STATE OF ARIZONA
FILED
FEB 1 2018
DEPT. OF INSURANCE

Department of Insurance
State of Arizona
Market Oversight Division - Examinations

REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

AMERICAN ACCESS CASUALTY COMPANY

NAIC #10730

AS OF

JUNE 30, 2016

NAIC MATS # AZ-AZ025-1

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Douglas A. Ducey, Governor
Leslie R. Hess, Interim Director

Honorable Leslie R. Hess
Interim Director of Insurance
State of Arizona
2910 North 44th Street, Suite 210
Phoenix, Arizona 85108-7269

Dear Director Hess:

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 examination was conducted by Lisa Crump, Examiner-in-Charge, Linda Miller, Market Conduct Senior Examiner, Derek R. Stepp, CIE, MCM, Market Conduct Senior Examiner, and Lucinda Woods, Market Conduct Senior Examiner.

The examination covered the period of January 1, 2015 through June 30, 2016.

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

Sincerely yours,

Maria G. Ailor, AIE, AMCM
Market Conduct Oversight Manager

AFFIDAVIT

STATE OF ARIZONA)
) ss.
COUNTY OF MARICOPA)

Lisa B. Crump, CIE, AMCM, ACS, ALHC, AIAA, FLMI, CPIW being first duly sworn, states that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of Lucinda A. Woods, CPCU, MCM, ARM ARC, CIE, HCP, FHIAS, Market Conduct Senior Examiner, Linda Miller, MCM, Market Conduct Senior Examiner, and Derek R. Stepp, CIE, MCM, Market Conduct Senior Examiner on the Examination of American Access Casualty Company, hereinafter referred to as the "Company" was performed at the office of the Arizona Department of Insurance. 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.

Lisa B. Crump

Lisa B. Crump, CIE, AMCM, ACS, ALHC, AIAA, FLMI, CPIW
Market Conduct Examiner
INS Regulatory Insurance Services, Inc.

Subscribed and sworn to before me this 2nd day of October, 2017.

Stephanie Frazee
Notary Public

My Commission Expires: 2-7-19

STEPHANIE FRAZEE
Notary Public – Notary Seal
STATE OF MISSOURI
Greene County
My Commission Expires Feb. 7, 2019
Commission #15141667

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 examining 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. Underwriting and Rating
3. Cancellation and Non-Renewals
4. 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, 2015 through June 30, 2016. 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. During the past three (3) years, Illinois and Arizona have conducted a Market Conduct examination of the Company. For this exam, the 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 later in this report.

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 from a systematically selected number of records from within the population. 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 December 20, 1999 under the laws of the state of Illinois and commenced business January 5, 2000. 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). Arizona granted a certificate of authority as a property and casualty insurer on February 27, 2007.

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 2211 Butterfield Road, Suite 200, Downers Grove, IL 60515.

PROCEDURES REVIEWED WITHOUT EXCEPTION

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

Claims – Closed Without Payment

Canceled – Non-pay

EXAMINATION REPORT SUMMARY

The examination revealed fifteen (15) compliance issues, that resulted in 90 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 four (4) sections of Company operations examined. The following is a summary of the examiners' findings:

Complaint Handling

In the area of Complaint Handling, two (2) compliance issues are addressed in this report as follows:

- The Company failed to take adequate steps to finalize and dispose of the complaint;
- The time frame in which the Company responds to the DOI was beyond the required 15 days in one (1) file.

Underwriting and Rating

In the area of Underwriting and Rating, five (5) compliance issues are addressed in this report as follows:

- The Company failed to fully document and accurately apply rating percentage premium increases used to determine premium for thirteen (13) files.
- The Company failed to file all the underwriting manual pages which include rating rules for nine (9) files.
- The Company failed to properly document and retain signed UM and UIM selection forms in one (1) file.
- The Company failed to file and receive approval for their modified renewal discount plan. This is noted as one (1) exception but was found in the review of 49 sampled polices. The Company indicated that 4,805 inforce policies included the improper renewal discount.
- The Company failed to accurately apply a classification rating factor in one (1) file.

