

STATE OF ARIZONA
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DEPT. OF INSURANCE

REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

ARIZONA AUTOMOBILE INSURANCE COMPANY

NAIC #11805

AS OF

June 30, 2015

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Market Oversight Division

Arizona Department of Insurance

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Douglas A. Ducey, Governor
Andy Tobin, Director

Honorable Andy Tobin
Director of Insurance
State of Arizona
2910 North 44th Street
Suite 210, Second Floor
Phoenix, Arizona 85018-7269

Dear Director Tobin:

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:

Arizona Automobile Insurance Company
NAIC #11805

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

The examination covered the period of January 1, 2014 through June 30, 2015.

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

Sincerely yours,

A handwritten signature in black ink that reads "Helene I. Tomme".

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

FOREWORD

This targeted market conduct examination report of the Arizona Automobile Insurance Company (herein referred to as, "AAIC", 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, 2014 through June 30, 2015 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)

Arizona Automobile Insurance Company, Inc. (the Company) was organized and incorporated under the laws of the State of Arizona on February 25, 2003 and received its' Certificate of Authority on October 17, 2003. The Company is a domestic insurer authorized to write vehicle insurance.

Effective October 21, 2003, the Company entered into a Managing General Agency (MGA) Agreement and a Claims Administration Agreement with Legacy Insurance Services, Inc. (Legacy), a licensed general agent under common control. Under the terms of the agreements, Legacy is authorized to perform all underwriting, administrative and claims administrative functions for the private passenger automobile policies issued by the Company. Effective January 1, 2014, the MGA Agreement ended. Effective January 1, 2014, the Company entered into a General Agency and Claims Agreement with Legacy Insurance Services, Inc. (Legacy), a licensed general agent under common control and domiciled in the state of Arizona with approximately 95 employees located in Phoenix, AZ.

On November 30, 2010, Western National Mutual Insurance Company (WNI) acquired all the issued and outstanding common shares of Arizona Automobile Insurance Company from Proctor Management Group, Inc., an Arizona Corporation. The cost of the shares was \$4,000,000. The transaction was approved by the Minnesota Department of Commerce and the Arizona Department of Insurance.

PROCEDURES REVIEWED WITHOUT EXCEPTION

The Examiners review of the following Company departments¹ or functions indicates that they appear to be in compliance with Arizona statutes and rules:

Complaint Handling

Marketing and Sales

Producer Compliance

EXAMINATION REPORT SUMMARY

The examination identified 9 compliance issues that resulted in 262 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 failed to apply filed rates on one (1) PPA New Renewal Business policy, which resulted in policyholder being overcharged \$5.00.

Cancellation and Non Renewals

In the area of Cancellations and Non Renewals, three (3) compliance issues addressed in this Report as follows:

- The Company failed to provide a compliant Summary of Rights on 52 PPA cancellations for underwriting reason notices.
- The Company failed to include the right to complain to the Director on 100 PPA non payment notices.

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

- The Company failed to include a statement in writing of the specific reason for cancellation on 100 PPA nonpayment notices.

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 authorization remains valid for no longer than the duration of the claim on one (1) claim authorization form.
- 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 one (1) claim authorization form.
- The Company failed to correctly calculate and pay the appropriate tax, license registration and/or air quality fees on four (4) PPA first or third party total loss settlements, which resulted in additional payment of \$65.28 (including interest).
- The Company failed to correctly pay one (1) PPA Subrogation claim by not applying their filed rates and forms in effect when the policy was issued. The Company applied the deductible twice, which resulted in an additional payment of \$586.30 (including interest).
- The Company failed to fully reimburse two (2) insured's 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 \$2,648.59 (including interest).

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS

The Company did not have any Market Conduct Examinations in the prior five (5) years.

