

MAY 15 1997

STATE OF ARIZONA  
DEPARTMENT OF INSURANCE

DEPT. OF INSURANCE  
BY CB

In the Matter of	)	Docket No. 97A-100
	)	
SCOTTSDALE INSURANCE COMPANY	)	CONSENT ORDER
	)	
Respondent.	)	
_____	)	

Examiners for the Department of Insurance (the "Department") conducted a rate and market conduct examination of Scottsdale Insurance Company ("Scottsdale"), NAIC #41297. The Report of Rate Examination of the Affairs of Scottsdale (the "Report") alleges that Scottsdale has violated A.R.S. §§ 20-229, 20-398, 20-400.01, 20-448, 20-451, 20-1676 and 20-1677, and has also violated the Order filed by the Arizona Director of Insurance (the "Director") on July 31, 1991.

Scottsdale wishes to resolve this matter without formal adjudicative proceedings and agrees to this Consent Order.

The Director enters the following Findings of Fact and Conclusions of Law, which are neither admitted nor denied by Scottsdale, and the following Order.

FINDINGS OF FACT

1. Scottsdale is authorized to transact property and casualty insurance in Arizona pursuant to a Certificate of Authority issued by the Director.

2. The Examiners were authorized by the Director to conduct an examination of Scottsdale, and reviewed files of 1,013 of the policies issued by Scottsdale from January, 1990 through March 20, 1994. The on-site examination was concluded as of May 24, 1994.

1           3.    The Director had issued a Consent Order ("the 1991  
2 Order"), Docket No. 7497, following the previous market conduct  
3 examination of Scottsdale as of March 13, 1990.   The Director  
4 ordered Scottsdale, in pertinent part, as follows:

5           [Scottsdale] shall cease and desist from using rates  
6 and rate supplementary information not previously  
7 filed with and approved by the [Department]; from  
8 issuing policies with premiums not consistent with its  
9 filings; [and] from failing to document all files with  
10 facts supporting any adjustments to the full manual  
11 premium.

12           4.    Scottsdale is a member of the Insurance Services  
13 Office ("ISO"), a property and casualty (P&C) rating  
14 organization duly licensed by the ADOI to file rates on behalf  
15 of its members.   ISO has filed rates on behalf of Scottsdale, to  
16 which Scottsdale has filed deviations.   Scottsdale has also  
17 filed certain rates on its own.   Both the rates filed by ISO and  
18 rates and rules filed by Scottsdale are hereinafter referred to  
19 as its "filed rates and rules".

20           5.    The Examiners reviewed a total of 538 commercial lines  
21 policies issued by Scottsdale: 136 commercial package ("CP")  
22 policies, 350 general liability ("GL") policies, and 52  
23 commercial automobile ("CA") policies.

24           6.    Scottsdale failed to document the facts supporting  
25 adjustments to full manual premiums on 39 policies (7% of those  
26 reviewed by the Examiners), by:

27           a.    failing to include any documentation in support  
28 of the Schedule/IRPM credits given on three CP policies, seven  
GL policies, and seven CA policies.

          b.    failing to document the reasons for schedule  
credits and debits given on three GL policies.

1 c. failing to document the reasons for the change in  
2 schedule/IRPM credit/debit on the renewal of 11 GL policies and  
3 four CA policies.

4 d. issuing four GL policies where the documentation  
5 of schedule credits and debits was different than the credits  
6 and debits actually used in computing the premium.

7 7. Scottsdale failed to include policy rating worksheets  
8 in the files of seven CP policies, six GL policies and one CA  
9 policy (3%).

10 8. Scottsdale issued 62 of the 538 policies examined  
11 (12%) at premiums which varied from premiums determined using  
12 its filed rates and rules, a total of 78 rating errors, by:

13 a. failing to apply package modifiers in rating five  
14 CP policies. As a result, the insureds were overcharged by a  
15 total of \$1,953.

