REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

AMERICAN ACCESS CASUALTY COMPANY

NAIC #10730

AS OF

JUNE 30, 2013

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Department of Insurance
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GERMAINE L. MARKS
Director of Insurance

Honorable Germaine L. Marks
Director of Insurance
State of Arizona
2910 North 44th Street
Suite 210, Second Floor
Phoenix, Arizona 85108-7269

Dear Director Marks:

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:

AMERICAN ACCESS CASUALTY COMPANY
NAIC # 10730

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

The examination covered the period of July 1, 2012 through June 30, 2013.

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)
) ss.
County of Maricopa)

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 Senior Market Conduct Examiner Laura Sloan-Cohen on the Examination of American Access Casualty Company, hereinafter referred to as "the Company," was performed at the examiners' residences. 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, CPCU, CLU, CIE
Market Conduct Examiner-in-Charge
Market Oversight Division

Subscribed and sworn to before me this 21st day of April, 2014.

Notary Public

My Commission Expires 4/18/2017

Derek Hartman
Notary Public - Arizona
Maricopa County
My Commission Expires
April 18, 2017

FOREWORD

This target market conduct examination report of American Access Casualty 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 July

1, 2012 through June 30, 2013. 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 was incorporated on 12/20/99 under the laws of the state of Illinois and commenced business 1/5/00. The Company is a wholly owned subsidiary of New AA Holdings, LLC an Illinois limited liability company which is wholly owned by the American Access Group, LLC (Group). The Company is the only insurance company in the Group. The Company has a management agreement with a related party, BP Capital Management, LLC (BP)

under which BP provides benefit administration, payroll administration, legal compliance, recruitment, employee relations, and investment advisory services.

Arizona granted a certificate of authority as a property and casualty insurer on 2/27/07. The Company provides non-standard state mandated minimum limits liability and physical damage private passenger automobile (PPA) insurance in Arizona through a network of independent agents and an affiliated agency, American Access Agency of Arizona, LLC. The statutory home office and primary location of books and records is 1S450 Summit Avenue, Suite 230, Oakbrook Terrace, IL 60181.

PROCEDURES REVIEWED WITHOUT EXCEPTION

The examiners' review of the following Company departments[1] or functions indicates that they appear to be in compliance with Arizona statutes and rules:

Complaint Handling Marketing and Sales

EXAMINATION REPORT SUMMARY

The examination revealed nineteen (19) compliance issues that resulted in 162 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 four (4) of the six (6) sections of Company operations examined. The following is a summary of the examiners' findings:

Producer Compliance

In the area of Producer Compliance, one (1) compliance issue is addressed in this report as follows:

- The Company paid commission to two (2) entities not properly licensed.

Underwriting and Rating

In the area of Underwriting and Rating, four (4) compliance issues are addressed in this report as follows:

- The Company failed to fully document and accurately apply rating surcharges used to determine twenty three (23) PPA policy premiums.

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

- The Company failed to properly document and retain signed UM and UIM rejection forms for fourteen (14) new business applicants.
- The Company's disclosure authorization contained in its Physician's Report form, used to underwrite PPA liability insurance, failed to:
  (a) specify the length of time the authorization remains valid is no longer than one (1) year from the date signed; and
  (b) 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, three (3) compliance issues are addressed in this report as follows:

- The Company failed to provide a Summary of Rights to all nine (9) recipients of a non-renewal for underwriting reasons.
- The Company failed to use a reason allowed by statute to non-renew all nine (9) PPA policies.
- The Company failed to provide a forty-five (45) day advance notice of non-renewal to one (1) PPA policyholder.

Claims Processing

In the area of Claims Processing, eleven (11) compliance issues are addressed in this report as follows:

- The Company failed to conduct timely claim investigations with nine (9) first and fourteen (14) third party claims.
- The Company failed to include a compliant fraud warning statement in at least 12-point type on ten (10) claim forms
- The Company failed on one (1) claim authorization form to specify the purposes for which the information is collected.
- The Company failed on one (1) claim authorization form to specify the length of time the authorization remains valid shall be no longer than the duration of the claim.