UNDERWRITING AND RATING

Private Passenger Automobile (PPA):

The Examiners reviewed 102 PPA New/Renewal Business files out of a population of 45,435 and 102 PPA Surcharge out of a population of 10,163 during the examination period. This New/Renewal and Surcharge review included a total sample size of 204 PPA files from a total population of 55,598.

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
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-004- Filing of Rates – During the Underwriting and Rating review, the Examiners identified one (1) PPA New Renewal Business policy in which the Company failed to apply the filed and approved UM/UIM rate. This resulted in a rating error for one (1) policyholder being overcharged, which is a violation of A.R.S. § 20-385.

**PRIVATE PASSENGER AUTOMOBILE
Manually Rated New Renewal Business Policies
Summary of Findings – Standard 1 File Review
Failed to apply filed rates
A.R.S. § 20-385**

Files Reviewed	Reviewed	Exceptions	Request #
PPA New Renewal Business	12	1	007a
Totals		1	
		Error Ratio	8%

An 8% 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 payment of \$5.00 to the policyholder owed a refund. A copy of letter of explanation and payment was sent to the Department prior to completion of the Examination.

Furthermore, the Company completed a self-audit of 152 policies that were overcharged. This resulted in restitution payments to the policyholders affected in the amount of \$1,345.00. Copies of letters of explanation and payments were sent to the Department prior to completion of the Examination.

CANCELLATIONS AND NON-RENEWALS

Private Passenger Automobile (PPA):

The Examiners reviewed 102 PPA cancellation files for non-payment of premium out of a population of 16,953 and 52 PPA cancellation files for underwriting reasons out of a population of 709. The cancellation review included a total sample size of 154 PPA files from a total population of 17,662.

All cancellation 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 001 – Summary of Rights – The Examiners identified 52 PPA cancellations for underwriting reason policies. These 52 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
Failed to provide a compliant Summary of Rights
A.R.S. §§ 20-2108, 20-2109 and 20-2110

Population	Sample	# of Exceptions	% to Sample
709	52	52	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 a compliant Summary of Rights is sent with all cancellations that involve an adverse underwriting decision by the Company.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners. As of October 29, 2015 the Company added the ADOI approved Summary of Rights language onto their system for immediate use.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 002 – Private Passenger Automobile non payment cancellations; Right to Complain to the Director– The Examiners identified 100 PPA non payment 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).

PRIVATE PASSENGER AUTOMOBILE RIGHT TO COMPLAIN TO THE DIRECTOR

Failed to Include Right to Complain to the Director

A.R.S. § 20-1632.01 (B)

Population	Sample	# of Exceptions	% to Sample
16,953	102	100	98%

A 98% 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 is provided on its personal automobile non payment cancellation notices.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners. As of November 9, 2015 the Company added the Right to Complain to the Director language to their cancellation for non payment notice.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 003 – Private Passenger Automobile non payment cancellations; Specific Reason - The Examiners identified 100 PPA non payment notices, where the Company failed to include a statement in writing of the specific reason for cancellation, an apparent violation of A.R.S. § 20-1632.01(B).

PRIVATE PASSENGER AUTOMOBILE SPECIFIC REASON FOR CANCELLATION

Failed to include a statement in writing of the specific reason for cancellation

A.R.S. § 20-1632.01(B)

Population	Sample	# of Exceptions	% to Sample
16,953	102	100	98%

A 98% 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 ensure that the specific reason for cancellation is provided on all non-payment cancellation notices.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners. As of November 9, 2015 the Company added the specific reason for cancellation to their cancellation for non payment notice.

CLAIMS PROCESSING

Private Passenger Automobile (PPA):

The Examiners reviewed 52 PPA claims closed without payment from a population of 2,042, 52 PPA paid claims from a population of 2,028, 52 total loss PPA claims out of a population of 431 and 53 PPA subrogation claims out of a population of 53. This claims review included a total sample size of 209 PPA claim files from a total population of 4,554.

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 Claims Processing 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 Claims Processing Standard 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-009– Disclosure Authorization Forms- Claims – The Examiners identified one (1) claim authorization form (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.