Cancellation and Non-Renewals

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

- The Company failed to offer the insured a driver exclusion for the unacceptable driving record prior to cancellation or nonrenewal in eight (8) files.
- The Company cancelled policies and failed to provide any documentation that showed the insureds or operators were convicted of any violations in three (3) files.
- The Company failed to provide a Summary of Rights in eighteen (18) files.
- The Company non-renewed for reasons not permitted by statute in two (2) files.

Claims Processing

In the area of Claims Processing, four (4) compliance issues are addressed in this report as follows:

- The Company accident report forms failed to use a fraud warning statement consistent with the statute wording. The form also failed to be in at least twelve point type as required by statute in twenty-one (21) files.
- The Company failed to provide an adequate status letter to the claimant/insured for various reasons noted in nine (9) files.

- The Company failed to provide an adequate status letter advising the reason of the delay to the insured in one (1) file.
- The Company did not return the deductible in a prompt manner in two (2) files.

FACTUAL FINDINGS

COMPLAINTS

Complaints

The examiners reviewed:

(1) 21 Department of Insurance Complaints; and

(2) 0 Consumer Complaints as the Company was unable to identify any consumer complaints received directly from the consumers during the time frame of the exam due to its recordkeeping process.

The following Complaint Standards failed:

#	STANDARD	Regulatory Authority
CH16 3	**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**
CH16 4	**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**

Preliminary Finding # 1 – Timely response to Department of Insurance Inquiry

The Company failed to provide a response to the Department within fifteen (15) working days as required. This file contains unnecessary delays on the part of the Company. This represents one (1) violation of A.A.C. R20-6-801 (E) (2).

Population	Sample	# of Exceptions	% to Sample
21	21	1	4.7%

A 4.7% error ratio does meet the Standard; therefore, a recommendation is not warranted.

Subsequent Event: During the examination, the Company created a position of Claims Quality Analyst on January 27, 2017. This position will ensure Department inquiries are adequately addressed and furnished to the Department within the 15 day timeframe.

FACTUAL FINDINGS

UNDERWRITING AND RATING

Private Passenger Automobile (PPA)

The examiners reviewed:

(1) 66 PPA new business and/or renewed policies from a population of 12,499
(2) 43 PPA surcharged policies from a population of 8,094

The following Underwriting and Rating Standards were met:

#	STANDARD	Regulatory Authority
CH16 3	The company does not permit illegal rebating, commission-cutting or inducements.	A.R.S. §§ 20-451, 20-452
CH16 4	The company's underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in selection of risks.	A.R.S. § 20-488
CH16 5	All forms, including policies, contracts, riders, amendments, endorsement forms are filed with the insurance department, if applicable.	A.R.S. § 20-398
CH16 6	Policies, contracts, riders, amendments and endorsements are issued or renewed accurately, timely and completely.	A.R.S. §§ 20-1120, 20-1121, 20-1632
CH16 7	Rejections and declinations are not unfairly discriminatory.	A.R.S. §§ 20-448, 20-1631, 20-2108, 20-2109, 20-2010
CH16 9	Rescissions are not made for non-material misrepresentations.	A.R.S. §§ 20-463, 20-1109
CH17 11	All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the insurance department if applicable.	
CH17 12	The company verifies that the VIN number submitted with the application is valid and that the correct symbol is utilized.	
CH17 13	The company does not engage in collusive or anti-competitive underwriting practices.	
CH17 15	All group personal lines property and casualty policies and programs meet minimum requirements.	
CH17 18	Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation adequately supports decisions made.	