16 b. applying an unfiled modifier to the rating of one  
17 CA policy and its renewal. As a result, the insured paid \$181  
18 more than it should have paid.

19 c. applying an upward deviation to one CP policy  
20 which did not qualify for the deviation. As a result, the  
21 insured paid \$988 more than it should have paid.

22 d. applying an upward deviation to one GL policy  
23 which did not qualify for the deviation. As a result, the  
24 insured paid \$5,256 more than it should have paid.

25 e. failing to apply the filed upward deviation to  
26 four qualifying GL policies, and failing to apply the schedule  
27 credit to one of these policies. As a result, two insureds paid  
28 a total of \$3,741 less than they should have paid, and one

1 insured paid \$1,025 more than it should have paid. The  
2 difference in the amount charged the remaining insured is  
3 included in the amount shown in Finding of Fact 6(s) below.

4 f. applying an unfiled factor in rating one CP  
5 policy. As a result, the insured was undercharged in the amount  
6 of \$214.

7 g. failing to use filed increased limits factors on  
8 three GL policies. As a result, one insured paid \$418 less than  
9 it should have paid, and one paid \$811 more than it should have  
10 paid. The remaining insured's premium difference was calculated  
11 within a separate criticism.

12 h. failing to use the correct premises/operations  
13 deductible factor in rating one GL policy. As a result, the  
14 insured paid \$21 less than he should have paid.

15 i. exceeding an individual risk characteristic  
16 credit/debit allowable under the Schedule Rating Plan on one CA  
17 policy.

18 j. applied a credit of 13.2% on one CA policy,  
19 rather than the documented schedule debit of 13.2%. As a  
20 result, the insured paid \$488 less than it should have paid.

21 k. failing to use filed rates in the rating of one  
22 CP policy. As a result, the insured was overcharged by \$202.

23 l. failing to use filed rates in determining the  
24 premiums of 14 GL policies. As a result, six insureds were  
25 overcharged by a total of \$41,187, and seven insureds were  
26 undercharged by a total of \$10,609. The difference in the  
27 amount charged the remaining insured is included in the amount  
28 shown in Finding of Fact 6(s) below.

1 m. failing to use filed rates in determining the  
2 premiums of three CA policies. As a result, two insureds were  
3 overcharged by a total of \$1,201 and one insured was  
4 undercharged by \$624.

5 n. issuing one CP policy at a rate other than the  
6 filed rate for the class. As a result, the insured was  
7 overcharged in the amount of \$837.

8 o. misclassifying a vehicle for rating purposes on  
9 one CA policy. As a result, the insureds paid \$41 less than it  
10 should have paid.

11 p. applying an unfiled charge for special events to  
12 four CP policies and five GL policies. As a result, the  
13 insureds paid a total of \$1,600 more than they should have paid.

14 q. issuing three GL policies with unfiled "A"  
15 rates. As a result, one insured paid \$182 more than he should  
16 have paid. The Examiners were unable to determine the premium  
17 differences for the other two insureds.

18 r. issuing one GL policy at a rate other than the  
19 filed "A" rate. As a result, the insured paid \$4,534 less than  
20 it should have paid.

21 s. applying filed minimum premiums other than those  
22 filed with the Department on five GL policies. As a result, the  
23 insureds paid a total of \$1,262 more than they should have paid.

24 t. failing to charge a premium for certain coverages  
25 or exposures on three GL policies. As a result, two insureds  
26 were undercharged by a total of \$2,041. The Examiners were  
27 unable to determine the amount of overcharge or undercharge on  
28 the remaining policy.

1 u. failing to calculate the amount of premium due on  
2 the basis of its filed rules, on two GL policies. As a result,  
3 one insured was overcharged by \$889 and one insured was  
4 undercharged by \$586.

5 v. issuing three CP policies with an unfiled charge  
6 for additional insured endorsements. As a result, the insureds  
7 were overcharged by a total of \$300.

