

STATE OF ARIZONA
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DEPT. OF INSURANCE

REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

PERMANENT GENERAL ASSURANCE CORPORATION

NAIC #37648

AS OF

DECEMBER 31, 2009

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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:

PERMANENT GENERAL ASSURANCE CORPORATION
NAIC # 37648

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

The examination covered the period of January 1, 2009 through December 31, 2009.

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

Sincerely yours,

A handwritten signature in black ink that reads "Helene I. Tomme".

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

FOREWORD

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

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

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

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

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

SCOPE AND METHODOLOGY

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The target market conduct examination of the Company covered the period of

January 1, 2009 through December 31, 2009 for business reviewed. The purpose of the examination was to determine the Company's compliance with Arizona's insurance laws, and whether the Company's operations and practices are consistent with the public interest. This examination was completed by applying tests to each examination standard to determine compliance with the standard. Each standard applied during the examination is stated in this report and the results are reported beginning on page 7.

In accordance with Department procedures, the examiners completed a Preliminary Finding ("Finding") form on those policies, claims and complaints not in apparent compliance with Arizona law. The finding forms were submitted for review and comment to the Company representative designated by Company management to be knowledgeable about the files. For each finding the Company was requested to agree, disagree or otherwise justify the Company's noted action.

The examiners utilized both examinations by test and examination by sample. Examination by test involves review of all records within the population, while examination by sample involves the review of a selected number of records from within the population. Due to the small size of some populations examined, examination by test and by sample were completed without the need to utilize computer software.

File sampling was based on a review of underwriting and claim files that were systematically selected by using Audit Command Language (ACL) software and computer data files provided by the Company. Samples are tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data will result in an exception ratio, which determines whether or not a standard is met. If the exception ratio found in the sample is, generally less than 5%, the standard will be considered as "met." The standard in the areas of procedures and forms use will not be met if any exception is identified.

HISTORY OF THE COMPANY

The Company was formerly Nordic Union Reinsurance Corporation (Nordic), and originally incorporated in Delaware as a subsidiary of Constitution Reinsurance Corporation. On 9/30/94, Permanent General Companies, Inc. (PGC) acquired Nordic and all business written by Nordic was ceded to its former parent. At the time of purchase, PGC owned the Company and under the acquisition and merger agreement the Company was merged into Nordic and Nordic's name changed to the Company's current name. The Company is a wholly owned subsidiary of

PGC, which were acquired 12/2/04 by a series of Capital Z Financial entities and by and through PGC Holdings Corporation, a Delaware corporation.

Arizona admitted the Company as a Property & Casualty in July 2005. The Company offers only PPA insurance. The Company actively writes PPA business in nineteen (19) states, although licensed in thirty eight (38) states. The Company's statutory home office is located at 2636 Elm Hill Pike, Suite 510, Nashville, TN 37214.

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 Producer Compliance Marketing and Sales

EXAMINATION REPORT SUMMARY

The examination revealed fifteen (15) compliance issues that resulted in 259 exceptions due to the Company's failure to comply with statutes and rules that govern all insurers operating in Arizona. These issues were found in three (3) of the six (6) sections of Company operations examined. The following is a summary of the examiners' findings:

Underwriting and Rating

In the area of Underwriting and Rating, four (4) compliance issues are addressed in this report as follows:

- The Company failed to promptly file with the Department a \$15 Reinstatement Fee that applies to all policies where payment is made after the cancellation date.
- The Company failed to provide nine (9) insureds a Summary of Rights when their policy premiums increased due to an adverse underwriting decision.
- The Company failed to provide applicants an underwriting authorization form that specifies the length of time the authorization remains valid shall be no longer than one (1) year from the date the authorization is signed.

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

- The Company failed to provide applicants an underwriting authorization form that advises the individual or a person acting 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, two (2) compliance issues are addressed in this report as follows:

- The Company failed with fifty (50) underwriting cancellations and all twenty (20) non-renewals to provide insureds a Summary of Rights.
- The Company failed to provide a reason permitted by the statute to non-renew four (4) policies and cancel three (3) policies that had been in effect for sixty (60) days.