- The Company failed on two (2) claim authorization forms to advise the individual or a person authorized to act on behalf of the individual they are entitled to receive a copy of the authorization form.
- The Company failed to correctly calculate and pay the appropriate tax, license registration and/or air quality fees on fifty-eight (58) PPA first/third party total loss settlements.
- The Company failed to fully pay the settlement amount owed one (1) first party total loss claimant.
- The Company failed to use correct mileage to determine the Actual Cash Value (ACV) for two (2) first party loss valuations.
- The Company failed to apply a $500 deductible only once in the settlement of a first party total loss.
- The Company failed to return the correct amount of two (2) insured's deductibles after full recovery from at-fault parties.
- The Company failed to promptly reimburse one (1) insured the proportionate share of their deductible after partial recovery from the at-faulty party.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET EXAMINATIONS

During the past three (3) years, Texas conducted a market conduct examination of the Company.

FACTUAL FINDINGS

PRODUCER COMPLIANCE

The following Producer Compliance Standard failed:

#	STANDARD	Regulatory Authority
2	An insurer shall not pay any commission, fee, or other valuable consideration to unlicensed producers and/or improperly registered agencies.	A.R.S. §§ 20-297 and 20-298

The following Producer Compliance Standard passed:

#	STANDARD	Regulatory Authority
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 thru 20-311.03

Preliminary Finding #18 – Paid Commission to Entities Not Properly Licensed - The Company paid commissions to two (2) entities not properly licensed with the Arizona Department of Insurance and failed to require that BCH Marketing, Inc. and Budget Insurance Associates use "Doing Business As" (dba) designations that were properly registered with the Arizona Department of Insurance. These represent two (2) violations of A.R.S. §§ 20-297 and 20-298.

LICENSING OF PRODUCERS
Failed to require agencies to be properly licensed
Violation of A.R.S. §§ 20-297 and 20-298

Population	Sample	# of Exceptions	% to Sample
NA	NA	2	NA

Any improperly licensed agency does not meet the Standard.

Recommendation #1
Within ninety (90) days of the filed date of this report, provide the Department with documentation that the Company pays commissions to producers and agencies that are properly licensed and maintains procedures and controls to ensure agency licenses are fully verified and maintained, in accordance with applicable statutes.

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 19,233; and
(2) 100 PPA surcharged policies from a population of 6,402.

The following Underwriting and Rating Standards were met:

#	STANDARD	Regulatory Authority
3	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, 20-1632, 20-1654
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. §§ 20-157, 20-341 through 20-385

Preliminary Finding #15 – Undocumented Surcharges - The Company failed to fully document and accurately apply rating surcharges used to determine premium for twenty-three (23) PPA policies. These represent twenty three (23) violations of A.R.S. § 20-385.

PPA SURCHARGED POLICIES

Failed to accurately apply surcharge percentages to determine policy premium
Violation of A.R.S. § 20-385

Population	Sample	# of Exceptions	% to Sample
6,402	131	23	17.6%

A 17.6% 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 PPA surcharges are fully documented and accurately applied to determine policy premium, in accordance with applicable statutes.

Subsequent Event

Before the close of the exam, the Company paid restitution totaling $113.00 to all applicants owed a refund.

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 #16 – Missing UM/UIM Selection Forms - The Company failed to properly document and retain signed UM and UIM selection forms for fourteen (14) applicants that selected coverage limits less than limits for bodily injury or death contained in their policy. These represent fourteen (14) violations of A.R.S. § 20-259.01(A) and (B).

PPA NEW / RENEWAL & SURCHARGED POLICIES
Failed to retain signed UM/UIM selection forms
Violation of A.R.S. § 20-259.01(A) and (B)

Population	Sample	# of Exceptions	% to Sample
19,233	200	14	7%

A 7% 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 properly documents and retains signed, dated UM and UIM selection forms from applicants, in accordance with the statute.

The following Underwriting and Rating Standard failed:

#	STANDARD	Regulatory Authority
4	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 #17 – Underwriting Authorization – The Company's Physician's Report, used to underwrite PPA liability insurance, failed to conform to the following statute provisions:

(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 represents 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.

Subsequent Event

Before the close of the exam, the Company provided the examiners a copy of a compliant Physician's Report form.

FACTUAL FINDINGS

DECLINATIONS, CANCELLATIONS AND NON-RENEWALS

Private Passenger Automobile (PPA):

The examiners reviewed:

(1) 100 PPA non-payment cancellations from a population of 7,806;
(2) all nine (9) PPA non-renewals; and
(3) fifty (50) PPA cancellations for underwriting reasons from a population of 266

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, 20-2110

Preliminary Finding #5 – No Summary of Rights - The Company failed to provide a Summary of Rights to all nine (9) insureds that had their policies non-renewed due to an adverse underwriting decision. These represent nine (9) violations of A.R.S. § 20-2110.

