

STATE OF ARIZONA
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DEPT. OF INSURANCE

REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

SENTRY INSURANCE A MUTUAL COMPANY

NAIC #24988

AS OF

December 31, 2014

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**Douglas A. Ducey, Governor
Germaine L. Marks, Director**

Honorable Germaine L. Marks
Director of Insurance
State of Arizona
2910 North 44th Street
Suite 210, Second Floor
Phoenix, Arizona 85018-7269

Dear Director Marks:

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

**Sentry Insurance A Mutual Company
NAIC #24988**

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 Linda L. Hofman, AIE, MCM, 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,

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

AFFIDAVIT

STATE OF ARIZONA)
)
County of Maricopa) ss.

Helene I. Tomme, CPCU, CIE being first duly sworn, states that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of Christopher G. Hobert, CIE, MCM, Market Conduct Senior Examiner and Linda L. Hofman, AIE, MCM, Market Conduct Senior Examiner on the Examination of Sentry Insurance A Mutual Company, hereinafter referred to as the "Company" was performed at the office of the Arizona Department of Insurance. A teleconference meeting with appropriate Company officials in Stevens Point, Wisconsin 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.

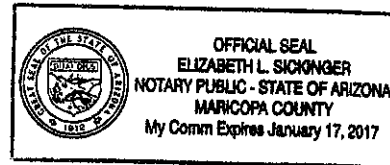
Helene I. Tomme

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

Subscribed and sworn to before me this 1st day of June, 2015.

Elizabeth L. Sickinger
Notary Public

My Commission Expires January 17, 2017



FOREWORD

This targeted market conduct examination report of the Sentry Insurance A Mutual Company (herein referred to as, "SIAMCO", 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 Automobile (PPA), Non Standard Private Passenger Automobile (NSPPA), Homeowners (HO) and Dwelling Fire (DF) 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 9.

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)

Hardware Dealers Mutual Fire Insurance Company of Wisconsin was incorporated on June 10, 1903, and commenced business on April 8, 1904. In response to state licensing restrictions prohibiting a single company from writing both property and casualty risks, the Wisconsin Hardware Limited Mutual Liability Insurance Company was incorporated under the laws of the state of Wisconsin on December 19, 1913, and commenced business on August 15, 1914. The casualty company's name was changed to Wisconsin Hardware Casualty Company at a meeting of the policyholders on February 4, 1920.

In 1963, the companies adopted the trade name of "Sentry Insurance," together with the minuteman corporate logo. In September 1966, the companies acquired majority financial control of Dairyland Insurance Company (Dairyland) and its downstream subsidiaries. Effective September 30, 1970, Wisconsin Hardware Limited Mutual Liability Insurance Company was merged into Wisconsin Hardware Casualty Company. The company continued to be known as Hardware Mutual Casualty Company until July 1, 1971, when the name was changed to Sentry Insurance a Mutual Company (SIAMCO).

Effective June 6, 1974, SIAMCO entered into an agreement with Middlesex Mutual Insurance Company, a Massachusetts company, whereby Middlesex would demutualize and be acquired, along with its subsidiary Patriot General Insurance Company, by The Sentry Corporation, then a wholly-owned subsidiary of SIAMCO. In June 1974, special legislation passed by the Massachusetts Legislature permitted the conversion, articles of amendment were filed with the Secretary of the Commonwealth of Massachusetts in order to execute the conversion and rename the company Middlesex Insurance Company (Middlesex), and the Massachusetts Insurance Division approved the transactions. The Sentry Corporation acquired all 200,000 shares issued by the company. In 1986, ownership of Middlesex was transferred from The Sentry Corporation to SIAMCO, its current parent, as part of an effort to separate insurance operations from

noninsurance operations. On April 28, 1994, Middlesex, together with its subsidiary, Patriot General, redomiciled from Massachusetts to Wisconsin.

On September 30, 1999, SIAMCO acquired 100% of the outstanding common stock of the John Deere Insurance Group, Inc., and subsequently changed the name of the holding company to Sentry Insurance Holding Company. The subsidiaries of the holding company were Sentry Select Insurance Company (formerly John Deere Insurance Company), Sentry Casualty Company (formerly John Deere Casualty Company), Rock River Insurance Company, and Sentry Insurance Agency, Inc. (formerly John Deere Insurance Agency, Inc.). The Parker Stevens Agency of Texas, Inc. (formerly John Deere General Agency, Inc.), is a subsidiary of Sentry Select Insurance Company. On February 1, 2002, Sentry Insurance Holding Company sold Rock River Insurance Company to Arch Capital Group, Ltd. Effective January 1, 2003, Sentry Insurance Agency, Inc., was merged into Parker Stevens Agency, LLC, and effective June 1, 2004, Parker Stevens Agency of Texas, Inc., was also merged into Parker Stevens Agency, LLC.

