writers and 25 national and regional insurance brokerage firms.

In 2005 Sentry Insurance acquired ALF Insurance Agency, one of its brokerage partners. With about 15 Michigan locations, ALF continues to operate as an independent agency and sell other companies' products. The company also acquires business through participation in residual market mechanisms. Brokers earn commissions and may also earn

contingent commissions based on production volume and profitability of the business written. Direct writers are employees of the company. They are compensated through new and renewal commissions. However, they receive subsidies for a time at the beginning of their employment, a comprehensive benefit package, and are also eligible for special bonuses and incentives.

In the state of Wisconsin, the company is licensed to transact the following lines of business as defined by s. Ins 6.75 (2), Wis. Adm. Code:

- a) Fire, Inland Marine, and Other Property
- b) Ocean Marine
- c) Disability
- d) Liability and Incidental Medical Expense
- e) Automobile and Aircraft
- f) Fidelity
- g) Surety
- h) Credit
- i) Worker's Compensation
- j) Credit Unemployment
- k) Miscellaneous

### Licensed States and Jurisdictions

As indicated previously, Sentry Insurance a Mutual Company is licensed in all 50 states, as well as the District of Columbia, American Samoa, Guam, Puerto Rico, the U.S. Virgin Islands, and Canada.

The following table summarizes the total direct national premium written in 2004 and 2003 as compared to the total direct premium written in Wisconsin.

### National Direct Premium Written to Wisconsin Direct Premium Written

Year	National Direct Premium Written	Wisconsin Direct Premium Written	WI As a Percentage of the National Premium
2006	\$ 597,953,290	\$ 144,879,613	24.22%
2005	\$ 628,376,283	\$ 138,065,128	21.97%
2004	\$ 603,905,341	\$ 137,948,274	22.84%
2003	\$ 587,960,114	\$ 139,871,133	23.79%

The majority of the premium written by the company in Wisconsin from 2003 to 2006 was worker's compensation, homeowners, and personal passenger automobile. In 2003 and

2004, the company was ranked the 4th largest writer of worker's compensation, 11th largest writer of homeowners, and ranked as the 15th largest writer of personal passenger automobile.

The following tables summarize the premium written and incurred losses in Wisconsin from 2003 to 2006 broken down by line of business.

### Wisconsin Direct Premium and Loss Summary

2006				
Line of Business	Premium Earned	% of WI Total	Losses Incurred	Pure Loss Ratio
Fire & Allied Lines	\$3,053,764	2.13%	\$1,453,331	47.59%
Homeowners/Farmowners	\$14,249,984	9.92%	\$12,932,480	90.75%
Commercial Multiple Peril	\$1,127,414	0.79%	\$609,779	54.09%
Worker's Compensation	\$81,506,880	56.76%	\$65,917,755	80.87%
Private Passenger Auto	\$25,852,875	18.00%	\$9,721,483	37.60%
Commercial Auto	\$6,351,844	4.42%	\$4,025,490	63.38%
All Others	\$11,454,810	7.98%	\$5,894,717	51.46%
<b>Total</b>	<b>\$143,597,573</b>	<b>100.00%</b>	<b>\$100,555,033</b>	<b>70.03%</b>

2005				
Line of Business	Premium Earned	% of WI Total	Losses Incurred	Pure Loss Ratio
Fire & Allied Lines	\$2,965,615	2.24%	\$1,490,934	50.27%
Homeowners/Farmowners	\$13,594,696	10.29%	\$5,879,120	43.25%
Commercial Multiperil	\$1,400,166	1.06%	\$364,473	26.03%
Workers' compensation	\$65,404,422	49.5%	\$66,366,328	101.47%
Total Private Passenger	\$28,797,466	21.79%	\$12,400,309	43.06%
Total Commercial	\$6,737,868	5.10%	\$3,133,145	46.50%
All Others	\$13,253,477	10.03%	\$10,655,539	80.40%
<b>Total</b>	<b>\$132,153,711</b>	<b>100.00%</b>	<b>\$100,289,848</b>	<b>75.89%</b>

2004				
Line of Business	Premium Earned	% of WI Total	Losses Incurred	Pure Loss Ratio
Fire & Allied Lines	\$2,740,775	2.03%	\$1,875,029	68.41%
Homeowners/Farmowners	\$11,937,953	8.85%	\$8,092,872	67.79%
Commercial Multiple Peril	\$1,402,549	1.04%	\$908,767	64.79%
Worker's Compensation	\$66,971,706	49.66%	\$52,889,694	78.97%
Private Passenger Auto	\$31,821,736	23.60%	\$20,202,202	63.49%
Commercial Auto	\$7,597,999	5.63%	\$3,677,393	48.40%
All Others	\$12,377,143	9.18%	\$3,486,502	28.17%
<b>Total</b>	<b>\$134,849,861</b>	<b>100.00%</b>	<b>\$91,132,459</b>	<b>67.58%</b>

2003				
Line of Business	Premium Earned	% of WI Total	Losses Incurred	Pure Loss Ratio
Fire & Allied Lines	\$2,410,986	1.77%	\$797,959	33.10%
Homeowners/Farmowners	\$10,520,101	7.73%	\$5,663,790	53.84%
Commercial Multiperil	\$1,422,550	1.04%	\$442,432	31.10%
Workers' compensation	\$67,621,191	49.7%	\$42,055,875	62.19%
Total Private Passenger	\$35,155,708	25.8%	\$13,146,730	37.40%
Total Commercial	\$6,940,645	5.10%	\$3,163,411	45.58%
All Others	\$12,070,581	8.87%	\$6,322,224	52.38%
<b>Total</b>	<b>\$136,141,762</b>	<b>100.00%</b>	<b>\$71,592,421</b>	<b>52.59%</b>

The Office of the Commissioner of Insurance received 183 complaints against the company between January 1, 2003 and December 31, 2006. A complaint is defined as 'a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent.' The following table categorizes the complaints received against the company by type of policy and complaint reason. There may be more than one type of coverage and/or reason for each complaint.

