

STATE OF ARIZONA
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DEPT. OF INSURANCE

REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

SAFE AUTO INSURANCE COMPANY

NAIC #25405

AS OF

DECEMBER 31, 2011

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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:

SAFE AUTO INSURANCE COMPANY
NAIC # 25405

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, 2011 through December 31, 2011.

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

Sincerely yours,

A handwritten signature in black ink that reads "Helene I. Tomme".

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

FOREWORD

This target market conduct examination report of Safe Auto 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, 2011 through December 31, 2011 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

The Company is an Ohio corporation, incorporated 5/28/93, with its headquarters in Columbus, Ohio. Founders Ari Deshe, Chairman and CEO, and Jon Diamond, President and COO, have held those responsibilities from the Company's inception through the exam period. The Company is owned by Safe Auto Insurance Group, Inc. an insurance holding company primarily owned by the Deshe and Diamond families. The Group also owns Safe Auto Group

Agency, which provides agency services. No other insurers or affiliates are involved with insurance transactions in Arizona.

The Company is a single line company, with a niche market for minimum PPA coverage. The Company writes exclusively through employee-agents on a direct basis via call centers or websites. The Company maintains call centers in Columbus and Woodsfield, OH, Somerset, KY and Hemmingway, SC. Arizona admitted the Company as a property and casualty insurer 4/2/04. In addition, the Company is authorized to transact business in eighteen (18) other 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 eighteen (18) compliance issues that resulted in 130 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, eight (8) compliance issues are addressed in this report as follows:

- The Company failed to fully document and accurately apply rating surcharges (i.e. points) used to determine fourteen (14) PPA policy premiums.
- The Company failed to notify twenty-one (21) new business applicants the reason for their premium increase was an undisclosed at-fault accident.
- The Company endorsed UM and UIM coverages to twenty (20) new business policies without the consent of the insured.
- The Company's AZ PPA application disclosure authorization failed to:

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

- (a) specify the types of persons authorized to disclose information about the individual;
- (b) specify the nature of the information authorized to be disclosed;
- (c) specify the purposes for which the information is collected;
- (d) 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
- (e) inform the individual or a person authorized to act on behalf of the individual that they are entitled to receive a copy of their signed authorization form.

Declinations, Cancellations and Non-Renewals

In the area of Cancellations and Non-renewals, four (4) compliance issues are addressed in this report as follows:

- The Company failed to provide a Summary of Rights to all twenty-nine (29) insureds that had their policies canceled for underwriting reasons.
- The Company failed to provide two (2) insureds a non-renewal notice at least forty-five (45) days before the effective date of the non-renewal.
- The Company failed to use a reason allowed by statute to non-renew three (3) policies.
- The Company failed to refund with the cancellation notice unearned premium owed seventeen (17) PPA insureds.

Claims Processing

In the area of Claims Processing, six (6) compliance issues are addressed in this report as follows:

- The Company failed to specify on one (1) claim authorization form the purposes for which the information is collected.
- The Company failed to advise on three (3) claim authorization forms that the authorization shall remain valid for no longer than the duration of the claim.
- The Company failed to advise on four (4) 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/or fully pay sales tax owed to five (5) first and three (3) third party total loss claimants.
- The Company failed to properly apply the policy deductible in the settlement of one (1) first party, non-retained total loss.
- The Company failed to return the full amount of two (2) insureds' deductibles after recovery from at-fault parties.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET EXAMINATIONS

During the past three (3) years, Pennsylvania and Texas conducted and finalized market conduct examinations of the Company.

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 31,082 and
- (2) 100 PPA surcharged policies from a population of 13,294.

The following Underwriting and Rating Standards were met:

#	STANDARD	Regulatory Authority
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
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

Preliminary Findings #13 – Undocumented Surcharges - The Company failed to fully document and accurately apply surcharges (i.e. points) used to determine premium for four (4) new business and ten (10) surcharged PPA policies. These represent a total of fourteen (14) violations of A.R.S. § 20-385.

PPA NEW / RENEWAL AND SURCHARGED POLICIES

Failed to accurately document and apply surcharges to determine premium

Violation of A.R.S. § 20-385

Population	Sample	# of Exceptions	% to Sample
13,294	134	14	10.4%

An 10.4% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #1

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's use of accident and moving violation surcharges (i.e. points) are accurately documented and consistently applied, in accordance with the Company's filed rates and state statutes.

