

STATE OF ARIZONA  
FILED

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DEPT. OF INSURANCE

**REPORT OF TARGET MARKET CONDUCT EXAMINATION**

**OF**

**UNITRIN DIRECT PROPERTY & CASUALTY COMPANY**

**NAIC #10915**

**AS OF**

**June 30, 2012**

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**JANICE K. BREWER**  
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**GERMAINE L. MARKS**  
Director of Insurance

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Honorable Germaine L. Marks  
Director of Insurance  
State of Arizona  
2910 North 44<sup>th</sup> Street  
Suite 210, Second Floor  
Phoenix, Arizona 85018-7269

Dear Director Marks:

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

**Unitrin Direct Property & Casualty Company**  
**NAIC #10915**

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, 2011 through June 30, 2012.

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 the Unitrin Direct Property & Casualty Company (herein referred to as, "Unitrin Direct P&C", 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 Auto (PPA) 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, 2011 through June 30, 2012 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 forms use will not be met if any exception is identified.

## **HISTORY OF THE COMPANY**

(Provided by the Company)

Unitrin Direct Property & Casualty Company (formerly known as Kemper Auto & Home Insurance Company) (“the Company”) is an Illinois stock property and casualty insurance company. The home office address of the Company is One East Wacker Drive, Chicago, Illinois 60601. The principal executive office address of the Company is One East Wacker Drive, Chicago, Illinois 60601.

The Company became part of the Kemper Corporation (formerly called Unitrin Inc.) system on June 28, 2002, when, pursuant to a stock acquisition agreement, Unitrin acquired 100% of the issued and outstanding shares of common stock of UDP’s parent company, Kemper Auto and Home Group, Inc. (then known as Kemper Enterprise Group, Inc.), an Illinois corporation (“Kemper Auto and Home”), from Lumbermens Mutual Casualty Company. On December 29, 2003, Kemper Auto and Home conveyed all the issued and outstanding shares of common stock of the Company to Kemper Corporation which in turn conveyed all the issued and outstanding shares of common stock of the Company to Trinity.

## **PROCEDURES REVIEWED WITHOUT EXCEPTION**

The Examiners review of the following Company departments<sup>1</sup> 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 identified 9 compliance issues that resulted in 135 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 Examiner's findings:

### **Underwriting and Rating**

In the area of Underwriting and Rating, one (1) compliance issue is addressed in this Report as follows:

- The Company either failed to file its rates or incorrectly applied rates to 46 PPA New/Renewal Business or Surcharge policies, which resulted in 24 policyholders being overcharged.

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

### **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 compliant Summary of Rights, on eight (8) PPA non renewals to its policyholders non renewed for an adverse underwriting decision.
- The Company failed to include the unearned premium refund with its policy cancellation notice on one (1) PPA cancellation for underwriting reasons.
- The Company failed to provide a named driver exclusion offer prior to sending out four (4) PPA cancellations for underwriting reasons or nonrenewals.

### **Claims Processing**

In the area of Claims Processing, five (5) compliance issues are addressed in this Report as follows:

- The Company failed to specify the length of time the authorization remains valid (shall be no longer than the duration of the claim) on three (3) claim authorization forms.
- The Company failed to advise the individual or a person authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form on four (4) claim authorization forms.
- The Company failed to include a fraud warning statement in at least 12-point type and/or incorrectly referenced the wrong state statute on four (4) claim forms.
- The Company failed to correctly calculate and pay the appropriate tax, license registration and/or air quality fees on 18 PPA first/third party total loss settlements, which resulted in additional payments of \$378.62 (including interest).
- The Company failed to identify the appropriate insuring company name on 10 PPA closed without payment, 4 PPA paid, 10 PPA subrogation and 23 PPA total losses for a total of 47 claims correspondence/letters.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS

During the past five (5) years, there was three (3) Market Conduct Examinations completed by the Commonwealth of Virginia, Nevada and Pennsylvania. No significant patterns of non-compliance were noted.