### Complaints Received

2006						
Reason Type	Total		Underwriting	Marketing & Sales	Claims	Plychldr Service
Coverage Type	No.	% Total	No.	No.	No.	No.
Personal Auto	7	38.89%	3	0	3	1
Commercial Vehicle	1	5.56%	0	0	1	0
Com Prop & Liability	1	5.56%	0	0	1	0
Home/Farmowners	6	33.33%	1	2	3	0
Commercial Liability	above	0%	0	0	0	0
Worker's Comp	3	16.67%	0	0	3	0
Fidelity & Surety	0	0%	0	0	0	0
All Others	0	0%	0	0	0	0
<b>Total</b>	<b>18</b>	<b>100%</b>	<b>4</b>	<b>2</b>	<b>11</b>	<b>1</b>

2005						
Reason Type	Total		Underwriting	Marketing & Sales	Claims	Plychldr Service
Coverage Type	No.	% Total	No.	No.	No.	No.
Personal Auto	15	44.12%	7	1	8	3
Commercial Vehicle	1	2.94%	0	0	1	0
Com Prop & Liability	3	8.82%	0	0	3	0
Home/Farmowners	4	11.76%	4	0	0	0
Commercial Liability	above	0%	0	0	0	0
Worker's Comp	8	23.53%	1	0	7	0



2005						
Reason Type	Total		Underwriting	Marketing & Sales	Claims	Pclcyhldr Service
Coverage Type	No.	% Total	No.	No.	No.	No.
Fidelity & Surety	0	0%	0	0	0	0
All Others	3	8.82%	1	0	2	0
<b>Total</b>	<b>34</b>	<b>100%</b>	<b>13</b>	<b>1</b>	<b>21</b>	<b>3</b>

2004						
Reason Type	Total		Underwriting	Marketing & Sales	Claims	Pclcyhldr Service
Coverage Type	No.	% Total	No.	No.	No.	No.
Personal Auto	32	47.77%	19	2	18	15
Commercial Vehicle	0	0%	0	0	0	0
Com Prop & Liability	2	2.99%	0	0	3	0
Home/Farmowners	20	29.85%	9	3	9	4
Commercial Liability	Above	0%	0	0	0	0
Worker's Comp	10	14.93%	1	1	10	1
Fidelity & Surety	0	0%	0	0	0	0
All Others	3	4.47%	3	0	3	0
<b>Total</b>	<b>67</b>	<b>100%</b>	<b>32</b>	<b>6</b>	<b>43</b>	<b>20</b>

2003						
Reason Type	Total		Underwriting	Marketing & Sales	Claims	Pclcyhldr Service
Coverage Type	No.	% Total	No.	No.	No.	No.
Personal Auto	35	54.69%	35	7	12	11
Commercial Vehicle	0	0%	0	0	0	0
Com Prop & Liability	4	6.25%	2	2	0	2
Home/Farmowners	17	26.56%	15	4	4	3
Commercial Liability	Above	0%	0	0	0	0
Worker's Comp	7	10.94%	1	1	8	1
Fidelity & Surety	0	0%	0	0	0	0
All Others	1	1.56%	1	0	0	0
<b>Total</b>	<b>64</b>	<b>100%</b>	<b>54</b>	<b>14</b>	<b>24</b>	<b>17</b>

Four legal files have been opened and all four were adjudicated against the company since 2000. Three of the four legal files involved underwriting issues including terminations and renewals. The following table summarizes these files and the resulting actions.

#### OCI Legal File Information

File No.	Allegation	Action Taken	Forfeiture
02-C27793	failing to respond promptly to inquiries from OCI	C&D violating s. 601.42, Wis. Stat.	\$500.00
03-C27725	providing improper altered terms or increased premium renewal notices	C&D violating s. 631.36 (5), Wis. Stat.	\$500.00

<b>File No.</b>	<b>Allegation</b>	<b>Action Taken</b>	<b>Forfeiture</b>
04-C28665	canceling insurance policies midterm for underwriting reasons and misrepresenting termination reasons to the Wisconsin Compensation Rating Bureau	C&D violating s. Ins. 21.01 (4), Wis. Adm. Code, s. 631.36 (4), Wis. Stat., and 628.34, Wis. Stat.	\$2,500.00
04-C28476	misrepresenting policy provisions and violating s. 628.34(1), Wis. Stat. by failing to adhere to policy language	C&D violating s. 628.34, Wis. Stat.	\$500.00

## II. PURPOSE AND SCOPE

A targeted examination was conducted to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The 2005 examination focused on the period from January 1, 2004 through August 15, 2005. The 2008 examination focused on the period from January 1, 2006 through June 30, 2007. The examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

The examination included, but was not limited to, a review of the following lines of business:

Line of Business
Personal Auto Insurance
Homeowner's Insurance
Worker's Compensation

The following functional areas were reviewed during the examination.

