REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

PACIFIC SPECIALTY INSURANCE COMPANY

NAIC #37850

AS OF

December 31, 2010

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Department of Insurance
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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 85018-7269

Dear Director Urias:

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

Pacific Specialty Insurance Company
NAIC #37850

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 January 1, 2010 through December 31, 2010.

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

Sincerely yours,

Helene I. Tomme

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

AFFIDAVIT

STATE OF ARIZONA)
) ss.
County of Maricopa)

Helene I. Tomme, CPCU, CIE 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 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 on the Examination of Pacific Specialty Insurance 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 in Menlo Park, California 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.

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

Subscribed and sworn to before me this 26th day of July, 2011.

Elizabeth L. Sickinger
Notary Public

My Commission Expires Jan. 17, 2013

ELIZABETH L. SICKINGER
NOTARY PUBLIC
MARICOPA COUNTY, ARIZONA
My Comm. Expires Jan. 17, 2013

FOREWORD

This targeted market conduct examination report of the Pacific Specialty Insurance Company (herein referred to as, "PSIC", 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 Homeowners' (HO), Manufactured Home (MFH) and Private Passenger Auto (PPA)/Motorcycle (MOTO) 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 conduct examination of the Company covered the period of January 1, 2010 through December 31, 2010 for business reviewed. The purpose of the examination was to determine the Company's compliance with Arizona's insurance laws, and whether the Company's operations and practices are consistent with the public interest. This examination was completed by applying tests to each examination standard to determine compliance with the standard. Each standard applied during the examination is stated in this report and the results are reported beginning on page 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 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 form use will not be met if any exception is identified.

HISTORY OF THE COMPANY

(Provided by the Company)

Pacific Specialty Insurance Company (PSIC) was incorporated in California on April 18, 1988. The California Department of Insurance issued PSIC's Certificate of Authority to operate as a P&C insurer on December 28, 1989. PSIC (NAIC #37850) is part of the Western Service Contract Group (NAIC Group #2898). The company began transacting business in January of 1990.

Pacific Specialty was admitted in the State of Arizona on June 19, 1996 and is currently authorized to transact the following lines of business:

- Casualty Without Workers' Compensation
- Marine and Transportation
- Property
- Vehicle

Western Service Contract Corporation is equally owned by shareholders John M. McGraw, Ann M. Morrical and Michael J. McGraw. PSIC is a wholly owned subsidiary of Western Service Contract Corporation. PSIC, in turn, owns all of the outstanding stock of Pacific Specialty Property and Casualty Company, an insurer domiciled in the State of Texas.

Presently, John M. McGraw is Chair of the Board of Directors of Pacific Specialty Insurance Company and Ann M. Morrical is Chair of the Board of Directors of Western Service Contract Corporation. John McGraw, Ann Morrical and Michael McGraw are Directors of both companies. In addition, Timothy J. Summers is President and CEO of Pacific Specialty Insurance Company, as well as a Director. Brian J. McSweeney is General Counsel and 5th member of the Board of Directors.

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
Producer Compliance	Underwriting and Rating

EXAMINATION REPORT SUMMARY

The examination identified five (5) compliance issues that resulted in 324 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 two (2) of the six (6) sections of Company operations examined. The following is a summary of the Examiner's findings:

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 provide a Summary of Rights, on 43 HO non renewals, 45 HO cancellations for underwriting reasons, 1 MFH non renewals, 19 MFH cancellations for underwriting reasons, 29 PPA/MOTO non renewals and 28 PPA/MOTO cancellations for underwriting reasons to its policyholders/insureds cancelled for an adverse underwriting decision for a total of 165 notices.
- The Company failed to include the right to complain to the Director and the insured's possible eligibility for insurance through the automobile assigned risk plan on 29 PPA/MOTO non renewal notices and 28 PPA/MOTO cancellation for underwriting reason notices for a total of 57.
- The Company failed to include the right to complain to the Director on 75 PPA/MOTO cancellation for non payment notices.

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

Claims Processing

In the area of Claims Processing, two (2) compliance issues are addressed in this Report as follows:

- The Company failed to correctly calculate and pay the appropriate tax, license registration and/or air quality fees on 12 PPA/MOTO first party total loss settlements, which resulted in additional payments of $1,821.99 (including interest).
- The Company failed to correctly calculate and pay the Transaction Privilege Tax (TPT) on 5 first party homeowner paid claims and 10 first party manufactured home paid claims, for a total of 15 paid claims, which resulted in additional payments of $2,119.91 (including interest).

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS

During the past five (5) years, there was one (1) Market Conduct Examination completed by the state of California. No significant patterns of non-compliance were noted.

CANCELLATIONS AND NON-RENEWALS

Homeowners (HO):

The Examiners reviewed 52 HO cancellation files (included 2 sample files) for non-payment of premium out of a population of 340, 52 HO cancellation files (included 2 sample files) for underwriting reasons out of a population of 120 and 43 HO non renewals out of a population of 43. This cancellation and non renewal review included a total sample size of 147 HO files from a total population of 503.