On November 1, 2005 SIAMCO acquired 100% of the outstanding common stock of Viking Insurance Company of Wisconsin. Viking was incorporated in Wisconsin and later redomesticated to Colorado, when it was owned by Orion Auto, Inc. Upon acquisition SIAMCO redomesticated Viking to Wisconsin on December 15, 2006.

SIAMCO's operations are coordinated from its home office in Stevens Point, Wisconsin. Support services are provided through its own network of claim administration centers and marketing offices. The company is licensed in the 50 United States, the District of Columbia, Puerto Rico, and Canada. Business is primarily written through a sales force consisting of approximately 900 direct writers and 100 national and regional insurance brokerage firms. The company also acquires business through participation in residual markets. The company uses standard contract forms and commission schedules for its sales representatives. Direct writers are employees of SIAMCO. They are compensated through new and renewal commissions and also receive subsidies for a time at the beginning of their employment, a comprehensive benefit package, and are also eligible for special bonuses and incentives.

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

Underwriting and Rating

EXAMINATION REPORT SUMMARY

The examination identified 3 compliance issues that resulted in 244 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 two (2) of the six (6) sections of Company operations examined. The following is a summary of the Examiner's findings:

Cancellation and Non Renewals

In the area of Cancellations and Non Renewals, one (1) compliance issue is addressed in this Report as follows:

- The Company failed to provide a Summary of Rights, on 3 PPA non renewals, 26 NSPPA non renewals, 51 NSPPA underwriting cancellations, 50 HO non renewals, 31 HO underwriting cancellations and 79 DF non renewal files for a total of 240 notices.

Claims Processing

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

- 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 \$71.16.

- The Company failed to correctly calculate and pay the Transaction Privilege Tax (TPT) on one (1) HO first party paid claim, which resulted in an additional payment of \$6.97 (including interest).

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

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS

During the past 5 years, there was five (5) Market Conduct Examinations completed by the states Illinois, Kentucky, Missouri, Nevada and Washington. No significant patterns of non-compliance were noted.

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 60, 3 PPA non renewals out of a population of 3 and 100 PPA cancellations for insured request/other insurance out of a population of 188. This cancellation and non renewal review included a total sample size of 163 PPA files from a total population of 251.

Non Standard Private Passenger Automobile (NSPPA):

The Examiners reviewed 102 NSPPA cancellation files for non-payment of premium out of a population of 30,605, 52 NSPPA cancellation files for underwriting reasons out of a population of 138, 26 NSPPA non renewals out of a population of 26 and 50 NSPPA cancellations for insured request/other insurance out of a population of 2,342. This cancellation and non renewal review included a total sample size of 230 NSPPA files from a total population of 33,111.

Homeowners (HO):

The Examiners reviewed 50 HO cancellation files for non-payment of premium out of a population of 136, 31 HO cancellation files for underwriting reasons out of a population of 31 and 51 HO non renewals out of a population of 650. This cancellation and non renewal review included a total sample size of 132 HO files from a total population of 817.

Dwelling Fire (DF):

The Examiners reviewed 7 DF cancellation files for non-payment of premium out of a population of 7, and 79 DF non renewals out of a population of 79. This cancellation and non renewal review included a total sample size of 86 DF files from a total population of 86.

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

The Following Claim Standard was met:

#	STANDARD	Regulatory Authority
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

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

Cancellation and Nonrenewal, Standard #1 - failed

Preliminary Finding 003 – Summary of Rights – The Examiners identified 3 PPA non renewals, 26 NSPPA non renewals, 51 NSPPA underwriting cancellations, 50 HO non renewals, 31 HO underwriting cancellations and 79 DF non renewal files for a total of 240 notices. These notices failed to provide a Summary of Rights language to its policyholders, an apparent violation of A.R.S. §§ 20-2108, 20-2109 and 20-2110.