8 w. issuing 10 GL policies with 12 additional  
9 interest endorsements charged for the endorsements other than as  
10 stated in its filed rates and rules. As a result, three  
11 insureds paid \$1,038 more than they should have paid and five  
12 insureds paid \$3,982 less than they should have paid. The  
13 remaining insureds' premium differences were calculated within a  
14 separate criticism.

15 9. Scottsdale issued a total of 75 policies (14%) using  
16 forms not filed with the Department, or failing to use forms  
17 required by its filings, by:

18 a. issuing five CP policies, 16 GL policies, and six  
19 CA policies with its unfiled General Liability Endorsement  
20 GLS-3, which provides for a 25% minimum earned premium in case  
21 of cancellation at the request of the insured.

22 b. attaching two unfiled manuscript endorsements,  
23 Additional Insured Designated Person or Organization and  
24 Lifeguard/Swimming Warranty, to 13 GL policies and attached an  
25 unfiled Additional Insureds endorsement to four GL policies.

26 c. issuing four GL policies and 37 CA policies  
27 without the Arizona Cancellation Endorsement, which Scottsdale's  
28 filings require to be a part of each policy.







1 IT IS HEREBY ORDERED THAT:

2 1. Scottsdale shall not:

- 3 a. knowingly violate orders of the Director;
- 4 b. fail to document the facts in support of
- 5 adjustments to full manual premiums;
- 6 c. issue policies at premiums other than those based
- 7 determined upon the basis of its filed rates and rules;
- 8 d. issue policy forms not filed with the Department;
- 9 e. fail to issue the Arizona Cancellation
- 10 Endorsement with all commercial policies.
- 11 f. fail to mail notices of nonrenewal to insureds at
- 12 least 60 days prior to the effective date of non-renewal.

13 g. fail to mail notices of premium increase or

14 policy change to insureds at least 60 days prior to the

15 effective date of any premium increase or policy change.

16 2. Within ninety (90) days of this Order's filed date,

17 Scottsdale shall submit to the Director written action plans to

18 monitor Arizona issued policies to ensure the following:

19 a. that personnel use only rates, rating plans and

20 rating rules which have been filed with the ADOI by Respondents

21 or on their behalf;

22 b. that policy worksheets are prepared and retained

23 in policy files; that all endorsements issued with policies are

24 filed with the Department;

25 c. that the Arizona Cancellation Endorsement is

26 issued with all commercial policies;

27 d. that personnel document facts to support any

28 adjustment to full manual premiums;

1 e. that all insureds are sent notices of nonrenewal  
2 at least 60 days in advance of the effective date of the  
3 nonrenewal;

4 f. and that all insureds are sent notices of premium  
5 increase or policy change at least 60 days in advance of the  
6 effective date of the premium increase or policy change.

7 3. Within 90 days of the filed date of this Order,  
8 Scottsdale shall file a rate or range of rates or percentage of  
9 premium to be applied to its additional interest endorsements  
10 and special events endorsements.

11 4. Within ninety (90) days of the filed date of this  
12 Order, Scottsdale shall reimburse the 28 policyholders listed in  
13 Exhibit A of this Order, for premium overcharges totalling  
14 \$58,633 plus interest at the rate of ten percent (10%) per annum  
15 calculated from the date paid by the insured to the date of  
16 repayment to the insured.

17 5. All reimbursements pursuant to Paragraphs 4 and 5  
18 above shall be accompanied by a letter acceptable to the  
19 Director. A list of reimbursements, giving the name and address  
20 of each party reimbursed, the amount of the overcharge, the  
21 amount of interest paid, and the date of payment, shall be  
22 furnished to the Market Conduct Examinations Division of the  
23 ADOI within 100 days of the filed date of this Order.

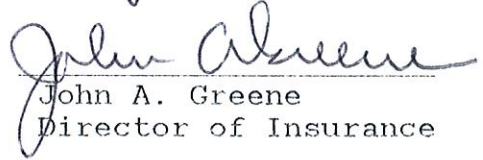
24 6. The Department shall be permitted, through authorized  
25 representatives, to verify that Scottsdale has fully complied  
26 with all requirements of this Order.

