

STATE OF ARIZONA
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DEPT. OF INSURANCE

REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

MAPFRE INSURANCE COMPANY

NAIC #23876

AS OF

December 31, 2014

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Douglas A. Ducey, Governor

Andy Tobin, Director

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

Dear Director Tobin:

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

MAPFRE Insurance Company
NAIC #23876

The above examination was conducted by Helene I. Tomme, CPCU, CIE, Market Examinations Supervisor, Examiner-in Charge, and Christopher G. Hobert, CIE, MCM, Market Conduct Senior Examiner and William P. Hobert, CIE, CPCU, CLU, Market Conduct Senior Examiner.

The examination covered the period of January 1, 2014 through December 31, 2014.

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

Sincerely yours,

A handwritten signature in cursive script that reads "Helene I. Tomme".

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

FOREWORD

This targeted market conduct examination report of the MAPFRE Insurance Company (herein referred to as, “MIC”, or the “Company”), was prepared by employees of the Arizona Department of Insurance (Department) as well as independent examiners contracting with the Department. A market conduct examination is conducted for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the state of Arizona. The Examiners conducted the examination of the Company in accordance with Arizona Revised Statutes (A.R.S.) §§ 20-142, 20-156, 20-157, 20-158 and 20-159. The findings in this report, including all work products developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the following Private Passenger Auto (PPA) business operations:

1. Complaint Handling
2. Marketing and Sales
3. Producer Compliance
4. Underwriting and Rating
5. Cancellations and Non-Renewals
6. Claims Processing

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Additionally, findings may not be material to all areas that would serve to assist the Director.

Failure to identify or criticize specific Company practices does not constitute acceptance of those practices by the Department.

SCOPE AND METHODOLOGY

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The market conduct examination of the Company covered the period of January 1, 2014 through December 31, 2014 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)

MAPFRE Insurance Company (“MIC”) is a wholly-owned subsidiary of The Commerce Insurance Company, a Massachusetts property-casualty insurer.

MIC was previously known as MAPFRE Reinsurance Corporation and prior to that, as Chatham Reinsurance Corporation (“Chatham Re”). Chatham Re was acquired by MAPFRE Re, Compania de Reaseguros, S.A. (“MAPFRE Re”) from Ecclesiastical Insurance on June 7, 2000, was renamed MAPFRE Reinsurance Corporation and began operations on July 1, 2000.

On September 28, 2005, MAPFRE RE opened a U.S. Reinsurance Trust domiciled in New York. During 2006, MAPFRE Reinsurance Corporation’s portfolio was renewed into the Trust. Additionally, in June 2006, through an Assumption and Assignment Reinsurance Agreement, MAPFRE Reinsurance Corporation’s premiums and loss reserves for the 2000 through 2005 underwriting years were transferred to Trust. In December 2006, under a similar Assumption and Assignment Reinsurance Agreement, MAPFRE Reinsurance Corporation transferred the premium and loss reserves of its Canadian Branch for the 2000 through 2005 underwriting years to its parent’s newly formed Canadian Branch.

In May 2007, MAPFRE Reinsurance Corporation’s name was changed to MIC and in July 2007, MIC was sold to MAPFRE U.S.A., a Florida affiliated company. In July 2009, MIC was sold by MAPFRE U.S.A. to affiliate The Commerce Insurance Company.

PROCEDURES REVIEWED WITHOUT EXCEPTION

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

Complaint Handling

Marketing and Sales

Producer Compliance

EXAMINATION REPORT SUMMARY

The examination identified 12 compliance issues that resulted in 91 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 failed to accurately calculate three (3) PPA Underinsured Motorist (UIM) policy premiums.
- The Company failed to notify 9 PPA Legacy new/renewal business policyholders and 26 PPA Legacy surcharge policyholders that the specific reason for their policy's premium increase was a moving violation. This resulted in 35 exceptions.
- The Company failed to provide five (5) Legacy policyholders a Summary of Rights for an adverse underwriting decision that resulted in a renewal premium increase.