PRIVATE PASSENGER AUTOMOBILE, NON STANDARD PRIVATE PASSENGER AUTOMOBILE, HOMEOWNERS AND DWELLING FIRE

Summary of Findings – Standard 1 File Review

Failed to Provide Summary of Rights language

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

Files Reviewed	Population	Reviewed	Exceptions	Request #
PPA Non Renewals	3	3	3	009
NSPPA Non Renewals	26	26	26	018
NSPPA UW Cancels	138	51	51	020
HO Non Renewals	650	50	50	026
HO UW Cancels	31	31	31	028
DF Non Renewals	79	79	79	030
Totals	927	240	240	
			Error Ratio	100%

A 100% 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 are in place so that a Summary of Rights is sent with all cancellation, non renewal or declination notices that involve an adverse underwriting decision by the Company.

CLAIMS PROCESSING

Private Passenger Automobile (PPA):

The Examiners reviewed 49 PPA claims closed without payment from a population of 49, 73 PPA paid claims from a population of 73, 21 total loss PPA claims out of a population of 21 and 8 PPA subrogation claims out of a population of 8. This claims review included a total sample size of 151 PPA claim files from a total population of 151.

Non Standard Private Passenger Automobile (NSPPA):

The Examiners reviewed 50 NSPPA claims closed without payment from a population of 316, 51 NSPPA paid claims from a population of 1,320, 51 total loss NSPPA claims out of a population of 357 and 61 NSPPA subrogation claims out of a population of 61. This claims review included a total sample size of 213 NSPPA claim files from a total population of 2,054.

Homeowners (HO):

The Examiners reviewed 37 HO claims closed without payment from a population of 37, 85 HO paid claims from a population of 85 and 7 HO subrogation claims from a population of 7. This claim review included a total sample size of 129 HO claims files from a total population of 129.

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
3	The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	A.R.S. §§ 20-461, 20-466.03, 20-2106, A.A.C. R20-6-801
4	Claim files are adequately documented in order to be able to reconstruct the claim.	A.R.S. §§ 20-461, 20-463, 20-466.03, A.A.C. R20-6-801
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
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	A.R.S. §§ 20-461, 20-

	handled in accordance with policy provisions and state law.	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 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

Claims Processing Standard #5 – passed with comment

Preliminary Finding 001 –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, an apparent violation of A.R.S. §§ 20-461(A)(6), 20-462(A) and A.A.C. R20-6-801 (H)(1)(b).

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
21	21	1	4.7%

A 4.7% error ratio does meet the standards; therefore, no recommendation is warranted.

Subsequent Events: During the course of the Examination, the Company agreed with the one (1) PPA total loss incorrect settlement and made restitution to the third party total loss in the amount of \$71.16. A copy of the letter of explanation and payment was sent to the Department prior to completion of the Examination.

Claims Processing Standard #5 – passed with comment

Preliminary Finding-002 – Transaction Privilege Tax (TPT). - The Examiners identified one (1) first party HO settlement, which the Company failed to pay the correct Transaction Privilege Tax (TPT), which is an apparent violation of A.R.S. §§ 20-461, 20-462(A) and 44-1201.

HOMEOWNER CLAIMS

Failed to pay the correct Transaction Privilege Tax
A.R.S. §§ 20-461, 20-462(A) and 44-1201

Population	Sample	# of Exceptions	% to Sample
85	85	1	1%

A 1% error ratio does meet the standards; therefore, no recommendation is warranted.

Subsequent Events: During the course of the Examination, the Company agreed with the one (1) first party underpayment and paid restitution to the party affected in the amount of \$6.40 plus \$0.57 in interest for a total of \$6.97. A copy of the letter of explanation and payment were sent to the Department prior to completion of the Examination.

SUMMARY OF FAILED STANDARDS

EXCEPTIONS	Rec. No.	Page No.
UNDERWRITING AND RATING		
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.	1	14

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)	9	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)	9	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)	9	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)	9	X	
2	An insurer shall not pay any commission, fee, or other valuable consideration to unlicensed producers. (A.R.S. § 20-298)	9	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)	9	X	

#	STANDARD	PAGE	PASS	FAIL
2	Disclosures to insureds concerning rates and coverage are accurate and timely. (A.R.S. §§ 20-259.01, 20-262, 20-263, 20-264, 20-266, 20-267 and 20-2110)	9	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)	9	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)	9	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)	9	X	
6	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463 and 20-1109)	9	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)	14		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)	13	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)	16	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, and A.A.C. R20-6-801)	16	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)	16	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)	16	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)	17	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)	16	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)	16	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)	16	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)	16	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)	17	X	
11	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	17	X	