#	STANDARD	Regulatory Authority
AZ	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

SURCHARGED POLICIES

The following Underwriting and Rating Standards failed:

#	STANDARD	Regulatory Authority
CH16 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 Finding #12 – Surcharged Policies

The Company failed to fully document and accurately apply rating percentage premium increases (i.e. surcharges) used to determine premium for these PPA policies. The Company relies solely on application statements to establish chargeable accidents and violations. Application entries make no statement regarding fault and frequently show the application date as the date of the incident, making a definite experience period questionable. Without clear evidence an insured's negligence exceeded 50% fault should not be presumed. These represent ten (10) violations of A.R.S. § 20-385(A) and A.R.S. § 20-220(A)(2).

SURCHARGED POLICIES

Failed to accurately apply rating premium increases to determine policy premium.

Violation of A.R.S. § 20-385(A) and A.R.S. § 20-220 (A)(2)

Population	Sample	# of Exceptions	% to Sample
8,094	43	10	23%

A 23% 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 the 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 Events: During the course of the examination, the Company advised its underwriters and Underwriting Supervisors in a memo dated April 7, 2017 that the proof of a conviction must come from a Motor Vehicle Report attached to the policy.

NEW BUSINESS/RENEWED

The following Underwriting and Rating Standard failed:

#	STANDARD	Regulatory Authority
CH16 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 Finding #3 – New Business/Renewed

The Company failed to accurately apply rating percentage premium increases (i.e. discount) used to determine premium for the PPA policy. The application indicated an anti-theft device was installed in the vehicle. The Company failed to apply the appropriate discount due to a computer system issue. The Company's initial offering of this discount occurred on 1-18-16. This represents one (1) violation of A.R.S. § 20-385(A).

Subsequent Events: The Company acknowledged the oversight, and stated that it did not previously have a filed "anti-theft" discount and never intended to offer the discount in Arizona. However, the anti-theft discount was mistakenly placed in the filed manual pages. The Company has corrected the manual page and has made a filing with SERFF #AACI-130930012.

Preliminary Finding #13 – New Business/Renewed

The Company failed to fully document and accurately apply rating percentage premium increases (i.e. surcharges) used to determine premium for the PPA policies. The Company relies solely on application statements to establish chargeable accidents. Application entries make no statement regarding fault and frequently show the application date as the date of the incident, making a definite experience period questionable. Without clear evidence an insured's negligence exceeded 50% fault should not be presumed. These represent two (2) violations of A.R.S. § 20-385(A) and A.R.S. § 20-220 (A)(2).

Preliminary Finding #15 – New Business/Renewed

The Company failed to accurately apply a classification rating factor to a new business policy and this resulted in an incorrect premium charge. The agent erroneously input the sex of the individual as a male instead of a female. The rating factor for a male classification is lower than the female classification factor. This resulted in a reduced premium for the insured. This represents one (1) violation of A.R.S. § 20-385(A).

Preliminary Finding #5 – New Business/Renewed

The Company failed to file all the underwriting manual pages which include rating rules. The unfiled manual pages contained the territory definitions and zip codes for numerous cities in the state of Arizona. The manual page and two formatted columns were not transferred to the 1-18-16 manual from the 3-4-15 manual. *This is a filing issue only and did not affect the premium charge for the policy.* This represents nine (9) violations of A.R.S. §20-385(A).

Subsequent Events: The Company has advised that it has corrected the error in the SERFF filing, AACI-130930012, effective for new business 3-15-17 and renewal business 5-15-17.

Preliminary Finding #7 – New Business Renewed

The Company failed to file and receive approval for their modified renewal discount plan. The program's renewal discount which applies a variety of discount percentages was modified with the 2-7-12 rates; however, the new structure was not included in the manual

or exhibits filed. This unfiled renewal discount plan was in effect until 1-18-16 when the Company reintroduced the discount table to the underwriting manual filed. It was not possible to verify if the application of these discounts were correct as the rule for this application was not in the Company manual.

Subsequent Events: The Company advised that the number of inforce policies that did receive an improper renewal discount was 4,805.

New Business/Renewed

Failing to apply the appropriate surcharges; classification rating factors; filing of underwriting manual pages that included rates; and filing or receiving approval for modified renewal plan.