Cancellation and Non Renewals

In the area of Cancellations and Non Renewals, five (5) compliance issues are addressed in this Report as follows:

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

- The Company failed to provide a Summary of Rights on three (3) PPA non-renewal notices.
- The Company failed to offer a named driver exclusion prior to terminating coverage due to driving record on two (2) PPA non renewal policies.
- The Company failed to include the right to complain to the Director on 3 PPA non renewal notices and 32 PPA non payment notices. This resulted in 35 exceptions.
- The Company failed to mail three (3) PPA non renewal notices via certified mail or United States post office certificate.
- The Company failed to send one (1) PPA non renewal notice at least 45-days before the effective date of the non renewal.

Claims Processing

In the area of Claims Processing, four (4) 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 correctly calculate and pay the appropriate tax, license registration and/or air quality fees on one (1) PPA third party total loss settlement, which resulted in additional payment of \$20.21.
- The Company failed to fully reimburse one (1) insured their portion of the deductible in a timely manner when subrogation recovery was successful, which resulted in a returned payment being owed in the amount of \$274.59 (including interest).

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS

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

UNDERWRITING AND RATING

Private Passenger Automobile (PPA):

The Examiners reviewed 80 PPA New/Renewal Business files out of a population of 4,261 and 60 PPA Surcharge out of a population of 785 during the examination period. This New/Renewal and Surcharge review included a total sample size of 140 PPA files from a total population of 5,046.

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

The following Underwriting and Rating Standards were met:

#	STANDARD	Regulatory Authority
3	All forms and endorsements forming a part of the contract should be filed with the director (if applicable).	A.R.S. § 20-398
4	All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations, including, but not limited to, the Notice of Insurance Information Practices and the Authorization for Release of Information.	A.R.S. §§ 20-2104, 20-2106, 20-2110 and 20-2113
5	Policies and endorsements are issued or renewed accurately, timely and completely.	A.R.S. §§ 20-1118, 20-1120, 20-1121, 20-1632 and 20-1654
6	Rescissions are not made for non-material misrepresentations.	A.R.S. §§ 20-463, 20-1109

The following Underwriting and Rating Standard passed with comment:

#	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

The following Underwriting and Rating Standard failed:

#	STANDARD	Regulatory Authority
2	Disclosures to insureds concerning rates and coverage are accurate and timely.	A.R.S. §§ 20-259.01, 20-262, 20-263, 20-264, 20-266, 20-267, 20-443, 20-2110

Underwriting and Rating, Standard # 1 – passed with comment

Preliminary Finding 013 – Incorrect UIM Premium Calculation – The Examiners identified three (3) PPA policies where the Company failed to accurately calculate Underinsured Motorist policy premium. The failure to accurately calculate premium is an apparent violation of A.R.S. § 20-385.

PRIVATE PASSENGER AUTOMOBILE
Summary of Findings – Standard 1 File Review
Failed to accurately calculate UIM policy premium
A.R.S. § 20-385

Files Reviewed	Population	Reviewed	Exceptions	Request #
PPA New/Renewal Business	4,261	80	2	007
PPA Surcharge	785	60	1	008
Totals	5,046	140	3	
			Error Ratio	2%

A 2% error ratio meets the Standard; but a recommendation is warranted because returned premium is owed.

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 accurately calculate UIM premiums. The Company must also recalculate premiums and return excess premium to policyholders.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners. A system correction was created and tested to accurately calculate UIM premium. This was implemented on September 15, 2015.

Underwriting and Rating, Standard # 2 – failed

Preliminary Finding 014– Failure to Provide the Specific Reason for an Adverse Underwriting Decision (Moving Violation) – The Examiners identified 9 PPA Legacy new/renewal policies and 26 PPA Legacy surcharge policies for a total of 35 policies where the Company failed to notify the policyholder of the specific reason for their premium increase due to a violation.

The failure to inform the policyholder is an apparent violation of A.R.S. § 20-2110.

