

STATE OF ARIZONA
FILED

MAY 31 2012

DEPT. OF INSURANCE

REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

INFINITY SELECT INSURANCE COMPANY

NAIC #20260

AS OF

DECEMBER 31, 2010

TABLE OF CONTENTS

AFFIDAVIT4

FOREWORD5

SCOPE AND METHODOLOGY5

HISTORY OF THE COMPANY6

PROCEDURES REVIEWED WITHOUT EXCEPTION.....7

EXAMINATION REPORT SUMMARY7

RESULTS OF PREVIOUS MARKET EXAMINATIONS9

UNDERWRITING AND RATING.....10

DECLINATIONS, CANCELLATIONS AND NON-RENEWALS.....13

CLAIM PROCESSING18

SUMMARY OF FAILED STANDARDS.....24

SUMMARY OF PROPERTY AND CASUALTY STANDARDS25



Department of Insurance
State of Arizona
Market Oversight Division
Examinations Section
Telephone: (602) 364-4994
Fax: (602) 364-2505

JANICE K. BREWER
Governor

2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7269
www.azinsurance.gov

CHRISTINA URIAS
Director of Insurance

Honorable Christina Urias
Director of Insurance
State of Arizona
2910 North 44th Street
Suite 210, Second Floor
Phoenix, Arizona 85108-7269

Dear Director Urias:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Arizona, an examination has been made of the market conduct affairs of the:

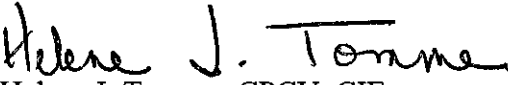
INFINITY SELECT INSURANCE COMPANY
NAIC # 20260

The above examination was conducted by William Hobert, Examiner-in-Charge, and Market Conduct Examiner Laura Sloan-Cohen..

The examination covered the period of January 1, 2010 through December 31, 2010.

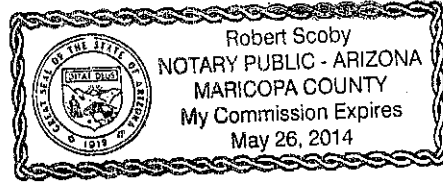
As a result of that examination, the following Report of Examination is respectfully submitted.

Sincerely yours,


Helene I. Tomme, CPCU, CIE
Market Conduct Examinations Supervisor
Market Oversight Division

AFFIDAVIT

STATE OF ARIZONA)
)
County of Maricopa) SS.



William P. Hobert being first duly sworn, states that I am a duly appointed Market Conduct Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of Market Conduct Examiner Laura Sloan-Cohen on the Examination of Infinity Select Insurance Company, hereinafter referred to as the "Company" was performed at 3540 East Baseline Road, Suite #103, Phoenix, AZ 85040. A teleconference meeting with appropriate Company officials was held to discuss this Report, but a copy was not provided to management as the Examination was incomplete and had not yet been finalized. The information contained in this Report, consists of the following pages, is true and correct to the best of my knowledge and belief and that any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.

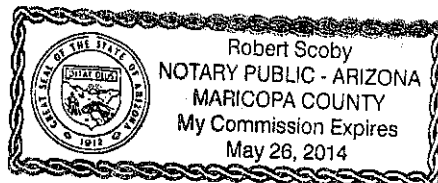
William P. Hobert

William P. Hobert, CPCU, CLU, CIE
Market Conduct Examiner-in-Charge
Market Oversight Division

Subscribed and sworn to before me this 7 day of Feb, 2012.