Violation of A.R.S. § 20-385 and A.R.S. § 20-220(A)(2)

Population	Sample	# of Exceptions	% to Sample
12,499	66	14	21%

A 21% 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 the Company procedures and controls are in place to apply all rates correctly to ensure compliance with applicable statutes and rules.

The following Underwriting & Rating Standard failed:

#	STANDARD	Regulatory Authority
CH16 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 #6 – New Business/Renewed

The Company failed to properly document and retain signed UM and UIM selection forms for one (1) applicant that selected coverage limits less than limits for bodily injury or death contained in their policy. This represent one (1) violation of A.R.S. § 20-259.01(A), A.R.S. § 20-259.01 (B), and A.R.S. § 20-220(A)(2).

New Business/Renewed

Failed to document and retain signed UM and UIM selection forms.
Violation of A.R.S. § 20-259.01(A), A.R.S. § 20-259.01 (B), A.R.S § 20-220(A)(2)

Population	Sample	# of Exceptions	% to Sample
12,499	66	1	2%

A 2% error ratio does meet the Standard; therefore a recommendation is not warranted.

FACTUAL FINDINGS

CANCELLATIONS AND NON-RENEWALS

Private Passenger Automobile (PPA)

The examiner reviewed:

(1) 107 PPA Cancelled - Non-Pay files from a population of 9,608
(2) 50 PPA Cancelled - Other than Non-Pay (UW Reasons) files from a population of 62
(3) 3 PPA Non-renewals from a population of 3

CANCEL –Underwriting Reasons

The following Cancellation and Non-Renewal Standard failed:

#	STANDARD	Regulatory Authority
CH16 8	**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 #11 – Cancel – Underwriting Reasons

The Company failed to provide a Summary of Rights to all eighteen (18) insureds that had their policies cancelled for underwriting reasons. These represent eighteen (18) violations of A.R.S. §§ 20-2110(A), 20-2102(1)(b), and § 20-220(A)(2).

CANCEL –Underwriting Reasons

Failed to provide Summary of Rights to insureds when coverage non-renewed due to an adverse underwriting decision.
Violation of A.R.S. § 20-2110(A), 20-2102(1)(b) and A.R.S. § 20-220(A)(2).

Population	Sample	# of Exceptions	% to Sample
62	50	18	36%

A 36% 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 the Company procedures and controls are in place to ensure a compliant Summary of Rights is provided to all insureds, in accordance with the applicable statutes when their policies are non-renewed due to an underwriting decision.

Subsequent Events: The Company's response indicated that the failure was the result of a systems issue and the Company was able to identify that 454 policyholders did not receive the Summary of Rights notices between the time frame of April 24, 2015 and February 1, 2017. This issue was first identified in January 2017 by an internal auditor the Company hired to help prevent further compliance issues. The Company indicated that it was fixed January 30, 2017.

The following Cancellation and Non-Renewal Standard failed:

#	STANDARD	Regulatory Authority
CH17 16	**Cancellations and Non-Renewal notices comply with state laws, company guidelines and policy provision, 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**

Preliminary Finding #9 – Cancel – Other than Non-Pay

The Company failed to offer the insured a driver exclusion for the unacceptable driving record prior to cancellation of the policy. The driver was not the named insured so an offer of a driver exclusion was warranted. This represents five (5) violations of A.R.S. § 20-1631(F).

Preliminary Finding #17 – Cancel – Other than Non-Pay

The Company failed to offer the insured a driver exclusion for the unacceptable driving record prior to cancellation of the policy. The driver was not the named insured so an offer of a driver exclusion was warranted. This represent a violation of A.R.S. § 20-1631(F).

CANCEL – Other Than NON-PAY

Failure to offer driver exclusion prior to cancellation
Violation of A.R.S § 20-1631(F)

Population	Sample	# of Exceptions	% to Sample
62	50	6	12%

A 12% error ratio does not meet the Standard; therefore a recommendation is warranted.