PRIVATE PASSENGER AUTOMOBILE
Summary of Findings – Standard 2 File Review
Failed to provide a Notice of an Adverse Underwriting Decision (Moving Violation)
A.R.S. § 20-2110

Files Reviewed	Population	Reviewed	Exceptions	Request #
PPA New/Renewal Business (Legacy)	2,276	40	9	007
PPA Surcharge (Legacy)	350	30	26	008
Totals	2,626	70	35	
			Error Ratio	50%

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

Recommendation #2

Within 90 days of the filed date of this Report submit documentation to the Department that it has procedures and controls in place to inform the policyholder of the specific reason when their policy premium is increased due to a moving violation.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners. Due to the small number of policies remaining in their Legacy PPA program the Company's underwriting department will manually inform each renewal recipient the specific reason for the premium increase (i.e. moving violation).

Preliminary Finding 015 – No Summary of Rights – The Examiners identified five (5) PPA Legacy surcharge policies, within the exam period, where the Company failed to provide a Summary of Rights for an adverse underwriting decision that resulted in a premium increase. The failure to provide a Summary of Rights for an adverse underwriting decision is an apparent violation of A.R.S. § 20-2110.

PRIVATE PASSENGER AUTOMOBILE
Summary of Findings – Standard 2 File Review
Failed to provide Summary of Rights for policy premium increase
A.R.S. § 20-2110

Files Reviewed	Population	Reviewed	Exceptions	Request #
PPA Surcharge (Legacy)	350	5	5	008
Totals	350	5	5	
			Error Ratio	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 submit documentation to the Department that it has procedures and controls in place to provide a Summary of Rights to policyholders when their policy premium increases due to an adverse underwriting decision.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners. Due to the small number of policies remaining in their Legacy PPA program the Company's underwriting department will manually issue future Summary of Rights notices for a premium increase.

CANCELLATIONS AND NON-RENEWALS

Private Passenger Automobile (PPA):

The Examiners reviewed 60 PPA cancellation files for non-payment of premium out of a population of 394, 4 PPA cancellation files for underwriting reasons out of a population of 4 and 3 PPA non renewals out of a population of 3. This cancellation and non renewal review included a total sample size of 67 PPA files from a total population of 401.

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

The following Cancellation and Non Renewal Standard failed:

#	STANDARD	Regulatory Authority
1	Declinations, Cancellations and Non-Renewals shall comply with state laws and company guidelines including the Summary of Rights to be given to the policyholder and shall not be unfairly discriminatory.	A.R.S. §§ 20-448, 20-2108, 20-2109, 20-2110
2	Cancellations and Non-Renewal notices comply with state laws, company guidelines and policy provisions, including the amount of advance notice required and grace period provisions to the policyholder, nonrenewal based on condition of premises, and shall not be unfairly discriminatory.	A.R.S. §§ 20-191, 20-443, 20-448, 20-1631, 20-1632, 20-1632.01, 20-1651 through 20-1656

Cancellation and Nonrenewal, Standard #1 - failed

Preliminary Finding 001– Summary of Rights – The Examiners identified three (3) PPA non renewal policies. These three (3) notices failed to provide a Summary of Rights language to its policyholders. The Company also did not provide a Summary of Rights to any applicants that were declined coverage for an adverse underwriting decision, an apparent violation of A.R.S. §§ 20-2108, 20-2109 and 20-2110.

PRIVATE PASSENGER AUTOMOBILE

Failed to Provide Summary of Rights

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

Population	Sample	# of Exceptions	% to Sample
3	3	3	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 so that a Summary of Rights is sent with all non renewals, declinations and uprated notices that involve an adverse underwriting decision by the Company.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners and will draft a template that will be generated manually, which will contain the needed summary of rights language. The Company has less than 300 policies remaining in force under this legacy program. The new notice was implemented on September 25, 2015.

Cancellation and Non-Renewal Standard #2 - failed

Preliminary Finding 003 — Private Passenger Automobile Driver Exclusion -The Company failed to offer a named driver exclusion prior to terminating coverage due to driving record of an individual other than the named insured on two (2) PPA non renewal policies, an apparent violation of A.R.S. § 20-1631(F).