Functional Areas 2005 Examination	Functional Areas 2008 Examination
Company Operations & Management	Company Operations & Management
Complaint Handling/Policyholder Service	Producer Licensing terminations
Marketing & Sales	Auto Subrogation Claims
Producer Licensing	Underwriting & Rating
Underwriting & Rating	
Claims	
Policy Forms & Rates	

The examiners closely reviewed automobile underwriting, homeowner's underwriting and terminations for worker's compensation policies. Underwriting for automobile insurance has been a consistent problem for the company relative to the complaints received by our office, which is supported by the complaints table previously located in this report. Worker's compensation insurance and terminations for worker's compensation were of interest as well, since the company is the fourth largest writer of worker's compensation insurance in Wisconsin.

This report is prepared on an exception basis and comments on those areas of the company's operations where adverse findings were noted.

### **III. CURRENT EXAMINATION FINDINGS**

#### **Company Operations/Management**

The examiners reviewed the information the company submitted about its operations/management plans and procedures, including the company's policy and procedures regarding privacy of consumer information. No exceptions were noted.

#### **Marketing, Sales, and Advertising**

The examiners reviewed the company's home page, brochures and manuals published by the company, and general information related to the marketing and sales practices of the company. No exceptions were found.

#### **Policy Forms**

The examiners reviewed policy forms and rating interrogatories and found no exceptions during the review of the interrogatories for forms and rates.

#### **Policyholder Service & Complaints**

As indicated earlier, the company is on OCI's above average complaint lists for auto and homeowner lines. The company stated that it feels one reason may be the wording on some of its automated letters regarding its PayBack Policy. The Sentry PayBack letters were reviewed. No exceptions were found.

#### **Underwriting & Rating**

The 2005 examination reviewed 25 new homeowners' files. The examiners found one policy that was rated using the incorrect territory code. Based on the rate manual, the appropriate rating territory for the policy was Milwaukee County; however the company used the rating territory for the City of Milwaukee. The use of the incorrect territory code resulted in an overcharge for the policyholder of \$163 for the first year (3/31/04 - 3/31/05) and an overcharge of \$177 for the second year (3/31/05 - 3/31/06). In response to the Homeowners Underwriting Interrogatory, the company indicated that its underwriting procedure includes a mechanized system that performs a variety of audits to ensure the adequacy and validity of data. The company stated that the Sales Specialist provided the correct address, however the incorrect

territory code was entered on the application. As a result of the market conduct examination, the company has corrected the rating error and has issued a refund to the policyholder. In the 2008 examination, another 25 new homeowner's files were reviewed. No exceptions were noted in this review.

1. **Recommendation:** It is recommended that the company revise its homeowners rating procedures to include a process that automatically reviews the rates calculated and includes automatic system edits to ensure rates are calculated based on the appropriate specifications for each policy.

In the 2005 examination, one hundred Private Passenger Automobile terminations were reviewed by the examiners. One non-renewal notice was issued 25 days prior to the renewal date. Section 631.36 (4), Wis. Stat. requires 60 days prior notice to the policyholder for non-renewals.

2. **Recommendation:** It is recommended that the company develop and implement a system that ensures that all non-renewal notices provide at least 60 days notice prior to the renewal date in order to comply with s. 631.36 (4), Wis. Stat.

In the 2008 examination, an additional fifty Private Passenger Automobile terminations were reviewed. The company sends out two notices to an insured when the policy is set to cancel for nonpayment of premium. The first notice, entitled "Premium Notice" is sent at least 10 days prior to the premium due date. The Premium Notice informs the insured that the policy will expire on the Full Payment Due Date unless payment received, and that the company is not required to accept payments after the due date. The second notice, entitled "Premium Reminder" is sent on or after the final premium due date. The Premium Reminder contains the following language; "Your policy expired as of the date of this statement. If you do not remit the minimum payment by the due date, your policy will remain terminated. Failure to remit your renewal premium by the due date indicated may result in a lapse in coverage. Please disregard this notice if you have already sent in your payment. We are not required to accept payments made after the payment due date." Because the Premium Reminder is sent after the Final

Payment Due Date, the language of the cited cancellation paragraph is confusing and/or misleading.

3. **Recommendation:** It is recommended that the company reword the cancellation paragraph in the Premium Reminder notices sent on or after the stated date of cancellation in order to avoid providing confusing or misleading information to the insured in violation of s. 628.34, Wis. Stats.

In the 2008 examination, fifty homeowner termination files were reviewed. One file was found where the company cancelled the policy indicating it was at the insured's request, without a written request signed by the insured or by an appointed representative of the insured's estate. The company requires that any cancellation requested by the insured be made in writing and include the insured's signature and date. If a cancellation request cannot be signed by the policyholder the request should be signed by either the executor of the estate or someone who has power of attorney.

4. **Recommendation:** It is recommended that the company implement a procedure to ensure that all insured-initiated cancellation requests contain a written cancellation request signed either by the insured, by the executor of the insured's estate, or by a person who was appointed power of attorney for the insured in order to comply with company guidelines.

In 2005, the examiners reviewed the company's Commercial Lines Cancellation Manual - Wisconsin (09/15/03 edition). The manual stated that "the notice of cancellation or non-renewal must state with reasonable precision the facts on which our decision is based, or we must mail that information within five working days after receipt of a written request for the basis of the decision by the policyholder." For worker's compensation, s. Ins. 21.01 (8), Wis. Adm. Code, states, in part, that a notice shall state with reasonable precision the facts on which the insurer's decision is based or it is not effective notice. Comparable notice is required on all other lines of insurance in accordance with s. 631.36 (6), Wis. Stat. In 2008, the examiners reviewed the company's Commercial Lines Cancellation Manual - Wisconsin (06/06/07 edition), and the WI-Desk Notes, both Auto (11/23/05 edition) and Homeowners (02/06/07 edition). The

language allowing the company to mail information outlining the basis for the termination decision within five working days was corrected in each of these editions.

