

STATE OF ARIZONA
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DEPT. OF INSURANCE

REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

ACA INSURANCE COMPANY

NAIC #10921

AS OF

June 30, 2008

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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 85108-7256

Dear Director Urias:

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

ACA Insurance Company
NAIC #10921

The above examination was conducted by Helene I. Tomme, CPCU, CIE, Market Examinations Supervisor, Examiner-in Charge, and Linda L. Hofman, AIE, MCM, FLMI, AIRC, CCP, Market Conduct Senior Examiner and Christopher G. Hobert, CIE, MCM, FLMI, AIRC, CCP, Market Conduct Senior Examiner.

The examination covered the period of July 1, 2007 through June 30, 2008.

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

Sincerely yours,

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

FOREWORD

This targeted market conduct examination report of ACA Insurance Company dba: AAA Fire & Casualty Insurance Company (herein referred to as, "ACA", or the "Company"), was prepared by employees of the Arizona Department of Insurance (Department) as well as independent examiners contracting with the Department. A 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 products 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) and Homeowners' (HO) lines of business operations:

1. Complaint Handling
2. Marketing and Sales
3. Producer Compliance
4. Underwriting and Rating
5. 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 market examination of the Company covered the period of July 1, 2007 through June 30, 2008 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 8.

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 examination by test and examination by sample. Examination by test involved a review of all records within the population, while examination by sample involved a review of a selected number of records from within the population. Due to the small size of some populations examined, examination 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 form use will not be met if any exception is identified.

HISTORY OF THE COMPANY

(Provided by the Company)

Western United Insurance Company, and ACA Insurance Company, are wholly-owned subsidiaries of the California State Automobile Association Inter-Insurance Bureau (the Bureau).

The Bureau was organized as a reciprocal insurer under the laws of the State of California on June 20, 1914, and commenced operations on August 14, 1914. It primarily writes automobile and homeowners insurance in Northern California. It does not write insurance in Arizona.

Western United Insurance Company was incorporated under the laws of California on June 23, 1987, and commenced business in January 1990, primarily writing non-standard automobile business. In June of 1999, Western United was acquired by the Bureau as a wholly-owned subsidiary. It currently offers insurance in a number of states, including Arizona, where it offers policies of automobile and homeowners insurance.

ACA Insurance Company, formerly known as AAA MountainWest Insurance Company, was formed in 1998 as a wholly-owned subsidiary of the Bureau, and is domiciled in the State of Alaska. Its original objective was to provide automobile and homeowners insurance to AAA members in Alaska. It currently offers insurance in a number of states, including Arizona, where it offers both homeowners and automobile insurance.

PROCEDURES REVIEWED WITHOUT EXCEPTION

The Examiner's 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 three (3) compliance issues that resulted in 198 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, one (1) compliance issue is addressed in this Report as follows:

- The Company failed to give its New Purchase discount in the amount of 5% for the first year and 3% for the second year to one (1) homeowner policy.

Cancellation 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 include adequate Summary of Rights language on 7 PPA Non Renewals, 35 HO Cancellations for underwriting reasons and 36 HO Non Renewal notices for a total of 78 policyholders/insureds cancelled or non renewed for an adverse underwriting decision.

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

- The Company failed to mail Private Passenger Automobile Non Renewal notices at least 45-days before the effective date of the non renewal on five (5) PPA Non Renewals.
- The Company failed to include the specific facts which constitute the reason for cancellations or non renewals on 9 PPA Non Renewals and 4 HO Cancellations for a total of 13 policyholder's/insured's notices.

Claims Processing

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

- The Company failed to include a fraud warning statement in at least 12-point type on five (5) claim forms/letters.
- The Company failed to include the correct company name on 80 PPA and 13 HO claims correspondence for a total of 93.
- The Company failed to pay the appropriate tax, license registration and/or air quality fees on one (1) PPA claim, which resulted in a \$16.20 refund (including interest).
- The Company failed to reimburse one (1) PPA and (1) HO insureds their deductibles, or a pro-rata portion thereof, in a timely manner when subrogation recovery was successful. This resulted in a total refund of \$890.30 (including interest) for two (2) settlements.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS

The Company did not have any Market Conduct Examinations in the prior three (3) years.

