

**STATE OF ARIZONA  
FILED**

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**DEPT. OF INSURANCE**

**REPORT OF TARGET MARKET CONDUCT EXAMINATION**

**OF**

**FOREMOST INSURANCE COMPANY GRAND RAPIDS, MICHIGAN**

**NAIC #11185**

**AS OF**

**December 31, 2013**

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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:

**Foremost Insurance Company Grand Rapids, Michigan**  
**NAIC #11185**

The above examination was conducted by Helene I. Tomme, CPCU, CIE, Market Examinations Supervisor, Examiner-in Charge, and Christopher G. Hobert, CIE, MCM, Market Conduct Senior Examiner and Laura Sloan-Cohen, CIE, AMCM, Market Conduct Senior Examiner.

The examination covered the period of January 1, 2013 through December 31, 2013.

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 Foremost Insurance Company Grand Rapids, Michigan (herein referred to as, "Foremost Grand Rapids", 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), Mobile Home (MBH), Commercial Mobile Home (CMB), Motorhome (MH), Antique Auto (AA) and Motorcycle (MC) 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, 2013 through December 31, 2013 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)

Foremost Insurance Company commenced business on June 12, 1952 under the laws of the State of Michigan to provide insurance for buyers of house trailers. The words "Grand Rapids, Michigan" were added to its name in 1963. The Company was first to provide specialized protection for travel trailers and subsequently added insurance for motor homes as well.

Foremost Insurance Company Grand Rapids, Michigan is the lead member of the Foremost Corporation Group. The Foremost Corporation Group consists of Foremost Insurance Company Grand Rapids, Michigan, Foremost Property and Casualty Insurance Company, Foremost Signature Insurance Company, Farmers Specialty Insurance Company, Foremost Lloyds of Texas and Foremost County Mutual Insurance Company.

Foremost Property and Casualty Insurance Company, was organized in 1984 under the laws of Michigan. In July, 1992 Foremost Insurance Company Grand Rapids, Michigan purchased Foremost Property and Casualty Insurance Company from Foremost Life Insurance Company.

Farmers Insurance Exchange (organized in the State of California on April 6, 1928 as a reciprocal or interinsurance exchange, Truck Insurance Exchange and Fire Insurance Exchange acquired ownership of Foremost Corporation of America stock on March 7, 2000. Foremost Corporation of American continues to own Foremost Insurance Company Grand Rapids, Michigan, and its wholly owned subsidiaries. The Exchanges and their subsidiaries jointly market insurance under the trade name of Farmers Insurance Group of Companies.

## **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 13 compliance issues that resulted in 286 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, two (2) compliance issues addressed in this Report as follows:

- The Company failed to properly document and retain completed and/or signed UM and UIM rejection forms for seven (7) new business applicants.
- The Company failed to notify three (3) MC policyholders and one (1) MH policyholder that the reason for their policy's premium increase was an at-fault accident. This resulted in four (4) exceptions.

### **Cancellation and Non Renewals**

In the area of Cancellations and Non Renewals, seven (7) compliance issues are addressed in this Report as follows:

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

- The Company failed to provide a compliant Summary of Rights, on 1 MC new business/renewal, 2 MC surcharge, 52 declinations, 9 MBH non renewals, 6 MBH underwriting cancellations, 1 MH surcharge, 12 MH declination, 13 HO non renewals and 1 HO underwriting cancellation files for a total of 97 notices.
- The Company failed to provide the required 7-day grace period on 36 MC cancellations for non-payment of premium and 3 AA cancellations for non-payment of premium for a total of 39 cancellations cancelled for non-payment of premium.
- The Company failed to include compliant right to complain to the Director on 46 MC cancellations for non payment and 3 MC cancellations for underwriting reasons for a total of 49 notices.
- The Company failed to offer a named driver exclusion prior to terminating coverage due to driving record on one (1) MC non renewal and one (1) MC cancellation for underwriting reasons for a total of two (2) policies.
- The Company failed to provide notification for three (3) MBH policyholders giving an additional 30-days notice (condition of premises) to remedy the identified conditions.
- The Company failed to produce cancellation notices or declination letters for 1 MC non renewal, 4 MC declinations, 1 MH cancellation for underwriting reasons and 9 MH declinations for a total of 15 notices or letters.
- The Company failed to give the specific reason for non payment in writing on four (4) MC cancellations for non payment for a total of four (4) 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 six (6) claim forms.
- The Company failed to correctly calculate and pay the appropriate tax, license registration and/or air quality fees on 27 MC first party/third party total loss settlements and 2 MH first party total loss settlements for a total of 29 incorrectly paid claims, which

