

STATE OF ARIZONA  
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DEPT. OF INSURANCE

**REPORT OF TARGET MARKET CONDUCT EXAMINATION**

**OF**

**CSE SAFEGUARD INSURANCE COMPANY**

**NAIC #18953**

**AS OF**

**DECEMBER 31, 2008**

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**CHRISTINA URIAS**  
Director of Insurance

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Honorable Christina Urias  
Director of Insurance  
State of Arizona  
2910 North 44<sup>th</sup> Street  
Suite 210, Second Floor  
Phoenix, Arizona 85108-7256

Dear Director Urias:

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

**CSE SAFEGUARD INSURANCE COMPANY**  
**NAIC # 18953**

The above examination was conducted by William Hobert, Examiner-in-Charge, and Market Conduct Examiners Laura Sloan-Cohen, AIE and Robert De Berge.

The examination covered the period of January 1, 2008 through December 31, 2008.

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 Conduct Examinations Supervisor  
Market Oversight Division



## **FOREWORD**

This target market conduct examination report of CSE Safeguard Insurance Company (herein referred to as the "Company"), was prepared by employees of the Arizona Department of Insurance (Department) as well as independent examiners contracting with the Department. A target 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 product 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 Automobile (PPA) and Homeowners (HO) lines of 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 target market conduct examination of the Company covered the period of

January 1, 2008 through December 31, 2008 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 7.

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, examination 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**

The Company was incorporated in 1984 to write qualified risks for non-civil servants, thereby expanding the Civil Service Employees Group's (Group) offerings to the general public. The Company is domiciled in California.

The major lines of insurance offered by the Company are personal lines, i.e. automobile, homeowners, dwelling fire, umbrella, watercraft, and a small commercial habitational program

and specialty property line. The Company's products are marketed through more than 700 independent agents in Arizona, California, Nevada, and Utah.

The Company's headquarters are at 50 California Street, 25<sup>th</sup> Floor, San Francisco, California 94111-4624. The Company's claims, operations, underwriting and marketing units are located at 2121 North California Blvd. Walnut Creek, California 94596. New business applications, renewals and endorsements are processed at Walnut Creek, California. There are regional claim offices in Pasadena, CA and Sacramento, CA. The Company has an A- AM Best rating.

### **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    Producer Compliance    Marketing and Sales

### **EXAMINATION REPORT SUMMARY**

The examination revealed fourteen (14) compliance issues that resulted in 193 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 examiners' 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 provide twenty six (26) PPA insureds the reason for their premium increase was due to a chargeable accident.

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

### **Cancellation and Non-Renewals**

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

- The Company failed to provide a complete Summary of Rights with seven (7) HO underwriting cancellations, three (3) HO non-renewals and three (3) PPA non-renewals.
- The Company failed to provide three (3) PPA insureds a non-renewal notice and fifty two (52) PPA insureds a nonpayment notice that contained the right to complain to the Director of the Company's action within ten (10) days after the insured's receipt of the notice.
- The Company failed to identify the correct insuring Company name on three (3) underwriting correspondence items/letters.

### **Claims Processing**

In the area of Claims Processing, ten (10) compliance issues are addressed in this report as follows:

- The Company failed to complete the investigation of seven (7) HO claims on a timely basis.
- The Company failed to accurately identify itself in its claim correspondence to sixty eight (68) claimants.
- The Company failed to accurately identify the state statutes and Insurance Department in its claim correspondence with four (4) claimants.
- The Company failed on one (1) claim authorization form to specify the types of persons authorized to disclose information about the individual.
- The Company failed on four (4) claim authorization forms to specify the length of time the authorization remains valid shall be no longer than the duration of the claim.
- The Company failed on four (4) claim authorization forms to advise a person authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form.
- The Company failed on two (2) claim forms to include a fraud warning statement.

- The Company failed to correctly calculate and fully pay:
  - (a) sales tax in the settlement of two (2) first and one (1) third party PPA total loss, and
  - (b) fees in the settlement of one (1) first and one (1) third party PPA total loss.
- The Company failed to reimburse one (1) insured their deductible on a timely basis after subrogation recovery.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET EXAMINATIONS

During the past three (3) years, the Company had one (1) market conduct examination conducted by the state of Washington. The Company indicated that California recently did an examination but it has not yet been resolved.

