

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JULY 30, 2010

COMMONWEALTH OF VIRGINIA

At the relation of the

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2010-00127

SELECTIVE INSURANCE CO. OF SOUTH CAROLINA,
SELECTIVE INSURANCE CO. OF AMERICA,
SELECTIVE INSURANCE CO. OF THE SOUTHEAST,
and
SELECTIVE WAY INSURANCE,
Defendants

SETTLEMENT ORDER

Based on an investigation conducted by the Bureau of Insurance, it is alleged that the Defendants, duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia, violated §§ 38.2-317 and 38.2-1906 A of the Code of Virginia ("Code"), as well as 14 VAC 5-335-10 *et seq.*, by delivering or issuing for delivery insurance policies or endorsements without having filed such policy forms or endorsements with the Commission at least thirty (30) days prior to their effective date, by failing to file with the Commission certain rate and supplementary rate information, and by issuing policies or endorsements that did not comply with the Rules Governing Claims-Made Liability Policies.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke the Defendants' licenses upon a finding by the Commission, after notice and opportunity to be heard, that the Defendants have committed the aforesaid alleged violations.

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The Defendants have been advised of their right to a hearing in this matter, whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have tendered to the Commonwealth of Virginia the sum of Sixty-six Thousand Dollars (\$66,000), waived their right to a hearing, and agreed to comply with the Corrective Action Plan provided to the Bureau on June 29, 2010, which is attached and made a part of this Order.

The Bureau of Insurance has recommended that the Commission accept the offer of settlement of the Defendants pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Bureau of Insurance, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The offer of the Defendants in settlement of the matter set forth herein be, and it is hereby, accepted;
- (2) The Defendant shall comply with the attached Corrective Action Plan and shall document such compliance to the Bureau. Such compliance may be verified by the Bureau; and
- (3) The papers herein be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to Stephen D. Crosta, Corporate Counsel, Selective Insurance Companies, 40 Wantage Avenue, Branchville, New Jersey 07890; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Mary M. Bannister.

**SELECTIVE INSURANCE COMPANY OF AMERICA (SICA)
SELECTIVE INSURANCE COMPANY OF SOUTH CAROLINA (SICSC)
SELECTIVE INSURANCE COMPANY OF THE SOUTHEAST (SICSE)
SELECTIVE WAY INSURANCE COMPANY (SWIC)**

Regulatory Action 329 – Corrective Action Plan

I. Current and Past Corrective Actions

Violations of §38.2-317 - Failure to file policy forms or endorsements prior to issuance.

Corrective Action Plan:

Selective removed the forms in question from its commercial lines policy issuance and rate system ("CLAS"). In-force policies were either endorsed with approved forms or will be replaced upon renewal. Selective is currently reviewing its form and rate filing process. It has retained outside counsel and contracted with a separate outside consultant to assist in this the review of its form, rate and policy issuance process. As part of this assessment, Selective is reviewing its automated commercial lines policy and rate issuance system ("CLAS").

Violations of VAC 5-335-10, et. seq.- Failure to comply with rules governing claims-made liability policies.

Corrective Action Plan:

Selective retained outside counsel to assist in revising its claims-made forms to comply with Virginia's claims-made regulation. Selective filed and received approval for two new endorsement forms. These forms will be issued to in-force policyholders and will have limited use and will be withdrawn when all affected policies have been renewed to occurrence coverage or are canceled. Selective verified that no claims have been submitted under an Extended Reporting Period or Supplemental Extended Reporting Period on the affected policies. An alert message has been built into the claims system to alert adjusters that claims under an extended reporting period or supplemental reporting period of the affected policies are entitled to unimpaired limits of liability equal to the aggregate limits of the policy itself.

Violations of §38.2-1906A - Failing to file with the Commission certain rate and supplementary rate information on or before the date it became effective.

Corrective Action Plan:

Selective stopped use of the form associated with the non-approved rate and endorsed affected policies with a coverage form approved by the Commission, for which there is an approved rate on file. Selective is currently reviewing its form and rate filing process. It has retained outside counsel and contracted with a separate outside consultant to assist in this the review of its form, rate and policy issuance process. As part of this assessment, Selective is reviewing its automated commercial lines policy and rate issuance system ("CLAS").

II. Future Corrective Action and Reporting

The companies are in the processes of evaluating the form and rate filing processes used to conduct commercial insurance business in Virginia. As part of this review, outside counsel and an outside consultant have been retained to assist in the evaluation. Progress in implementing required changes indicated by the review will be reported to the Bureau of Insurance not later than every 90 days for a period of one year, beginning from the date of the Settlement Order set forth by the State Corporation Commission.

If during the review any insureds are found to have been overcharged for their policies or any claimants have been under paid for their claims, then the companies will refund any such overcharges or underpayments (including simple interest accrued at an annual rate of 6%) to these insureds or claimants. The details of any such restitution will be reported to the Bureau of Insurance in the companies' quarterly reports.

June 29, 2010