resulted in additional payments of \$3,018.28 (including interest).

- The Company failed to fully reimburse one (1) insured their portion of the deductible in a timely manner when subrogation recovery was successful, which resulted in a returned payment being owed in the amount of \$72.55 (including interest).
- The Company failed to correctly calculate and pay the Transaction Privilege Tax (TPT) on 10 MBH first party paid claims, 9 HO first party paid claims and 11 CMB first party paid claims for a total of 30 incorrectly paid claim files, which resulted in additional payments of \$1,454.67 (including interest).

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS

During the past 5 years, there was 3 Market Conduct Examinations completed by New Hampshire, Pennsylvania and Virginia. No significant patterns of non-compliance were noted.

**UNDERWRITING AND RATING**

Antique Automobile (AA):

The Examiners reviewed 52 AA New/Renewal Business files (included 2 sample files) out of a population of 2,512 during the examination period.

Commercial Mobile Homeowners (CMB):

The Examiners reviewed 52 CMB New/Renewal Business files (included 2 sample files) out of a population of 3,759 during the examination period.

Homeowners (HO):

The Examiners reviewed 100 HO New/Renewal Business files out of a population of 15,669 during the examination period.

Mobile Homeowners (MBH):

The Examiners reviewed 102 MBH New/Renewal Business files (included 2 sample files) out of a population of 46,534 during the examination period.

Motorcycle (MC):

The Examiners reviewed 102 MC New/Renewal Business files (included 2 sample files) out of a population of 8,685 and 50 MC Surcharge out of a population of 277 during the examination period. This New/Renewal and Surcharge review included a total sample size of 152 MC files from a total population of 8,962.

Motor Home (MH):

The Examiners reviewed 52 MH New/Renewal Business files (included 2 sample files) out of a population of 4,406 and 33 MH Surcharge out of a population of 33 during the examination period. This New/Renewal and Surcharge review included a total sample size of 85 MH files from a total population of 4,439.

All new/renewal files reviewed were to ensure compliance with Arizona Statutes and Rules.

**The following Underwriting and Rating Standards were met:**

#	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
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
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

**Underwriting and Rating, Standard # 2 – failed**

**Preliminary Finding 006 – UM/UIM Rejection Forms-Underwriting** – The Examiners identified six (6) MC new/renewal business and one (1) MH new/renewal business policy for a total of seven (7) policies missing or without a signed UM/UIM Rejection Form. The failure to retain completed UM/UIM Rejection Forms, is an apparent violation of A.R.S. § 20-259.01

**MOTORCYCLE AND MOTOR HOME**  
**Summary of Findings – Standard 2 File Review**  
 Failed to retain UM/UIM Rejection Forms  
 A.R.S. § 20-259.01

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
MC New/Renewal Business	8,685	23	6	006
MH New/Renewal Business	4,406	2	1	030
<b>Totals</b>	<b>13,091</b>	<b>25</b>	<b>7</b>	
			<b>Error Ratio</b>	<b>28%</b>

**A 28% 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 retain a completed signed UM/UIM Rejection Forms when applicable to assure compliance with Arizona Statutes and. Rules

*Subsequent Events: During the course of the Examination, the Company on October 14, 2014 sent out a "Breaking News Bulletin (BNB)" email communication to their Exclusive Agents reinforcing the importance obtaining and retaining uninsured/underinsured selection/rejection forms within seven (7) days of policy issuance.*

**Underwriting and Rating, Standard # 2 – failed**

**Preliminary Finding 007 – At-Fault Accident Explanation** – The Examiners identified three (3) MC surcharge policies and one (1) MH surcharge policy for a total of four (4) policies where the Company failed to notify the policyholder of their premium increase due to an at-fault accident. The failure to notify a policyholder, is an apparent violation of A.R.S. § 20-263.