PRIVATE PASSENGER AUTOMOBILE DRIVER EXCLUSION

Failed to offer named driver exclusion prior to non renewal

A.R.S. § 20-1631(F)

Population	Sample	# of Exceptions	% to Sample
3	3	2	67%

A 67% 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 that policyholders are offered the option of named driver exclusion prior to terminating coverage due to driving record of an individual on the policy.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners and conducted training on August 25, 2015 with its underwriting staff to review procedures on when to offer its policyholders driver exclusion. These procedures were published on August 27, 2015.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 004 and 005 – Private Passenger Automobile cancellations failed to include the right to complain to the Director– The Examiners identified 3 PPA non renewal notices and 32 PPA non payment notices, for a total of 35 notices where the Company failed to include the right to complain to the Director, an apparent violation of A.R.S. §§20-1632(A) and 20-1632.01 (B).

**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) and 20-1632.01 (B)**

Files Reviewed	Population	Reviewed	Exceptions	Request #
PPA Non Renewals	3	3	3	009
PPA Non Payment	394	60	30	010
PPA UW Cancels	4	4	2	011
Totals	401	67	35	
			Error Ratio	52%

A 52% 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 so that the required right to complain to the Director is provided on its personal automobile non renewal, non payment and underwriting cancellation notices.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners and added the right to complain to the Director language on September 18, 2015 for all PPA Non Payment Cancellation and PPA UW Cancellation notices.

Also, during the course of the Examination, the Company agreed with the Examiners and drafted a non renewal and underwriting cancellation template that will be generated manually, which contains the needed “right to complain” language. The Company has less than 300 policies remaining in force under this legacy program. The new notice was implemented on September 25, 2015.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 006 – Private Passenger Automobile Non Renewal Notices Mailed via Certified Mailing or Certificate of Mailing – The Examiners identified three (3) PPA Non Renewal 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 NON RENEWAL

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

Population	Sample	# of Exceptions	% to Sample
3	3	3	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 ensure that PPA Non Renewals are mailed via certified mail or United States post office certificate of mailing.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners and conducted training on August 25, 2015 with its underwriting staff to review step by step procedures of the process to be followed for nonrenewal notices issued from their legacy auto system. The Company specifically reviewed the Certificate of Mailing list creation process, the U.S. Postal Service validation process and retention of the stamped copy of the Certificate of Mailing list from the Postal Service.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 007 – Private Passenger Automobile Non Renewal Notices Mailed less than 45-days– The Examiners identified one (1) PPA non renewal notice, where the Company failed to mail non renewal notices at least 45-days before the effective date, 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
A.R.S. §§ 20-1631(E) and 20-1632(A)

Population	Sample	# of Exceptions	% to Sample
3	3	1	33%

A 33% 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 the required 45-days is given on PPA Non Renewals.

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners. On August 25, 2015 the Company conducted Training with the Underwriting Staff that included procedures for mailing PPA Non Renewal notices at least 45-days before their effective date.

CLAIMS PROCESSING

Private Passenger Automobile (PPA):

The Examiners reviewed 60 PPA claims closed without payment from a population of 164, 60 PPA paid claims from a population of 383, 29 total loss PPA claims out of a population of 29 and 58 PPA subrogation claims out of a population of 58. This claims review included a total sample size of 207 PPA claim files from a total population of 634.

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

The Following Claim Standards were met:

#	STANDARD	Regulatory Authority
1	The initial contact by the Company with the claimant is within the required time frame.	A.R.S. § 20-461, A.A.C. R20-6-801
2	Timely investigations are conducted.	A.R.S. § 20-461, A.A.C. R20-6-801
4	Claim files are adequately documented in order to be able to reconstruct the claim.	A.R.S. §§ 20-461, 20-463, 20-466.03, A.A.C. R20-6-801
6	The Company uses reservation of rights and excess of loss letters, when appropriate.	A.R.S. § 20-461, A.A.C. R20-6-801
8	The Company responds to claim correspondence in a timely manner.	A.R.S. § 20-461, 20-462, A.A.C. R20-6-801
9	Denied and Closed Without Payment claims are handled in accordance with policy provisions and state law.	A.R.S. §§ 20-461, 20-462, 20-463, 20-466, 20-2110, A.A.C. R20-6-801
10	No insurer shall fail to fully disclose to first party insureds all pertinent benefits, coverages or other provisions of an insurance policy or insurance contract under which a claim is presented.	A.A.C. R20-6-801
11	Adjusters used in the settlement of claims are properly licensed.	A.R.S. §§ 20-321 through 20-321.02

