

FEB 8 2001

STATE OF ARIZONA

DEPT. OF INSURANCE  
BY CS

DEPARTMENT OF INSURANCE

In the Matter of:

**INTERSTATE INDEMNITY COMPANY,**

NAIC # 22837,

**Respondent**

) Docket No. 01A-038-INS  
)  
) CONSENT ORDER  
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Examiners for the Department of Insurance (the "Department") conducted a market conduct examination of Interstate Indemnity Company (IIC). The Report of Examination of the Market Conduct Affairs of IIC alleges that IIC has violated A.R.S. §§ 20-297, 20-385, 20-443, 20-461, 20-466.03, 20-1632, 20-1632.01, 28-4148 and A.A.C. R20-6-801.

IIC wishes to resolve this matter without formal proceedings, admits that the following Findings of Fact are true, and consents to the entry of the following Conclusions of Law and Order.

**FINDINGS OF FACT**

1. IIC is authorized to transact property and casualty insurance, pursuant to a Certificate of Authority issued by the Director.

2. The Examiners were authorized by the Director to conduct a market conduct examination of IIC. The on-site examination was concluded on February 12, 1999. The examiners prepared the "Report of Examination" of the Market Conduct Affairs of Interstate Indemnity Company dated February 12, 1999.

3. IIC failed to file a complete list of the Company's agents for 1997 and 1998 with the Department. The 1997 and 1998 agent lists filed with the Department

1 only listed one agent. The list did not include Robert Moreno Insurance Services  
2 (RMIS), the Company's general agent during 1995 and through 1997. In 1998 RMIS  
3 became the Company's managing general agent.

4 4. IIC offers two automobile plans, the policies with the prefix PAZ include  
5 liability, medical payments, uninsured, underinsured and physical damage coverages.  
6 The policies with the prefix PHL are only physical damage policies. The Examiners  
7 reviewed 134 policies with PAZ prefixes and 218 policies with PHL prefixes with  
8 cancellation dates from October 7, 1995 through September 30, 1998.

9 a. The Examiners issued two general criticisms under the direct bill  
10 program because:

11 i. the Notices of Cancellation or nonrenewal for nonpayment of  
12 premium failed to allow a seven day grace period.

13 ii. the Notices of Cancellation or Nonrenewal for nonpayment  
14 of premium failed to advise the insureds of the right to complain to the Director within  
15 ten days of the cancellation.

16 b. The Examiners issued 32 criticisms because:

17 i. the Company canceled eight renewal policies back to the  
18 inception dates after the insured's checks, covering the renewal premium payments,  
19 were not honored by the banks and failed to allow a seven day grace period.

20 ii. the Company sent three Notices of Cancellation or  
21 Nonrenewal using a Notice designed for the state of California. The Notices of  
22 Cancellation or Nonrenewal did not contain all the required provisions of Arizona law.

23 iii. The Company sent 21 Notices of Cancellation or  
24 Nonrenewal which failed to advise the insureds the MVD was being notified of the  
25 cancellation and that the vehicle registration may be suspended.



1           5.     The Examiners issued a general criticism because the Company's claim  
2 forms provided to the insureds and claimants did not include the fraud warning  
3 statement.

4           6.     The Examiners reviewed 105 claims closed without payment with loss  
5 dates from March 30, 1996 through September 22, 1998. The Examiners criticized one  
6 claim because the Company denied the claim. The accident occurred during the grace  
7 period. The Company backdated the policy cancellation to the due date. The  
8 Company agreed and made full restitution of \$2,570.57 to the insured, plus interest of  
9 \$299.88.

10          7.     The Examiners reviewed 98 first party total loss settlements with loss  
11 dates from May 11, 1996 through September 4, 1998.

12           a.     The Examiners criticized 11 first party total loss claims because the  
13 Company failed to pay the appropriate sale taxes and license fees, resulting in  
14 underpayments of \$1,210.32. The Company agreed and made full restitution to the  
15 insureds, plus interest of \$135.83.

16           b.     The Examiners criticized one claim because the Company applied  
17 a \$475.00 deductible. The policy confirmed the correct deductible was \$450.00. This  
18 resulted in a \$25.00 underpayment to this insured. The Company agreed and made full  
19 restitution to this insured, plus interest of \$5.05.