The following Underwriting and Rating Standard failed:

#	STANDARD	Regulatory Authority
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

Preliminary Finding #14 – Undisclosed At-Fault Accident Surcharge Notice - The Company failed to notify twenty-one (21) insureds that the reason for their premium increase was a previously undisclosed at-fault accident. These represent twenty-one (21) violations of A.R.S. § 20-263(A).

PPA NEW / RENEWAL AND SURCHARGED POLICIES

Failed to provide specific reason for at-fault accident that increased policy premium
Violation of A.R.S. § 20-263(A)

Population	Sample	# of Exceptions	% to Sample
13,294	21	21	100%

An 100% 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 all applicants and insureds that have their policy premium increased due to an at-fault accident are notified of the specific reason by the Company, in accordance with the statute.

Preliminary Finding #12 – UM/UIM Endorsed without Applicant Approval - The Company unilaterally, without insured consent, added UM and UIM coverages to twenty (20) new business policies of applicants that failed to return signed, dated selection forms. These represent twenty (20) violations of A.R.S. § 20-259.01(A) and (B).

PPA NEW / RENEWAL AND SURCHARGED POLICIES

Added UM & UIM coverage to new business policies without applicant consent
Violation of A.R.S. § 20-259.01(A) and (B)

Population	Sample	# of Exceptions	% to Sample
31,082	141	20	14.2%

A 14.2% error ratio 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 the Company provides UM and UIM coverage only to applicants that have agreed to have the coverages added to their policies, in accordance with the statute.

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 #7 – Underwriting Authorization – The Company’s AZ Auto Application (AZ1000/1008) failed to conform to each of the following statute provisions: shown in the table below:

- (a) specify the types of persons authorized to disclose information about the individual;
- (b) specify the nature of the information authorized to be disclosed;
- (c) specify the purposes for which the information is gathered;
- (d) specify the authorization remains valid for no longer than one (1) year from the date the authorization is signed; and
- (e) 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(3), (4), (6), (7)(b) and (9) and represents five (5) violations of the statute.

UNDERWRITING FORMS

Failed to specify types of persons authorized to disclose information about the individual
Violation of A.R.S. § 20-2106(3)

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 specify the nature of the information authorized to be disclosed
Violation of A.R.S. § 20-2106(4)

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 specify the purposes for which the information is collected
Violation of A.R.S. § 20-2106(6)

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 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 #4

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

- (a) specify the types of persons authorized to disclose information about the individual;
- (b) specify the nature of the information authorized to be disclosed;
- (c) specify the purposes for which the information is gathered;
- (d) specify the authorization remains valid for no longer than one (1) year from the date the authorization is signed; and
- (e) 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.

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 23,753;
- (2) all three (3) PPA non-renewals; and
- (3) all twenty-nine (29) 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 #11 – No Summary of Rights - The Company failed to provide a Summary of Rights to all twenty-nine (29) recipients of a cancellation due to an adverse underwriting decision. These represent twenty-nine (29) violations of A.R.S. § 20-2110 and the prior Consent Order.

PPA UNDERWRITING CANCELLATIONS

Failed to provide a Summary of Rights to insureds receiving an underwriting cancellation notice
Violation of A.R.S. § 20-2110

Population	Sample	# of Exceptions	% to Sample
29	29	29	100%

A 100% 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 a Summary of Rights is provided to all insureds, in accordance with the applicable statutes, when their policies are cancelled 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 #8 – Late Non-Renewal Notices - The Company failed to provide two (2) insureds their non-renewal notices at least forty-five (45) days before the effective date of the non-renewal. These represent two (2) violations of A.R.S. § 20-1632(A).

PPA NON-RENEWALS

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

Population	Sample	# of Exceptions	% to Sample
3	3	2	67.7%

A 67.7% 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 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 Findings #9 – Invalid Reason for Non-Renewal - The Company failed to use a reason allowed by statute to non-renew three (3) policies. These represent three (3) violations of A.R.S. § 20-1631(E).

PPA NON-RENEWALS

Failed to non-renew policies for reasons permitted by statute
Violation of A.R.S. § 20-1631(E)

Population	Sample	# of Exceptions	% to Sample
3	3	3	100%

A 100% 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 Company policies are non-renewed for only reasons allowed by the statute.