In 2005, the examiners reviewed one-hundred Underwriting homeowner's termination files. Two files in this sample contained notices which did not state the basis for non-renewal with reasonable precision. This is a violation of s. 631.36 (6), Wis. Stats. The company must develop guidelines to specify what is required in a notice of non-renewal that would constitute reasonable precision for a notice of non-renewal. In 2008 all notices reviewed stated the basis for non-renewal with reasonable precision.

In 2005, the examiners reviewed thirty-two worker's compensation non-renewals that occurred during the review period. Twenty-one Workers Compensation notices did not provide reasonably precise reasons for the non-renewal. Fourteen of the non-renewal letters included other commercial lines that were non-renewed at the same time. In 2008 the examiners reviewed fifty worker's compensation non-renewals that occurred during the review period. The company agreed that in three files the non-renewal letter did not state the basis for nonrenewal with reasonable precision.

Notices which do not state the basis for termination with reasonable precision are not in compliance with either s. Ins. 21.01 (8), Wis. Adm. Code or s. 631.36 (6), Wis. Stat.

5. **Recommendation:** It is recommended that the company implement a process to ensure that each non-renewal notice states the basis of termination with reasonable precision. A non-renewal notice should provide detail when the policy is non-renewed for reasons of claims history, claims experience, payment history, motor vehicle record, or unacceptable credit score by specifically listing the claims, payments, motor vehicle violations, or credit information in order to comply with s. Ins. 21.01 (8), Wis. Adm. Code and s. 631.36 (6), Wis. Stat.

In the 2005 examination, the company's Commercial Lines Cancellation Manual listed an incorrect name and address for the Wisconsin Worker's Compensation Insurance Plan (WWCIP). The Commercial Lines Cancellation manual contained the correct name and address in the 2008 examination.

The 2005 review of termination notices for commercial policies found 19 notices that contained the wrong address for the WWCIP and five notices that provided the wrong address for the Wisconsin Automobile Insurance Plan (WAIP). In addition, there were ten notices that contained no notice at all for the WWCIP, five notices that contained no notice for the WAIP, and four notices that contained no notice for the Wisconsin Insurance Plan (WIP). Section 631.36 (7), Wis. Stat. and s. Ins. 21.01 (9), Wis. Adm. Code state, in part, that "Notice of cancellation or non-renewal...is not effective unless the notice contains adequate instructions to the policyholder for applying for insurance through a risk-sharing plan under Ch. 619. The company's response was that "accounts not showing risk sharing plans are accounts where Wisconsin is not the headquartered state...We follow headquarter state statutes for cancellation/non-renewal procedures." There are no exemptions for worker's compensation insurance or other lines that may have exposure in Wisconsin. Out-of-state residual market mechanisms would not cover Wisconsin exposure. The worker's compensation termination files reviewed in the 2008 examination contained correct addresses and proper notice of any applicable risk-sharing plan.

6. **Recommendation:** It is recommended that the company provide adequate notice for applying for insurance through risk-sharing plans promulgated under Ch. 619, Wis. Stat. in order to comply with s. 631.36 (7), Wis. Stat. and s. Ins. 21.01 (9), Wis. Adm. Code regardless of the state in which the insured is headquartered.

The company indicated its practice was to send notice of non-renewal to the Wisconsin Compensation Rating Bureau within +30/-30 days from the date of expiration. The examiners compared the company's list of non-renewal dates with the date that the WCRB received the notices and found that the top nine non-renewal notices (out of 32 reviewed they were the longest notice between the date sent to the WCRB and the company's effective date of cancellation) put the company on the risks for an additional 695 days. Per s. Ins. 21.01 (6), Wis. Adm. Code, s. 102.31, Wis. Stat., and the approved language in the Wisconsin Cancellation and



Non-renewal Endorsement, the legal cancellation date for non-renewals is 60 days after the WCRB receives notice or replacement coverage is filed. This is 695 days for which the company was liable and they were not collecting premiums. In addition, the company failed to meet its own standard of +30/-30 days in three instances and the WCRB notified the company that they were still on the risk. The examiners also found six worker's compensation non-renewals for which the company did not notify the WCRB of the termination at all. Of other worker's compensation terminations, the examiners found that 23 out of 26 terminations fell outside of the insurers own procedure of notifying the WCRB of the termination.

7. **Recommendation:** It is recommended that the company amend its procedures and promptly notify the Wisconsin Compensation Rating Bureau of all worker's compensation terminations to ensure that the company is no longer legally responsible pursuant to s. 102.31 (2), Wis. Stat., for a risk for which it no longer collects premium.

In the 2008 examination, the examiners found one worker's compensation termination file where proper notice of nonpay cancellation was issued via certificate of mail 30 days prior to expiration date. However, the notice of cancellation was processed 12 days late. The policyholder was provided with an expiration date which differed from the expiration date recorded in the file.

8. **Recommendation:** It is recommended that the company implement a procedure to ensure that notice is processed timely and that the recorded expiration date is the same as the expiration date provided to the policyholder in order to comply with s. Ins. 21.01 (10), Wis. Admin. Code, and s. 628.34 (1) Wis. Stats.

In the 2005 examination, seven terminated workers compensation policies were found in which the company failed to communicate substantially the same reason for termination to the WCRB as was given to the policyholder. For example, when the company sent a non-renewal to an insured and the insured subsequently purchased replacement coverage, the reason given to the WCRB for the termination was 'coverage placed elsewhere'. In the 2008 examination, three files were found in which the company provided an incorrect termination reason to WCRB.