Robert Scoby
Notary Public

My Commission Expires 5/26/14



FOREWORD

This target market conduct examination report of Infinity Select Insurance Company (herein referred to as the "Company"), was prepared by employees of the Arizona Department of Insurance (Department) as well as independent examiners contracting with the Department. A target market conduct examination is conducted for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the state of Arizona. The examiners conducted the examination of the Company in accordance with Arizona Revised Statutes (A.R.S.) §§ 20-142, 20-156, 20-157, 20-158 and 20-159. The findings in this report, including all work product developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the following Private Passenger Automobile (PPA) business operations:

1. Complaint Handling
2. Marketing and Sales
3. Producer Compliance
4. Underwriting and Rating
5. Declinations, Cancellations and Non-Renewals
6. Claims Processing

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Additionally, findings may not be material to all areas that would serve to assist the Director.

Failure to identify or criticize specific Company practices does not constitute acceptance of those practices by the Department.

SCOPE AND METHODOLOGY

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The target market conduct examination of the Company covered the period of

January 1, 2010 through December 31, 2010 for business reviewed. The purpose of the examination was to determine the Company's compliance with Arizona's insurance laws, and whether the Company's operations and practices are consistent with the public interest. This examination was completed by applying tests to each examination standard to determine compliance with the standard. Each standard applied during the examination is stated in this report and the results are reported beginning on page 7.

In accordance with Department procedures, the examiners completed a Preliminary Finding ("Finding") form on those policies, claims and complaints not in apparent compliance with Arizona law. The finding forms were submitted for review and comment to the Company representative designated by Company management to be knowledgeable about the files. For each finding the Company was requested to agree, disagree or otherwise justify the Company's noted action.

The examiners utilized both examinations by test and examination by sample. Examination by test involves review of all records within the population, while examination by sample involves the review of a selected number of records from within the population. Due to the small size of some populations examined, examinations by test and by sample were completed without the need to utilize computer software.

File sampling was based on a review of underwriting and claim files that were systematically selected by using Audit Command Language (ACL) software and computer data files provided by the Company. Samples are tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data will result in an exception ratio, which determines whether or not a standard is met. If the exception ratio found in the sample is, generally less than 5%, the standard will be considered as "met." The standard in the areas of procedures and forms use will not be met if any exception is identified.

HISTORY OF THE COMPANY

Dixie Insurance Company (now known as Infinity Insurance Company) purchased 100% of the outstanding capital stock of Dixie American Insurance Company upon the initial capitalization of the Company. The Company changed its name to Infinity Select Insurance Company on August 1, 1992.

The Company's statutory home office is 2555 East 55th Place, Suite 209, Indianapolis, IN 46220. The main administrative office and primary location of books and records is 3700

Colonnade Parkway, Suite 600, Birmingham, AL 35243-3216. The Company's Certificate of Authority to write business in Arizona was granted 1/2/96. The Company maintains licensing in twenty-one (21) states.

PROCEDURES REVIEWED WITHOUT EXCEPTION

The examiners' review of the following Company departments¹ or functions indicates that they appear to be in compliance with Arizona statutes and rules:

Complaint Handling Marketing and Sales Producer Compliance

EXAMINATION REPORT SUMMARY

The examination revealed sixteen (16) compliance issues that resulted in 233 exceptions due to the Company's failure to comply with statutes and rules that govern all insurers operating in Arizona. These issues were found in three (3) of the six (6) sections of Company operations examined. The following is a summary of the examiners' findings:

Underwriting and Rating

In the area of Underwriting and Rating, two (2) compliance issues are addressed in this report as follows:

- The Company's application disclosure authorization failed to:
 - (1) limit the length of time the authorization for personal or privileged information used in the underwriting process to no longer than one (1) year; and
 - (2) inform the individual or a person authorized to act on behalf of the individual that they both are entitled to receive a copy of their signed authorization form.

Declinations, Cancellations and Non-Renewals

In the area of Cancellations and Non-renewals, seven (7) compliance issues are addressed in this report as follows:

- The Company failed on four (4) Summary of Rights forms to inform recipients that any personal information provided shall identify the source, if the source is institutional.

¹ If a department name is listed there were no exceptions noted during the review.

