

STATE OF ARIZONA  
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DEPT. OF INSURANCE

**REPORT OF TARGET MARKET CONDUCT EXAMINATION**

**OF**

**UNITED INSURANCE COMPANY**

**NAIC #12256**

**AS OF**

**December 31, 2012**

**TABLE OF CONTENTS**

AFFIDAVIT .....4

FOREWORD .....5

SCOPE AND METHODOLOGY .....6

HISTORY OF THE COMPANY .....7

PROCEDURES REVIEWED WITHOUT EXCEPTION.....8

EXAMINATION REPORT SUMMARY .....8

RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS.....11

UNDERWRITING AND RATING.....12

CANCELLATIONS AND NON-RENEWALS .....16

CLAIMS PROCESSING.....22

SUMMARY OF FAILED STANDARDS.....29

SUMMARY OF PROPERTY AND CASUALTY STANDARDS .....31



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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:

**United Insurance Company**  
**NAIC #12256**

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, 2012 through December 31, 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

AFFIDAVIT

STATE OF ARIZONA )  
 )  
County of Maricopa ) ss.

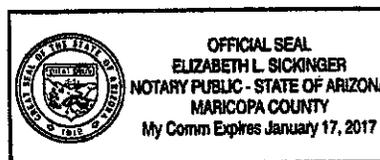
Helene I. Tomme, CPCU, CIE being first duly sworn, states that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of Linda L. Hofman, AIE, MCM, FLMI, AIRC, CCP, Market Conduct Senior Examiner and Christopher G. Hobert, CIE, MCM, FLMI, AIRC, CCP, Market Conduct Senior Examiner on the Examination of United Insurance Company, hereinafter referred to as the "Company" was performed at the office of the Arizona Department of Insurance. A teleconference meeting with appropriate Company officials in Provo, Utah was held to discuss this Report, but a copy was not provided to management as the Examination was incomplete and had not yet been finalized. The information contained in this Report, consists of the following pages, is true and correct to the best of my knowledge and belief and that any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.

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

Subscribed and sworn to before me this 11<sup>th</sup> day of June, 2013.

Elizabeth L. Sickinger  
Notary Public

My Commission Expires January 17, 2017



## FOREWORD

This targeted market conduct examination report of the United Insurance Company (herein referred to as, "United", 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, 2012 through December 31, 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)

United Insurance Company (“the Company”) began issuing policies for Utah customers mid-2005. Utah 2012 direct premium written has grown to \$10,392,565. In July 2007, the Company began assuming commercial lines insurance as a quota-share reinsurer for the Utah commercial business produced by United Underwriters (UU) and written on CSE Safeguard Insurance Company (CSE) paper. This business consists primarily of light, local classes of commercial automobile coverage and small ISO Businessowners policies.

In November 2010, the Company began writing non-standard personal automobile insurance in Arizona. The Company’s Arizona 2012 direct premium written has grown to \$12,763,920. The Company is doing business with approximately 100 independent insurance agencies throughout Utah and 20 offices in Arizona.

## **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 15 compliance issues that resulted in 466 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, three (3) compliance issues are addressed in this Report as follows:

- The Company either failed to file its rates or incorrectly applied rates to 5 PPA New/Renewal Business or Surcharge policies, which resulted in 1 policyholder being overcharged \$94.86.
- The Company failed to specify the length of time the authorization remains valid under the applicant authorization section of its PPA application. This resulted in one (1) exception.
- 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 its PPA application. This resulted in one (1) exception.

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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, six (6) compliance issues are addressed in this Report as follows:

- The Company failed to provide a compliant Summary of Rights, on 51 PPA non renewal notices and 50 PPA cancellations for underwriting reasons for a total of 101 notices.
- The Company failed to mail PPA non renewal notices via certified mail or United States post office certificate at least 45-days before the effective date of the non renewal on 51 PPA non renewals.
- The Company failed to include the right to complain to the Director on 51 PPA non renewal notices and 50 PPA cancellations for underwriting reasons for a total of 101 notices.
- The Company identified five (5) PPA Cancellations for underwriting reasons where the Company cancelled policies in effect more than 60 days for a reason other than allowed by statute.
- The Company failed to provide the required 7-day grace period on a total of 98 policies that were cancelled for non-payment of premium.
- The Company failed to mail 50 PPA cancellations for underwriting reason notices via certified mail or United States post office certificate.