Recommendation #4

Within 90 days of the filed date of this report, provide documentation to the Department that Company procedures and controls are in place to ensure that policyholders are offered the option of named driver exclusion prior to terminating coverage due to the driving record of an individual on the policy.

Subsequent Events: The Company amended the cancellation and nonrenewal notices to include the following language:

"The named insured has the option to exclude coverage for any person who resides in the same household as the named insured and who customarily operates a motor vehicle insured under this policy or any other person who regularly and frequently operates a motor vehicle insured under this policy."

Preliminary Finding # 10 – Cancellation – Other than Non-Pay

The Company cancelled three (3) policies for reasons not permitted by statute. The Company cancelled policies due to various violations. The Company failed to provide any documentation that showed the insureds or operators were convicted of any of the violations. These represent two (2) violations of A.R.S. § 20-1631(D)(3)(c)(iii) and A.R.S. § 20-220(A)(2).

CANCEL – Other Than NON-PAY

Cancellation of policy for reasons not permitted.
Violation of A.R.S § 20-1631 (D)(3)(c)(iii); and A.R.S. § 20-220(A)(2).

Population	Sample	# of Exceptions	% to Sample
62	50	2	4%

A 4% error ratio meets the Standard; therefore a recommendation is not warranted.

NON-RENEWALS

The following Cancellation and Non-Renewal Standard failed:

#	STANDARD	Regulatory Authority
CH17	Cancellations and Non-Renewal notices comply with	A.R.S. §§ 20-191, 20-

#	STANDARD	Regulatory Authority
16	**state laws, company guidelines and policy provision, 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.**	**443, 20-448, 20-1631, 20-1632, 20-1632.01**

Preliminary Finding #2 – Non-Renewals

The Company non-renewed two policies for reasons not permitted by statute. The Company non-renewed policies due to the violation of leaving the scene of an accident. The Company utilized a description of the accident by the insured who did indicate leaving the scene of an accident on one policy. The second policy the Company used a statement in a police report indicating the driver left the scene of an accident. The Company failed to provide any documentation that showed either of the insureds was convicted of leaving the scene of an accident. These represent two (2) violations of A.R.S. § 20-1631(D)(3)(c) (iii) and A.R.S. § 20-220(A)(2).

Nonrenewals

Cancellation of policy for reasons not permitted.

Violation of A.R.S § 20-1631 (D)(3)(c)(iii); and A.R.S. § 20-220(A)(2).

Population	Sample	# of Exceptions	% to Sample
3	3	2	67%

A 67% 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 the Company procedures and controls are in place to ensure the Company's nonrenewals of PPA policies are in accordance with the applicable statutes and rules.

Subsequent Events: During the course of the examination, the Company advised its underwriters and Underwriting Supervisors in a memo dated April 7, 2017 that the proof of a conviction must come from a Motor Vehicle Report attached to the policy.

Preliminary Finding #4 – Non-Renewals

The Company failed to offer the insured a driver exclusion for the unacceptable driving record prior to non-renewal of the policy. The driver was not the named insured so an offer of a driver exclusion was warranted. This represents one (1) violation of A.R.S. § 20-1631(F).

NON-RENEWALS

Failure to offer driver exclusion prior to nonrenewal of PPA policy
Violation of A.R.S § 20-1631(F)

Population	Sample	# of Exceptions	% to Sample
3	3	1	33%

A 33% error ratio does not meet the Standard; therefore a recommendation is warranted.

Recommendation #6

Within 90 days of the filed date of this report, provide documentation to the Department that Company procedures and controls are in place to ensure that policyholders are offered the option of named driver exclusion prior to terminating coverage due to the driving record of an individual on the policy in accordance with applicable statutes and rules.