- The Company failed to provide a Summary of Rights to thirty-six (36) insureds that had their policies non-renewed.
- The Company failed to use a reason allowed by statute to cancel four (4) policies in effect for more than sixty (60) days and to non-renew thirty-four (34) policies.
- The Company failed to provide eight (8) insureds a non-renewal notice at least forty-five (45) days before the effective date of the non-renewal.
- The Company failed to provide thirty-eight (38) named insureds non-renewal notices that included their right to complain to the Director of the Company's action.
- The Company failed to provide thirty-eight (38) named insureds non-renewal notices that informed insureds of their possible eligibility for insurance in the assigned risk plan.
- The Company failed to provide proofs of mailing with seventeen (17) cancellation and one (1) non-renewal notice.

Claims Processing

In the area of Claims Processing, seven (7) compliance issues are addressed in this report as follows:

- The Company failed to accurately identify the state, its statutes and/or Insurance Department in its claim correspondence with twenty-one (21) claimants.
- The Company failed to specify on two (2) claim authorization forms that the authorization shall remain valid for no longer than the duration of the claim.
- The Company failed to advise on two (2) claim authorization forms that the individual and persons authorized to act on behalf of the individual were entitled to receive a copy of the authorization form.
- The Company failed to correctly calculate and fully pay:
 - (a) sales tax owed to four (4) first party total loss claimants; and
 - (b) fees owed on seven (7) first and seven (7) third party total loss settlements.
- The Company failed to return the proportionate amount of three (3) insureds' deductible after recovery from the at-fault party.
- The Company failed to provide five (5) claimants a written claim denial.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET EXAMINATIONS

During the past three (3) years, California and Connecticut conducted market conduct examinations of the Company. California had an examination in progress during this examination.

FACTUAL FINDINGS

UNDERWRITING AND RATING

Private Passenger Automobile (PPA):

The examiners reviewed:

- (1) 100 PPA new business and/or renewal policies from a population of 37,404; and
- (2) 100 PPA surcharged policies from a population of 16,940.

The following Underwriting and Rating Standards were met:

#	STANDARD	Regulatory Authority
1	The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan.	A.R.S. §§ 20-341 through 20-385
2	Disclosures to insureds concerning rates and coverage are accurate and timely.	A.R.S. §§ 20-259.01, 20-262, 20-263, 20-264, 20-266, 20-267, 20-2110
4	All forms and endorsements forming a part of the contract should be filed with the director (if applicable).	A.R.S. § 20-398
5	Policies and endorsements are issued or renewed accurately, timely and completely.	A.R.S. §§ 20-1120, 20-1121
6	Rescissions are not made for non-material misrepresentations.	A.R.S. §§ 20-463, 20-1109

The following Underwriting and Rating Standard failed:

#	STANDARD	Regulatory Authority
3	All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations, including, but not limited to, the Notice of Insurance Information Practices and the Authorization for Release of Information.	A.R.S. §§ 20-2104, 20-2106, 20-2110, 20-2113

Preliminary Finding #16– Underwriting Authorization - In the *Applicant Statement* on one

(1) Company application (form #4235 R0304), the Company failed to:

- (a) specify the authorization remains valid for no longer than one (1) year from the date the authorization is signed; and
- (b) advise the individual or a person authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form.

This form fails to comply with A.R.S. § 20-2106(7)(b) and (9) and represent two (2) violations of the statute.

UNDERWRITING FORMS

Failed to specify the authorization remains valid for no longer than one (1) year from date signed
Violation of A.R.S. § 20-2106(7)(b)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	1	N/A

Any form error does not meet the Standard; therefore a recommendation is warranted.

Failed to advise the individual or a person authorized to act on behalf of the individual that they
are entitled to receive a copy of the authorization form

Violation of A.R.S. § 20-2106(9)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	1	N/A

Any form error does not meet the Standard; therefore a recommendation is warranted.