### **Claims Processing**

In the area of Claims Processing, six (6) 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 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 include a fraud warning statement in at least 12-point type on one (1) claim form.
- The Company failed to file and record documentation in such detail that pertinent events and the dates of such events could be reconstructed. This occurred in two (2) PPA CWP and six (6) PPA total loss claim files for a total of eight (8) claim files.
- The Company failed to correctly calculate and pay the appropriate tax, license registration and/or air quality fees on 41 PPA first/third party total loss settlements, which resulted in additional payments of \$8,474.53 (including interest).
- The Company failed to reimburse one (1) insured their deductible in a timely manner when subrogation recovery was successful, which resulted in a returned payment being owed in the amount of \$274.49 (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 (included 2 sample files) out of a population of 35,049 and 102 PPA Surcharge files (included 2 sample files) out of a population of 5,741 during the examination period. This new/renewal and surcharge review included a total sample size of 204 PPA files from a total population of 40,790.

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
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 Standards 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
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

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

**Preliminary Finding-008- 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 applied incorrect rates to 2 PPA New/Renewal and 3 Surcharge policies. This resulted in rating errors for 5 policyholders, of which 1 policyholder was 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	12	2	006a
PPA Surcharges	13	3	008a
<b>Totals</b>	<b>25</b>	<b>5</b>	
		<b>Error Ratio</b>	<b>20%</b>

**A 20% 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 a restitution payment of \$94.86 to the policyholder owed a refund. A copy of letter of explanation and payment were sent to the Department prior to completion of the Examination. Also, the Company submitted its SERFF filing UUWR-128697705 on September 21, 2012 to the Department which addressed the issues cited above.*

**Underwriting and Rating, Standard # 4 – failed**

**Preliminary Finding-001– Disclosure Authorization Forms - Underwriting** – The Examiners identified one (1) policy application (shown in the table below) where the Company failed to:

- specify the authorization remains valid one year from the date the authorization on the application is signed involving property or casualty insurance; 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(7)(b) and (9) and represent two (2) violations of the statute. The following table summarizes these application form findings.

	<b>Form Description / Title</b>	<b>Form #</b>	<b>Statute Provision</b>
1	Arizona Automobile Insurance Application	AZAPA001 09 2010	7(b) and 9

**UNDERWRITING FORMS**

Failed to specify the authorization remains valid one year from the date authorization is signed on the application  
Violation of A.R.S. § 20-2106(7)(b)

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
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.**

**UNDERWRITING 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)

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
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 #2**

Within 90 days of the filed date of this Report, provide the Department with documentation that Company procedures are in place so the application form listed above includes the following:

- specify the authorization remains valid one year from the date the authorization on the application is signed involving property or casualty insurance; 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 , in accordance with the applicable state statute.

*Subsequent Events: During the course of the Examination, the Company agreed with the Examiner's finding and provided a copy of its revised PPA Application, which was implemented May 17, 2013, to the Department prior to the completion of the Examination.*

**CANCELLATIONS AND NON-RENEWALS**

**Private Passenger Automobile (PPA):**

The Examiners reviewed 102 PPA cancellation files for non-payment of premium (included 2 sample files) out of a population of 26,426, 50 PPA cancellation files for underwriting reasons out of a population of 403 and 51 PPA non renewals (included 2 sample files) out of a population of 381. This cancellation, non renewal and declination review included a total sample size of 203 PPA files from a total population of 27,210.

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 51 PPA non renewal and 50 PPA cancellations for underwriting reasons, cancelled or non renewed for an adverse underwriting decision, which totaled 101 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.

**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**

Files Reviewed	Population	Reviewed	Exceptions	Request #
PPA Non Renewals	381	51	51	007
PPA UW Reasons	403	50	50	012
<b>Totals</b>	<b>784</b>	<b>101</b>	<b>101</b>	
			<b>Error Ratio</b>	<b>100%</b>

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

**Recommendation #3**

Within 90 days of the filed date of this Report provide the Department with documentation that Company procedures are in place to ensure 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 in compliance. The Company implemented the changes effective May 3, 2013 and 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 – Personal Automobile Non Renewal Notices Mailed less than 45-days and failed to send notices by Certified Mail –** The Examiners identified 51 PPA non renewal notices, where the Company failed to mail non renewal notices at least 45-days before the effective date as well as failed to mail the notices via certified mail or United States post office certificate of mailing, an apparent violation of A.R.S. §§ 20-1631(E) and 20-1632(A).