The following Claims Processing 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

The following Claims Processing Standard passed with comment:

#	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, 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-008– 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	Authorization to Use or Disclose Protected Health Information BI Ack w HIPPA CA (Rev. 10/09)	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 and indicated it had been implemented on August 31, 2015.

Claims Processing Standard #5 – passed with comment

Preliminary Finding 011 –Total Loss Taxes and Fees - The Examiners identified one (1) PPA third party total loss settlement, in which the Company failed to correctly calculate and pay appropriate tax, license registration and/or air quality fees. This resulted in one (1) third party total loss settlement 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
29	29	1	3%

A 3% error ratio does meet the standards; therefore, no recommendation is warranted.

Subsequent Events: During the course of the Examination, the Company agreed and paid one (1) PPA total loss incorrect settlement and made restitution to the third party total loss in the amount of \$20.21. A copy of the letter of explanation and payment was sent to the Department prior to completion of the Examination.

Claims Processing Standard #7 –passed with comment:

Preliminary Finding-012 – PPA Subrogation-Delay in Returning Insured 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 SUBROGATION CLAIMS

Failed to return insured’s deductible in a timely manner

A.R.S. §§ 20-461, 20-462 and A.A.C. R20-6-801 (H)(4).

Population	Sample	# of Exceptions	% to Sample
58	58	1	2%

A 2% error ratio meets the standards; therefore, no recommendation is warranted

Subsequent Events: During the course of the Examination, the Company agreed with the Examiners’ finding and issued a check to its insured in the amount \$250.00 plus \$24.59 in interest for a total of \$274.59. A copy of the letter of explanation and payment was sent to the Department prior to completion of the Examination.

SUMMARY OF FAILED STANDARDS

EXCEPTIONS	Rec. No.	Page No.
UNDERWRITING AND RATING		
<u>Standard #1</u> The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan	1	13
<u>Standard #2</u> Disclosures to insureds concerning rates and coverage are accurate and timely.	2	14
<u>Standard #2</u> Disclosures to insureds concerning rates and coverage are accurate and timely.	3	15
CANCELLATIONS AND NON RENEWALS		
<u>Standard #1</u> Declinations, Cancellations and Non-Renewals shall comply with state laws and company guidelines including the Summary of Rights to be given to the policyholder and shall not be unfairly discriminatory.	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	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.	6	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.	7	20

<p><u>Standard #2</u></p> <p>Cancellations and Non-Renewal notices comply with state laws, company guidelines and policy provisions, including the amount of advance notice required and grace period provisions to the policyholder, nonrenewal based on condition of premises, and shall not be unfairly discriminatory.</p>	8	21
CLAIMS PROCESSING		
<p><u>Standard #3</u></p> <p>The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.</p>	9	25

SUMMARY OF PROPERTY AND CASUALTY STANDARDS

Complaint Handling

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

Marketing and Sales

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

Producer Compliance

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

Underwriting and Rating

#	STANDARD	PAGE	PASS	FAIL
1	The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan. (A.R.S. §§ 20-341 through 20-385)	12	X	

#	STANDARD	PAGE	PASS	FAIL
2	Disclosures to insureds concerning rates and coverage are accurate and timely. (A.R.S. §§ 20-443, 20-259.01, 20-262, 20-263, 20-264, 20-266, 20-267 and 20-2110)	12		X
3	All forms and endorsements forming a part of the contract should be filed with the director (if applicable). (A.R.S. § 20-398)	12	X	
4	All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations, including, but not limited to, the Notice of Insurance Information Practices and the Authorization for Release of Information. (A.R.S. §§ 20-2104, 20-2106, 20-2110 and 20-2113)	12	X	
5	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1118, 20-1120, 20-1121, 20-1632 and 20-1654)	12	X	
6	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463 and 20-1109)	12	X	

