

STATE OF ARIZONA
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DEPT. OF INSURANCE

REPORT OF TARGET MARKET EXAMINATION

OF

AMERICAN RELIABLE INSURANCE COMPANY

NAIC #19615

AS OF

DECEMBER 31, 2007

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CHRISTINA URIAS
Director of Insurance

Honorable Christina Urias
Director of Insurance
State of Arizona
2910 North 44th 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:

AMERICAN RELIABLE INSURANCE COMPANY
NAIC #19615

The above examination was conducted by Helene I. Tomme, CPCU, CIE, Market Examinations Supervisor, Examiner-in Charge, and Market Examiners James Warrington and William Hobert.

The examination covered the period of January 1, 2007 through December 31, 2007.

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)
) ss.
County of Maricopa)

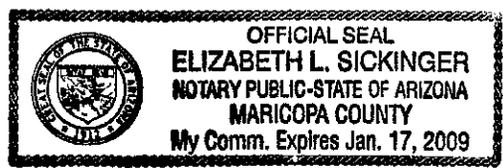
Helene I. Tomme, CPCU, CIE being first duly sworn, states that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of Market Examiners James Warrington and William Hobert an Examination of American Reliable Insurance Company, hereinafter referred to as the "Company," was performed at the Company's offices at 8655 East Via de Ventura, Suite E-200, Scottsdale, AZ 85258. A teleconference meeting with appropriate Company officials 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 20th day of August, 2008.

Elizabeth L. Sickinger
Notary Public

My Commission Expires Jan. 17, 2009



FOREWORD

This market examination report of American Reliable 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 market 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 Mobile Homeowners (MHO) 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 market examination of the Company covered the period of January 1, 2007 through December 31, 2007 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, forms, 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 in use will not be met if any exception is identified.

HISTORY OF THE COMPANY

The Company was originally named American General Insurance Company of Minnesota and was incorporated on July 17, 1952 and commenced business on August 4, 1952. The Company changed its name to American Reliable Insurance Company on September 9, 1955.

Since 1984 financial control of the Company has rested with American Bankers Insurance Group (ABIG). On August 18, 1999, United Family Life Insurance Company, a subsidiary of Fortis, Inc., acquired ABIG. Fortis, Inc. is the U.S. arm of Fortis International N.V., a diversified Dutch insurance and financial services holding company. In September 2003, Fortis sold its U.S. specialty insurance operations through an IPO, which created a new U.S. holding company, Assurant, Inc., ticker symbol AIZ. Assurant, Inc. has four key business units - (1) Assurant Employee Benefits, (2) Assurant Health, (3) Assurant Solutions and (4) Assurant Specialty Property. The Company is part of Assurant Specialty Property. The Company is licensed in all fifty states and the District of Columbia, with an emphasis on specialty products.

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

Adjuster Licensing

EXAMINATION REPORT SUMMARY

The examination revealed seven (7) compliance issues that resulted in 127 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:

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

Underwriting and Rating

In the area of Underwriting, two (2) compliance issues are addressed in this report as follows:

- The Company failed on four (4) application forms to explain that the length of time an authorization remains valid shall be no longer than one (1) year from the date the authorization is signed.
- The Company failed on four (4) application forms 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.

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 give nine (9) Mobile Homeowner policyholders the proper amount of advance notice prior to cancellation for underwriting reasons.
- The Company failed to give fifty-six (56) Mobile Homeowner policyholders the proper amount of advance notice prior to canceling their policies for non-payment of premium.
- The Company failed to give fifty (50) Homeowner policyholders the proper amount of advance notice prior to cancelling their policies for non-payment of premium.

Claims Processing

In the area of Claims Processing, two (2) compliance issues are addressed in this report as follows:

- The Company failed to include a fraud warning statement on two (2) claim forms and the fraud warning statement in at least 12-point type on one (1) claim form for a total of three (3) violations.
- The Company failed on one (1) authorization form to advise 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.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET EXAMINATIONS

During the past three (3) years, the Company had no market conduct examinations conducted by any jurisdiction.

FACTUAL FINDINGS

UNDERWRITING AND RATING

Mobile Homeowners (MHO):

The Examiners reviewed one hundred (100) MHO new business and four (4) renewal policies out of populations of 5,304.

Homeowners (HO):

The Examiners reviewed sixty (60) HO new business and thirty (30) renewal policies out of a population of 408.