Claims Processing

In the area of Claims Processing, nine (9) compliance issues are addressed in this report as follows:

- The Company failed on one (1) claim authorization form to specify the types of persons authorized to disclose information about the individual.
- The Company failed on one (1) claim authorization form to specify the purpose for which the information is collected.
- The Company failed on two (2) claim authorization forms to specify the length of time the authorization remains valid shall be no longer than the duration of the claim.
- The Company failed on three (3) claim authorization forms to advise the individual and a person authorized to act on behalf of the individual they are entitled to receive a copy of the authorization form.
- The Company failed on twenty one (21) claim forms to include a fraud warning statement.
- The Company failed to accurately identify state statutes and/or Insurance Department in its claim correspondence with seventeen (17) claimants.

- The Company failed to correctly calculate and fully pay:
 - (a) sales tax in the settlement of eight (8) first and twenty seven (27) third party total losses, and
 - (b) fees in the settlement of thirty four (34) first and fifty three (53) third party total losses.
- The Company failed to accurately calculate the partial loss settlement for of one (1) first party claimant, and total loss settlements for one (1) first and one (1) third party claimant.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET EXAMINATIONS

During the past three (3) years, the Company had one (1) market conduct examination conducted by the state of Colorado. Colorado's review period was January 1, 2008 until December 31, 2008.

FACTUAL FINDINGS

UNDERWRITING AND RATING

Private Passenger Automobile (PPA):

The examiners reviewed:

- (1) 100 PPA new business and/or renewal policies from a population of 18,470, and
- (2) 100 PPA surcharged policies from a population of 20,832.

The following Underwriting and Rating Standards were met:

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

The following Underwriting and Rating Standard failed:

#	STANDARD	Regulatory Authority
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

Preliminary Finding #15 – Unfiled Reinstatement Fee - The Company failed until 7/29/10 to file with the Department a \$15 Reinstatement Fee that applies to all policies where payment is made after the cancellation date. This represents one (1) violation of A.R.S. § 20-385.

PRIVATE PASSENGER AUTOMOBILE POLICIES
Failed to file with the Department \$15 Reinstatement Fee
Violation of A.R.S. § 20-385

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

Any unfiled fee does not meet the Standard; however, rates filed on 7/29/10.

The following Underwriting and Rating Standard failed:

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

Preliminary Finding #18 – No Summary of Rights - The Company failed to provide nine (9) new business applicants a Summary of Rights when their policy premiums increased due to an adverse underwriting decision. Insured's statements on application differed from information obtained on their motor vehicle report, resulting in additional surcharge points charged. These represent nine (9) violations of A.R.S. § 20-2110(A).

PPA NEW & SURCHARGED POLICIES

Failed to provide Summary of Rights when premium increase due to adverse underwriting action
Violation of A.R.S. § 20-2110(A)

Population	Sample	# of Exceptions	% to Sample
18,470	9	9	100%

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

Recommendation #2

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure the Company provides a Summary of Rights, in accordance with the statutes, to any insured when a premium increase results from an adverse underwriting decision.

The following Underwriting and Rating Standard failed:

#	STANDARD	Regulatory Authority
3	All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations, including, but not limited to, the Notice of Insurance Information Practices and the Authorization for Release of Information.	A.R.S. §§ 20-2104, 20-2106, 20-2110, 20-2113

Preliminary Finding #5– Underwriting Authorization - On the *Applicant Statement and Certification* in the Company's application packet (PA 039-0308-AZ), the Company failed to:

- (a) specify the authorization remains valid for no longer than one (1) year from the date the authorization is signed; 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.

This form fails to comply with A.R.S. § 20-2106(7)(b) and (9) and represents two (2) violations of the statute.