**MOTORCYCLE AND MOTOR HOME**  
**Summary of Findings – Standard 2 File Review**

Failed to notify their Policyholder of an Increase in Premium due to an At-Fault Accident  
 A.R.S. § 20-263

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
MC Surcharge	277	50	3	007
MH Surcharge	33	33	1	031
<b>Totals</b>	<b>310</b>	<b>83</b>	<b>4</b>	
			<b>Error Ratio</b>	<b>5%</b>

**A 5% error ratio does not meet the Standard; therefore, a recommendation is warranted.**

**Recommendation #2**

Within 90 days of the filed date of this Report submit documentation to the Department that it has procedures and controls in place to notify a policyholder when their premium is being increased due to an at-fault accident.

*Subsequent Events: During the course of the Examination, the Company provided the Department with an at-fault accident explanation letter. The Company implemented the at-fault accident explanation letter on October 24, 2014.*

**CANCELLATIONS AND NON RENEWALS**

Antique Automobile (AA):

The Examiners reviewed 52 AA cancellation files for non-payment of premium (included 2 samples files) out of a population of 173, 13 AA cancellation files for underwriting reasons out of a population of 13 and 52 AA declinations (included 2 samples) out of a population of 123. This cancellation and declination review included a total sample size of 117 AA files from a total population of 309.

Commercial Mobile Homeowners (CMB):

The Examiners reviewed 52 CMB cancellation files for non-payment of premium (included 2 samples files) out of a population of 602 and 24 CMB cancellation files for underwriting reasons out of a population of 24. The cancellation review included a total sample size of 76 CMB files from a total population of 626.

Homeowners (HO):

The Examiners reviewed 52 HO cancellation files for non-payment of premium (included 2 samples files) out of a population of 1,364, 51 HO cancellation files for underwriting reasons (included 1 sample file) out of a population of 1,005 and 22 HO non renewals out of a population of 22. This cancellation and non renewal review included a total sample size of 125 HO files from a total population of 2,391.

Mobile Homeowners (MBH):

The Examiners reviewed 52 MBH cancellation files for non-payment of premium (included 2 samples files) out of a population of 1,851, 52 MBH cancellation files for underwriting reasons (included 2 sample files) out of a population of 169 and 52 MBH non renewals (included 2 samples) out of a population of 87. This cancellation and non renewal review included a total sample size of 156 MBH files from a total population of 2,107.

Motorcycle (MC):

The Examiners reviewed 52 MC cancellation files for non-payment of premium (included 2 samples files) out of a population of 3,294, 50 MC cancellation files for underwriting reasons) out of a population of 90, 52 MC declination files (included 2 sample files) out of a population of 156 and 11 MC non renewals out of a population of 11. This cancellation, declination and non renewal review included a total sample size of 165 MC files from a total population of 3,551.

Motor Home (MH):

The Examiners reviewed 52 MH cancellation files for non-payment of premium (included 2 samples files) out of a population of 647, 22 MH cancellation files for underwriting reasons out of a population of 22, 13 MH declination files out of a population of 13 and 7 MH non renewals out of a population of 7. This cancellation and non renewal review included a total sample size of 94 MH files from a total population of 689.

All cancellation files reviewed were 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
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 008 – Summary of Rights** – The Examiners identified 1 MC new business/renewal, 2 MC surcharge, 52 MC declinations, 9 MBH non renewals, 6 MBH underwriting cancellations, 1 MH surcharge, 12 MH declination, 13 HO non renewals and 1 HO underwriting cancellation for a total of 97 notices. 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.