Recommendation #1

Within ninety (90) days of the filed date of this report, provide documentation to the Department that this form:

- (a) specifies the authorization remains valid for no longer than one (1) year from the date the authorization is signed; and
 - (b) advises the individual or a person authorized to act on behalf of the individual that the individual or the individual's authorized representative is entitled to receive a copy of the authorization form,
- in accordance with applicable state statute.

FACTUAL FINDINGS

DECLINATIONS, CANCELLATIONS AND NON-RENEWALS

Private Passenger Automobile (PPA):

The examiners reviewed:

- (1) 100 PPA non-payment cancellations from a population of 13,020;
- (2) fifty (50) PPA non-renewals from a population of 163; and
- (3) all twenty-eight (28) PPA cancellations for underwriting reasons.

The following Declination, Cancellation and Non-Renewal Standard failed:

#	STANDARD	Regulatory Authority
1	Declinations, Cancellations and Non-Renewals shall comply with state laws and Company guidelines including the Summary of Rights to be given to the applicant and shall not be unfairly discriminatory.	A.R.S. §§ 20-448, 20-2108, 20-2109 and 20-2110

Preliminary Findings #13 – No Summary of Rights - The Company failed to provide a Summary of Rights to thirty-six (36) insureds that had their policies non-renewed due to an adverse underwriting decision. These represent thirty-six (36) violations of A.R.S. § 20-2110.

PPA NON-RENEWALS

Failed to provide a Summary of Rights to insureds receiving a non-renewal notice
Violation of A.R.S. § 20-2110

Population	Sample	# of Exceptions	% to Sample
163	50	36	72%

A 72% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #2

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure a Summary of Rights is provided to all insureds, in accordance with the applicable statutes, when their policies are non-renewed due to an adverse underwriting decision.

Subsequent Event

As of 2/9/12, the Company confirms completion of programming to add the Arizona Summary of Rights to the back of non-renewal notices.

Preliminary Finding #8 – Incomplete Summary of Rights - The Company's four (4) AZ Summary of Rights forms failed to inform recipients that when any personal information is gathered from an institutional source that source will be identified. These represent four (4) violations of A.R.S. § 20-2110.

PPA CANCELLATIONS AND NON-RENEWALS

Failed to provide a complete Summary of Rights

Violation of A.R.S. § 20-2110

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	4	N/A

Any form error does not meet the Standard; therefore a recommendation is warranted.

Recommendation #3

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure a complete Summary of Rights is provided to all insureds, in accordance with the applicable statutes, when their policies are cancelled or non-renewed due to an adverse underwriting decision.

The following Declination, Cancellation and Non-Renewal Standard failed:

#	STANDARD	Regulatory Authority
2	Cancellations and non-renewal notices comply with state laws, Company guidelines and policy provisions, including the amount of advance notice required and grace period provisions to the policyholder, and shall not be unfairly discriminatory.	A.R.S. §§ 20-191, 20-443, 20-448, 20-1631, 20-1632, 20-1632.01

Preliminary Findings #7 & #10 – Invalid Reason for Policy Termination - The Company failed to use a reason allowed by statute to cancel four (4) policies in effect for more than sixty (60) days and to non-renew thirty-four (34) policies. These represent in total thirty-eight (38) violations of A.R.S. § 20-1631(D).

PPA CANCELLATIONS AND NON-RENEWALS

Cancelled and non-renewed PPA policies for reasons not permitted by statute

Violation of A.R.S. § 20-1631(D)

Population	Sample	# of Exceptions	% to Sample
191	78	38	48.7%

A 48.7% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #4

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure Company policies are canceled and non-renewed for only reasons allowed by the statute.

Preliminary Finding #11 – Late Non-Renewal Notices - The Company failed to provide eight (8) named insureds their non-renewal notices at least forty-five (45) days before the effective date of the non-renewal. These represent eight (8) violations of A.R.S. § 20-1632(A).

PPA NON-RENEWALS

Failed to provide non-renewal notice at least forty-five (45) days before effective date
Violation of A.R.S. § 20-1632(A)

Population	Sample	# of Exceptions	% to Sample
163	50	8	16%

A 16% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #5

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure named insureds receive notices of non-renewal at least forty-five (45) days before the non-renewal effective date, in accordance with the applicable state statute.