UNDERWRITING FORMS

Failed to specify the authorization remains valid for no longer than one (1) year from date signed
Violation of A.R.S. § 20-2106(7)(b)

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

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

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

Recommendation #3

Within ninety (90) days of the filed date of this report, provide documentation to the Department that this form:

- (a) specifies the authorization remains valid for no longer than one (1) year from the date the authorization is signed; and
- (b) 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

FACTUAL FINDINGS

DECLINATIONS, CANCELLATIONS AND NON-RENEWALS

Private Passenger Automobile (PPA):

The examiners reviewed:

- (1) 100 PPA non-payment cancellations from a population of 10,350;
- (2) fifty (50) cancellations for underwriting reasons from a population of 339; and
- (3) all twenty (20) non-renewals.

The following Declination, 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 applicant and shall not be unfairly discriminatory.	A.R.S. §§ 20-448, 20-2108, 20-2109 and 20-2110

Preliminary Finding #17 – No Summary of Rights - The Company failed to provide a Summary of Rights with fifty (50) underwriting cancellations and all twenty (20) non-renewals due to an adverse underwriting decision. These represent a total of seventy (70) violations of A.R.S. § 20-2110.

PPA CANCELLATIONS AND NON-RENEWALS

Failed to provide a Summary of Rights to PPA insureds with coverage cancelled or non-renewed due to an adverse underwriting decision
Violation of A.R.S. § 20-2110

Population	Sample	# of Exceptions	% to Sample
359	70	70	100%

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

Recommendation #4

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure a Summary of Rights is provided to all PPA insureds, in accordance with the applicable statute, when their policies are cancelled or non-renewed due to an adverse underwriting decision.

The following Declination, Cancellation and Non-Renewal Standard failed:

#	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, and shall not be unfairly discriminatory.	A.R.S. §§ 20-191, 20-443, 20-448, 20-1631, 20-1632, 20-1632.01

Preliminary Finding #2 – Invalid Reason for Policy Termination - The Company failed to use a reason allowed by statute to non-renew four (4) policies and cancel three (3) policies that had been in effect sixty (60) days. These represent seven (7) violations of A.R.S. § 20-1631(D).

PPA MID-TERM CANCELLATIONS & NON-RENEWALS

Cancelled or non-renewed PPA policies for reasons not permitted by the statute

Violation of A.R.S. § 20-1631(D)

Population	Sample	# of Exceptions	% to Sample
359	70	7	10%

A 10% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #5

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure the Company non-renews and cancels policies, in effect for over sixty (60) days, for only reasons allowed by the statute.

FACTUAL FINDINGS

CLAIM PROCESSING

Private Passenger Automobile (PPA):

The examiners reviewed:

- (1) fifty (50) PPA paid claims from a population of 674;
- (2) all ninety two (92) PPA total losses;
- (3) fifty (50) PPA claims closed without payment from a population of 340; and
- (4) all twenty (20) PPA subrogations.

The following Claim Processing Standards were met:

#	STANDARD	Regulatory Authority
1	The initial contact by the Company with the claimant is within the required time frame.	A.R.S. § 20-461, A.A.C. R20-6-801
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 Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
3	The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	A.R.S. §§ 20-461, 20-466.03, 20-2106, A.A.C. R20-6-801

Preliminary Finding #6 – Authorization Disclosures – On the claim authorization forms shown in the table below, the Company failed to:

- (a) specify the types of persons authorized to disclose information about the individual;
- (b) specify the purposes for which the information is collected;
- (c) specify the authorization remains valid for no longer than the duration of the claim; and
- (d) advise the individual or a person authorized to act on behalf of the individual that they are entitled to receive a copy of the authorization form.

These forms fail to comply with A.R.S. § 20-2106(3), (6), (8)(b) and (9) and represent seven (7) violations of the statute. The following table summarizes these authorization form findings.