**PRIVATE PASSENGER AUTOMOBILE NON RENEWALS**

Failed to provide non renewal notices at least 45-days before effective date and failed to mail the notices via certified mail or United States post office certificate of mailing  
A.R.S. §§ 20-1631(E) and 20-1632(A)

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
381	51	51	100%

**A 100% 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 the required 45-days is given on PPA Non Renewals as well as being sent via certified mail or United States post office certificate of mailing

*Subsequent Events: During the course of the Phase I Examination, the Company agreed with the Examiner's finding. The Company had implemented new procedures and conducted training with its employees on May 22, 2013 to address sending PPA Non Renewals 45-days in advance.*

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

**Preliminary Finding 004 – Private Passenger Automobile non renewals/cancellations for underwriting reasons failed to include the right to complain to the Director**– The Examiners identified 51 PPA non renewal notices and 50 PPA cancellation for underwriting reason notices for a total of 101, where the Company failed to include the right to complain to the Director, an apparent violation of A.R.S. § 20-1632(A)(1).

**PRIVATE PASSENGER AUTOMOBILE  
Summary of Findings – Standard 2 File Review  
Failed to Include Right to Complain to the Director  
A.R.S. § 20-1632(A)(1)**

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
PPA Non Renewals	381	51	51	007
PPA UW Reasons	403	50	50	012
<b>Totals</b>	<b>784</b>	<b>101</b>	<b>101</b>	
			<b>Error Ratio</b>	<b>100%</b>

**A 100% 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 is provided on its personal automobile non renewals and cancellations for underwriting reason notices.

*Subsequent Events: During the course of the Phase I Examination, the Company agreed with the Examiner's finding. The Company advised it implemented the required right to complain to the Director on its notices effective May 3, 2013. Corrected copies of these notices were provided to the Department prior to the completion of the Examination.*

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

**Preliminary Finding 005 – Personal Automobile Cancelled for Reasons Not Allowed by Statute** – The Examiners identified five (5) PPA Cancellations for underwriting reasons where the Company cancelled policies in effect more than 60 days for a reason other than allowed by statute, an apparent violation of A.R.S. § 20-1631(D).

**PRIVATE PASSENGER AUTOMOBILE UW CANCELLATIONS**

Cancelled policies in effect more than 60 days for reasons other than allowed by Statute  
A.R.S. § 20-1631(D)

Population	Sample	# of Exceptions	% to Sample
403	50	5	10%

**A 10% 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 the Department with documentation that Company procedures are in place to ensure that cancellations for underwriting reasons are allowed by statute.

*Subsequent Events: During the course of the Phase I Examination, the Company agreed with the Examiner's finding. The Company had implemented new procedures and conducted training with its employees on May 22, 2013.*

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

**Preliminary Finding 006 – Personal Automobile 7-Day Grace Period** – The Examiners identified 98 PPA Cancellations for non-payment of premium where the Company failed to provide the required 7-day grace period after the premium due date, before cancelling PPA policies non-payment of premium, an apparent violation of A.R.S. § 20-1632.01(A).

**PRIVATE PASSENGER AUTOMOBILE 7-DAY GRACE PERIOD**

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)

Population	Sample	# of Exceptions	% to Sample
26,426	98	98	100%

**A 100% 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 the Department with documentation that Company procedures are in place to provide policyholders with the required 7-day grace period on PPA cancellations for nonpayment.

*Subsequent Events: During the course of the Phase I Examination, the Company agreed with the Examiner's finding that they failed to provide the required 7-day grace period after the premium due date. The Examiners were advised the changes were implemented effective May 15, 2013.*

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

**Preliminary Finding 007 – Personal Automobile Cancellation Notices Mailed via Certified Mailing or Certificate of Mailing** – The Examiners identified 50 PPA Cancellations for Underwriting Reasons notices, where the Company failed to mail the notices via certified mailing or United States post office certificate of mailing, an apparent violation of A.R.S. § 20-1632(A).