The policyholder was given a different reason for the termination. Section 628.34 (1), Wis. Stats prohibits the making of any communication relating to an insurance contract which contains false or misleading information. The insurance company's failure to provide the insured and the WCRB with the same reason for nonrenewal is misleading

9. **Recommendation:** It is recommended that the company amend its procedures to ensure that it communicates substantially the same reason for termination to the Wisconsin Compensation Rating Bureau that it gives to its policyholders in order to avoid violations of s. 628.34 (1), Wis. Stat.

In the 2005 examination, the company stated that it uses worker's compensation dividends to offset premiums due the company regardless of the type of policy. This procedure was confirmed during the 2008 examination. Premium payments for, refunds from, or dividends payable from a specific policy may not be unilaterally applied to other debts or policy premiums due to either the agent or the company unless the insured agrees to the specific transaction. Failure to receive the insured's approval prior to applying premiums, refunds, or dividends to other policies is a violation of s. 628.34 (1), Wis. Stat.

10. **Recommendation:** It is recommended that the company amend its procedure of applying premiums, refunds, or dividends to premiums owed on other policies without first obtaining the written approval of the transaction from the insured in order to avoid violations of s. 628.34 (1), Wis. Stat.

The company provided a copy of a policyholder notice called "Wisconsin Multi Company Policyholder Notification." This notice states to the customer that they have been transferred from one company to another in the group based on their dividend eligibility. The company also provided a copy of a Sentry Procedure Bulletin dated 11/06/1996 that indicated that two COMET underwriting system program recipes are under development to be used for the transfer from MDX to SIAMCO and from Patriot General to SIAMCO. When the examiners asked the company to describe how they transfer business from one entity in their group to another, the company responded that they cancel the policy with the first company and a policy with the second company is issued. However, the company provided copies of letters that

simply told the insured that their policy had been transferred to the next company. There were no notices of cancellation which violates ss. 631.36, Wis. Stat. and Ins. 21.01, Wis. Adm. Code. Further, negative enrollment is not allowed in Wisconsin. The examiners found 92 of 153 terminations which were reported to the Wisconsin Compensation Rating Bureau as terminated, but the insured received no termination notice. The insured does not receive a termination letter from SIAMCO; they only receive a notice of the new company covering their policy

11. **Recommendation:** It is recommended that when transferring worker's compensation policies from one company in the Sentry group to another, the company provide a proper notice of termination under s. Ins. 21.01, Wis. Adm. Code or obtain a policy cancellation request signed by the insured. The new insurer should then make a clear offer of coverage to the insured stating that it is an offer for coverage with a new insurer, that the insured does not have to accept the offer, that the insured owes no premium to the new insurer if they do not take the offer, and that if the prior policy has not already been terminated, they could continue their existing policy in order to ensure compliance with s. 628.34, Wis. Stat.

In the 2005 examination, one worker's compensation termination notice was found that stated the reason for termination was the non-sufficient funds (NSF) check that was submitted with the application for coverage. This notice stated that because of the NSF check, coverage was never issued by the company. However, coverage had been bound and notice of the policy had been sent to the WCRB. Section Ins. 21.01 (4), Wis. Adm. Code requires a minimum of 30 days notice to the insured of cancellation for nonpayment of premium. A company may not void coverage for an NSF check submitted with an application when coverage had been bound.

12. **Recommendation:** It is recommended that the company cease violating s. Ins. 21.01 (4), Wis. Adm. Code by voiding coverage when an NSF check is submitted with an application and coverage had been bound.

In reviewing terminations for commercial policies in the 2005 examination, the examiners found that the Wisconsin Worker's Compensation Insurance Pool notice on non-renewal letters included a statement that said "Not applicable if cancellation or non-renewal is due to

nonpayment of premium". Review of terminations for commercial policies in the 2008 examination indicates that this language has apparently been corrected.

### **Claims**

In response to Homeowner's Claims Interrogatory during the 2005 examination, Sentry indicated that they have a policy of including sales tax on property claims. However, they do not have any written guidelines outlining how the sales tax should be applied in order to ensure consistent compliance with their policy. The lack of written guidelines was confirmed in the 2008 examination. Section Ins 6.11 (3) (b) 2, Wis. Adm. Code, states, in part, that the act of failing to make provision for adequate claims handling procedures to effectively service claims in this state incurred under insurance coverage issued or delivered in this state constitutes unfair methods and practices in the business of insurance. Sentry should develop written procedures to ensure that adjusters are applying the sales tax in a consistent manner to each claim.

13. **Recommendation:** It is recommended that the company develop written guidelines detailing how sales tax should be applied in property claims in order to ensure compliance with Sentry's stated sales tax procedures and to avoid the unfair claims practices set forth in s. Ins 6.11 (3) (b) 2, Wis. Adm. Code.

In 2005, the examiners reviewed the subrogation section of the company's claims manuals and fifty auto subrogation files. In 2008, the examiners reviewed fifty additional subrogation files. The main focus in reviewing subrogation files and procedures is to attempt to determine whether a company has procedures and in practice is satisfying its obligations in accordance with Wisconsin Supreme Court decision Rimes vs. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263 (1982). Rimes holds that the insurer cannot retain subrogation recoveries until the insured has been made whole. "Under Wisconsin law the test of wholeness depends upon whether the insured has been completely compensated for all the elements of damages, not merely those damages for which the insurer has indemnified the insured (p.276)". The insurer must provide the insured an opportunity to negotiate the terms of

the subrogation efforts. This opportunity must be given after the loss has occurred, and should inform the insured of their options with regard to the subrogation efforts.