FACTUAL FINDINGS

UNDERWRITING AND RATING

**Private Passenger Automobile (PPA):**

The examiners reviewed:

- (1) fifty (50) PPA new business and/or renewal policies from a population of 2,251; and
- (2) fifty (50) PPA surcharged policies from a population of 161.

**Homeowners (HO):**

The examiners reviewed:

- (1) fifty (50) new business and/or renewal policies from a population of 3,195.

**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 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, 20-2113
4	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, 20-1654
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, 20-2110

**Preliminary Finding #11 – Chargeable Accident Notification** - The Company failed to inform twenty six (26) insureds the reason for a premium increase was an at-fault chargeable accident. These represent twenty six (26) violations of A.R.S. § 20-263.

**PPA NEW, RENEWAL & SURCHARGED POLICIES**

Failed to inform insureds of premium increase due to an at-fault chargeable accident  
Violation of A.R.S. § 20-263

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
161	58	26	44.8%

**A 44.8% error ratio does not meet the Standard; therefore, a recommendation is warranted.**

**Recommendation #1**

Within 90 days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place so that insureds whose policies are subject to premium increase due to an at-fault chargeable accident, are notified of the specific reason for that increase, in accordance with the applicable state statutes.

**Subsequent Event**

*During the course of the examination, the Company provided the examiners a copy of their revised declaration page showing the reason for the increase. The Company provided examiners evidence these revisions were put into production 12/17/09.*

FACTUAL FINDINGS

CANCELLATIONS AND NON-RENEWALS

**Private Passenger Automobile (PPA):**

The examiners reviewed:

- (1) fifty two (52) PPA non-payment cancellations from a population of sixty three (63); and
- (2) all three (3) PPA non-renewals.

The Company did not cancel any policies for underwriting reasons during the exam period.

**Homeowners (HO):**

The examiners reviewed:

- (1) all seven (7) HO cancellations for underwriting reasons;
- (2) fifty (50) HO non-payment cancellations from a population of sixty one (61); and
- (3) all three (3) HO non-renewals.

**The following Cancellation and Non-Renewal Standard failed:**

#	STANDARD	Regulatory Authority
1	Declinations, Cancellations and Nonrenewal shall comply with state laws and Company including the Summary of Rights to be given to the applicant and shall not be unfairly discriminatory.	A.R.S. §§ 20-448, 20-2108, 20-2109, 20-2110

**Preliminary Finding #2 – Summary of Rights** - The Company failed to provide thirteen (13) policyholders a complete Summary of Rights, when terminating coverage for an adverse underwriting decision. These represent thirteen (13) violations of A.R.S. §§ 20-2108, 20-2109 and 20-2110.

**PPA NON-RENEWALS & HO CANCELLATIONS & HO NON-RENEWALS**

Failed to provide an adequate Summary of Rights with adverse underwriting decision cancellation and non-renewal notices

Violation of A.R.S. §§ 20-2108, 20-2109 and 20-2110

Population	Sample	# of Exceptions	% to Sample
13	13	13	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 and controls are in place so that the required Summary of Rights is sent with all adverse underwriting decision cancellation and non-renewal notices, in accordance with the applicable state statutes.

**Subsequent Event**

*During the course of the examination, the Company provided the examiners a copy of the Company's revised Summary of Rights. The examiners confirmed the Company began 10/27/09 providing the corrected Summary with all adverse underwriting decision notices.*

**The following Cancellation and Non-Renewal Standard failed:**

#	STANDARD	Regulatory Authority
2	Cancellation and Nonrenewal 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, 20-442 20-443, 20-448, 20-1631, 20-1632, 20-1632.01 20-1651-20-1656

**Preliminary Finding #3 – No Notice of Right Complain to Director** - The Company failed to include with three (3) non-renewal notices and fifty two (52) non-payment notices sent PPA insureds notice of their right to complain to the Director of the insurer's action within ten (10) days after receipt of the notice. These represent fifty five (55) violations of A.R.S. §§ 20-1632(A)(1), 20-1632.01(B) and the prior Consent Order.