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) of the Company Rating Plan.	A.R.S. §§ 20-341 through 20-385
2	All forms and endorsements forming a part of the contract should be filed with the director (if applicable).	A.R.S. § 20-398
3	File documentation adequately supports decisions made.	A.R.S. § 20-385
4	Policies and endorsements are issued or renewed accurately, timely and completely.	A.R.S. §§ 20-1120, 20-1121, 20-1654
5	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
6	Authorization for Release of Information forms used for underwriting purposes contains required disclosures.	A.R.S. § 20-2106

Underwriting and Rating Standard #6 failed:

Preliminary Finding #8 – Authorization Disclosures – During the underwriting review, the examiners determined that four (4) Company applications failed to:

- (a) specify that the authorization remains valid for no longer than one (1) year from the date the authorization is signed in violation of A.R.S. § 20-2106(7)(b), and
- (b) 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 violation of A.R.S. § 20-2106(9).

These are violations of A.R.S. § 20-2106(7)(b) and (9).

Application forms without length of time authorization remains valid:
Application forms without notice entitled to a copy of the authorization:

Arizona Mobile Home Application	Form # A4350A0603
Arizona Mobile Home Application	Form # A4350A0705
Mutual Insurance Services App. Form	Form # A4350A0603
HO-3 Application - L.O.B. 23	Form # A6114A0606

MOBILE HOMEOWNER & HOMEOWNER APPLICATIONS
 Failed to include length of time the application's authorization is valid
 A.R.S. § 20-2106(7)(b)

Population	Sample	# of Exceptions	% to Sample
4	4	4	100%

Any error does not meet the Standard.

MOBILE HOMEOWNER & HOMEOWNER APPLICATIONS
 Failed to advise individual and person authorized to act on behalf of the individual they are
 entitled to receive a copy of the signed authorization
 A.R.S. § 20-2106(9)

Population	Sample	# of Exceptions	% to Sample
4	4	4	100%

Any error does not meet the Standard.

Recommendation #1

Within 90 days of the filed date of this report, provide documentation that procedures and controls are in place to ensure that all signed MHO and HO authorizations used for collecting information in connection with an application include that the authorization remains valid for no longer than one (1) year from the date the authorization is signed and advise the individual or a person authorized to act on behalf of the individual they are entitled to receive a copy of the authorization form.

CANCELLATIONS AND NON-RENEWALS

Mobile Homeowners (MHO):

The examiners reviewed fifty-six (56) MHO non-payment cancellations and fifty-two (52) MHO cancellations for underwriting reasons files [including two (2) sample files] out of a combined total population of 5,274; and fifty-two (52) MHO non-renewals [including two (2) sample files] out of a population of 247.

Homeowners (HO):

The examiners reviewed fifty (50) HO non-payment cancellations out of a population of 151; all seventeen (17) HO cancellations for underwriting reasons; and the only HO nonrenewal.

The following Cancellation and Non-Renewal Standard met:

#	STANDARD	Regulatory Authority
1	Declinations, Cancellations and Non-Renewal 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
2	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.	A.R.S. §§ 20-191, 20-448, 20-1651 through 20-1656

The following Cancellation and Non-Renewal Standard failed:

#	STANDARD	Regulatory Authority
2	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.	A.R.S. § 20-443

Cancellation and Non-Renewal Standard #2 failed:

Preliminary Finding #5 – The Company failed to give nine (9) policyholders thirty (30) days advance notice prior that their policies were to be cancelled for underwriting reasons, as required by the Company’s own policy form. These are violations of A.R.S. § 20-443.

MOBILE HOMEOWNER CANCELLATIONS

Failed to give thirty (30) days advance notice of cancellation for underwriting reasons

Violation of A.R.S. § 20-443

Population	Sample	# of Exceptions	% to Sample
5,274	52	9	17.3%

A 17.3% error ratio does not meet the Standard.

Subsequent Event: The Company corrected its Arizona midterm cancellation chart to reflect the correct number of day's notice required by its policy provisions. Company has agreed to send evidence of correction.

Preliminary Finding #6 – The Company failed to give fifty (50) HO policyholders ten (10) days advance notice that their policies were to be cancelled for non-payment of premium, as required by the Company’s own policy form. These are violations of A.R.S. § 20-443.

HOMEOWNER NON-PAYMENT CANCELLATIONS

Failed to give ten (10) days advance notice of cancellation for non-payment of premium
Violation of A.R.S. § 20-443

Population	Sample	# of Exceptions	% to Sample
151	50	50	100%

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

Preliminary Finding #7 – The Company failed to give fifty-six (56) MHO policyholders ten (10) days advance notice that their policies were to be cancelled for non-payment of premium, as required by the Company’s own policy form. These are violations of A.R.S. § 20-443.