**UNDERWRITING AND RATING**

Private Passenger Automobile (PPA):

The Examiners reviewed 102 PPA New/Renewal Business files (including 2 sample files) out of a population of 6,184 and 52 PPA Surcharge files (including 2 sample files) out of a population of 1,873 during the examination period. This new/renewal and surcharge review included a total sample size of 154 PPA files from a total population of 8,057.

All new/renewal and surcharge files reviewed were 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, 20-443, 20-2110
3	All forms and endorsements forming a part of the contract should be filed with the director (if applicable).	A.R.S. § 20-398
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
5	Policies and endorsements are issued or renewed accurately, timely and completely.	A.R.S. §§ 20-1120, 20-1121, 20-1632 and 20-1654
6	Rescissions are not made for non-material misrepresentations.	A.R.S. §§ 20-463, 20-1109

**The following Underwriting and Rating Standard failed:**

#	STANDARD	Regulatory Authority
1	The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan.	A.R.S. §§ 20-341 through 20-385

**Underwriting and Rating, Standard # 1 – failed**

**Preliminary Finding-001- Filing of Rates** – During the Underwriting and Rating review, the Examiners identified various rating errors in which the Company either failed to file rates or incorrectly applied rates to 34 PPA New/Renewal and 12 Surcharge policies. This resulted in rating errors for 46 policyholders, of which 24 policyholders were overcharged. These are violations of A.R.S. § 20-385.

**PRIVATE PASSENGER AUTOMOBILE  
Manually Rated New/Renewal Business and Surcharged Policies  
Summary of Findings – Standard 1 File Review  
Failed to file rates or incorrectly applied various rates  
A.R.S. § 20-385**

<b>Files Reviewed</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
PPA New/Renewals	46	34	006a
PPA Surcharges	12	12	008a
<b>Totals</b>	<b>58</b>	<b>46</b>	
		<b>Error Ratio</b>	<b>79%</b>

**A 79% error ratio does not meet the Standard; therefore, a recommendation is warranted.**

**Recommendation #1**

Within 90 days of the filed date of this Report submit documentation to the Department that it has procedures and controls in place to apply all rates correctly to comply with Arizona Statutes and Rules.

*Subsequent Events: During the course of the Examination, the Company agreed with the Examiner's finding and made restitution payments of \$1,353.34 to all policyholders owed refunds. Copies of letters of explanation and payments were sent to the Department prior to completion of the Examination. Furthermore, the Company submitted filing UNTR-128720354 on October 9, 2012 to the Department, which addressed the issues cited above.*

**CANCELLATIONS AND NON-RENEWALS**

Private Passenger Automobile (PPA):

The Examiners reviewed 52 PPA cancellation files for non-payment of premium (including 2 sample files) out of a population of 134, 5 PPA cancellation files for underwriting reasons out of a population of 5 and 32 PPA non renewals out of a population of 32. This cancellation, non renewal and declination review included a total sample size of 89 PPA files from a total population of 171.

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 002 – Summary of Rights** – The Examiners identified eight (8) PPA non renewals for an adverse underwriting decision. These notices failed to provide a compliant Summary of Rights language to its policyholders, an apparent violation of A.R.S. §§ 20-2108, 20-2109 and 20-2110.

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

Population	Sample	# of Exceptions	% to Sample
32	32	8	25%

**A 25% 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 a compliant 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 Examination, the Company agreed with the Examiner's finding that its Summary of Rights language needed to be updated. The Company advised it had implemented the changes effective March 17, 2011. A corrected copy of the notice was provided to the Department prior to the completion of the Examination.*

**Cancellation and Nonrenewal, Standard #2 - failed**

**Preliminary Finding 003 – Late Unearned Premium Refunds** - The Company failed to include the unearned premium refund with the policy cancellation notice, which is sent out at least 10 days prior to the effective date of cancellation for underwriting reasons, to one (1) PPA policyholder. This represents a violation of A.R.S. § 20-1632(A)(3).