**PRIVATE PASSENGER AUTOMOBILE CANCELLATIONS**

Failed to provide a notice that contained the right to complain to the Director of the insurer's action within ten (10) days after receipt of the notice by the insured  
Violation of A.R.S. §§ 20-1632(A)(1), 20-1632.01(B) and prior Consent Order

Population	Sample	# of Exceptions	% to Sample
55	55	55	100%

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

**Recommendation #3**

Within 90 days of the filed date of this report, provide documentation to the Department that Company procedures and controls are in place to ensure the cancellation notices contain the right to complain to the Director of the insurer's action within ten (10) days after receipt of the notice by the insured, in accordance with the applicable state statute.

**Subsequent Event**

*During the course of the examination, the Company advised the examiners that the notice had been revised and was put into full production 10/27/09. A copy of the revision was provided.*

**Preliminary Finding #5 – Underwriting Correspondence** – The Company failed to identify the correct insuring Company name on three (3) underwriting correspondence/letters. These represent three (3) violations of A.R.S. § 20-442.

The following table summarizes these underwriting correspondence findings.

ADOI FILE #	CORRES DATE	CORRES TYPE	CO. NAME USED
NR-02	5/16/08	Nonrenewal Letter	CSE Insurance Group
UWHOCAN-17	9/16/08	Cancellation Letter	CSE Insurance Group
UWHOCAN-18	9/30/08	Cancellation Letter	CSE Insurance Group

**UNDERWRITING CORRESPONDENCE**

Failed to accurately identify the correct insuring Company name  
Violation of A.R.S. § 20-442

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
N/A	N/A	3	N/A

**Any error does not meet the Standard; therefore a recommendation is warranted.**

**Recommendation #4**

Within 90 days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure all correspondence between the Company and insureds accurately identify the correct insuring Company name, in accordance with the applicable state statute.

FACTUAL FINDINGS

CLAIMS PROCESSING

**Private Passenger Automobile (PPA):**

The examiners reviewed:

- (1) fifty two (52) paid claims from a population of eighty nine (89);
- (2) all twenty two (22) total losses;
- (3) all twenty nine (29) claims closed without payment; and
- (4) all fifteen (15) subrogation claims.

**Homeowners (HO):**

The examiners reviewed:

- (1) fifty two (52) HO paid claims from a population of sixty one (61);
- (2) all twelve (12) claims closed without payment; and
- (3) all six (6) HO subrogations.

All claim files were reviewed to ensure compliance with Arizona Statutes and Rules.

**The following Claim Processing 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
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 Processing Standard failed:**

2	Timely investigations are conducted.	A.R.S. § 20-461, A.A.C. R20-6-801
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**Preliminary Finding #4 - Timely Investigations** - The Company failed to conduct a timely investigation of seven (7) homeowner claims. These represent seven (7) violations of A.R.S. § 20-461(A)(3) and A.A.C. R20-6-801(F).

**HOMEOWNER CLAIMS PAID**

Failed to conduct timely investigations  
Violation of A.R.S. § 20-461(A)(3) and A.A.C. R20-6-801(F)

Population	Sample	# of Exceptions	% to Sample
61	52	7	13.5%

**An 13.5% 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 documentation to the Department that Company procedures and controls are in place to ensure the Company completes any claim investigation on a timely basis, in accordance with the applicable state statute.

**The following Claim Processing Standard 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

**Preliminary Finding #10 – Company Identity on Correspondence** - The Company failed to accurately identify itself in its claim correspondence to sixty eight (68) claimants. The use of an incorrect letterhead and/or conflicting company reference in correspondence is misleading, deceptive and represents sixty-eight (68) violations of A.R.S. 20-461(A).

The following table summarizes these claim correspondence findings.