**MOTORCYCLE, MOBILE HOMEOWNERS, MOTOR HOME AND HOMEOWNERS**  
**Summary of Findings – Standard 1 File Review**  
Failed to Provide Compliant Summary of Rights  
A.R.S. §§ 20-2108, 20-2109 and 20-2110

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
MC New/Renewal Business	8,685	102	1	006
MC Surcharge	277	50	2	007
MC Declinations	156	52	52	011
MBH Non Renewals	87	41	9	023
MBH UW Cancels	169	52	6	025
MH Surcharge	33	33	1	031
MH Declination	13	13	12	035
HO Non Renewals	22	22	13	040
HO UW Cancels	1,005	51	1	042
<b>Totals</b>	<b>10,447</b>	<b>416</b>	<b>97</b>	
			<b>Error Ratio</b>	<b>23%</b>

**A 23% 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 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 indicated they had corrected the failure to send a compliant Summary of Rights on motorcycle and motor home declinations in May 2014. The Company also indicated they had added a compliant summary of rights on cancellations and non renewals for mobile homeowners, homeowners and commercial mobile homeowners effective June 15, 2013.*

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

**Preliminary Finding 009 – Motorcycle and Antique Automobile 7-Day Grace Period –** The Examiners identified 36 MC Cancellations for non-payment of premium and 3 AA Cancellations for non-payment of premium for a total of 39 cancellations where the Company failed to provide the required 7-day grace period after the premium due date, an apparent violation of A.R.S. § 20-1632.01(A).

**MOTORCYCLE and ANTIQUE AUTOMOBILE 7-DAY GRACE PERIOD**

**Summary of Findings – Standard 2 File Review**

Failed to provide the required 7-day grace period for policies cancelled due to non-payment of premium

A.R.S. § 20-1632.01(A)

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
MC Non Payments	3,297	47	36	009/010
AA Non Payments	173	3	3	016
<b>Totals</b>	<b>3,470</b>	<b>50</b>	<b>39</b>	
			<b>Error Ratio</b>	<b>78%</b>

**A 78% 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 the Department with documentation that Company procedures are in place to provide policyholders with the required 7-day grace period on Motorcycle and Antique Automobile cancellations for nonpayment.

*Subsequent Events: During the course of the Examination, the Company indicated they will correct their system to allow for 8 days. The Company has provided the Department with project RTC 29134 documents showing the completion of the motorcycle implementation to be no later than December 31, 2014. Also, the Company indicated they implemented new procedures on October 6, 2014 for its Antique Automobile cancellations for non payment.*

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

**Preliminary Finding 010 – Motorcycle cancellations failed to include the right to complain to the Director** – The Examiners identified 46 MC cancellations for non payment and 3 MC cancellations for underwriting reasons for a total of 49 notices where the Company failed to include a compliant right to complain to the Director, an apparent violation of A.R.S. §§ 20-1632 (A)(1) and 20-1632.01(B).

**MOTORCYCLE RIGHT TO COMPLAIN TO THE DIRECTOR**

**Summary of Findings – Standard 2 File Review**

Failed to include a compliant Right to Complain to the Director on Non Payment and Underwriting Cancellations

A.R.S. §§ 20-1632(A)(1) and 20-1632.01(B)

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
MC Non Payments	3,294	46	46	009
MC UW Cancels	90	9	3	010
<b>Totals</b>	<b>3,557</b>	<b>55</b>	<b>49</b>	
			<b>Error Ratio</b>	<b>89%</b>

**An 89% error ratio 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 that the required right to complain to the Director information is provided on its motorcycle cancellation for non payment and underwriting reason notices.

*Subsequent Events: During the course of the Examination, the Company indicated they will correct their cancellation notice to include a compliant right to complain to the Director language. The Company has provided the Department with project RTC 29134 documents showing the completion of the implementation to be no later than December 31, 2014.*

**Cancellation and Non-Renewal Standard #2 - failed**

**Preliminary Finding 012 — Motorcycle Driver Exclusion** -The Company failed to offer a named driver exclusion prior to terminating coverage due to driving records on one (1) MC non renewal and one (1) MC cancellation for underwriting reasons for a total of two (2) policies, an apparent violation of A.R.S. § 20-1631(F).