PPA NON-RENEWALS

Failed to provide a Summary of Rights to insureds when coverage non-renewed due to an adverse underwriting decision
Violation of A.R.S. § 20-2110

Population	Sample	# of Exceptions	% to Sample
9	9	9	100%

A 100% 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 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.

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, 20-1651 through 20-1656

Preliminary Finding #3 –Personal Automobile Policies Non-Renewed for Reasons Not Allowed by Statute - The Company non-renewed coverage for nine (9) Private Passenger Automobile policies for reasons not permitted by statute.
These represent nine (9) violations of A.R.S. § 20-1631(D).

PPA NON-RENEWALS

Non-Renewed Private Passenger Automobile policies for reasons not allowed by Statute
Violation of A.R.S. § 20-1631(D)

Population	Sample	# of Exceptions	% to Sample
9	9	9	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 non-renewal notices sent policyholders contain a reason for the Company's action based on a reason permitted by the applicable state statute.

Preliminary Findings #4 – Late Non-Renewal Notices - The Company failed to provide one (1) insured their non-renewal notice at least forty-five (45) days before the effective date of the non-renewal. This represents one (1) violation 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
9	9	1	11.1%

A 11.1% 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.

FACTUAL FINDINGS

CLAIM PROCESSING

Private Passenger Automobile (PPA):

The examiners reviewed:

(1) fifty (50) PPA claims closed without payment (CWP) from a population of 516;
(2) fifty (50) PPA paid claims from a population of 764;
(3) all fifty six (56) PPA paid total loss claims; and
(2) all thirteen (13) PPA subrogated claims.

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
4	Claim files are adequately documented in order to be able to reconstruct the claim.	A.R.S. §§ 20-157, 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
2	Timely investigations are conducted.	A.R.S. § 20-461, A.A.C. R20-6-801

Preliminary Finding #12 – Untimely Investigations – The Company failed to conduct timely claim investigations in the handling of nine (9) first and fourteen (14) third party claims. These represent twenty three (23) violations of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(F).

CWP, PAID & TOTAL LOSS CLAIMS

Failed to promptly investigate claims within thirty (30) days after notification
Violation of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(F)

Population	Sample	# of Exceptions	% to Sample
1,336	156	23	14.7%

A 14.7% 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 documentation to the Department that procedures and controls are in place to ensure claim investigations are promptly investigated and settled, in accordance with applicable state statutes and regulations.

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 Findings #6, #7 and #8 – Fraud Warning Statement – The Company claims forms shown in the tables below failed to:

a) use a fraud warning statement consistent with the statute wording;
b) use a fraud warning statement in at least twelve (12) point type as required by the statute;

Form Description / Title	Form #
Accident Report Form	None
Accident Report Form Spanish	None
Claimant Report Form	None
Claimant Report Form Spanish	None
Affidavit of Vehicle Fire Form	None
Medical Payment Proof of Loss Form	None
Affidavit of Vehicle Theft Form	None

c) include the required fraud warning statement on the following claim forms:

Form Description / Title	Form #
HIPPA Release & Request for Health Records	None
Medical Authorization	None
Affidavit of Non-Permissive Use	None

These represent ten (10) violations of A.R.S. § 20-466.03.

CLAIM FORMS

Failed to use a compliant fraud warning statement consistent with statute wording in at least twelve (12) point type

Violation of A.R.S. § 20-466.03

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	10	N/A

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

Recommendation #8

Within ninety (90) days of the filed date of this report, provide documentation to the Department that the required fraud warning statement language, in at least twelve (12) point type, is included on claim forms, in accordance with the applicable state statute.

Subsequent Event

Before the close of the exam, the Company provided the examiners with corrected versions of all forms cited in the report, with the exception of the English version of the Affidavit of Non-Permissive Use.

Preliminary Finding #9 – Authorization Disclosures – On two Company claim authorization forms shown in the table below, the Company failed to:

(a) specify the purposes for which the information is collected;
(b) specify 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 represent four (4) violations of the statute. The following table summarizes these authorization form findings.

Form Description / Title	Form #	Statute Provision
HIPPA Release & Request for Health Records	None	8(b) and 9
Medical Authorization	None	6 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 error does not meet the Standard.