	ADOI.D.	DOL	Correspondence		Company Name
			Date	Type	
1	PASUB-05	10/26/07	4/30/08	To Claimant	Civil Service Employees Insurance Company
2	PASUB-06	7/29/07	8/9/07	To Claimant	Civil Service Employees Insurance
3	PASUB-16	2/11/07	3/12/07	To Insured	CSE Insurance Co.
4	PASUB-16	2/11/07	3/12/07	To Claimant	Civil Service Employees
5	PASUB-16	2/11/07	4/20/07	To Claimant	Civil Service Employees

6	PASUB-18	7/1/08	4/16/09	To Attorney	Civil Service Employees Insurance Company
7	HOCWP-02	2/1/07	2/28/08	To Insured	Civil Service Employees Insurance Company
8	HOCWP-03	9/25/07	10/8/07	To Insured	Civil Service Employees Insurance Company
9	HOCWP-03	9/25/07	11/6/07	To Insured	Civil Service Employees Insurance Company
10	HOCWP-03	9/25/07	4/16/08	To Insured	Civil Service Employees Insurance Company
11	HOCWP-04	10/20/07	10/29/07	To Insured	Civil Service Employees Insurance Company
12	HOCWP-04	10/20/07	12/26/07	To Insured	Civil Service Employees Insurance Company
13	HOCWP-04	10/20/07	4/16/08	To Insured	Civil Service Employees Insurance Company
14	HOCWP-09	2/3/08	2/12/08	To Claimant	Civil Service Employees Insurance Company
15	HOCWP-09	2/3/08	2/12/08	To Insured	Civil Service Employees Insurance Company
16	HOCWP-11	4/29/08	3/17/08	To Insured	Civil Service Employees Insurance Company
17	HOCWP-20	9/11/08	10/22/08	To Insured	Civil Service Employees Insurance Company
18	HOPD-03	1/30/08	3/14/08	To Insured	Civil Service Employees Insurance Company
19	HOPD-04	3/23/07	10/15/07	To Insured	Civil Service Employees Insurance Company
20	HOPD-04	3/23/07	11/6/07	To Insured	Civil Service Employees Insurance Company
21	HOPD-05	3/28/07	4/18/07	To Insured	Civil Service Employees Insurance Company
22	HOPD-05	3/28/07	4/18/07	To Insured	Civil Service Employees Insurance Company
23	HOPD-06	6/18/07	7/27/07	To Insured	Civil Service Employees Insurance Group
24	HOPD-06	6/18/07	10/31/07	To Insured	Civil Service Employees Insurance Company
25	HOPD-06	6/18/07	6/30/08	To Insured	Civil Service Employees Insurance Company
26	HOPD-08	8/11/07	1/3/08	To Insured	Civil Service Employees Insurance Company
27	HOPD-08	8/11/07	11/6/07	To Insured	Civil Service Employees Insurance Company
28	HOPD-08	8/11/07	10/3/07	To Insured	Civil Service Employees Insurance Company
29	HOPD-10	11/20/07	1/30/08	To Insured	CSE Ins. Grp.
30	HOPD-12	12/7/07	8/26/08	To Insured	Civil Service Employees Insurance Company
31	HOPD-12	12/7/07	9/22/08	To Insured	Civil Service Employees Insurance Company
32	HOPD-13	12/21/07	12/26/07	To Insured	Civil Service Employees Insurance Company
33	HOPD-13	12/21/07	2/7/08	To Insured	Civil Service Employees Insurance Company
34	HOPD-14	12/27/07	1/14/08	To Insured	Civil Service Employees Insurance Company
35	HOPD-15	12/31/07	3/6/08	To Insured	Civil Service Employees Insurance Company
36	HOPD-16	1/4/08	2/21/08	To Insured	Civil Service Employees Insurance Company
37	HOPD-17	1/4/08	2/13/08	To Insured	Civil Service Employees Insurance Company
38	HOPD-18	1/21/08	3/7/08	To Insured	Civil Service Employees Insurance Company
39	HOPD-19	1/22/08	2/4/08	To Insured	Civil Service Employees Insurance Company
40	HOPD-20	2/3/08	2/19/08	To Insured	Civil Service Employees Insurance Company
41	HOPD-23	2/10/08	2/15/08	To Insured	Civil Service Employees Insurance Company
42	HOPD-23	2/10/08	3/24/08	To Insured	Civil Service Employees Insurance Company
43	HOPD-24	2/17/08	3/13/08	To Insured	Civil Service Employees Insurance Company
44	HOPD-26	2/28/08	4/10/08	To Insured	Civil Service Employees Insurance Company
45	HOPD-27	3/14/08	4/10/08	To Insured	Civil Service Employees Insurance Company
46	HOPD-27	3/14/08	5/18/08	To Insured	Civil Service Employees Insurance Company
47	HOPD-28	3/25/08	3/27/08	To Insured	Civil Service Employees Insurance Company
48	HOPD-29	3/29/08	3/31/08	To Insured	Civil Service Employees Insurance Company
49	HOPD-29	3/29/08	5/7/08	To Insured	Civil Service Employees Insurance Company
50	HOPD-30	4/7/08	4/9/08	To Insured	Civil Service Employees Insurance Company
51	HOPD-33	4/21/08	4/21/08	To Insured	Civil Service Employees Insurance Company
52	HOPD-33	4/21/08	4/29/08	To Insured	Civil Service Employees Insurance Company
53	HOPD-33	4/21/08	7/23/08	To Insured	Civil Service Employees Insurance Company