#### 20   CONCLUSIONS OF LAW

21           1.     By failing to file the company's list of authorized agents before January 30  
22 for the years of 1997 and 1998, IIC violated A.R.S. § 20-297.

23           2.     By sending Notices of Cancellation or Nonrenewal to personal automobile  
24 policyholders for nonpayment of premium and failing to allow a seven day grace period,  
25 IIC violated A.R.S. § 20-1632.01(A).





1 d. sending Notices of Cancellation or Nonrenewal to personal  
2 automobile policyholders that fail to advise of the right to complain to the Director within  
3 ten days.

4 e. sending Notices of Cancellation or Nonrenewal to personal  
5 automobile policyholders that fail to advise of the Assigned Risk Plan.

6 f. failing to include the fraud warning statement on all claim forms  
7 sent to insureds and claimants.

8 g. denying automobile claims that occur during the grace period.

9 h. failing to pay appropriate taxes and air quality fees on first party  
10 total loss settlements.

11 2. Within 90 days of the filed date of this Order, IIC shall submit to the  
12 Arizona Department of Insurance, for approval, evidence that corrections have been  
13 implemented and communicated to the appropriate personnel, regarding all of the items  
14 listed above in the Paragraph 1 of the Order section of this Consent Order. Evidence of  
15 corrective action and communication thereof includes, but is not limited to, memos,  
16 bulletins, E-mails, correspondence, procedures manuals, print screens, and training  
17 materials.

18 3. The Department shall be permitted, through authorized representatives, to  
19 verify that IIC has complied with all provisions of this Order.

20 4. IIC shall pay a civil penalty of \$2,600.00 to the Director for deposit in the  
21 State General Fund in accordance with A.R.S. § 20-220(B). This civil penalty shall be  
22 provided to the Market Conduct Examinations Division of the Department prior to the  
23 filing of this Order.

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1           5.     The Report of Examination of the Market Conduct Affairs of IIC dated  
2 February 12, 1999, including the letter submitted in response to the Report of  
3 Examination, shall be filed with the Department after the Director has filed this Order.

4           DATED at Phoenix, Arizona this 7<sup>th</sup> day of February, 2001.

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7 Charles R. Cohen  
8 Director of Insurance

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1 **CONSENT TO ORDER**

2 1. Respondent Interstate Indemnity Company has reviewed the attached  
3 Consent Order.

4 2. Respondent admits the jurisdiction of the Director of Insurance, State of  
5 Arizona, admits the foregoing Findings of Fact, and consents to the entry of the  
6 Conclusions of Law and Order.

7 3. Respondent is aware of its right to a hearing, at which it may be  
8 represented by counsel, present evidence and cross-examine witnesses. Respondent  
9 irrevocably waives its right to such notice and hearing and to any court appeals related  
10 to this Order.


11 4. Respondent states that no promise of any kind or nature whatsoever was  
12 made to it to induce it to enter into this Order and that it has entered into this Order  
13 voluntarily.

14 5. Respondent acknowledges that the acceptance of this Order by the  
15 Director of Insurance, State of Arizona, is solely to settle this matter against it and does  
16 not preclude any other agency or officer of this state or its subdivisions or any other  
17 person from any other civil or criminal proceedings, whether civil, criminal, or  
18 administrative as may be appropriate now or in the future.

19 6. GARY R. DITTMAN, who holds the office of  
20 President and Chief Executive Officer of Interstate Indemnity Company, is authorized to  
21 enter into this Order for it and on its behalf.

22 **INTERSTATE INDEMNITY COMPANY**

23 29 January 2001  
24 Date

23 By: 



1 COPY of the foregoing mailed/delivered  
2 This 8th day of February 2001, to:

3 Sara Begley  
4 Deputy Director  
5 Mary Butterfield  
6 Assistant Director  
7 Consumer Affairs Division  
8 Paul J. Hogan  
9 Chief Market Conduct Examiner  
10 Market Conduct Examinations Division  
11 Deloris E. Williamson  
12 Assistant Director  
13 Rates & Regulations Division  
14 Steve Ferguson  
15 Assistant Director  
16 Financial Affairs Division  
17 Alexandra Shafer  
18 Assistant Director  
19 Life & Health Division  
20 Nancy Howse  
21 Chief Financial Examiner  
22 Terry L Cooper  
23 Fraud Unit Chief

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INTERSTATE INDEMNITY COMPANY  
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