The company has a detailed subrogation section of their manual. However, nowhere in the manual does it discuss how to assess the insured's loss in order to ensure that the company is not retaining funds prior to the insured being made whole.

In the 2005 review, two files were found where an error was made and some part of the insured's deductible was not returned to the insured. In the 2008 review, one file was found where the full \$500 deductible was retained by the company in error. The company did reimburse the insureds after receipt of the exceptions which brought the oversight to their attention.

In the 2008 examination, two files were found where the company collected a portion of the deductible, but did not promptly reimburse the insured. It is OCI's position that when pursuing subrogation, an insurer must reimburse the insured either the first \$100 collected or any amount collected within 6 months in order to make the insured whole on a loss. The company is not in compliance- or agreement- with OCI's position on deductible reimbursement.

**14. Recommendation:** It is recommended that the company adopt subrogation guidelines requiring that the insured be refunded the first \$100 collected or any amount collected within six months before the company retains any amount recovered in order to comply with Rimes, and with OCI's position on deductible reimbursement.

**15. Recommendation:** It is recommended that interest be paid on any deductible, or portion thereof, not returned within 30 days of recovery in order to comply with s. 628.46, Wis. Stat.

In the 2005 examination, three files were found in which the other driver's company agreed to reimburse the deductible directly to the insured. However, there was no documented follow-up in the file to ensure that the insured had been made whole. In these files, the company had recovered their funds from the at-fault parties' insurers and therefore had an obligation under Rimes to verify that the insured had been fully reimbursed.

One file was found in the 2005 sample where the insured was not made whole on an additional amount not covered in the policy. A second file was found in the 2005 sample where Sentry did not confirm that the other company had reimbursed the Sentry insured directly for additional amounts not covered in the policy prior to subrogating against the other company. Sentry says that it is their practice to include additional amounts not covered in the policy in any subrogation request they make to the other company. However, Sentry does not notify the insured that Sentry does not have subrogation rights until the insured has been made whole, including any additional amounts not covered in the policy.

16. **Recommendation:** It is recommended that the company establish and maintain a documented system that assesses their insured's loss, first reimburses its policyholders for funds it receives in its subrogation efforts, and ensures that its obligations are met to the insured before retaining funds for its own account; in order to comply with the Wisconsin Supreme Court decision of Rimes vs. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263.

In the 2005 examination, five files were found where recovery fees were charged against the insured's deductible. In the 2008 examination, two files were found where recovery fees were charged against the insured's deductible. These costs were not disclosed to the insured prior to imposition, nor did the insured agree to the costs/fees.

In subrogation files, Sentry practice is to "share" collection costs with the insured on a pro-rata basis. These costs reduce the insured deductible (after comparative negligence is factored in) and a portion of the deductible is returned to the insured. As a policy, Sentry does not inform the insured of this practice prior to undertaking subrogation, nor does Sentry provide the insured with a written agreement outlining the terms of the subrogation effort.

In order to comply with Rimes v. State Farm Mutual, 106 Wis.2d.263 (1982), the company cannot exercise subrogation rights until the insured has been made whole on each element of the loss.

Once it is determined that subrogation will be pursued, the company should provide a written agreement to the insured. The agreement should inform the insured of their options with

regard to subrogation efforts. Specifically, the agreement should provide notice that the company cannot exercise subrogation rights until the insured has been made whole on all elements of the loss. This would include reimbursement of any deductible and/or additional amounts not covered in the policy. The agreement should also obtain the insured's consent if the company proposes to reduce the insured's deductible by recovery costs/attorney fees or by any percentage of those costs.

17. **Recommendation:** It is recommended that, once it is known that subrogation will be pursued, the company provide a written agreement to each insured notifying the insured of the fact that costs/fees incurred will reduce the insured's deductible refund on a pro-rata basis, and obtaining the insured's consent to that reduction.

In the 2008 examination, three 3 files were found where the insured had not signed an installment agreement. The company indicates that they do provide an installment agreement to the insured before implementing an installment plan.

18. **Recommendation:** It is recommended the company implement a procedure to obtain insured agreement with an installment plan before that plan is implemented, in order to comply with s. 628.34, Wis. Stat., and company guidelines.

### **Producer Licensing**

In the 2005 examination, fifty producer termination files were reviewed. The examiners found three files in which the company failed to provide written notification of appointment termination to three independent agents who had been authorized to do business with the company. The examiners found that the company did not have documentation that the Wisconsin license was terminated for an agent who had transferred out of the state but was still employed by the company. The examiners found that there was no evidence in four files that formal notices were sent, to the retiring employees that they were no longer authorized to write business in Wisconsin for the company. The examiners also found in nine files that appointed home office employees were not notified that they were no longer authorized to transact business for the company.

In the 2008 examination, an additional forty-five producer termination files were reviewed. The company indicated that it had instituted a procedure to generate automatic appointment termination notices to the agents. In seven files, the operator performing the termination did not properly complete the transaction, and the termination notice was not generated. In four files, the following statement was sent to employee agents in termination notices; "Your Company licenses and appointments have been terminated effective (date)." This language is not in compliance with s. 6.57 (2), Wis. Adm. Code requirements. The Code requires that the insurer shall provide notice that the agent is no longer to be appointed as a representative of the company and that *he or she may not act as its representative*. The company operates in part through independent brokers. The brokers employ agents who are then appointed by the company to write business on the company's behalf. The broker notifies the company when an agent is terminated. Then the company terminates the appointment and notifies the agent directly. Under this procedure the company is not always able to provide 15-day notice of termination to the agent because it is not aware of the termination until after the fact. It is the company's position that since the individual non-employee agents are not provided with any company indicia, no request for the return of indicia is necessary. The company indicated that a separation letter is sent to employee agents requesting return of manuals and supplies. In four files, the examiners found no request was made for the return of indicia for employee agents. It is the company's position that in those four files the indicia was either stored at the office, or it was collected from the agents when they transferred to other positions within the company. Therefore, no request for the return of indicia was necessary in those instances. This is not in compliance with the requirement of s. 6.57 (2), Wis. Adm. Code.