This form failed to comply with A.R.S. § 20-2106 (8)(b) and (9) and represent two (2) violations of the statute. The following table summarizes the authorization form findings.

	Form Description / Title	Form #	Statute Provision
1	Request for Records and/or Authorization to Use or Disclose Medical Information	Unknown	8(b) and 9

CLAIM FORM

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	1	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 FORM

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	1	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 form listed above includes 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 provided the corrected form to the Department prior to completion of the Examination and indicated it had been implemented on June 1, 2015.

Claims Processing Standard #5 – failed

Preliminary Finding 008 –Total Loss Taxes and Fees - The Examiners identified four (4) PPA first or 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 four (4) 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
431	52	4	8%

An 8% error ratio does meet the standards; therefore, a recommendation is warranted.

Recommendation #6

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 and paid four (4) PPA total loss settlements and made restitution to the first party total loss in the amount of \$61.30 plus \$3.98 in interest for a total of \$65.28. A copy of the letter of explanation and payment was sent to the Department prior to completion of the Examination.

Claims Processing Standard #5 – passed with comment:

Preliminary Finding 011 – Deductible Taken Twice - The Examiners identified one (1) PPA Subrogation file, in which the Company applied two (2) \$500.00 deductibles, in violation of the filed rates and forms in effect when the policy was issued. This resulted in one (1) claim being underpaid, an apparent violation of A.R.S. § 20-461(A)(1).

PRIVATE PASSENGER AUTOMOBILE SUBROGATION

Failed to follow their filed rates and forms in effect when the policy was issued
A.R.S. § 20-461(A)(1)

Population	Sample	# of Exceptions	% to Sample
53	53	1	2%

A 2% error ratio does meet 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 \$500.00 plus \$86.30 in interest for a total of \$586.30. A copy of the letter of explanation and payment were sent to the Department prior to completion of the Examination.

Claims Processing Standard #7 –passed with comment:

Preliminary Finding-010 – PPA Subrogation-Delay in Returning Insured Deductible –The Examiners identified two (2) PPA subrogation claim files, 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).

PRIVATE PASSENGER AUTOMOBILE SUBROGATION 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
53	53	2	4%

A 4% error ratio does meet the standards; therefore, no recommendation is warranted.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners' finding and issued checks to its insureds in the amount \$2,360.00 plus \$288.59 in interest for a total of \$2,648.59. Copies of the letters of explanation and payments were sent to the Department prior to completion of the Examination.

SUMMARY OF FAILED STANDARDS

EXCEPTIONS	Rec. No.	Page No.
UNDERWRITING AND RATING		
<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
CANCELLATIONS AND NON RENEWALS		
<u>Standard #1</u> Declinations, Cancellations and Non-Renewals shall comply with state laws and company guidelines including the Summary of Rights to be given to the policyholder and shall not be unfairly discriminatory.	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
CLAIMS PROCESSING		
<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 #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	6	22

SUMMARY OF PROPERTY AND CASUALTY STANDARDS

Complaint Handling

#	STANDARD	PAGE	PASS	FAIL
1	The Company takes adequate steps to finalize and dispose of the complaints in accordance with applicable statutes, rules, regulations and contract language. (A.R.S. § 20-461 and A.A.C. R20-6-801)	8	X	
2	The time frame within which the Company responds to complaints is in accordance with applicable statutes, rules and regulations. (A.R.S. § 20-461 and A.A.C. R20-6-801)	8	X	

Marketing and Sales

#	STANDARD	PAGE	PASS	FAIL
1	All advertising and sales materials are in compliance with applicable statutes, rules and regulations. (A.R.S. §§ 20-442 and 20-443)	8	X	