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	1	N/A

Any error does not meet the Standard.

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 error does not meet the Standard.

Subsequent Event
Before the close of the exam, the Company provided the examiners with a copy of both forms containing compliant disclosures.

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 #10 and #11 – Total Loss Sales Tax and Fees – The Company failed to accurately calculate and fully pay the correct:

(a) sales tax with twelve (12) first and eleven (11) third party total loss settlements; and
(b) fees with thirty-two (32) first and twenty-six (26) third party total loss settlements.

These represent eighty-one (81) errors included in fifty-eight (58) claim settlement files found in violation 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 fully pay taxes and fees associated with total loss settlements
Violation of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(1)(b)

Population	Sample	# of Exceptions	% to Sample
63	63	58	92%

A 92% error ratio 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 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.

Subsequent Event
Before the close of the exam, the Company paid restitution to all claimants totaling $2,980.33, which included $378.01 interest.

Preliminary Findings #13, #14 & #19 – Unpaid Total Loss Settlement - The Company failed to accurately calculate and fully pay four (4) first party total loss settlements because the Company failed to:

(a) accurately pay full settlement amount for one (1) first party total loss settlement;
(b) use correct vehicle mileage to determine two (2) total loss ACVs; and
(c) correctly apply a $500 deductible with one (1) total loss settlement.

These represent four (4) violations of A.R.S. § 20-461(A)(6).

PAID TOTAL LOSSES
Failed to correctly calculate and fully pay total loss settlement
Violation of A.R.S. § 20-461(A)(6)

Population	Sample	# of Exceptions	% to Sample
63	63	4	6.4%

A 6.4% 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 accurately and equitably determines and pays ACV and total loss settlements, based on correct vehicle mileage, condition, deductibles, etc., in accordance with applicable state statutes and regulations.

Subsequent Event
Before the close of the exam, the Company paid total restitution of $2,690.44, which included $298.15 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
13	13	2	15.4%

A 15.4% error ratio not does 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 $143.91, which included $15.91 interest.

Preliminary Finding #2 – Late Deductible Return after Recovery – The Company failed to promptly return the proportionate share of one (1) insured's deductible after partial recovery from the at-fault party. This represents one (1) violation of A.R.S. §20-461(A)(6) and A.A.C. R20-6-801(H)(4).

PPA SUBROGATION RECOVERY
Failed to promptly return proportionate share of deductible after partial 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
13	13	1	7.7%

A 7.7% error ratio not does meet the Standard; therefore a recommendation is 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' the proportionate share of their deductible after successful full or partial subrogation recovery, in accordance with applicable state statutes and regulations.

Subsequent Events
Before the close of the exam, the Company paid interest owed of $28.86.

SUMMARY OF FAILED STANDARDS

EXCEPTION	Rec. No.	Page No.
PRODUCER COMPLIANCE		
Standard #1 The producers are properly licensed in the jurisdiction where the application is taken.	1	12
Standard #2 An insurer shall not pay any commission, fee, or other valuable consideration to unlicensed producers.	1	12
UNDERWRITING & RATING		
Standard #1 The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan.	2	14
Standard #2 Disclosures to insureds concerning rates and coverage are accurate and timely.	3	15
Standard #4 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 Disclosures to insureds concerning rates and coverage are accurate and timely.	N/A	-----
DECLINATIONS, CANCELLATIONS & NON-RENEWALS		
Standard #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.	4	18
Standard #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.	5 & 6	19
CLAIM PROCESSING		
Standard #2	7	22

Timely investigations are conducted.		
Standard #3 The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	8	23
Standard #5 Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	9 & 10	25
Standard #7 Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner.	11 & 12	26

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. §§ 20-297 and 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. §§ 20-157, 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 forms and endorsements forming a part of the contract should be filed with the director (if applicable). (A.R.S. § 20-398)	X	
4	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 and 20-2113)		X
5	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1632, 20-1654)	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, nonrenewal based on condition of premises, and shall not be unfairly discriminatory. (A.R.S. §§ 20-191, 20-443, 20-448, 20-1631, 20-1632, 20-1632.01, 20-1651 through 20-1656)		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
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

#	STANDARD	PASS	FAIL
4	Claim files are adequately documented in order to be able to reconstruct the claim. (A.R.S. §§ 20-157, 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	