Section Ins. 6.57 (2), Wis. Adm. Code states "Notice of termination of appointment of individual intermediary in accordance with s. 628.11, Stats., shall be filed prior to or within 30 calendar days of the termination date with the office of the commissioner of insurance. Prior to or within 15 days of filing the termination notice, the insurer shall provide the agent written



notice that the agent is no longer to be listed as a representative of the company and that he or she may not act as its representative. This notice shall also include a formal demand for the return of all indicia of agency."

19. **Recommendation:** It is recommended that to avoid possible conflicts with s. 628.40, Wis. Stat. and to comply with s. Ins. 6.57 Wis. Adm. Code, the company implement an automatic system to provide notice to all appointed agents/employees within 15 days of termination stating that they are no longer listed as a representative of the company and may not act as its representative.

20. **Recommendation:** It is recommended that the company's notice of termination to all appointed intermediaries, both employee and non-employee, include a formal demand for the return of all indicia of agency as required under s. Ins. 6.57 (2), Wis. Adm. Code.

In the 2005 examination, three agent termination files were found in which the company provided OCI with an incorrect reason for termination of the agent. OCI questioned why the reasons for termination were different in the Human Resources file and those provided to the OCI. The company indicated that this was possibly due to the actual reason for termination not being properly communicated at time of termination. Section Ins. 6.57 (2) (b), Wis. Adm. Code states "If the insurer has knowledge of complaints received or problems experienced by the company involving company indebtedness, forgery, altering policies, fraud, misappropriation, misrepresentation, failure to promptly submit applications or premiums, poor policyholder service involving the intermediary being terminated, the insurer must submit complete explanations and documentation in writing to OCI within 30 days of the termination. This documentation need not prove violations, but should include situations where possible violations exist."

The 2008 examination did not find any instances of an incorrect termination reason being provided to OCI.

21. **Recommendation:** It is recommended that the company establish and implement within 60 days of the adoption of this report, a procedure to adequately communicate accurate reasons for termination of an intermediary- particularly in the case of termination for cause- to its Human Resource

department and to the OCI in order to comply with s. Ins. 6.57 (2) (b), Wis. Adm. Code.

During the 2005 examination, the company told the examiners that when processing a new business application the license status of the agent submitting the business is audited and if the producers license is not active they receive the message 'UNLICENSED TERRITORY - PLEASE HIT <ENTER> AFTER VERIFYING.' When they receive this message they verify the state and producer's sales code that was entered. If it is correct, the system changes the sales code on the policy to be an unlicensed sales code. The examiners asked if the policy would still be issued even though the agent that submitted the application was unlicensed. The company said that the policy would still be issued. Section Ins. 6.57 (5), Wis. Adm. Code states that "No insurer shall accept business from any intermediary or enter into an agency contract with any intermediary unless that intermediary is a licensed agent listed with the company." The 2008 examination did not find any instances of an unlicensed agent writing business for the company.

**22. Recommendation:** It is recommended that the company cease violating s. Ins. 6.57 (5), Wis. Adm. Code, by accepting business from unlicensed and/or unlisted agents.

#### IV. CONCLUSION

A total of 22 recommendations were made relating to the need for Sentry Insurance, A Mutual Company to modify certain forms, underwriting and rating procedures, producer licensing processes, and claims handling procedures.

In regard to policyholder service and complaints, the company should identify more precisely the reason for its consistent above-average number of complaints with the OCI and develop better communication with its policyholders.

There were 12 underwriting recommendations. Briefly, the company needs to come into compliance with regard to proper notification of non-renewals for both personal lines and commercial lines. The company must change its procedures regarding the reporting of terminations to the Wisconsin Compensation Rating Bureau to be more prompt and factually consistent regarding the reason for termination. The company should also change the way it is transferring business from one company in the group to another for commercial lines.

There were six recommendations in relation to claims. The major area that needs to be developed is subrogation handling. The company should develop more systematic procedures for evaluating its insureds' losses, ensuring that its insureds have been made whole prior to retaining funds, and communicating the claimant's rights under Rimes.

Finally, there were four recommendations in relation to the producer licensing section. The company should develop consistent reporting of appointments and terminations of intermediaries, both internally and to the OCI.