Producer Compliance

#	STANDARD	PAGE	PASS	FAIL
1	The producers are properly licensed in the jurisdiction where the application was taken. (A.R.S. §§ 20-282, 20-286, 20-287 and 20-311 through 311.03)	8	X	
2	An insurer shall not pay any commission, fee, or other valuable consideration to unlicensed producers. (A.R.S. § 20-298)	8	X	

Underwriting and Rating

#	STANDARD	PAGE	PASS	FAIL
1	The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan. (A.R.S. §§ 20-341 through 20-385)	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. §§ 20-1118, 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)	20	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	



**Market Oversight Division
Arizona Department of Insurance**

2910 North 44th Street, Suite 210, Phoenix, Arizona 85018-7269
Web: <https://azinsurance.gov> | Phone: (602) 364-4994

**Douglas A. Ducey, Governor
Leslie R. Hess, Interim Director**

March 22, 2016

FIRST CLASS MAIL

Scott A. Butler, MBA, ARM
Executive Vice President
Arizona Automobile Insurance Company
10409 S. 50th Place, Suite 100
Phoenix, AZ 85044

**RE: Target Market Conduct Examination,
Arizona Automobile Insurance Company, NAIC # 11805**

Dear Mr. Butler:

The Arizona Department of Insurance would like to thank you for your December 22, 2015 letter in response to the Report of Target Market Conduct Examination, dated June 30, 2015. This letter will be filed with the report. A copy of the final version of the report, with the indicated filed date, is enclosed for your records.

We recognize and appreciate Arizona Automobile Insurance Company's prompt corrective actions on the examination findings. The examiners found evidence that the company violated the following Arizona insurance law(s) and/or rule(s) during the period of the examination:

- ARS § 20-2110 by failing to provide private passenger automobile policyholders with a compliant Summary of Rights in the event of an adverse underwriting decision. (Standard 1)
- ARS § 20-1632.01(B) by using non-payment cancellation notices that failed to include the right to complain to the Director and a statement in writing of the specific reason for cancellation. (Standard 2)
- ARS § 20-2106(8)(b) and (9) by using disclosure authorization forms that failed to specify the length of time the authorization remains valid, and advise the individual or persons authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form. (Standard 3)
- AAC R20-6-801(H)(1)(b) by failing to correctly calculate and pay appropriate tax, license registration and/or air quality fees on total loss settlements. (Standard 5)

The Department decided to file the Report of Target Market Conduct Examination because the Company corrected all noted exceptions during the examination.

This examination is now closed. We appreciate the cooperation of Arizona Automobile Insurance Company and its staff during the examination process. Enclosed is a Post Examination Questionnaire. Your response to the questionnaire, under separate cover, would be greatly appreciated.

If you should have any questions or comments, please contact me at the number above or e-mail at mailor@azinsurance.gov

Sincerely,



Maria G. Ailor, AIE, AMCM
Market Analysis Supervisor



**WESTERN NATIONAL
INSURANCE**

The relationship company

December 22, 2015

SENT BY REGULAR MAIL & VIA EMAIL

Market Oversight Division
Arizona Department of Insurance
Ms. Helene I. Tomme, CPCU, CIE,
Market Examinations Supervisor, Examiner-in-Charge
2910 North 44th Street, Suite 210
Phoenix, AZ 85018-7269

AZ DEPT. OF INSURANCE

DEC 24 2015

MARKET OVERSIGHT DIV.

**RE: Report of Target Market Conduct Examination of:
Arizona Automobile Insurance Company, NAIC # 11805**

Dear Ms. Tomme:

This letter is to confirm that the Company has no objections to the June 30, 2015, Report of Target Market Conduct Examination for Arizona Automobile Insurance Company. It is our understanding that the Company has satisfactorily addressed the exam finding recommendations in the report and that no additional information is required from us at this time.

We appreciate all the members of the Arizona Department of Insurance efforts, assistance and professionalism in connection with our market conduct exam.

Thank you and I look forward to working with you and your team going forward.

Sincerely,

Scott A. Butler
Executive Vice President
Arizona Automobile Insurance Company