Declinations, Cancellation and Non-Renewals

#	STANDARD	PAGE	PASS	FAIL
1	Declinations, Cancellations and Non-Renewals shall comply with state laws and company guidelines including the Summary of Rights to be given to the policyholder and shall not be unfairly discriminatory. (A.R.S. §§ 20-448, 20-2108, 20-2109 and 20-2110)	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)	24		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	

November 24, 2015

VIA OVERNIGHT AND REGULAR MAIL

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

Re: Arizona Report of Target Market Conduct Examination
MAPFRE Insurance Company (NAIC #23876)
Examination Period of January 1, 2014 through December 31, 2014

Dear Ms. Tomme:

Please accept this letter on behalf of MAPFRE Insurance Company in response to your letter, dated October 29, 2015, which enclosed a copy of the above noted Report of Target Market Conduct Examination ("Report"), and requested the Company's response.

MAPFRE Insurance's management team has reviewed the Report, which summarized the Arizona Department of Insurance's findings and recommendations, and the Company's corrective action, where applicable, following its examination of MAPFRE Insurance's private passenger automobile insurance operations during the 2014 calendar year. This letter is to inform you that MAPFRE Insurance has no objections to the report, but would like to provide Department of the following information and clarification relative to select Findings:

- **Underwriting and Rating, Standard #1, Preliminary Finding 013 – Page 13 of the Report – Additional Subsequent Events**

The Company issued refunds for two (NBRen-39 and Sur-29) of the three policies identified in Preliminary Finding 013 on November 16, 2015, relating to underinsured motorist policy premium. Refunds, including interest, amounted to \$225 on those two policies. The third policy (NBRen-37) was cancelled by the customer retroactive to the inception date of the renewal term; therefore, no additional premium refund is due on this policy. The Company will separately provide documentation of these transactions to the Department. In addition, the Company intends to conduct a self-audit to determine if any other policies were affected by the same issue.

Ms. Helen I. Tomme

November 24, 2015

Page 2 of 2

The Company anticipates that it will complete this self-audit on or before December 21, 2015, and it will issue any additional refunds or credits where appropriate.

- **Preliminary Finding 004 and 005 – Page 19 of the Report – Clarification**

The Report correctly states that during the course of the examination, MAPFRE Insurance agreed with the Examiners and added the right to complain to the director language to legacy nonpayment notices by a system update on September 18, 2015. For the other two types of notices on the legacy system (underwriting cancellations and nonrenewals), the underwriters will use manual templates to generate such notices since there are only 300 policies remaining in force under this legacy program.

Thank you and the examination team for your time and patience in undertaking this exam. If you have any questions like to further discuss the Company's action in response to the exam, please feel free to contact me at (508) 949-4880.

Sincerely,



Barbara Petersen Law
Vice President and
Chief Regulatory Counsel

ARIZONA MARKET CONDUCT EXAMINATION

TO: Helene Tomme, Market Oversight Supervisor

FROM: Chris Hobert and William Hobert, Market Conduct SR. Examiners

RE: MAPFRE Insurance Company, NAIC #23876;
Response to Company's Letter of Objection/Comments

DATE: December 2, 2015

MAPFRE Insurance Company ("Company" or "MIC") submitted its formal response, dated November 24, 2015, to the recent Report of Market Conduct Examination (Report). The following issues were included in the Company's response by Barbara Petersen Law, Vice President and Chief Regulatory Counsel will be addressed in the same order as submitted.

As a result of the November 24, 2015 Letter of Objection/Comments, the Examiners reviewed each issue again to determine if the Company had presented any new information to support a change in their decisions. Excerpts from the Market Conduct Report of Examination and responses from the Company and the Examiners are shown below. The examination period covered January 1, 2014 through December 31, 2014.