54	HOPD-34	5/9/08	5/12/08	To Insured	Civil Service Employees Insurance Company
55	HOPD-35	6/4/08	6/11/08	To Insured	Civil Service Employees Insurance Company
56	HOPD-35	6/4/08	7/15/08	To Insured	Civil Service Employees Insurance Company
57	HOPD-36	6/12/08	6/13/08	To Insured	Civil Service Employees Insurance Company
58	HOPD-37	6/17/08	11/28/08	To Insured	Civil Service Employees Insurance Company
59	HOPD-38	6/19/08	6/20/08	To Insured	Civil Service Employees Insurance Company
60	HOPD-42	7/10/08	7/18/08	To Insured	Civil Service Employees Insurance Company
61	HOPD-43	7/17/08	8/4/08	To Insured	Civil Service Employees Insurance Company
62	HOPD-44	7/21/08	7/31/08	To Insured	Civil Service Employees Insurance Company
63	HOPD-45	7/21/08	7/25/08	To Insured	Civil Service Employees Insurance Company
64	HOPD-46	7/22/08	8/1/08	To Insured	Civil Service Employees Insurance Company
65	HOPD-47	8/6/08	8/21/08	To Insured	Civil Service Employees Insurance Company
66	HOPD-48	8/15/08	8/22/08	To Insured	Civil Service Employees Insurance Company
67	HOPD-48	8/15/08	9/25/08	To Insured	Civil Service Employees Insurance Company
68	HOPD-49	8/25/08	9/11/08	To Insured	Civil Service Employees Insurance Company

**CLAIM CORRESPONDENCE**

Failed to accurately identify correct insuring Company in claim correspondence  
Violation of A.R.S. § 20-461(A)(1)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	68	N/A

**Any error 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 procedures and controls are in place to ensure all correspondence between the Company and parties to a claim accurately identify the correct insuring Company, in accordance with the applicable state statute.

**Preliminary Finding #17 – Wrong State Identified on Claim Correspondence** - The Company failed to accurately identify the state statutes and Insurance Department in claim correspondence with four (4) claimants. These represent four (4) violations of A.R.S. § 20-461(A)(1).

The following table summarizes these claim correspondence findings.

ADOI I.D.	DOL	Correspondence		Incorrect Reference Made
		Date	Type	
HOCWP-13	4/21/08	7/23/08	Policy Language-Replacement Cost	California Insurance Code
PASUB-5	10/26/07	9/23/08	Closing Subrogation Letter	California Law
HOCWP-11	2/8/08	3/10/08	Claim Denial Letter	California Dept of Insurance
PD-43	4/25/08	4/25/08	Good Driver Discount elimination	Title 10, CA Code section 2632.13

**CLAIM CORRESPONDENCE**

Failed to accurately identify Arizona statutes and Insurance Department in claim correspondence  
Violation of A.R.S. § 20-461(A)(1)

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

**Any error 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 procedures and controls are in place to ensure all correspondence between the Company and parties to a claim are not misleading and accurately identify the state statutes and the Department, in accordance with the applicable state statute.