FACTUAL FINDINGS

CLAIM PROCESSING

Private Passenger Automobile (PPA)

The examiners reviewed:

(1) 50 (25 1st party, 25 3rd party) Paid claims from a population of 527 1st party and 1,758 3rd party
(2) 50 Paid Total Loss claims from a population of 318 claims
(3) 46 Paid Subrogation claims from a population of 46 claims
(4) 18 (8 denied & 10 denied as non-coverage) Denied claims from a listing of 27 true denied and 172 denied with coding of denied non-coverage
(5) 25 Closed without Payment from a population of 2,127 CWOP claims.

The following Claim Processing Standards were met:

#	STANDARD	Regulatory Authority
CH16 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
CH16 8	Claim files are reserved in accordance with the regulated entity's established procedures.	A.R.S. § 20-461
CH16 10	Canceled benefit checks and drafts reflect appropriate claim handling practices.	A.R.S. § 20-461
CH16 11	Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.	A.R.S. 20-461 (8)
CH17 1	The company uses reservation of rights and excess of loss letters, when appropriate.	A.R.S. §20-461, A.A.C. R20-6-801
AZ	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
AZ	Adjusters used in the settlement of claims are properly licensed.	A.R.S. §§ 20-321 through 20-321.02

PAID CLAIMS

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
CH16 7	**The company's claim forms are appropriate for the type of product and comply with statutes, rules and regulations.**	**A.R.S. §§ 20-461, 20-463, 20-466.03, A.A.C. R20-6-801**

Preliminary Finding #16 – Paid Claims (1st & 3rd Party)

The Company accident report forms failed to use a fraud warning statement consistent with the statute wording. The Company also failed to use a fraud warning statement in at least (12) point type as required by statute. These represents twenty-one (21) violations for required verbiage and twenty-one (21) violations for the point type of the statute. This is a violation of A.R.S. § 20-466.03(A) and A.R.S. § 20-220(A)(2).

PAID CLAIMS

Failure to include compliant fraud warning statement in at least 12 point type.
Violation of A.R.S. § 20-466.03(A) and A.R.S § 20-220(A)(2)

Population	Sample	# of Exceptions	% to Sample
2,285	50	21	42%

A 42% error ratio does not meet the Standard; therefore a recommendation is warranted.

Recommendation #7

Within 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 all claim forms, in accordance with the applicable state statutes.

Subsequent Events: During the course of the examination, the Company provided a corrected version of the Claimant Report Form, AZCR081417.

The following Claim Processing Standards failed:

#	STANDARD	Regulatory Authority
CH16 6	**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 #25 – Paid Claims (1st Party)

The Company failed to provide an adequate status letter advising the reason for the delay to the insured as required on one policy. This represents one (1) violations of A.A.C R20-6-801(G)(1)(a) and A.A.C. R20-6-801(G)(1)(b).

PAID CLAIMS

Failure to provide complying status letters to claimants/insureds.
Violation of A.A.C R20-6-801(G)(1)(a) and A.A.C. R20-6-801(G)(1)(b)

Population	Sample	# of Exceptions	% to Sample
2,285	50	1	2%

A 2% error ratio meets the Standard; therefore, a recommendation is not warranted.

PAID TOTAL LOSS CLAIMS

The following Claim Processing Standards failed:

#	STANDARD	Regulatory Authority
CH16 6	**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 #21 – Paid Total Loss Claims

For the population of total loss claims reviewed the Company did not provide status letters, an insufficient number of letters, or the status letters were blank with no reason provided. These represent seven (7) violations of A.A.C. R20-6-801(G)(1)(a) and A.A.C. R20-6-801(G)(1)(b) and A.R.S. § 20-461(A).

PAID TOTAL LOSS CLAIMS

Failed to provide compliant status letters to claimants/insureds.
Violation of A.A.C. R20-6-801(G)(1)(a) and A.A.C. R20-6-801(G)(1)(b) and A.R.S. § 20-461(A).

Population	Sample	# of Exceptions	% to Sample
318	50	7	14%

A 14% 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 documentation to the Department that procedures and controls are in place to ensure the Company provides status letters regarding ongoing investigation of the claim to claimants/insureds, in accordance with the applicable state statutes and rules.