Preliminary Finding #9 – PPA Non-Renewal Notices Fail to Include Right to Complain to the Director - The Company failed to provide thirty-eight (38) named insureds non-renewal notices that included the insured’s right to complain to the Director of the Company’s action within ten (10) days after receipt of the notice. These represent thirty-eight (38) violations of A.R.S. § 20-1632(A)(1).

PPA NON-RENEWALS

Failed to provide non-renewal notices that included right to complain to the Director
Violation of A.R.S. § 20-1632(A)(1)

Population	Sample	# of Exceptions	% to Sample
163	50	38	76%

A 76% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #6

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure non-renewal notices contain the right to complain to the Director, in accordance with the applicable state statute.

Preliminary Finding #9 – PPA Non-Renewal Notices Fail to Include Notice of Assigned Risk Plan - The Company failed to provide thirty-eight (38) named insureds non-renewal notices that informed them of their possible eligibility for insurance through the state's automobile assigned risk plan. These represent thirty-eight (38) violations of A.R.S. § 20-1632(A)(2).

PPA NON-RENEWALS

Failed to provide non-renewal notices that included possible eligibility for assigned risk plan
Violation of A.R.S. § 20-1632(A)(2)

Population	Sample	# of Exceptions	% to Sample
163	50	38	76%

A 76% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #7

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure non-renewal notices contain a notice of the insured's possible eligibility for insurance through the assigned risk plan, in accordance with the applicable state statute.

Preliminary Finding #14R – Missing Proofs of Mailing - The Company failed to provide seventeen (17) underwriting cancellation and one (1) non-renewal proof of mailing. These represent in total eighteen (18) violations of A.R.S. § 20-1632(A).

PPA CANCELLATIONS AND NON-RENEWALS

Failed to provide proofs of mailing
Violation of A.R.S. § 20-1632(A)

Population	Sample	# of Exceptions	% to Sample
191	78	18	23.1%

A 23.1% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #8

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure the Company retains proofs of mailing of its cancellation and non-renewal notices, in accordance with the applicable state statute.

FACTUAL FINDINGS

CLAIM PROCESSING

Private Passenger Automobile (PPA):

The examiners reviewed:

- (1) fifty (50) PPA claims closed without payment from a population of 2,128;
- (2) fifty (50) PPA claims paid from a population of 2,174;
- (3) fifty (50) PPA total losses from a population of 330; and
- (4) fifty (50) PPA subrogations from a population of 116.

The following Claim Processing Standards were met:

#	STANDARD	Regulatory Authority
1	The initial contact by the Company with the claimant is within the required time frame.	A.R.S. § 20-461, A.A.C. R20-6-801
2	Timely investigations are conducted.	A.R.S. § 20-461, A.A.C. R20-6-801
4	Claim files are adequately documented in order to be able to reconstruct the claim.	A.R.S. §§ 20-461, 20-463, 20-466.03, A.A.C. R20-6-801
6	The Company uses reservation of rights and excess of loss letters, when appropriate.	A.R.S. § 20-461, A.A.C. R20-6-801
8	The Company responds to claim correspondence in a timely manner.	A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801
10	No insurer shall fail to fully disclose to first party insureds all pertinent benefits, coverages, or other provisions of an insurance policy or insurance contract under which a claim is presented.	A.A.C. R20-6-801
11	Adjusters used in the settlement of claims are properly licensed.	A.R.S. §§ 20-321 through 20-321.02

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
3	The Company's claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	A.R.S. §§ 20-461, 20- 466.03, 20-2106, A.A.C. R20-6-801

Preliminary Finding #5 – Incorrect State / Insurance Department Reference - The Company failed to accurately identify the state statutes and/or Insurance Department in its claim correspondence with twenty-one (21) claimants. The reference to an incorrect or conflicting state statute or Insurance Department in correspondence is misleading and deceptive. These represent twenty-one (21) violations of A.R.S. § 20-461(A)(1).