**Preliminary Finding #13 – Authorization Disclosures** – On the following claim authorization forms:

- Authorization to Obtain Information (Authorization to Obtain AZ 9-2005)
- Medical Authorization Form (Medauth ico AZ (9-2005))
- Wage Authorization Form (Wage Auth ICO AZ (9-2005))
- Authorization for the Release of Medical, Employment, Social Security, Scholastic and Insurance Records (Authorization 2003 HIPPA)

the Company failed to:

- (a) specify the authorization remains valid for no longer than the duration of the claim;
- (b) advise that a person authorized to act on behalf of the individual is entitled to receive a copy of the authorization form; and
- (c) the Wage Authorization Form (Wage Auth ICO AZ (9-2005)) also failed to specify the types of persons authorized to disclose information about the individual.

These forms fail to comply with A.R.S. § 20-2106(3), (8)(b) and (9).

The following table summarizes these authorization form findings.

<b>Form Description / Title</b>	<b>Form #</b>	<b>Statute Provision</b>
Authorization to Obtain Information	Authorization to Obtain AZ 9-2005	8(b) and 9
Medical Authorization Form	Medauth ico AZ (9-2005)	8(b) and 9
Wage Authorization Form	Wage Auth ICO AZ (9-2005)	3, 8(b) and 9
Authorization for the Release of Medical, Employment, Social Security, Scholastic and Insurance Records	Authorization 2003 HIPPA	8(b) and 9

### CLAIM FORMS

Failed to specify the types of persons authorized to disclose information about the individual  
Violation of A.R.S. § 20-2106(3)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	1	N/A

**Any error does not meet the Standard; therefore a recommendation is warranted.**

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	4	N/A

**Any error does not meet the Standard; therefore a recommendation is warranted.**

Failed to advise a person authorized to act on behalf of the individual is entitled to receive a copy  
of the authorization form

Violation of A.R.S. § 20-2106(9)

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

**Any error does not meet the Standard; therefore a recommendation is warranted.**

#### **Recommendation #8**

Within 90 days of the filed date of this report, provide documentation to the Department that these forms specify, as needed, (a) the types of persons authorized to disclose information about the individual, (b) the authorization is valid for no longer than the duration of the claim, and (c) inform that a person authorized to act on behalf of the individual is entitled to receive a copy of the authorization form, in accordance with applicable state statute.

#### **Subsequent Event**

*During the course of the examination, the Company provided examiners with corrected, compliant, Department approved copies of the forms. The Company stated the revised forms would be implemented on 12/1/09.*

**Preliminary Finding #16 – Fraud Warning Statement** – The Company failed to include the required fraud warning statement on two (2) claim forms. These represent two (2) violations of A.R.S. § 20-466.03

The following table summarizes the fraud warning statement findings:

	Specimen Form / Letter Description	Date	Form / Letter #	ADOI #
1	Affidavit of Vehicle Theft	None	AZ 9-2005	Att. A V.C.3
2	Authorization for the Release of Medical, Employment, Social Security, Scholastic & Insurance Records (HO)	None	Authorization 2003 HIPPA	Att. A V.C.3

**CLAIM FORMS**

Failed to include the fraud warning statement  
Violation of A.R.S. § 20-466.03

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	2	N/A

**Any error does not meet the Standard; therefore a recommendation is warranted.**

**Recommendation #9**

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

**The following Claim Processing Standard failed:**

#	STANDARD	Regulatory Authority
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, A.A.C. R20-6-801

**Preliminary Finding #14 and #15 – Total Loss Sales Tax and Fees –** The Company failed to accurately calculate and fully pay the correct:

- (a) sales tax with two (2) first and one (1) third party total loss settlement; and
- (b) fees with one (1) first and one (1) third party total loss settlement.