UNDERWRITING AND RATING

Private Passenger Automobile (PPA):

The Examiners reviewed 100 PPA New/Renewal Business policies out of a population of 22,639 and 50 PPA Surcharge polices out of a population of 907. This underwriting and rating review included a total sample size of 150 PPA files from a total population of 23,546. During the review, the Examiners manually rated a total of 16 PPA files (10 new/renewals and 6 surcharged).

Homeowners (HO):

The Examiners reviewed 102 HO New/Renewal Business policies (including 2 sample files) out of a population of 26,577. During the review, the Examiners manually rated a total of 12 HO New/Renewal Business files.

All underwriting and rating files were reviewed to ensure compliance with Arizona Statutes and Rules.

The Following Underwriting and Rating Standards were met:

#	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
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 and 20-2113
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	File documentation adequately supports decisions made.	A.R.S. § 20-385
6	Policies and endorsements are issued or renewed accurately, timely and completely.	A.R.S. §§ 20-1120, 20-1121, 20-1654
7	Rescissions are not made for non-material misrepresentations.	A.R.S. §§ 20-463, 20-1109

The following Underwriting and Rating Standard passed with comment

#	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

Underwriting and Rating Standard #1 passed with comment

Preliminary Finding 008 – HO New Purchase Discount – The Examiners identified one (1) HO New/Renewal business policy, where the Company failed to provide the applicant with its New Purchase discount. The discount is applied for the first two years of the policy; 5% for the first year and 3% for the second year.

Subsequent Events: During the course of the examination, the Company agreed with the Examiner's finding and provided documentation that it credited the Insured's account to reflect the New Purchase Discount (a total refund of \$8.00).

CANCELLATIONS AND NON-RENEWALS

Private Passenger Automobile (PPA):

The Examiners reviewed 50 PPA cancellation files for non-pay/declinations out of a population of 258, 15 PPA cancellation files for underwriting reasons out of a population of 15 and 21 PPA non renewals out of a population of 21. This cancellation/non renewal review included a total sample size of 86 PPA files from a total population of 294.

Homeowners (HO):

The Examiners reviewed 52 HO cancellation/declination files for non-pay/declinations (including 2 sample files) out of a population of 445, 52 HO cancellation files for underwriting reasons (including 2 sample files) out of a population of 109 and 50 HO non renewal files out of a population of 59. This cancellation/non renewal review included a total sample size of 154 HO files from a total population of 613.

All cancellation and nonrenewal files were reviewed to ensure compliance with Arizona Statutes and Rules.

The following 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 policyholder and shall not be unfairly discriminatory.	A.R.S. §§ 20-448, 20-2108, 20-2109, 20-2110

#	STANDARD	Regulatory Authority
2	Cancellation 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

Cancellation and Nonrenewal, Standard #1 - failed

Preliminary Finding 001 -- Summary of Rights – The Examiners identified 7 PPA Non Renewals, 35 HO Cancellations for underwriting reasons and 36 HO Non Renewal notices for a total of 78 insureds that were cancelled or non renewed for an adverse underwriting decision and failed to include the required Summary of Rights language, an apparent violation of A.R.S. §§ 20-2108, 20-2109 and 20-2110.

PRIVATE PASSENGER AUTOMOBILE NON RENEWALS

Failed to include Summary of Rights in the event of an adverse underwriting decision
A.R.S. §§ 20-2108, 20-2109 and 20-2110

Population	Sample	# of Exceptions	% to Sample
21	21	7	33%

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

HOMEOWNERS' CANCELLATIONS

Failed to include Summary of Rights in the event of an adverse underwriting decision
A.R.S. §§ 20-2108, 20-2109 and 20-2110

Population	Sample	# of Exceptions	% to Sample
109	52	35	67%

A 67% error ratio does not meet the Standard; therefore, a recommendation is warranted.