**MOTORCYCLE DRIVER EXCLUSION**

**Summary of Findings – Standard 2 File Review**

Failed to offer named driver exclusion prior to cancellation or non renewal

A.R.S. § 20-1631(F)

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
MC Non Renewals	11	1	1	008
MC UW Cancels	90	1	1	010
<b>Totals</b>	<b>101</b>	<b>2</b>	<b>2</b>	
			<b>Error Ratio</b>	<b>100%</b>

**A 100% error ratio does not meet the Standard; therefore, a recommendation is warranted.**

**Recommendation #6**

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

*Subsequent Events: During the course of the Examination, the Company provided the Department with procedures and an example of the Named Driver Exclusion (NDE). An email communication was sent on October 8, 2014 to the Casualty Line Underwriting management team reinforcing the Named Driver Exclusion (NDE) procedures.*

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

**Preliminary Finding 013— Mobile Homeowner Condition of Premises-** The Company failed to provide notification for three (3) MBH policyholders giving an additional 30-days notice (condition of premises) to remedy the identified conditions prior to sending out the non renewal notice, an apparent violation of A.R.S. § 20-1652(B).

**MOBILE HOMEOWNER CONDITON OF PREMISES**

Failure to send out notification of Condition of Premises prior to sending Non Renewal Notices

A.R.S. § 20-1652(B)

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
87	6	3	50%

**A 50% error ratio does not meet the Standard; therefore, a recommendation is warranted.**

**Recommendation #7**

Within 90 days of the filed date of this report, provide documentation to the Department that Company procedures and controls are in place to ensure that policyholders are offered a condition of premises notification to remedy issues prior to terminating coverage.

*Subsequent Events: During the course of the Examination, the Company's Lined Underwriting Management Team conducted team meetings on October 7<sup>th</sup> and 8<sup>th</sup> addressing the procedures for offering a condition of premises notification prior to terminating coverage. The Company provided the department with an Agenda from the meeting along with a list of those who attended.*

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

**Preliminary Finding 015 – Motorcycle/Motor Home missing file and record documentation** – The Examiners identified 1 MC non renewal notice, 4 MC declinations, 1 MH cancellation for underwriting reason and 9 MH declination letters for a total of 15 notices where the Company failed to produce cancellation or declination letters, an apparent violation of A.R.S. § 20-157(A).

**MOTORCYCLE AND MOTOR HOME  
Summary of Findings – Standard 2 File Review  
Missing File and Record Documentation  
A.R.S. § 20-157(A)**

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
MC Non Renewals	11	11	1	008
MC Declinations	156	52	4	011
MH UW Cancels	22	22	1	034
MH Declinations	13	13	9	035
<b>Totals</b>	<b>202</b>	<b>98</b>	<b>15</b>	
			<b>Error Ratio</b>	<b>15%</b>

**A 15% error ratio does not meet the Standard; therefore, a recommendation is warranted.**

**Recommendation #8**

Within 90 days of the filed date of this report provide the Department with documentation that Company procedures are in place to maintain accurate records.

*Subsequent Events: During the course of the Examination, the Company addressed the issue of document retention with Imaging Services, Grand Rapids Back Office (GRBO) and Casualty Line Underwriting. Each area involved reviewed procedures that are already in place to retain all documents. The Company provided the Examiners with a summary from each of those meetings.*

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

**Preliminary Finding 016 – Motorcycle Non Payment Reason for Cancellation in Writing –**

The Examiners identified four (4) MC cancellations for non payment for a total of four (4) notices, where the Company failed to give the specific reason for non payment, an apparent violation of A.R.S. § 20-1632.01(B).