Subsequent Events: Effective October 1, 2017, the Company implemented new procedures that requires status letters for open claims to insured that are attorney represented.

PAID SUBROGATION CLAIMS

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
CH17 2	**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 #24 – Paid Subrogation Claims

For the population of subrogated claims reviewed, the Company failed to return the deductible in a prompt manner to constitute a fair and equitable settlement of the claim. This represents two (2) violations of A.R.S. § 20-461(A)(6) and A.A.C. 20-6-801(H)(4).

Population	Sample	# of Exceptions	% to Sample
46	46	2	4%

A 4% error ratio meets the Standard; therefore a recommendation is not warranted.

SUMMARY OF FAILED STANDARDS

Exception	Rec. No.	Page No.
Complaint Handling		
Chapter 16 - Standard 3 The company takes adequate steps to finalize and dispose of the complaints in accordance with applicable statutes, rules, regulations and contract language	N/A	12
Chapter 16 - Standard 4 The time frame within the company responds to complaints is in accordance with applicable statutes, rules and regulations.	N/A	12
Underwriting and Rating		
Chapter 16 - Standard 1 The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan.	1, 2	16,18
Chapter 16 - Standard 2 Disclosures to insureds concerning rates and coverage are accurate and timely.	N/A	18
Cancellations and Non-Renewals		
Chapter 16 - Standard 8 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.	3	21
Chapter 17 - Standard 16 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.	4,5,6	23, 24, 25
Claims Processing		
Chapter 16 - Standard 7 The Company's claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	7	28
Chapter 16 - Standard 6 Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	8	30
Chapter 17 - Standard 2 Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner.	N/A	30

SUMMARY OF PROPERTY AND CASUALTY STANDARDS

A. Complaint Handling

#	STANDARD	PASS	FAIL
CH16 3	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
CH16 4	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. Underwriting and Rating

#	STANDARD	PASS	FAIL
CH16 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
CH16 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
CH16 3	The company does not permit illegal rebating, commission-cutting or inducements. (A.R.S. §§ 20-451, 20-452)	X	
CH16 4	The company's underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in selection of risks. (A.R.S. § 20-488)	X	
CH16 5	All forms, including policies, contracts, riders, amendments, endorsement forms are filed with the insurance department, if applicable. (A.R.S. § 20-398)	X	
CH16 6	Policies, contracts, riders, amendments and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1632)	X	

#	STANDARD	PASS	FAIL
CH16 7	Rejections and declinations are not unfairly discriminatory. (A.R.S. §§ 20-448, 20-1631, 20-2108, 20-2109, 20-2010)	X	
CH16 9	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463, 20-1109)	X	
CH17 11	All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the insurance department if applicable.	X	
CH17 12	The company verifies that the VIN number submitted with the application is valid and that the correct symbol is utilized.	X	
CH17 13	The company does not engage in collusive or anti-competitive underwriting practices.	X	
CH17 15	All group personal lines property and casualty policies and programs meet minimum requirements.	X	
CH17 18	Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation adequately supports decisions made.	X	
AZ	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	

C. Declinations, Cancellation and Non-Renewals

#	STANDARD	PASS	FAIL
CH16 8	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)		X

#	STANDARD	PASS	FAIL
CH17 16	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)		X

D. Claims Processing

#	STANDARD	PASS	FAIL
CH16 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	
CH16 6	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
CH16 7	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
CH16 8	Claims files are reserved in accordance with the regulated entity's established procedures. (A.R.S. § 20-461)	X	
CH16 10	Canceled benefit checks and drafts reflect appropriate claim handling practices. (A.R.S. § 20-461)	X	
CH16 11	Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy. (A.R.S. 20-461(8))	X	
CH17 1	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	
CH17 2	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

#	STANDARD	PASS	FAIL
AZ	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	
AZ	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	X	