HOMEOWNERS' NON RENEWALS

Failed to include Summary of Rights in the event of an adverse underwriting decision
A.R.S. §§ 20-2108, 20-2109 and 20-2110

Population	Sample	# of Exceptions	% to Sample
59	50	36	72%

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

Recommendation #1

Within 90 days of the filed date of this report provide the Department with documentation that Company procedures are in place so that the required Summary of Rights language is sent with all cancellation, non renewal or declination notices that involve an adverse underwriting decision by the Company. Also, re-submit cancellation and non renewal notices with the required language to the Department for approval.

Subsequent Events: During the course of the examination, the Company agreed with the Examiner's findings and provided a copy of the corrected language that will accompany its cancellation and non renewal notices for PPA and HO policies. The scheduled release date for these notices is set for November 2009.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 002 – Personal Automobile Non Renewal Notices Mailed less than 45-days – The Examiners identified five (5) PPA Non Renewals where the Company failed to mail non renewal notices at least 45-days before the effective date of the non renewal, an apparent violation of A.R.S. §§ 20-1631(E) and 20-1632(A).

PRIVATE PASSENGER AUTOMOBILE NON RENEWALS

Failed to provide a non renewal notice at least 45-days before effective date

A.R.S. §§ 20-1631(E) and 20-1632(A)

Population	Sample	# of Exceptions	% to Sample
21	21	5	24%

A 24% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #2

Within 90 days of the filed date of this report provide the Department with documentation that Company procedures are in place to ensure the required 45-days is given on PPA Non Renewals.

Subsequent Events: During the course of the examination, the Company agreed with the Examiner's findings and advised that it is had re-programmed its system to add two (2) extra days to the mailing date to correct the problem and will send appropriate documentation. The scheduled implementation is set for August 2009.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 005 – Personal Automobile & Homeowners Specific Facts which constitute the reason for cancellation or non renewals – The Examiners identified 9 PPA Non Renewals and 4 HO Cancellations for a total of 13 insureds where the Company failed to give the specific reason for cancellation or non renewal, an apparent violation of A.R.S. §§ 20-1632 and/or 20-1653.

PRIVATE PASSENGER AUTOMOBILE NON RENEWAL SPECIFIC REASON

Failed to provide specific non renewal reason

A.R.S. § 20-1632

Population	Sample	# of Exceptions	% to Sample
21	21	9	43%

A 43% error ratio does not meet the Standard; therefore, a recommendation is warranted.

HOMEOWNERS CANCELLATION SPECIFIC REASON

Failed to provide specific cancellation reason

A.R.S. § 20-1653

Population	Sample	# of Exceptions	% to Sample
109	51	4	8%

An 8% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #3

Within 90 days of the filed date of this report provide the Department with documentation that Company procedures are in place to provide policyholders with the specific facts which constitute the reason for their cancellation or non renewal.

CLAIMS PROCESSING

Private Passenger Automobile (PPA):

The Examiners reviewed 51 PPA claims closed without payment (including 1 sample file) from a population of 671; 52 PPA paid claims (including 2 sample files) from a population of 1,699; 52 total loss PPA claims (including 2 sample files) out of a population of 183 and 52 PPA subrogation claims (including 2 sample files) out of a population of 566. This claim review included a total sample size of 207 PPA claims files from a total population of 3,119.

Homeowners (HO):

The Examiners reviewed 51 HO claims closed without payment (including 1 sample files) from a population of 334; 52 HO paid claims (including 2 sample file) from a population of 702 and 34 HO subrogation claims out of a population of 34. This claim review included a total sample size of 137 HO claims files from a total population of 1,070.

All claim files were reviewed to ensure compliance with Arizona Statutes and Rules.

