



**pennsylvania**  
INSURANCE DEPARTMENT

**COMMONWEALTH OF PENNSYLVANIA  
INSURANCE DEPARTMENT**

MARKET CONDUCT  
EXAMINATION REPORT

OF

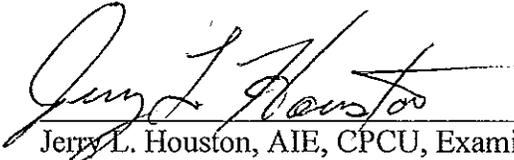
**SENTINEL INSURANCE COMPANY**  
HARTFORD, CT

As of: January 2, 2013  
Issued: February 20, 2013

**BUREAU OF MARKET ACTIONS  
PROPERTY AND CASUALTY DIVISION**

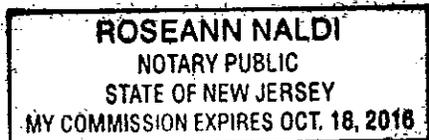
VERIFICATION

Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).

  
Jerry L. Houston, AIE, CPCU, Examiner-In-Charge

Sworn to and Subscribed Before me  
This *25<sup>th</sup>* Day of *October*, 2012

  
Notary Public



SENTINEL INSURANCE COMPANY, LTD.

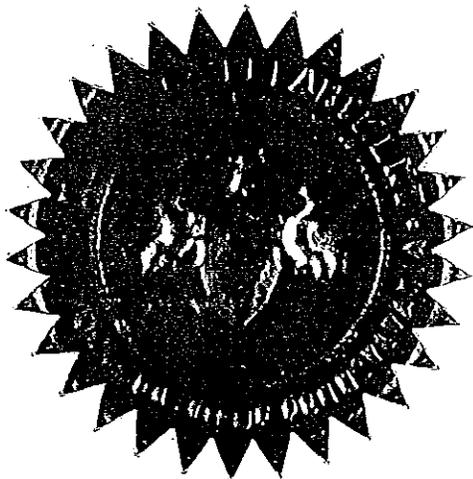
TABLE OF CONTENTS

Order	
I. Introduction .....	1
II. Scope of Examination .....	3
III. Company History/Licensing .....	4
IV. Underwriting Practices and Procedures .....	5
V. Undewriting	
A. Property .....	6
VI. Claims	
A. Homeowner .....	10
B. Condominium .....	11
VII. Forms .....	12
VIII. Consumer Complaints .....	13
IX. Data Integrity .....	15
X. Recommendations .....	16
XI. Company Response .....	17

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 27<sup>th</sup> day of April, 2011, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Ronald A. Gallagher, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



  
Michael F. Consedine  
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
SENTINEL INSURANCE	:	Sections 5(a)(4) and 5(a)(9) of the Unfair
COMPANY, LTD.	:	Insurance Practices Act, Act of July 22,
One Hartford Plaza	:	1974, P.L. 589, No. 205 (40 P.S. §§1171.5)
Hartford, CT 06155	:	
	:	Title 31, Pa. Code, Sections 146.6 and
	:	146.7(a)(1)
	:	
	:	
Respondent.	:	Docket No. MC13-01-004

CONSENT ORDER

AND NOW, this *20<sup>th</sup>* day of *February*, 2013, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

3. Respondent neither admits nor denies the Findings of Fact and Conclusions of Law contained herein. Respondent denies violating any Pennsylvania law or regulation.

FINDINGS OF FACT

4. The Insurance Department finds true and correct each of the following Findings of Fact:

(a) Respondent is Sentinel Insurance Company, Ltd., and maintains its address at One Hartford Plaza, Hartford, CT 06155.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience periods from July 1, 2010 through June 30, 2011.

(c) On January 2, 2013, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on January 30, 2013.

(e) The Examination Report notes violations of the following:

- (i) Section 5(a)(4) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5(a)(4)), which prohibits unfair methods of competition and unfair or deceptive acts or practices;
  
- (ii) Section 5(a)(9) of Act 205 (40 P.S. § 1171.5), which prohibits cancellation of any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued;
  
- (iii) Title 31, Pennsylvania Code, Section 146.6, which states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and
  
- (iv) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer.

CONCLUSIONS OF LAW

5. In accord with the above Findings of Fact and applicable provisions of law, the Insurance Department makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
  
- (b) Respondent's violations of Sections 5(a)(4) and 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):
  - (i) cease and desist from engaging in the prohibited activity;
  - (ii) suspension or revocation of the license(s) of Respondent.
  
- (c) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

(i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);

(ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

(d) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.6 and 146.7(a)(1) are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as described above.

#### ORDER

6. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department orders and Respondent consents to the following:

(a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

(b) Respondent shall pay Ten Thousand Dollars (\$10,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

- (c) Payment of this matter shall be made by check payable to the Pennsylvania Insurance Department. Payment should be directed to Sharon L. Fraser, Administrative Officer, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.
  