	ADOI I.D. #	Claim #10000	DOL	Correspondence		Incorrect Reference Made
				Date	Type	
1	ISCWP-S1	945848 (cl#1)	9/16/10	9/24/10	Statute of Limitations	California Law...
2	ISCWP-S1	945848 (cl#2)	9/16/10	9/24/10	Statute of Limitations	California Law...
3	ISCWP-S2	945474	9/13/10	9/23/10	Statute of Limitations	California Law...
4	ISCWP-26	886622	5/18/10	5/18/10	Consumer Bill of Rights	CA Dept of Consumer Affairs
5				5/18/10	Repair Shop Info	Section 758.5 of CA Ins Code
6	ISSUB-37	899204	6/13/10	6/16/10	Excess of Limits	California Law...
7				6/16/10	Disclose Policy Limits	Section 791.13 of CA Ins Code
8				6/22/10	Affidavit No Other Ins	California Law...
9				6/16/10	Acknowledge Claim	California Law...
10				6/16/10	Consumer Bill of Rights	CA Dept of Consumer Affairs
11	ISSUB-51	940378	9/5/10	11/5/10	Subrogation Recovery	California Law...
12				9/7/10	Mitigation of Damages	California Law...
13				10/2/10	Continued Investigation	California Law...
14	ISPDT-34	905926	6/27/10	6/28/10	Repair Shop Info	Section 758.5 of CA Ins Code
15				6/28/10	Consumer Bill of Rights	CA Dept of Consumer Affairs
16				7/26/10	Continued Investigation	California Law...
17				7/15/10	Principally At Fault	California Insurance Code
18				6/28/10	Coverages Letter	California Law...
19	ISPDT-46	940378	9/5/10	11/5/10	Subrogation Recovery	California Law...
20				10/2/10	Continued Investigation	California Law...
21				9/7/10	Coverages Letter	California Law...

CLAIM FORMS

Failed to correctly reference statutes and/or Insurance Department in correspondence with claimants
Violation of A.R.S. § 20-461(A)(1)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	21	N/A

Any error does not meet the Standard; therefore a recommendation is warranted.

Recommendation #9

Within ninety (90) days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure any claim correspondence with AZ claimants correctly identifies that state's statute and Insurance Department, in accordance with the applicable state statute.

Preliminary Finding #6 – Authorization Disclosures – On two (2) claim authorization forms shown in the table below, the Company failed to:

- (a) specify the authorization remains valid for no longer than the duration of the claim; and
- (b) advise the individual or a person authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form.

These forms fail to comply with A.R.S. § 20-2106(8)(b) and (9) and represent four (4) violations of the statute. The following table summarizes these authorization form findings.

Form Description / Title	Form #	Statute Provision
Authorization to Disclose Health Information Form	None	8(b) and 9
Consent to Disclose and Release Form	None	8(b) and 9

CLAIM FORMS

Failed to specify the authorization remains valid for no longer than the duration of the claim
Violation of A.R.S. § 20-2106(8)(b)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	2	N/A

Any form error does not meet the Standard; therefore a recommendation is warranted.

Failed to advise the individual or a person authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form
Violation of A.R.S. § 20-2106(9)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	2	N/A

Any form error does not meet the Standard; therefore a recommendation is warranted.

Recommendation #10

Within ninety (90) days of the filed date of this report, provide documentation to the Department that these forms, as needed,

- (a) specify the authorization remains valid for no longer than the duration of the claim; and
- (b) advise the individual or a person authorized to act on behalf of the individual that the individual or the individual's authorized representative is entitled to receive a copy of the authorization form,

in accordance with the applicable state statute.