**MOTORCYCLE NON PAYMENT**

Failed to provide Non Payment Reason for Cancellation in Writing  
A.R.S. § 20-1632.01(B)

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
3,298	55	4	7%

**A 7% error ratio does not meet the Standard; therefore, a recommendation is warranted.**

**Recommendation #9**

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 non payment reasons for cancellation in writing.

*Subsequent Events: During the course of the Examination, the Company indicated they will correct their cancellation notices to include the non payment reason in writing. Also, the Company indicated the Easy Pay Payment Plan, which generated these notices would be discontinued on November 1, 2014 and put on the Flex-a-Bill system. The Company has provided the Department with project RTC 29134 documents showing the completion of the implementation to be no later than December 31, 2014, which includes notices on the Flex-a-Bill system.*

**CLAIMS PROCESSING**

Antique Automobile (AA):

The Examiners reviewed 20 AA claims closed without payment from a population of 20; 37 AA paid claims from a population of 37 and 2 AA subrogation claims out of a population of 2. This claim review included a total sample size of 59 AA claim files from a total population of 59.

Commercial Mobile Homeowners (CMB):

The Examiners reviewed 50 CMB claims closed without payment from a population of 159; 50 CMB paid claims from a population of 188 and 24 CMB subrogation claims from a population of 24. This claim review included a total sample size of 124 CMB claims files from a total population of 371.

Homeowners (HO):

The Examiners reviewed 50 HO claims closed without payment from a population of 1,937; 50 HO paid claims from a population of 3,201 and 34 HO subrogation claims from a population of 488. This claim review included a total sample size of 134 HO claims files from a total population of 5,626.

Mobile Homeowners (MBH):

The Examiners reviewed 50 MBH claims closed without payment from a population of 1,220; 50 MBH paid claims from a population of 2,156 and 50 MBH subrogation claims from a population of 287. This claim review included a total sample size of 150 MBH claims files from a total population of 3,663.

Motorcycle (MC):

The Examiners reviewed 14 MC claims closed without payment from a population of 14; 96 MC paid claims from a population of 96; 47 total loss MC claims out of a population of 47 and 14 MC subrogation claims out of a population of 14. This claim review included a total sample size of 171 MC claims files from a total population of 171.

Motor Home (MH):

The Examiners reviewed 55 MH claims closed without payment from a population of 71; 55 MH paid claims from a population of 186; 4 total loss MH claims out of a population of 4 and 1 MH subrogation claims out of a population of 1. This claim review included a total sample size of 115 MH claims files from a total population of 262.

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
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

**The following Claim Standards passed with comment:**

#	STANDARD	Regulatory Authority
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

**Claims Processing Standard #3 – failed**

**Preliminary Finding 004 – Fraud Warning Statement** – The Company failed to provide a fraud warning statement in at least twelve (12) point type on six (6) claim forms. This represents six (6) violations of A.R.S. § 20-466.03. The following table summarizes the fraud warning statement findings.

	Form Description / Title	Form Number
1	Power of Attorney	C10068 1/2004
2	Loan Information	UNKNOWN
3	Letter of Gurantee	UNKNOWN
4	Subrogation Form	QFZ5PWZK
5	Subrogation Form	4DW44KS5
6	Authorization For Repairs and Direction of Payment	UNKNOWN

**CLAIM FORMS**

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

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	6	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 #10**

Within 90 days of the filed date of this Report, provide the Department with documentation that the required fraud warning statement, in 12-point type, is included on the claim form cited above, in accordance with the applicable state statute.

*Subsequent Events: During the course of the Examination, the Company provided the corrected forms to the Department prior to completion of the Examination.*

**Claims Processing Standard #5 - failed**

**Preliminary Finding 001 –Total Loss Taxes and Fees** - The Examiners identified 27 first/third party MC total loss settlements and 2 first party MH 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 29 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).