	Form Description / Title	Form #	Statute Provision
1	Authorization for Release of Information	None	9
2	Authorization and Consent Disclosure	RL-Auth.&Cons. To Dis	6, 8(b) and 9
3	Employment / Wage Authorization Letter	None	3, 8(b) and 9

CLAIM FORMS

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

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

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

Failed to specify the purposes for which the information is collected
Violation of A.R.S. § 20-2106(6)

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

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

Failed to specify the authorization remains valid for no longer than the duration of the claim
Violation of A.R.S. § 20-2106(8)(b)

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

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

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	3	N/A

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

Recommendation #6

Within ninety (90) days of the filed date of this report, provide documentation to the Department that these forms, as needed,

- (a) specify the types of persons authorized to disclose information about the individual;
 - (b) specify the purposes for which the information is collected;
 - (c) specify the authorization remains valid for no longer than the duration of the claim; and
 - (c) 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.

Preliminary Finding #4 – Fraud Warning Statement – The Company failed to include the required fraud warning statement on twenty one (21) claim forms. These represent twenty one (21) violations of A.R.S. § 20-466.03. The following table summarizes the fraud warning statement findings.

Form Description / Title		Form Description / Title	
1	Affidavit of No Other Assets	2	Affidavit of Claimant Driver
3	Affidavit of Claimant Owner	4	Affidavit of Insured Driver
5	Affidavit of Insured Owner	6	RL-Authorization & Consent to Disclosure
7	Unlisted Driver Questionnaire	8	Unlisted Vehicle Questionnaire
9	Claimant Insurance Information Request	10	Claimant's Report of Auto Accident
11	Insured's Report of Auto Accident	12	Partial Assignment
13	Statement of Contract Repairs	14	Voluntary Claim Withdrawal
15	Proof of Loss	16	Employment/Wage Authorization Letter
17	Affidavit of Forged Signature Improper Endorsement		
18	Lienholder Repossession Power of Attorney, Bill of Sale & Odometer Mileage Statement		
19	Owner Retain Power of Attorney & Odometer Mileage Statement		
20	Power of Attorney, Bill of Sale & Odometer Mileage Statement		
21	Collection of Medicare Health Insurance Claims Numbers, Social Security Numbers & Employer Identification Numbers		

CLAIM FORMS

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

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	21	N/A

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

Recommendation #7

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

Preliminary Finding #9 – Incorrect State / Insurance Department Reference - The Company failed to accurately identify the state statutes and/or Insurance Department in its claim correspondence with seventeen (17) claimants. The reference to an incorrect or conflicting state statute or Insurance Department in correspondence is misleading and deceptive. These represent seventeen (17) violations of A.R.S. § 20-461(A)(1).

	ADOI I.D. #	DOL	Correspondence		Incorrect Reference Made
			Date	Type	
1	CWP-1	1/24/09	1/28/09	1 st Party Denial Letter	CA Dept of Insurance
2	PD-2	11/21/08	12/3/08	1st Party Estimate of Loss Letter	CA Dept of Insurance
3	PD-3	4/3/09	4/20/09	1 st Party Betterment Explanation	CA Dept of Insurance
4	PD-19	10/22/08	1/15/09	3 rd Party Investigation Letter	CA Fair Claims Settlement
5				3 rd Party Investigation Letter	CA Fair Claims Settlement
6				3 rd Party Investigation Letter	CA Fair Claims Settlement
7	PD-22	2/9/09	3/4/09	1 st Party AF Accident Letter	CA Ins Dept Regulations
8	PD-25	3/16/09	3/21/09	1 st Party AF Accident Letter	CA Ins Dept Regulations
9	PD-33	5/4/09	5/6/09	1 st Party Denial Letter	CA Dept of Insurance
10	PD-35	3/1/09	3/10/09	Reservation of Rights Letter	"...under California Law"
11	PD-41	6/15/09	6/15/09	1 st Party Ack w/ Accident Rep form	CA Fraud Warning on form
12	PD-44	4/24/09	4/26/09	1 st Party Ack w/ Reports attached	SR 1 (REV. 5/2005), CA Traffic & Accident Reports
13	PD-50	10/5/08	3/10/09	Subro Demand to Progressive	CA Fair Claims Settlement
14	PD-53	9/4/09	9/18/09	1 st Party AF Accident Letter	CA Ins Dept Regulations
15	PDT-78	2/14/08	Unk	Release of Property Damage Claim	Sect 142 Civil Code of CA
16	PDT-91	12/29/07	7/14/09	3rd Party repeated no response letter	CA Statute of Limitations
17				3rd Party repeated no response letter	CA Statute of Limitations