**PRIVATE PASSENGER AUTOMOBILE CANCELLATION**

Failed to mail cancellation notices via certified mail or US post office certificate of mailing  
A.R.S. § 20-1632(A)

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
403	50	50	100%

**A 100% 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 ensure that PPA Cancellations for Underwriting Reasons are mailed via certified mail or United States post office certificate of mailing.

**CLAIMS PROCESSING**

**Private Passenger Automobile (PPA):**

The Examiners reviewed 52 PPA claims closed without payment (included 2 sample files) from a population of 240; 52 PPA paid claims (included 2 sample files) from a population of 939; 90 total loss PPA claims out of a population of 90 and 14 PPA subrogation claims out of a population of 14. This claims review included a total sample size of 208 PPA claim files from a total population of 1,283.

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
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
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

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
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	HIPPA Complaint Authorization for Release of Protected Health/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 #9**

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.*

**Claims Processing Standard #3 – failed**

**Preliminary Finding 010 – Fraud Warning Statement** – The Company failed to provide a fraud warning statement in at least twelve (12) point type on one (1) claim form. This represents one (1) violation of A.R.S. § 20-466.03. The following table summarizes the fraud warning statement findings.

	<b>Form Description / Title</b>	<b>Form Number</b>
1	Parents-Guardian Release and Indemnity Agreement	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	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 #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 Phase I Examination, the Company provided the corrected form to the Department prior to completion of the Examination.*

**Claims Processing Standard #4 – failed:**

**Preliminary Finding-011 – Missing File and Record Documentation:** The Examiners identified two (2) CWP and six (6) total loss claims for a total of eight (8) claims, in which the Company failed to adequately document the claims in such detail that pertinent events and the dates of such events could be reconstructed. This action is an apparent violation of A.A.C. R20-6-801(C).

**PRIVATE PASSENGER AUTOMOBILE CLAIMS**

Failed to adequately document

A.A.C. R20-6-801(C)

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
CWP	240	52	2	003
Total Loss	90	90	6	005
<b>Totals</b>	<b>330</b>	<b>142</b>	<b>8</b>	
			<b>Error Ratio</b>	<b>6%</b>

**A 6% 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 the Department with documentation that the Company's claims procedures have been reviewed with all claims adjusters handling Arizona claims regarding adequately documenting claim files in such detail that pertinent events and dates of such events can be reconstructed. In addition, provide documentation that re-training of claim adjusters handling Arizona claims has been completed where necessary or warranted.

*Subsequent Events: During the course of the Phase I Examination, the Company conducted a training session with their claims adjusters on the expectations of documenting all activities performed on a claim file and maintaining all correspondence.*

**Claims Processing Standard #5 - failed**

**Preliminary Finding 012 –Total Loss Taxes and Fees -** The Examiners identified 41 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 41 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
90	90	41	46%

**A 46% error ratio does not meet the Standard; therefore, a recommendation is warranted**

**Recommendation #12**

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 \$8,093.95 plus \$380.58 in interest for a total of \$8,474.53. Copies of letters of explanation and payments were sent to the Department prior to completion of the Examination.*

**Claims Processing Standard #7 –failed:**

**Preliminary Finding-013 – PPA subrogation against adverse carrier – delay in returning deductible.** The Examiners identified one (1) PPA 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).

**PRIVATE PASSENGER AUTOMOBILE 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
14	14	1	7%

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

**Recommendation #13**

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 subrogation deductible reimbursements.

*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 of \$250.00; however the check was returned as undeliverable.*

**SUMMARY OF FAILED STANDARDS**

<b>EXCEPTIONS</b>	<b>Rec. No.</b>	<b>Page No.</b>
<b>UNDERWRITING AND RATING</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	14
<u>Standard #4</u> 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..	2	15
<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	18
<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	18
<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	19
<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.	6	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.	7	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.	8	21
<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.	9	25
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	10	25
<u>Standard #4</u> Claim files are adequately documented in order to be able to reconstruct the claim	11	26
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	12	27
<u>Standard #7</u> Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner.	13	28

## 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)	13		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)	13	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)	13	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)	13		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)	13	X	
6	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463 and 20-1109)	13	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)	17		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)	17		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)	23	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, and A.A.C. R20-6-801)	23	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)	23		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)	23		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)	24		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)	23	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)	24		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)	23	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)	23	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)	23	X	
11	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	23	X	