**PRIVATE PASSENGER AUTOMOBILE CANCELLATIONS**

Failed to include the unearned premium refund with the policy cancellation notice  
Violation of A.R.S. § 20-1632(A)(3)

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
1	1	1	100%

**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 and controls are in place to ensure that the unearned premium refund is sent out at least 10 days prior to the effective date of the cancellation, in accordance with the applicable state statute.

*Subsequent Events: During the course of the Examination, the Company agreed with the finding and provided corrective procedures that were implemented on November 27, 2012. These were provided to the Department prior to completion of the Examination.*

**Cancellation and Nonrenewal, Standard #2 – failed**

**Preliminary Finding 004** – The Company failed to offer a named driver exclusion prior to terminating coverage due to driving records on one (1) PPA cancellation for underwriting reasons and three (3) PPA non renewals, which totaled four (4) policyholders. These are violations of A.R.S. § 20-1631(F).

**PRIVATE PASSENGER AUTOMOBILE DRIVER EXCLUSION**

Failed to offer a named driver exclusion prior to cancellation or nonrenewal  
A.R.S. § 20-1631(F)

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
PPA Non Renewals	9	9	3	007
PPA UW Reasons	1	1	1	010
<b>Totals</b>	<b>10</b>	<b>10</b>	<b>4</b>	
			<b>Error Ratio</b>	<b>40%</b>

**A 40% 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 a named driver exclusion prior to terminating coverage due to driving record of an individual on the policy.

*Subsequent Events: During the course of the Examination, the Company agreed with the finding and provided corrective procedures that were implemented on November 27, 2012. These were provided to the Department prior to completion of the Examination.*

**CLAIMS PROCESSING**

Private Passenger Automobile (PPA):

The Examiners reviewed 50 PPA claims closed without payment from a population of 130; 50 PPA paid claims from a population of 230; 26 total loss PPA claims out of a population of 26 and 50 PPA subrogation claims out of a population of 87. This claims review included a total sample size of 176 PPA claim files from a total population of 473.

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
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 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, 20-468, 20-469 and A.A.C. R20-6-801

**Claims Processing Standard #3 – failed**

**Preliminary Finding-008– Disclosure Authorization Forms- Claims** – The Examiners identified four (4) claim authorization forms (shown in the table below) where the Company failed to:

- specify the authorization remains valid for no longer than the duration of the claim; and
- advise the individual or a person authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form.

These forms fail to comply with A.R.S. § 20-2106 (8)(b) and (9) and represent seven (7) violations of the statute. The following table summarizes these authorization form findings.

	Form Description / Title	Form #	Statute Provision
1	Consent to Disclosure and Release Form	Unknown	8(b) and 9
2	AZ Application for Benefits	Unknown	8(b) and 9
3	Authorization for Release of Medical Information	Unknown	8(b) and 9
4	Authorization for Disclosure of Protected Health Information	APBEAUPP	9

**CLAIM FORMS**

Failed to specify the authorization remains valid for no longer than the duration of the claim  
Violation of A.R.S. § 20-2106(8)(b)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	3	N/A

**Any error or exception identified in the areas of a procedure or forms use does not meet the Standard; therefore a recommendation is warranted.**

**CLAIM FORMS**

Failed to advise the individual or a person authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form  
Violation of A.R.S. § 20-2106(9)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	4	N/A

**Any error or exception identified in the areas of a procedure or forms use does 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 procedures are in place so the authorization forms listed above include the following

- specify the authorization remains valid for no longer than the duration of the claim; and
- advises the individual or a person authorized to act on behalf of the individual that the individual or the individual's authorized representative is entitled to receive a copy of the authorization form, in accordance with the applicable state statute.

*Subsequent Events: During the course of the Examination, the Company agreed with the finding and provided the corrected form now in use to the Department prior to completion of the Examination.*

**Claims Processing Standard #3 – failed**

**Preliminary Finding 009 – Fraud Warning Statement** – The Company failed to provide four (4) fraud warning statements in at least twelve (12) point type. These represent four (4) violations of A.R.S. § 20-466.03. The following tables summarize the fraud warning statement findings.