Underwriting and Rating Standard #1

Preliminary Finding 013– Incorrect UIM Premium Calculation – The Examiners identified three (3) PPA policies where the Company failed to accurately calculate Underinsured Motorist policy premium. The failure to accurately calculate premium is an apparent violation of A.R.S. § 20-385.

Company Response: The Company issued refunds for two (NBRen-39 and Sur-29) of the three policies identified in Preliminary Finding 013 on November 16, 2015, relating to underinsured motorist policy premium. Refunds, including interest, amounted to \$225 on those two policies. The third policy (NBRen-37) was cancelled by the customer retroactive to the inception date of the renewal term; therefore, no additional premium refund is due on this policy. The Company will separately provide documentation of these transactions to the Department. In addition, the Company intends to conduct a self-audit to determine if any other policies were affected by the same issue. The Company anticipates that it will complete this self-audit on or before December 21, 2015, and it will issue any additional refunds or credits where appropriate.

Examiner Response: The Examiners appreciate the cooperation of the Company in making the overcharge payments to the policyholders that were affected. Please provide a copy of the letters of explanation and a screen print/check copy when possible. Also, once the Company has completed their self-audit please provide the ADOI with the results.

Cancellations and Non Renewals Standard #2

Preliminary Finding 004 and 005 – Private Passenger Automobile cancellations failed to include the right to complain to the Director– The Examiners identified 3 PPA non renewal notices and 32 PPA non payment notices, for a total of 35 notices where the Company failed to include the right to complain to the Director, an apparent violation of A.R.S. §§20-1632(A) and 20-1632.01 (B).

Company Response: The Report correctly states that the course of the examination, MAPFRE Insurance agreed with the Examiners and added the right to complain to the director language to legacy non payment notices by a system update on September 18, 2015. For the other two types of notices on the legacy system (underwriting cancellations and nonrenewals), the underwriters will use manual templates to generate such notices since there are only 300 policies remaining in force under this legacy program.

Examiner Response: The Examiners have amended the "Draft" Report to reflect that the Company created both non renewal and underwriting cancellation notice templates. These will be generated manually and used when appropriate for the remaining 300 legacy policies.

SUMMARY

This concludes the Examiner's response to the Company's Letter of Objection/Comments. If we can be of any further assistance in finalizing this exam, please let us know. Thank you.



Market Oversight Division

Arizona Department of Insurance

2910 North 44th Street, Suite 210, Phoenix, Arizona 85018-7269

Web: <https://azinsurance.gov> | Phone: (602) 364-4994 | Fax: (602) 364-2505

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

March 22, 2016

FIRST CLASS MAIL

Barbara Petersen Law
Vice President and Chief Regulatory Counsel
MAPFRE Insurance
211 Main Street,
Webster MA 01570

**RE: Target Market Conduct Examination,
MAPFRE Insurance Company, NAIC # 23876**

Dear Ms. Law:

The Arizona Department of Insurance would like to thank you for your November 24, 2015 letter in response to the Report of Target Market Conduct Examination, dated December 31, 2014. This letter will be filed with the report. A copy of the final version of the report, with the indicated filed date, is enclosed for your records.

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

- ARS § 20-2110 by failing to provide private passenger automobile policyholders with a compliant Summary of Rights in the event of an adverse underwriting decision. (Standard 2)
- ARS § 20-1631(F) by failing to offer a named driver exclusion prior to terminating coverage due to the driving record of an individual other than the named insured. (Standard 2)
- ARS § 20-1632(A) by failing to mail cancellation notices via certified mail or United States post office certificate of mailing. (Standard 2)
- ARS §§ 20-1631(E) and 20-1632(A) by failing to provide non-renewal notices at least 45-days before effective date of non-renewal. (Standard 2)
- ARS § 20-2106(8)(b) and (9) by using disclosure authorization forms that failed to specify the length of time the authorization remains valid, and advise the individual or persons authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form. (Standard 3)

- ARS §§ 20-1632(A) and 20-1632.01(B) by using non-payment cancellation notices that failed to include the right to complain to the Director. (Standard 2)

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

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

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

Sincerely,



Maria G. Ailor, AIE, AMCM
Market Analysis Supervisor