MOBILE HOMEOWNER NON-PAYMENT CANCELLATIONS

Failed to give ten (10) days advance notice of cancellation for non-payment of premium
Violation of A.R.S. § 20-443

Population	Sample	# of Exceptions	% of Sample
5,274	56	56	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 non-payment cancellation procedures, controls and its non-payment cancellation notice form are amended, as needed, to ensure that the required number of days advance notice of cancellation for non-payment of premium is clearly given to all policyholders.

CLAIMS PROCESSING

Mobile Homeowners (MHO):

The examiners reviewed fifty (50) MHO claims closed without payment from a population of 356; fifty (50) MHO paid claims from a population of 1,032 and all four (4) MHO subrogation claims.

Homeowners (HO):

The examiners reviewed all eight (8) HO claims closed without payment and all eighteen (18) HO paid claims. There were no HO subrogation claims.

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

The Following 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
5	Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801
6	The Company uses reservation or rights and excess of loss letters, when appropriate.	A.R.S. § 20-461, A.A.C. R20-6-801
7	Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner.	A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801
8	The Company responds to claim correspondence in a timely manner.	A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801
9	Denied and closed without payment claims are handled in accordance with policy provisions and state law.	A.R.S. §§ 20-461, 20-462, 20-463, 20-466, 20-2110, A.A.C. R20-6-801
10	No insurer shall fail to fully disclose to first party insureds all pertinent benefits, coverages, or other provisions of an insurance policy or insurance contract under which a claim is presented.	A.A.C. R20-6-801
11	Adjusters used in the settlement of claims are properly licensed	A.R.S. §§ 20-321 through 20-321.02

The following Claim 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

Claims Processing Standard #3 failed

Preliminary Findings #1 and #2– Fraud Warning Statement The Company failed to include the Fraud Warning Statement on two (2) forms, and failed to use at least twelve-point type on one (1) form that included the Fraud Warning Statement for a total of three (3) claim forms listed below. These forms are in violation of A.R.S. § 20-466.03.

Forms without Fraud Warning Statement (PF#1):

Property Damage Release None
 Release of All Claims Form # U:\Release Of All Claims-ARIC 17.dot

Form with Fraud Warning Statement not in required twelve-point type (PF#2):

Policyholder's Release Form # policyholders release.dot

MOBILE HOMEOWNER & HOMEOWNER CLAIMS

Failed to include the Fraud Warning statement or to use at least twelve-point type
 A.R.S. §§ 20-466.03.

Population	Sample	# of Exceptions	% to Sample
15 forms	15	3	20%

Any error does not meet the Standard.

Recommendation #3

Within 90 days of the filed date of this report provide documentation 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.

Preliminary Finding #3 – Authorization Disclosure. The Company failed to advise 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. This form appears to be in violation of A.R.S. § 20-2106(9).

Authorization for Release of Information

Authorization to Release Individually Identifiable Health Information None

MOBILE HOMEOWNER & HOMEOWNER CLAIMS

Failed to advise individual or person authorized to act on behalf of the individual that they were entitled to receive a copy of the authorization form

A.R.S. §§ 20-2106(9)

Population	Sample	# of Exceptions	% to Sample
1 form	1	1	100%

Any error does not meet the Standard;

Recommendation #4

Within 90 days of the filed date of this report, provide documentation that this form provides an appropriate notice informing the individual or persons authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form in accordance with applicable state statute.

Subsequent Event: The Company amended (revised 7/7/08) each of the claim forms cited to make them compliant and provided the examiners copies.

SUMMARY OF FAILED STANDARDS

EXCEPTION	Rec. No.	Page No.
UNDERWRITING AND RATING		
<u>Standard #6</u> Authorization for Release of Information forms used for underwriting purposes contain required disclosures.	1	12

CANCELLATIONS AND NON RENEWALS		
<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	2	15

CLAIMS PROCESSING		
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	3 & 4	18 & 19

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)	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	All forms and endorsements forming a part of the contract should be filed with the director (if applicable). (A.R.S. § 20-398)	X	
3	File documentation adequately supports decisions made. (A.R.S. § 20-385)	X	

#	STANDARD	PASS	FAIL
4	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1654)	X	
5	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463, 20-1109)	X	
6	Authorization for Release of Information forms used for underwriting purposes contain required disclosures (A.R.S. § 20-2106)		X

E. Declinations, Cancellation 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, nonrenewal based on condition of premises, and shall not be unfairly discriminatory. (A.R.S. §§ 20-191, 20-448, 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
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	

#	STANDARD	PASS	FAIL
5	Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations. (A.R.S. §§ 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. Arizona Rule (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	