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
5	Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	A.R.S. §§ 20-268 20-461, 20-462, 20-468, 20-469, A.A.C. R20-6-801

Preliminary Findings #3 and #4 – Total Loss Sales Tax and Fees – The Company failed to accurately calculate and fully pay the correct:

- (a) sales tax with four (4) first party total loss settlements; and
- (b) fees with seven (7) first and seven (7) third party total loss settlements.

These represent in total eighteen (18) violations of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(1)(b).

PPA TOTAL LOSSES

Failed to correctly calculate and pay sales taxes and fees associated with total loss settlements.
Violation of A.R.S. § 20-461(A)(6), A.A.C. R20-6-801(H)(1)(b)

Population	Sample	# of Exceptions	% to Sample
330	50	18	36%

A 36% error ratio does not meet the Standard; therefore a recommendation is warranted.

Recommendation #11

Within ninety (90) days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure the Company correctly calculates and fully pays any sales tax and title, registration or other fees, owed any claimant in the settlement of a total loss, in accordance with applicable state statutes and regulations. In addition, the Company should make restitution to these claimants, including interest, and provide the Department appropriate documentation of payments. With each payment of restitution, provide a letter indicating that an audit of claims by the Department resulted in identification and correction of previous claim payment.

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
7	Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner.	A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801

Preliminary Finding #1 – Timely Deductible Reimbursement after Recovery – The Company failed to promptly return the proportionate amount of three (3) insureds' deductibles after recovery from the at-fault party. These represent three (3) violations of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(4).

PPA SUBROGATION RECOVERY

Failed to reimburse the deductible on a timely basis after subrogation recovery
Violation of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(4)

Population	Sample	# of Exceptions	% to Sample
116	50	3	6%

A 6% error ratio does meet the Standard; therefore a recommendation is not warranted

Recommendation #12

Within 90 days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure the Company promptly reimburses insureds' their deductibles after successful subrogation recovery, in accordance with applicable state statutes and regulations.

Subsequent Events

During the course of the examination, the Company paid the three (3) claimants total restitution of \$623.60, which included \$98.10 interest.

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
9	Denied and closed without payment claims are handled in accordance with policy provisions and state law.	A.R.S. §§ 20-461, 20-462, 20-463, 20-466, 20-2110, A.A.C. R20-6-801

Preliminary Finding #2 – Written Claim Denial – The Company failed to provide five (5) claimants a written denial of their claims with reference to the specific policy provision, condition or exclusion. These represent five (5) violations of A.R.S. § 20-461(A)(5) and A.A.C. R20-6-801(G)(1)(a).

PPA CLAIMS CLOSED WITHOUT PAYMENT

Failed to provide claimants a claim denial in writing
Violation of A.R.S. § 20-461(A)(5) and A.A.C. R20-6-801(G)(1)(a)

Population	Sample	# of Exceptions	% to Sample
2,128	50	5	10%

A 10% error ratio does not meet the Standard; therefore a recommendation is warranted

Recommendation #13

Within ninety (90) days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure the Company provides all claimants a written explanation for the Company's claim denial, in accordance with applicable state statute.

SUMMARY OF FAILED STANDARDS

EXCEPTION	Rec. No.	Page No.
UNDERWRITING & RATING		
<u>Standard #3</u> All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations, including, but not limited to, the Notice of Insurance Information Practices and the Authorization for Release of Information.	1	12
DECLINATIONS, CANCELLATIONS & NON-RENEWALS		
<u>Standard #1</u> Declinations, Cancellations and Non-Renewals shall comply with state laws and Company guidelines including the Summary of Rights to be given to the applicant and shall not be unfairly discriminatory.	2 & 3	14 & 15
<u>Standard #2</u> Cancellations and non-renewal notices comply with state laws, Company guidelines and policy provisions, including the amount of advance notice required and grace period provisions to the policyholder, and shall not be unfairly discriminatory.	4, 5, 6, 7 & 8	16 & 17
CLAIM PROCESSING		
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	9 & 10	20 & 21
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	11	22
<u>Standard #7</u> Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner.	12	22
<u>Standard #9</u> Denied and closed without payment claims are handled in accordance with policy provisions and state law.	13	23