The Following Claim 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 claimants 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 Standards failed:

#	STANDARD	Regulatory Authority
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
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, A.A.C. R20-6-801

The following Claim Standards passed with comment:

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

Claims Processing Standard #3 - failed

Preliminary Finding-012 – Fraud Warning Statement. The Company failed to include the Fraud Warning statement in at least twelve-point type on five (5) forms/letters, an apparent violation of A.R.S. § 20-466.03.

Forms with Fraud Warning but require “12 point type”.

- PA Acknowledgement
- PA Proof of Loss Receipt and Release
- HO Sworn Statement In Proof of Loss
- HO Property Loss Inventory
- HO Acknowledgment

Recommendation #4

Within 90 days of the filed date of this report provide the Department with documentation that Company procedures are in place to include the Fraud Warning statement in at least twelve-point type on the five (5) forms identified above. Copies of these revisions should be submitted to the Department for approval.

Subsequent Events: During the course of the examination, the Company agreed with the finding and provided corrected forms for the homeowners and requested the offsite IT developers to correct the remaining two (2) PA forms within 30 days.

Claims Processing Standard #5 - failed

Preliminary Finding-011 –Wrong Company name identified on written correspondence: -
 The Company failed to identify the appropriate insuring company as ACA Insurance Company or AAA Fire & Casualty Insurance Company on written correspondence sent to insureds/claimants on 80 PPA and 13 HO files for a total of 93 documents/correspondence.

**Summary of Findings – Standard 5 File Review
 Failure to identify applicable insurer**

Files Reviewed	Population	Sample	Exceptions	PF #
PERSONAL AUTO				
PPA CWP	671	51	10	011
PPA Paid	1,699	52	15	011
PPA Total Losses	183	52	29	011
PPA Subrogation	566	52	26	011
Totals	3,119	207	80	
			Error Ratio	39%
HOMEOWNERS				
HO CWP	334	51	1	011
HO Paid	702	52	2	011
HO Subrogation	34	34	10	011
Totals	1,070	137	13	
			Error Ratio	9%

A 39% error ratio for PPA and a 9% error ratio for HO do not meet the standard; therefore a recommendation is warranted.

Recommendation # 5

Within 90 days of the filed date of this report provide the Department with documentation that Company's procedures are in place to identify the appropriate insuring Company on all Private Passenger Automobile and Homeowners' documents/correspondence including but not limited to claim forms and/or letters sent by the Company.

Subsequent Events: During the course of the examination, the Company agreed the wrong Company name was listed on 93 written correspondences. The Company issued a memorandum on April 21, 2009 reminding claims personnel to use the correct Underwriting Company on its documents/correspondence.

Claims Processing Standard #5 - passed with comment

Preliminary Finding-010 - The Examiners identified one (1) first party private passenger automobile total loss settlement, in which the Company failed to pay appropriate tax, license registration and/or air quality fees. This is an apparent violation of A. R. S. §§ 20-268, 20-461(A)(6), 20-462(A) and A.A.C. R20-6-801 (H)(1)(b).

PRIVATE PASSENGER TOTAL LOSSAUTOMOBILE CLAIMS

Failed to pay appropriate taxes on a total loss

A.R.S. §§ 20-268, 20-461(A)(6), 20-462(A) and A.A.C. R20-6-801 (H)(1)(b)

Population	Sample	# of Exceptions	% to Sample
183	52	1	2%

A 2% error ratio meets the standards; therefore, no recommendation is warranted

Subsequent Events: During the course of the examination, the Company agreed and made a restitution payment to a first party insured in the amount of \$13.75 plus \$2.45 in interest for a total of \$16.20. A copy of the letter of explanation and payment was sent to the Department prior to completion of the Examination.