Manufactured Homes (MFH):

The Examiners reviewed 18 MFH cancellation files for non-payment of premium out of a population of 18, 24 MFH cancellation files for underwriting reasons out of a population of 24 and 1 MFH non renewals out of a population of 1. This cancellation and non renewal review included a total sample size of 43 MFH files from a total population of 43.

Private Passenger Automobile/Motorcycle (PPA/MOTO):

The Examiners reviewed 52 PPA/MOTO cancellation files (included 2 sample files) for non-payment of premium out of a population of 345, 51 PPA/MOTO cancellation files for underwriting reasons (sample actually included 28 cancellations for UW reasons & 23 non pays, and 1 sample file) out of a population of 76 and 29 PPA/MOTO non renewals (included 1 sample file) out of a population of 29. This cancellation/non renewal review included a total sample size of 132 PPA/MOTO files from a total population of 450.

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

The following Cancellation and Non Renewal Standards 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
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

Cancellation and Nonrenewal, Standard #1 – failed

Preliminary Finding 006 – Summary of Rights – The Examiners identified 43 HO non renewals, 45 HO cancellations for underwriting reasons, 1 MFH non renewals, 19 MFH cancellations for underwriting reasons, 29 PPA/MOTO non renewals and 28 PPA/MOTO cancellations for underwriting reasons, cancelled for an adverse underwriting decision which totaled 165 notices. These notices failed to provide a Summary of Rights language to its policyholders, an apparent violation of A.R.S. §§ 20-2108, 20-2109 and 20-2110.

Summary of Findings – Standard 1 File Review
Failed to Provide Summary of Rights
A.R.S. §§ 20-2108, 20-2109 and 20-2110

Files Reviewed	Population	Reviewed	Exceptions	Request #
HO Non Renewals	43	43	43	010
HO UW Reasons	120	45	45	012
MFH Non Renewals	1	1	1	019
MFH UW Reasons	24	19	19	021
PPA/MOTO Non Renewals	29	29	29	014
PPA/MOTO UW Reasons	76	28	28	017
Totals	**293**	**165**	**165**	
			Error Ratio	**100%**

A 100% 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 a Summary of Rights is sent with all cancellation, non renewal or declination notices that involve an adverse underwriting decision by the Company.

Subsequent Events: During the course of the Phase I Examination, the Company agreed with the Examiner's finding that the Summary of Rights language was not included. The Company was provided with the ADOI approved language and advised it implemented the changes effective June 8, 2011. Corrected copies of these notices were provided to the Department prior to the completion of the Examination.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 004 – Private Passenger Automobile/Motorcycle non renewals/cancellations for underwriting reasons failed to include the right to complain to the Director and information on the assigned risk plan – The Examiners identified 29 PPA/MOTO non renewal notices and 28 PPA/MOTO cancellation for underwriting reason notices for a total of 57, where the Company failed to include the right to complain to the Director and the insured's possible eligibility for insurance through the automobile assigned risk plan, an apparent violation of A.R.S. § 20-1632(A)(1) and (2).

Summary of Findings – Standard 2 File Review
Failed to Include Right to Complain to the Director/Assigned Risk Eligibility
A.R.S. § 20-1632(A)(1) and (2)

Files Reviewed	Population	Reviewed	Exceptions	Request #
PPA/MOTO Non Renewals	29	29	29	014
PPA/MOTO Cancellation for UW Reasons	76	28	28	017
Totals	**105**	**57**	**57**	
			Error Ratio	**100%**

A 100% 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 so that the required right to complain to the Director and the insured's eligibility for the assigned risk plan is provided on its personal automobile/motorcycle non renewals and cancellations for underwriting reason notices.

Subsequent Events: During the course of the Phase I Examination, the Company agreed with the Examiner's finding. The Company advised it implemented the required right to complain to the Director and assigned risk plan information on its notices effective June 8, 2011. Corrected copies of these notices were provided to the Department prior to the completion of the Examination.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 005 – Private Passenger Automobile/Motorcycle cancellations for non payment failed to include the right to complain to the Director – The Examiners identified 52 PPA/MOTO cancellations for non payment and 23 additional PPA/MOTO for non payment, identified during the cancellation for underwriting reasons review, for a total of 75 notices where the Company failed to include the right to complain to the Director, an apparent violation of A.R.S. § 20-1632.01(B).

Summary of Findings – Standard 2 File Review
Failed to Include Right to Complain to the Director on Non Payment Cancellations
A.R.S. § 20-1632.01(B)

Files Reviewed	Population	Reviewed	Exceptions	Request #
PPA/MOTO Non Payment	345	52	52	016
PPA/MOTO Cancellation for Non Payment *	76	23*	23	017
Totals	**421**	**75**	**75**	
			Error Ratio	**100%**

*23 reviewed – reference narrative above

A 100% 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 so that the required right to complain to the Director information is provided on its personal automobile/motorcycle cancellation for non payment of premium notices.

Subsequent Events: During the course of the Phase I Examination, the Company agreed with the Examiner's findings. The Company advised it implemented the required right to complain to the Director on its cancellation for non payment of premium notices effective June 8, 2011. Corrected copies of the notices were provided to the Department prior to the completion of the Examination.