- (d) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
  
- (e) Respondent shall comply with all recommendations contained in the attached Report.

7. In the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Department may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

8. Alternatively, in the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

9. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

10. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

11. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

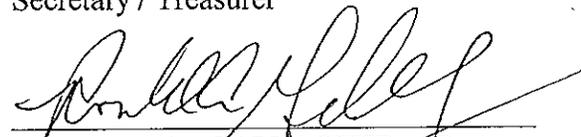
12. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law

contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

BY: SENTINEL INSURANCE COMPANY, LTD.,  
Respondent

  
\_\_\_\_\_  
President / Vice President

  
\_\_\_\_\_  
Secretary / Treasurer

  
\_\_\_\_\_  
RONALD A. GALLAGHER, JR.  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania

## I. INTRODUCTION

The Market Conduct Examination was conducted at Sentinel Insurance Company, Ltd., hereinafter referred to as “Company,” at its offices located in Simsbury and Hartford, Connecticut from March 26, 2012 through May 24, 2012. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review those areas of concern in order to determine the potential impact upon Company operations or future compliance. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties.

In certain areas of review listed in this Report, the examiners will refer to “error ratio.” This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations on 10 policies, the error ratio would be 10%.

Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel to discuss the various types of violations identified during the examination and review

written summaries provided on the violations found.

The courtesy and cooperation extended by the officers and employees of the Company during the course of the examination is hereby acknowledged.

The following examiners participated in this examination and in preparation of the Report.

Constance L. Arnold, MCM  
Market Conduct Division Chief

Jerry L. Houston, AIE, CPCU  
Market Conduct Examiner

June A. Coleman, MCM  
Market Conduct Examiner

## II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Sentinel Insurance Company, Ltd. at its offices located in Simsbury and Hartford, Connecticut. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2010 through June 30, 2011, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Property
  - Underwriting – Appropriate and timely notices of nonrenewal, 60-day cancellations and midterm cancellations.
2. Claims
3. Forms
4. Complaints
5. Data Integrity

### III. COMPANY HISTORY AND LICENSING

In 1963, Hartford Fire Insurance Company acquired Pacific Insurance Company, Limited and its subsidiary, Sentinel Insurance Company, Ltd. On October 14, 1999, Sentinel Insurance Company, Ltd. was re-domesticated from the State of Hawaii to the State of Connecticut. At that time, its name was changed from Sentinel Insurance Company of Connecticut to Sentinel Insurance Company, Ltd.

#### LICENSING

The Sentinel Insurance Company, Ltd. Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2012. The Company is licensed in the District of Columbia and all states except California, Massachusetts, New Hampshire and New Mexico. The Company's 2011 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$47,006,593. Premium volume related to the area of this review was Homeowners Multiple Peril \$5,183,131.

#### *IV. UNDERWRITING PRACTICES AND PROCEDURES*

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for homeowners and condominiums. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

## V. UNDERWRITING

### **A. Property**

#### 1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

The universe of 22 property policies reported as cancelled in the first 60 days of new business was selected, received and reviewed. The property files consisted of homeowners and condominium policies. No violations were noted.

#### 2. Midterm Cancellations

A midterm cancellation is any policy termination that occurs at any time other than the twelve-month policy anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] , which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the cancellation notice.

From the universe of 1,798 property policies which were cancelled midterm during the experience period, 90 files were selected, received and reviewed. The property files consisted of homeowner and condominium policies. The violation resulted in an error ratio of one percent (1%).

The following finding was made:

*1 Violation Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]*

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The violation noted was due to a policy being cancelled for a reason not permitted under the Act.

3. Nonrenewals

A nonrenewal is considered to be any policy, which was not renewed, for a specific reason, at the normal twelve-month anniversary date.

The primary purpose of the review was to determined personal lines

compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the nonrenewal notice.

From the universe of 87 property policies which were nonrenewed during the experience period, 27 files were selected, received and reviewed. The property files consisted of homeowner and condominium policies. The two (2) violations noted were based on two (2) files, resulting in an error ratio of seven percent (7%).

The following findings were made:

*1 Violation Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]*

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The violation noted was due to the policy being nonrenewed for a reason not permitted under the Act.

*1 Violation Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]*

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The file noted contained a nonrenewal notice which required supporting business.

## VI. CLAIMS

The Company was requested to provide copies of all established written claim handling procedures utilized during the experience period. Written claim handling procedures were received and reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The Claims review consisted of the following areas of review:

- A. Homeowner Claims
- B. Condominium Claims

The primary purpose of the review was to determine compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. The files were also reviewed to determine compliance with Act 205, Section 4 (40 P.S. §1171.4) and Section 5(a)(10)(vi) [40 P.S. §1171.5(a)(10)(vi)], Unfair Insurance Practices Act.