## V. SUMMARY OF RECOMMENDATIONS

### Underwriting & Rating

- Page 10 1. It is recommended that the company revise its homeowner's rating procedures to include a process that automatically reviews the rates calculated and includes automatic system edits to ensure rates are calculated based on the appropriate specifications for each policy.
- Page 10 2. It is recommended that the company develop and implement a system that ensures that all non-renewal notices provide at least 60 days notice prior to the renewal date in order to comply with s. 631.36 (4), Wis. Stat.
- Page 11 3. It is recommended that the company reword the cancellation paragraph in the Premium Reminder notices sent on or after the stated date of cancellation in order to avoid providing confusing or misleading information to the insured in violation of s. 628.34, Wis. Stats.
- Page 11 4. It is recommended that the company implement a procedure to ensure that all insured-initiated cancellation requests contain a written cancellation request signed either by the insured, by the executor of the insured's estate, or by a person who was appointed power of attorney for the insured in order to comply with company guidelines.
- Page 12 5. It is recommended that the company implement a process to ensure that each non-renewal notice states the basis of termination with reasonable precision. A non-renewal notice should provide detail when the policy is non-renewed for reasons of claims history, claims experience, payment history, motor vehicle record, or unacceptable credit score by specifically listing the claims, payments, motor vehicle violations, or credit information in order to comply with s. Ins. 21.01 (8), Wis. Adm. Code and s. 631.36 (6), Wis. Stat.
- Page 13 6. It is recommended that the company provide adequate notice for applying for insurance through risk-sharing plans promulgated under Ch. 619, Wis. Stat. in order to comply with s. 631.36 (7), Wis. Stat. and s. Ins. 21.01 (9), Wis. Adm. Code regardless of the state in which the insured is headquartered.
- Page 14 7. It is recommended that the company amend its procedures and promptly notify the Wisconsin Compensation Rating Bureau of all worker's compensation terminations to ensure that the company is no longer legally responsible pursuant to s. 102.31 (2), Wis. Stat., for a risk for which it no longer collects premium.
- Page 14 8. It is recommended that the company implement a procedure to ensure that notice is processed timely and that the recorded expiration date is the same as the expiration date provided to the policyholder in order to comply with s. Ins. 21.01 (10), Wis. Admin. Code, and s. 628.34 (1), Wis. Stats.
- Page 15 9. It is recommended that the company amend its procedures to ensure that it communicates substantially the same reason for termination to the Wisconsin Compensation Rating Bureau that it gives to its policyholders in order to avoid violations of s. 628.34 (1), Wis. Stat.

- Page 15 10. It is recommended that the company amend its procedure of applying premiums, refunds, or dividends to premiums owed on other policies without first obtaining the written approval of the transaction from the insured in order to avoid violations of s. 628.34 (1), Wis. Stat.
- Page 16 11. It is recommended that when transferring worker's compensation policies from one company in the Sentry group to another, the company provide a proper notice of termination under s. Ins. 21.01, Wis. Adm. Code or obtain a policy cancellation request signed by the insured. The new insurer should then make a clear offer of coverage to the insured stating that it is an offer for coverage with a new insurer, that the insured does not have to accept the offer, that the insured owes no premium to the new insurer if they do not take the offer, and that if the prior policy has not already been terminated, they could continue their existing policy in order to ensure compliance with s. 628.34, Wis. Stat.
- Page 16 12. It is recommended that the company cease violating s. Ins. 21.01 (4), Wis. Adm. Code by voiding coverage when an NSF check is submitted with an application and coverage had been bound.

### **Claims**

- Page 17 13. It is recommended that the company develop written guidelines detailing how sales tax should be applied in property claims in order to ensure compliance with Sentry's stated sales tax procedures, and to avoid the unfair claims practices set forth in s. Ins. 6.11 (3) (b) 2, Wis. Adm. Code.
- Page 18 14. It is recommended that the company adopt subrogation guidelines requiring that the insured be refunded the first \$100 collected or any amount collected within six months before the company retains any amount recovered in order to comply with Rimes, and with OCI's position on deductible reimbursement.
- Page 18 15. It is recommended that interest be paid on any deductible, or portion thereof, not returned within 30 days of recovery in order to comply with s. 628.46, Wis. Stat.
- Page 19 16. It is recommended that the company establish and maintain a documented system that assesses their insured's loss, first reimburses its policyholders for funds it receives in its subrogation efforts, and ensures that its obligations are met to the insured before retaining funds for its own account; in order to comply with the Wisconsin Supreme Court decision of Rimes vs. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263.
- Page 20 17. It is recommended that, once it is known that subrogation will be pursued, the company provide a written agreement to each insured notifying the insured of the fact that costs/fees incurred will reduce the insured's deductible refund on a pro-rata basis, and obtaining the insured's consent to that reduction.
- Page 20 18. It is recommended the company implement a procedure to obtain insured agreement with an installment plan before that plan is implemented, in order to comply with s. 628.34, Wis. Stat., and company guidelines.

## **Producer Licensing**

- Page 22      19. It is recommended that to avoid possible conflicts with s. 628.40, Wis. Stat. and to comply with s. Ins. 6.57 Wis. Adm. Code, the company implement an automatic system to provide notice to all appointed agents/employees within 15 days of termination stating that they are no longer listed as a representative of the company and may not act as its representative.
- Page 22      20. It is recommended that the company's notice of termination to all appointed intermediaries, both employee and non-employee, include a formal demand for the return of all indicia of agency as required under s. Ins. 6.57 (2), Wis. Adm. Code.
- Page 22      21. It is recommended that the company establish within 60 days of the adoption of this report and implement a procedure to adequately communicate accurate reasons for termination of an intermediary-particularly in the case of termination for cause- to its Human Resource department and to the OCI in order to comply with s. Ins. 6.57 (2) (b), Wis. Adm. Code.
- Page 23      22. It is recommended that the company cease violating s. Ins. 6.57 (5), Wis. Adm. Code, by accepting business from unlicensed and/or unlisted agents.

## VI. ACKNOWLEDGEMENT

The courtesy and cooperation extended to the examiners during the course of the examination by the officers and employees of the company is acknowledged and appreciated.

In addition, to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination.

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Respectfully submitted,

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Examiner-in-Charge