SUMMARY OF PROPERTY AND CASUALTY STANDARDS

A. Complaint Handling

#	STANDARD	PASS	FAIL
1	The Company takes adequate steps to finalize and dispose of the complaints in accordance with applicable statutes, rules, regulations and contract language. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
2	The time frame within which the Company responds to complaints is in accordance with applicable statutes, rules and regulations. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	

B. Marketing and Sales

#	STANDARD	PASS	FAIL
1	All advertising and sales materials are in compliance with applicable statutes, rules and regulations. (A.R.S. §§ 20-442 and 20-443)	X	

C. Producer Compliance

#	STANDARD	PASS	FAIL
1	The producers are properly licensed in the jurisdiction where the application was taken. (A.R.S. §§ 20-282, 20-286, 20-287, 20-311 through 311.03)	X	
2	An insurer shall not pay any commission, fee, or other valuable consideration to unlicensed producers. (A.R.S. § 20-298)	X	

D. Underwriting and Rating

#	STANDARD	PASS	FAIL
1	The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan. (A.R.S. §§ 20-341 through 20-385)	X	
2	Disclosures to insureds concerning rates and coverage are accurate and timely. (A.R.S. §§ 20-259.01, 20-262, 20-263, 20-264, 20-266, 20-267, 20-2110)	X	

#	STANDARD	PASS	FAIL
3	All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations, including, but not limited to, the Notice of Insurance Information Practices and the Authorization for Release of Information. (A.R.S. §§ 20-157, 20-2104, 20-2106, 20-2110 and 20-2113)		X
4	All forms and endorsements forming a part of the contract should be filed with the director (if applicable). (A.R.S. § 20-398)	X	
5	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120 and 20-1121)	X	
6	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463 and 20-1109)	X	

E. Declinations, Cancellations and Non-Renewals

#	STANDARD	PASS	FAIL
1	Declinations, Cancellations and Non-Renewals shall comply with state laws and Company guidelines including the Summary of Rights to be given to the applicant and shall not be unfairly discriminatory. (A.R.S. §§ 20-448, 20-2108, 20-2109 and 20-2110)		X
2	Cancellations and non-renewal notices comply with state laws, Company guidelines and policy provisions, including the amount of advance notice required and grace period provisions to the policyholder, and shall not be unfairly discriminatory. (A.R.S. §§ 20-191, 20-443, 20-448, 20-1631, 20-1632, 20-1632.01)		X

F. Claim Processing

#	STANDARD	PASS	FAIL
1	The initial contact by the Company with the claimant is within the required time frame. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	

#	STANDARD	PASS	FAIL
3	The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations. (A.R.S. §§ 20-461, 20-466.03, 20-2106, A.A.C. R20-6-801)		X
4	Claim files are adequately documented in order to be able to reconstruct the claim. (A.R.S. §§ 20-461, 20-463, 20-466.03, A.A.C. R20-6-801)	X	
5	Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations. (A.R.S. §§ 20-268, 20-461, 20-462, 20-468, 20-469, A.A.C. R20-6-801)		X
6	The Company uses reservation of rights and excess of loss letters, when appropriate. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
7	Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner. (A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801)		X
8	The Company responds to claim correspondence in a timely manner. (A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801)	X	
9	Denied and closed without payment claims are handled in accordance with policy provisions and state law. (A.R.S. §§ 20-461, 20-462, 20-463, 20-466, 20-2110, A.A.C. R20-6-801)		X
10	No insurer shall fail to fully disclose to first party insureds all pertinent benefits, coverages, or other provisions of an insurance policy or insurance contract under which a claim is presented. (A.A.C. R20-6-801)	X	
11	Adjusters used in the settlement of claims are properly licensed. (A.R.S. §§ 20-321 through 20-321.02)	X	