### **A. Homeowner Claims**

From the universe of 695 homeowner claims reported during the experience period, 100 files were selected, received and reviewed. The violation resulted in an error ratio of one percent (1%).

The following finding was made:

*1 Violation Title 31, Pa. Code, Section 146.7(a)(1)*

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the

insurer. The Company failed to send a written denial letter for the claim noted.

## **B. Condominium Claims**

From the universe of 28 condominium claims reported during the experience period, 10 files were selected, received and reviewed. The violation resulted in an error ratio of 10%.

The following finding was made:

### *1 Violation Title 31, Pa. Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the claim noted.

## VII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)], which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claims forms. No violations were noted.

### VIII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified five (5) consumer complaints received during the experience period and provided all consumer complaint logs requested. The five (5) complaint files reported were requested, received and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires a Company to maintain a complete record of all complaints received during the preceding four years. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint.

The following findings were made:

#### *2 Violations Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]*

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent

acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The two (2) violations noted were due to the policies being nonrenewed for a reason not permitted under the Act.

The following synopsis reflects the nature of the five (5) complaints that were reviewed.

•	3	Cancellation/Nonrenewal	60%
•	<u>2</u>	Rates	<u>40%</u>
	5		100%

## *IX. DATA INTEGRITY*

As part of the examination, the Company was sent a preliminary examination packet in accordance with NAIC uniformity standards and provided specific information relative to the exam. The purpose of the packet was to provide certain basic examination information, identify preliminary requirements and to provide specific requirements for requested data call information. Once the Company provided all requested information and data contained within the data call, the Department reviewed and validated the data to ensure its accuracy and completeness to determine compliance with Insurance Department Act, Section 904(b) [40 P.S. §904(b)]. No violations were noted.

## X. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

1. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
2. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to providing status letters and denials, as noted in the Report, do not occur in the future.
3. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violation relative to supporting coverage noted in the Report does not occur in the future.

*XI. COMPANY RESPONSE*



January 30, 2013

*Sent via e-mail & regular mail*

Ms. Constance Arnold  
Property & Casualty Division Chief  
Pennsylvania Insurance Department  
Bureau of Market Actions  
1227 Strawberry Square  
Harrisburg, PA 17120

Re: Exam warrant number 11-M19-040, Sentinel

Dear Ms. Arnold,

This letter is in response to the Sentinel Insurance Company ("the Company") examination report received January 2, 2012. Below are the Company's responses to the recommendations in the report.

Sentinel Insurance Company:

- 1. The company must review Act 205, Section 5(a)(9) [40 P.S. § 1171.5(a)(9) to ensure that violations regarding the requirements for cancellation and non-renewal notices, as noted in the Report, do not occur in the future.**

The Company has reviewed the recommendations in this report and the corresponding violations to ensure the violations do not occur in the future.

- 2. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to providing status letters and denials, as noted in the Report, do not occur in the future.**

The Company has reviewed its internal control procedures regarding compliance with Title 31, Chapter 146.

The recommendation is the result of two errors out of 160 files reviewed: one failure to send a status letter error, of 10 condominium files reviewed, and one failure to send a written denial, from a universe of 150 claims.

The low frequency of violations indentified in the report indicates the success of existing processes. The Company previously instituted, and will continue with, the following actions: (a) ongoing compliance reviews are completed by Field Claim personnel and Home Office Compliance personnel; timely and accurate issuance of delay and denial letters are specifically addressed in these reviews; and (b) a state-specific compliance matrix which houses current regulations is available to assist the claims personnel with the key claim-handling requirements for each state.

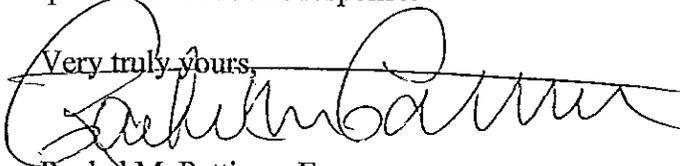
Additionally, the Company has initiated procedures to notify the adjuster twice before a delay letter is due on every claim; the notification also alerts the supervisor on the date the letter is due if one has not been issued.

- 3. The Company must review Act 205, Section 5(a)(4) [40 P.S. § 1171.5(a)(4)] to ensure that the violation relative to supporting coverage noted in the Report does not occur in the future.**

The Company has reviewed the recommendations in this report and the corresponding violations to ensure the violations do not occur in the future.

Please do not hesitate to contact me directly at 860-547-2112 should you have any questions about this response.

Very truly yours,



Rachel M. Pattison, Esq.  
Associate Counsel  
The Hartford Financial Services Group, Inc.  
Law Department, Mailstop T-9-106  
One Hartford Plaza  
Hartford, CT 06155  
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Rachel.Pattison@thehartford.com

RMP/hs