Claims Processing Standard #7 – passed with comment

Preliminary Finding-009 – PPA subrogation against adverse carrier – delay in returning deductible. The Examiners identified one (1) first party private passenger automobile total loss settlement and one (1) first party homeowners for a total of two (2) settlements, in which the Company failed to return the insured’s deductible or a pro-rata portion thereof, in a timely manner after subrogation recovery was successful. This is an apparent violation of A.R.S. §§ 20-461, 20-462 and A.A.C. R20-6-801 (H)(4).

PRIVATE PASSENGER AUTOMOBILE CLAIMS

Failed to return insured's deductible in a timely manner

A.R.S. §§ 20-461, 20-462 and A.A.C. R20-6-801 (H)(4).

Population	Sample	# of Exceptions	% to Sample
566	52	1	2%

A 2% error ratio meets the standards; therefore, no recommendation is warranted

HOMEOWNERS CLAIMS

Failed to return insured's deductible in a timely manner

A.R.S. §§ 20-461, 20-462 and A.A.C. R20-6-801 (H)(4).

Population	Sample	# of Exceptions	% to Sample
34	34	1	3%

A 3% error ratio meets the standards; therefore, no recommendation is warranted

Subsequent Events: During the course of the examination, the Company agreed and made reimbursement of a pro-rata portion of the deductibles to both first party insureds.

The Company returned the deductible to one PPA insured in the amount of \$374.07 plus \$52.47 interest for a total of \$426.54 as well as one (1) HO insured in the amount of \$416.82 plus \$46.94 interest for a total of \$463.76. A copy of the letters of explanation and payments were sent to the Department prior to completion of the Examination.

SUMMARY OF FAILED STANDARDS

EXCEPTIONS	Rec. No.	Page No.
CANCELLATIONS AND 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 policyholder and shall not be unfairly discriminatory.	1	16
<u>Standard #2</u> Cancellation 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.	2	17
<u>Standard #2</u> Cancellation 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.	3	18
CLAIM PROCESSING		
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	4	21
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	5	22

SUMMARY OF PROPERTY AND CASUALTY STANDARDS

Complaint Handling

#	STANDARD	PAGE	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 and A.A.C. R20-6-801)	8	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 and A.A.C. R20-6-801)	8	X	

Marketing and Sales

#	STANDARD	PAGE	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)	8	X	

Producer Compliance

#	STANDARD	PAGE	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 and 20-311 through 311.03)	8	X	
2	An insurer shall not pay any commission, fee, or other valuable consideration to unlicensed producers. (A.R.S. § 20-298)	8	X	

Underwriting and Rating

#	STANDARD	PAGE	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)	13	X	

#	STANDARD	PAGE	PASS	FAIL
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)	12	X	
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 and 20-2113)	12	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)	12	X	
5	File documentation adequately supports decisions made. (A.R.S. § 20-385)	12	X	
6	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1654)	12	X	
7	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463, 20-1109)	12	X	

Declinations, Cancellation and Non-Renewals

#	STANDARD	PAGE	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 policyholder and shall not be unfairly discriminatory. (A.R.S. §§ 20-448, 20-2108, 20-2109 and 20-2110)	15		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).	15		X

Claims Processing

#	STANDARD	PAGE	PASS	FAIL
1	The initial contact by the company with the claimant is within the required time frame. (A.R.S. § 20-461 and A.A.C. R20-6-801)	20	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, and A.A.C. R20-6-801)	20	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, and A.A.C. R20-6-801)	21		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 and A.A.C. R20-6-801)	20	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 and A.A.C. R20-6-801)	21		X
6	The Company uses reservation of rights and excess of loss letters, when appropriate. (A.R.S. § 20-461 and A.A.C. R20-6-801)	20	X	
7	Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner. (A.R.S. §§ 20-461, 20-462 and A.A.C. R20-6-801)	21	X	
8	The Company responds to claim correspondence in a timely manner. (A.R.S. § 20-461, 20-462 and A.A.C. R20-6-801)	20	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 and A.A.C. R20-6-801)	20	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)	20	X	
11	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	20	X	