**Fraud Warning Statement**

Failed to provide fraud warning statement in at least twelve (12) point type  
A.R.S. § 20-466.03

	<b>Form Description / Title</b>	<b>Form Number</b>
1	Arizona Application for Benefits	NA
2	Consent to Disclosure and Release Form	NA
3	Affidavit of Vandalism	NA
4	Release of All Claims	NA

**CLAIM FORMS**

Failed to provide fraud warning statement in at least twelve (12) point type  
Violation of A.R.S. § 20-466.03

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
N/A	N/A	4	N/A

**Any error or exception identified in the areas of a procedure or forms use does not meet the Standard; therefore a recommendation is warranted.**

**Recommendation #6**

Within 90 days of the filed date of this Report, provide the Department with documentation that when referencing a state statute the correct one is provided as well as the required fraud warning statement be in 12-point type. This would include each of the claim forms cited above, in accordance with the applicable state statutes.

*Subsequent Events: During the course of the Examination, the Company agreed with the finding. The Company switched to the Claims Center system in March 2012 and all forms reviewed on the new system by the Examiners appeared to be in compliance.*

**Claims Processing Standard #5 - failed**

**Preliminary Finding 007 –Total Loss Taxes and Fees** - The Examiners identified 18 first/third party total loss settlements, in which the Company failed to correctly calculate and pay appropriate tax, license registration and/or air quality fees. This resulted in 18 first/third party total loss settlements being underpaid 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 AUTOMOBILE TOTAL LOSS 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
26	26	18	69%

**A 69% 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 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 the Examination, the Company agreed with the incorrect settlement of all first/third party total losses and made restitution payments to all parties affected in the amount of \$345.52 plus \$33.10 in interest for a total of \$378.62. 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-010 – Wrong Company name identified on written correspondence:**  
The Company failed to identify the appropriate insuring company as Unitrin Direct Property & Casualty Company on written correspondence sent to insureds/claimants on 10 PPA closed without payment, 4 PPA paid, 10 PPA subrogation and 23 PPA total loss for a total of 47 documents/correspondence, which is an apparent violation of A.R.S. § 20-461(A)(1).

**PRIVATE PASSENGER AUTOMOBILE CLAIMS**

Failed to include the Correct Insuring Company

A.R.S. §20-461(A)(1)

PERSONAL AUTO	Population	Sample	Exceptions	Error Ratio
PPA CWP	130	50	10	20%
PPA Paid	230	50	4	8%
PPA Subrogation	87	50	10	20%
PPA Total Loss	26	26	23	88%
<b>Totals</b>	<b>470</b>	<b>176</b>	<b>47</b>	<b>27%</b>

**A 27% error ratio does not meet the standards; therefore, a recommendation is warranted.**

**Recommendation # 8**

Within 90 days of the filed date of this Report provide the Department with documentation that the Company's procedures are in place to identify the appropriate insuring Company on all Private Passenger Automobile 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 with the finding. The Company switched to the Claims Center system in March 2012 and all forms reviewed on the new system by the Examiners appeared to be in compliance.*

**SUMMARY OF FAILED STANDARDS**

EXCEPTIONS	Rec. No.	Page No.
<b>CANCELLATIONS AND NON RENEWALS</b>		
<u>Standard #1</u> The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan.	1	13
<b>CANCELLATIONS AND NON RENEWALS</b>		
<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.	2	16
<u>Standard #2</u> 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	16
<u>Standard #2</u> 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	17
<b>CLAIM PROCESSING</b>		
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	5	21
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	6	22

<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	7	23
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	8	24

**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)	12		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)	12	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)	12	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)	12	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)	12	X	
6	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463 and 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)	19	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, and A.A.C. R20-6-801)	19	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)	20		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)	19	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)	20		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)	19	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)	19	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)	19	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)	19	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)	19	X	
11	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	19	X	