**MOTORCYCLE AND MOTOR HOME TOTAL LOSS CLAIMS**

**Summary of Findings – Standard 5 File Review**

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)

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
MC Claims Paid	47	47	27	004
MH Claims Paid	4	4	2	028
<b>Totals</b>		<b>51</b>	<b>29</b>	
			<b>Error Ratio</b>	<b>57%</b>

**A 57% error ratio does not meet the Standard; therefore, a recommendation is warranted**

**Recommendation #11**

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 \$2,657.22 plus \$361.06 in interest for a total of \$3,018.28. Copies of letters of explanation and payments were sent to the Department prior to completion of the Examination.*

**Claims Processing Standard #7 –passed with comment:**

**Preliminary Finding-002 – HO Subrogation-Delay in Returning Insured Deductible** –The Examiners identified one (1) HO subrogation claim file, in which the Company failed to return the insured's deductible in a timely manner after subrogation recovery was successful, which is an apparent violation of A.R.S. §§ 20-461, 20-462 and A.A.C. R20-6-801 (H)(4).

**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
488	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 with the Examiners' finding and issued a check to its insured in the amount \$62.50 plus \$10.05 in interest for a total of \$72.55. A copy of the letter of explanation and payment was sent to the Department prior to completion of the Examination.*

**Claims Processing Standard #5 – failed**

**Preliminary Finding-003 – Transaction Privilege Tax (TPT).** - The Examiners identified 10 first party MBH settlements, 9 first party HO settlements and 11 first party CMB settlements for a total of 30, which the Company failed to pay the correct Transaction Privilege Tax (TPT), which is an apparent violation of A.R.S. §§ 20-461, 20-462(A) and 44-1201.

**HOMEOWNER, MOBILE HOMEOWNER AND COMMERCIAL MOBILE  
HOMEOWNER CLAIMS**

**Summary of Findings – Standard 5 File Review**

Failed to pay the correct Transaction Privilege Tax

A.R.S. §§ 20-461, 20-462(A) and 44-1201

Files Reviewed	Population	Reviewed	Exceptions	Requests #
MBH Claims Paid	2,156	50	10	020
HO Claims Paid	3,201	50	9	037
CMB Claims Paid	188	50	11	044
<b>Totals</b>	<b>5,545</b>	<b>150</b>	<b>30</b>	
			<b>Error Ratio</b>	<b>20%</b>

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

**Recommendation #12**

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, Mobile Homeowner and Commercial Mobile Homeowner paid claims.

*Subsequent Events: During the course of the Examination, the Company agreed with 30 first party underpayments and paid restitution to all parties affected in the amount of \$1,290.56 plus \$164.11 in interest for a total of \$1,454.67. A copy of letters of explanation and payments were sent to the Department prior to completion of the Examination.*

**SUMMARY OF FAILED STANDARDS**

<b>EXCEPTIONS</b>	<b>Rec. No.</b>	<b>Page No.</b>
<b>UNDERWRITING AND RATING</b>		
<u>Standard #2</u> Disclosures to insureds concerning rates and coverage are accurate and timely.	1	15
<u>Standard #2</u> Disclosures to insureds concerning rates and coverage are accurate and timely.	2	16
<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.	3	20
<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	21
<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.	5	22

<p><u>Standard #2</u></p> <p>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.</p>	6	23
<p><u>Standard #2</u></p> <p>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.</p>	7	24
<p><u>Standard #2</u></p> <p>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.</p>	8	24
<p><u>Standard #2</u></p> <p>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.</p>	9	25
<b>CLAIM PROCESSING</b>		
<p><u>Standard #3</u></p> <p>The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.</p>	10	29
<p><u>Standard #5</u></p> <p>Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.</p>	11	30
<p><u>Standard #5</u></p> <p>Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.</p>	12	32

## 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)	14	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)	14		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)	14	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)	14	X	
5	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1118, 20-1120, 20-1121, 20-1632 and 20-1654)	14	X	
6	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463 and 20-1109)	14	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)	19		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)	19		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)	28	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, and A.A.C. R20-6-801)	28	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)	28		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)	28	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)	28		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)	28	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)	29	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)	28	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)	28	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)	28	X	
11	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	28	X	