Preliminary Findings #10 – Late Unearned Premium Refunds - The Company failed to provide all seventeen (17) policyholders unearned premiums owed with the cancellation notice. These represent seventeen (17) violations of A.R.S. § 20-1632(A)(3).

PPA UNDERWRITING CANCELLATIONS

Failed to refund unearned premium with the cancellation notice
Violation of A.R.S. § 20-1632(A)(3)

Population	Sample	# of Exceptions	% to Sample
17	17	17	100%

A 100% 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 any unearned premium refund owed policyholders accompany the cancellation notice, 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 372;
- (2) fifty (50) PPA claims paid from a population of 810;
- (3) fifty (50) PPA total loss claims from a population of 188; and
- (4) all fifteen (15) PPA subrogations.

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
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
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 #4 – Authorization Disclosures – On four (4) claim authorization forms shown in the table below, the Company failed to:

- (a) specify the purposes for which the information is collected;
- (b) advise the authorization remains valid for no longer than the duration of the claim; and
- (c) 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(6), (8)(b) and (9) and represents eight (8) violations of the statute. The following table summarizes these authorization form findings.

Form Description / Title	Form #	Statute Provision
Authorization for Release of Medical Records	None	8(b) and 9
Authorization for Investigation of Claim	None	9
Authorization for Use or Disclosure of Protected Health Info	None	8(b) and 9
Medical Authorization	None	6, 8(b) and 9

CLAIM FORMS

Failed to specify the purposes for which the information is collected

Violation of A.R.S. § 20-2106(6)

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 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	3	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	4	N/A

Any form 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 these forms, as needed,

- (a) specify the purposes for which the information is collected;
- (b) advise the authorization remains valid for no longer than the duration of the claim; and
- (c) 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 Finding #2 – Total Loss Sales Tax – The Company failed to accurately calculate and/or fully pay the correct sales tax with five (5) first and three (3) third party total loss settlements. These represent eight (8) violations of A.R.S. § 20-461(A)(6), A.A.C. R20-6-801(H)(1)(b) and prior Consent Order.

PPA TOTAL LOSSES

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

Population	Sample	# of Exceptions	% to Sample
188	50	8	16%

A 16% error ratio 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 procedures and controls are in place to ensure the Company correctly calculates and fully pays any sales tax 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 Company must also conduct a self-audit of the remaining total loss claims paid in 2011 and provide the Department with documentation that all monies owed have been properly reimbursed including copies of all AZ Refund letters and checks (including interest) to insureds and a summary spreadsheet.

Subsequent Event

Before the close of the exam, the Company paid full restitution on the eight (8) total loss claims identified by examiners during the exam totaling \$1,251.04, which included \$120.89 interest.

Preliminary Finding #3 – Incorrect Total Loss Settlement Amount – The Company failed to properly apply the policy deductible in the settlement of one (1) first party, non-retained total loss. This represents one (1) violation of A.R.S. §20-461(A)(6) and A.A.C. R20-6-801(H)(1)(b).

PPA TOTAL LOSSES

Failed to properly apply the policy deductible in total loss settlement
Violation of A.R.S. § 20-461(A)(6), A.A.C. R20-6-801(H)(1)(b)

Population	Sample	# of Exceptions	% to Sample
188	50	1	2%

A 2% error ratio meets the Standard; therefore no recommendation is warranted.

Subsequent Event

Before the close of the exam, the Company paid full restitution totaling \$125.40, which included \$6.36 interest.

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 – Full Deductible Reimbursement after Recovery – The Company failed to return the full amount of two (2) insureds' deductibles after recovery from the at-fault party. These represent two (2) 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 full deductible 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
15	15	2	13.3%

A 13.3% error ratio does not meet the Standard; therefore a recommendation is warranted

Recommendation #11

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 fully reimburses insureds' their deductibles after successful subrogation recovery, in accordance with applicable state statutes and regulations.

Subsequent Events

Before the close of the exam, the Company paid total restitution of \$418.38, which included \$43.38 interest.

SUMMARY OF FAILED STANDARDS

EXCEPTION	Rec. No.	Page No.
UNDERWRITING & RATING		
<u>Standard #1</u> The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan.	1	12
<u>Standard #2</u> Disclosures to insureds concerning rates and coverage are accurate and timely.	2 & 3	13
<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.	4	15
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.	5	17
<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.	6, 7 & 8	18 & 19
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	22
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	10	23
<u>Standard #7</u> Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner.	11	24

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	