27 7. Scottsdale shall pay a civil penalty of \$27,000 to the  
28 Director for remission to the State Treasurer for deposit in the

1 State General Fund in accordance with A.R.S. §20-220(B). The  
2 civil penalty shall be provided to the Market Conduct  
3 Examinations Division of the Department before this Order is  
4 filed.

5 8. The May 24, 1994 Report of Examination, and the  
6 objections to the Report filed by Scottsdale, shall be filed  
7 with the Department after issuance of this Order.

8 DATED at Phoenix, Arizona this 13 day of May, 1997.

9  
10   
11 John A. Greene  
12 Director of Insurance

12 CONSENT TO ORDER

13 1. Respondent Scottsdale Insurance Company has reviewed  
14 the attached Consent Order.

15 2. Respondent is aware of its right to a hearing at which  
16 hearing it may be represented by counsel, present evidence and

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1 cross-examine witnesses. Respondent has irrevocably waived its  
2 right both to demand a public hearing and to seek judicial  
3 review of this Order.

4 3. Respondent admits the jurisdiction of the Arizona  
5 Department of Insurance and the Director of the Arizona  
6 Department of Insurance, and consents to the entry of this  
7 Consent Order. Respondent neither admits nor denies the  
8 Findings of Fact and Conclusions of Law stated in the Order.

9 4. Respondent states that no promise of any kind or  
10 nature whatsoever was made to it to induce it to enter into this  
11 Consent Order and that it has entered into this Consent Order  
12 voluntarily.

13 5. Respondent acknowledges that the acceptance of this  
14 Order by the Director of the Arizona Department of Insurance is  
15 solely for the purpose of settling this matter and does not  
16 preclude any other agency or officer of this state or its  
17 subdivisions or any other person from instituting proceedings,  
18 whether civil, criminal, or administrative, as may be  
19 appropriate now or in the future.

20 6. R. Max Williamson, who holds the office  
21 of President of Scottsdale Insurance Company,  
22 is authorized to enter into this Order for and on its behalf.

23 SCOTTSDALE INSURANCE COMPANY

24 April 29, 1997  
25 (Date)

24 By R. Max Williamson

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COPY of the foregoing mailed/delivered  
this 15th day of May, 1997, to:

- Charles R. Cohen  
Deputy Director
- Gregory Y. Harris  
Executive Assistant Director
- Erin H. Klug  
Chief Market Conduct Examiner
- Mary Butterfield  
Assistant Director  
Life & Health Division
- Deloris E. Williamson  
Assistant Director  
Rates & Regulations Division
- Gary Torticill  
Assistant Director and Chief Financial Examiner  
Corporate & Financial Affairs Division
- Cathy O'Neil  
Assistant Director  
Consumer Services Division
- John Gagne  
Assistant Director  
Investigations Division
- Terry L. Cooper  
Fraud Unit Chief

DEPARTMENT OF INSURANCE  
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J. Michael Low, Esq.  
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2999 North 44th Street, Suite 250  
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SCOTTSDALE INSURANCE COMPANY  
PREMIUM REFUNDS

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Policy #	Refund
006741	\$ 100
008433	\$ 100
008680	\$ 121
009480	\$ 100
009676	\$ 1,559
010277	\$ 100
011988	\$ 162
012051	\$ 29,207
013105	\$ 1,080
025417	\$ 889
025473	\$ 5,256
025486	\$ 822
030869	\$ 1,107
032804	\$ 837
037832	\$ 874
037841	\$ 202
047222	\$ 770
054831	\$ 811
054851	\$ 376
061306	\$ 988
061776	\$ 250
141219	\$ 182
293679	\$ 10,298
311316	\$ 90
352682	\$ 71
377459	\$ 1,525
386853	\$ 575
025568	\$ 181
TOTAL	\$ 58,633