These represent five (5) violations of A.R.S. § 20-461(A)(6), A.A.C. R20-6-801(H)(1)(b) and the prior Consent Order.

**PRIVATE PASSENDER AUTOMOBILE TOTAL LOSSES**

Failed to correctly calculate and pay sales taxes and fees associated with total loss settlements.

Violation of A.R.S. § 20-461(A)(6), A.A.C. R20-6-801(H)(1)(b) and prior Consent Order

Population	Sample	# of Exceptions	% to Sample
22	22	5	22.7%

**A 22.7% error ratio does not meet the Standard; therefore a recommendation is warranted**

**Recommendation #10**

Within 90 days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure the Company correctly calculates and fully pays any sales tax and title, registration or other fees owed any claimant in the settlement of a total loss, in accordance with applicable state statutes and regulations.

**Subsequent Event**

*During the course of the examination, the Company made sales tax restitutions of \$123.84, which included \$16.92 interest, and fee restitutions of \$22.71, which included \$3.21 interest.*

interest. A copy of the letters of explanation and payments were sent to the Department prior to completion of the Examination.

**The following Claim 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

**Preliminary Finding #1 – Deductible Recovery** – The Company failed to reimburse one (1) HO insured their deductible on a timely basis after subrogation recovery. This represents one (1) violation of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(4).

**SUBROGATION RECOVERY**

Failed to reimburse the deductible on a timely basis after subrogation recovery  
Violation of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(4)

Population	Sample	# of Exceptions	% to Sample
6	6	1	16.7%

**One error passes the Standard with Comment**

**Subsequent Events**

*During the course of the examination, the Company made interest only restitution of \$52.26.*

**SUMMARY OF FAILED STANDARDS**

EXCEPTION	Rec. No.	Page No.
<b>UNDERWRITING AND RATING</b>		
<u>Standard #2</u> Disclosures to insureds concerning rates and coverage are accurate and timely.	1	13
<b>CANCELLATIONS AND NON RENEWALS</b>		
<u>Standard #1</u> Declinations, Cancellations and Non-Renewals shall comply with state laws and Company guidelines including the Summary of Rights to be given to the applicant and shall not be discriminatory.	2	15
<u>Standard #2</u> Cancellation 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&4	16&17

<b>CLAIMS PROCESSING</b>		
<u>Standard #2</u> Timely investigations are conducted	5	20
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	6,7,8 & 9	22, 23, 24 & 25
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	10	25

**SUMMARY OF PROPERTY AND CASUALTY STANDARDS**

**A. Complaint Handling**

#	STANDARD	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, A.A.C. R20-6-801)	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, A.A.C. R20-6-801)	X	

**B. Marketing and Sales**

#	STANDARD	PASS	FAIL
1	All advertising and sales materials are in compliance with applicable statutes, rules and regulations. (A.R.S. § 20-442 through 20-445)	X	

**C. Producer Compliance**

#	STANDARD	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, 20-311 through 311.03)	X	
2	An insurer shall not pay any commission, fee, or other valuable consideration to unlicensed producers. (A.R.S. § 20-298)	X	

**D. Underwriting and Rating**

#	STANDARD	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)	X	
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, 20-2110)		X

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

**E. Declinations, Cancellations and Non-Renewals**

#	STANDARD	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 applicant and shall not be unfairly discriminatory. (A.R.S. §§ 20-448, 20-2108, 20-2109, 20-2110)		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, and shall not be unfairly discriminatory. (A.R.S. §§ 20-191, 20-442, 20-443, 20-448, 20-1631, 20-1632, 20-1632.01, 20-1651 through 20-1656)		X

**F. Claims Processing**

#	STANDARD	PASS	FAIL
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)	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, A.A.C. R20-6-801)		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, A.A.C. R20-6-801)		X

#	STANDARD	PASS	FAIL
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)	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, A.A.C. R20-6-801)		X
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)	X	
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)	X	
8	The Company responds to claim correspondence in a timely manner. (A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801)	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, A.A.C. R20-6-801)	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)	X	
11	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	X	