CLAIMS PROCESSING

Homeowners (HO):

The Examiners reviewed 51 HO claims closed without payment (included 1 sample file) from a population of 172; 52 HO paid claims (included 2 sample files) from a population of 1,090 and 2 HO subrogation claims from a population of 2. This claim review included a total sample size of 105 HO claims files from a total population of 1,264.

Manufactured Home (MFH):

The Examiners reviewed 1 MFH claims closed without payment from a population of 1 and 22 MFH paid claims from a population of 22. This claim review included a total sample size of 23 MFH claims files from a total population of 23.

Private Passenger Automobile/Motorcycle (PPA/MOTO):

The Examiners reviewed 40 PPA/MOTO claims closed without payment from a population of 40; 51 PPA/MOTO paid claims from a population of 51; 22 total loss PPA/MOTO claims out of a population of 22 and 6 PPA/MOTO subrogation claims out of a population of 6. This claims review included a total sample size of 119 PPA/MOTO claim files from a total population of 119.

All claim files reviewed were 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
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
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
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

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 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 and A.A.C. R20-6-801

Claims Processing Standard #5 - failed

Preliminary Finding 001 –Total Loss Taxes and Fees - The Examiners identified 12 first party total loss settlements, in which the Company failed to correctly calculate and pay appropriate tax, license registration and/or air quality fees. This is an apparent violation of A. R. S. §§ 20-461(A)(6), 20-462(A) and A.A.C. R20-6-801 (H)(1)(b).

PRIVATE PASSENGER/MOTORCYCLE TOTAL LOSS AUTOMOBILE CLAIMS
Failed to correctly calculate and pay appropriate tax, license registration and/or air quality fees on total loss settlements
A.R.S. §§ 20-461(A)(6), 20-462(A) and A.A.C. R20-6-801 (H)(1)(b)

Population	Sample	# of Exceptions	% to Sample
22	22	12	55%

A 55% error ratio does not meet the standards; therefore, a recommendation is warranted

Recommendation #4

Within 90 days of the filed date of this report submit documentation to the Department to show that the Company's procedures have been corrected to comply with Arizona Statutes and Rules when processing total loss settlements for First and Third Parties.

Subsequent Events: During the course of Phase I Examination, the Company agreed and made restitution payments to the 12 first parties affected in the amount of $1,655.33 plus $166.66 in interest for a total of $1,821.99. Copies of letters of explanation and payments were sent to the Department prior to completion of the Examination.

Claims Processing Standard #5 – failed

Preliminary Finding-002 – Transaction Privilege Tax (TPT) - The Examiners identified 5 homeowner settlements and 10 manufactured home settlements for a total of 15, in which the Company failed to correctly calculate and pay the Transaction Privilege Tax (TPT), which is an apparent violation of A.R.S. §§ 20-461, 20-462(A) and 44-1201.

Summary of Findings – Standard 5 File Review
Failed to correctly calculate and pay the Transaction Privilege Tax
A.R.S. §§ 20-461, 20-462(A) and 44-1201

Files Reviewed	Population	Reviewed	Exceptions	Request #
Homeowners' Claims	1,090	52	5	004
Manufactured Home Claims	22	22	10	023
Totals	**1,112**	**74**	**15**	
			Error Ratio	**20%**

A 20% error ratio does not meet the standards; therefore, a recommendation is warranted.

Recommendation #5

Within 90 days of the filed date of this report provide the Department with documentation that Company procedures are in place to correctly calculate and pay the correct Transaction Privilege Tax (TPT) on Homeowner Paid Claims and Manufactured Home Paid Claims. Also, conduct a self-audit of the remaining Homeowner Paid Claims in 2010 and provide the Department with the results.

Subsequent Events: During the course of the Phase I Examination, the Company agreed and made restitution payments to the parties affected in the amount of $1,914.02 plus $205.89 in interest for a total of $2,119.91. Copies of letters of explanation and payments were sent to the Department prior to completion of the Examination.

Further, the Company completed a self-audit of the remaining 553 first party homeowner paid claim files during the examination period. An additional 76 files were identified and the correct transaction privilege tax was calculated, which resulted in restitution payments *to the parties affected in the amount of $9,907.27 plus $724.86 in interest for a total of $10,632.13. Copies of 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		
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 policyholder and shall not be unfairly discriminatory.	1	13
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, nonrenewal based on condition of premises, and shall not be unfairly discriminatory.	2	14
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, nonrenewal based on condition of premises, and shall not be unfairly discriminatory.	3	15
CLAIM PROCESSING		
Standard #5 Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations	4	19
Standard #5 Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations	5	19

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)	8	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 and 20-2110)	8	X	
3	All forms and endorsements forming a part of the contract should be filed with the director (if applicable). (A.R.S. § 20-398)	8	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)	8	X	
5	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1632 and 20-1654)	8	X	
6	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463 and 20-1109)	8	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)	12		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)	12		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)	17	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, and A.A.C. R20-6-801)	17	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)	17	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)	17	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 and A.A.C. R20-6-801)	18		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)	17	X	
7	Deductible reimbursement to insured 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)	17	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)	18	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)	18	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)	18	X	
11	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	18	X	