CLAIM FORMS

Failed to correctly reference statutes and/or Insurance Department in correspondence with claimants
Violation of A.R.S. § 20-461(A)(1)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	17	N/A

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

Recommendation #8

Within ninety (90) days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure any claim correspondence with AZ claimants correctly identifies that state's statute and Insurance Department, in accordance with the applicable state statute.

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
5	Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	A.R.S. §§ 20-268 20-461, 20-462, 20-468, A.A.C. R20-6-801

Preliminary Findings #7, #8a and #8b – Total Loss Sales Tax and Fees – The Company failed to accurately calculate and fully pay the correct:

- (a) sales tax with eight (8) first and twenty-seven (27) third party total loss settlements; and
- (b) fees with thirty-four (34) first and fifty-three (53) third party total loss settlements.

These represent 122 violations of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(1)(b).

PRIVATE PASSENDER AUTOMOBILE TOTAL LOSSES

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

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

Population	Sample	# of Exceptions	% to Sample
92	92	122	108.7%

A 108.7% error ratio does not meet the Standard; therefore a recommendation is warranted.

Preliminary Finding #12 – Incorrect Settlement Calculations - The Company failed to correctly calculate final settlement amounts owed one (1) first party partial loss claimant, and one (1) first and one (1) third party total loss claimant. These represent three (3) violations of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(1)(c).

PPA SETTLEMENT CALCULATIONS

Failed to correctly calculate final settlement amounts owed claimants

Violation of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(1)(c)

Population	Sample	# of Exceptions	% to Sample
766	142	3	2.1%

A recommendation is warranted because restitution is owed.

Recommendation #9

Within ninety (90) days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure the Company correctly calculates and fully pays any betterment adjustments, sales tax and title, registration or other fees, including towing and storage fees, owed any claimant in the settlement of a partial or total loss, in accordance with applicable state statutes and regulations. In addition, the Company should make restitution to these claimants, including interest, and provide the Department appropriate documentation of payments. With each payment of restitution, provide a letter indicating that an audit of claims by the Department resulted in identification and correction of previous claim payment.

SUMMARY OF FAILED STANDARDS

EXCEPTION	Rec. No.	Page No.
UNDERWRITING & RATING		
<u>Standard #1</u> The rates charged for the policy coverage are in accordance with filed rates (if applicable) of the Company Rating Plan.		
<u>Standard #2</u> Disclosures to insureds concerning rates and coverage are accurate and timely.	2	13
<u>Standard #3</u> All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations, including, but not limited to, the Notice of Insurance Information Practices and the Authorization for Release of Information.	3	14
DECLINATIONS, CANCELLATIONS & 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 applicant and shall not be unfairly discriminatory	4	16
<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, and shall not be unfairly discriminatory.	5	17
CLAIM PROCESSING		
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	6, 7 & 8	21 & 22
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	9	23

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 and 20-443)	X	

C. Producer Compliance

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

D. Underwriting and Rating

#	STANDARD	PASS	FAIL
1	The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan. (A.R.S. §§ 20-341 through 20-385)		X
2	Disclosures to insureds concerning rates and coverage are accurate and timely. (A.R.S. §§ 20-259.01, 20-262, 20-263, 20-264, 20-266, 20-267, 20-2110)		X

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

E. Declinations, Cancellations and Non-Renewals

#	STANDARD	PASS	FAIL
1	Declinations, Cancellations and Non-Renewals shall comply with state laws and Company guidelines including the Summary of Rights to be given to the applicant and shall not be unfairly discriminatory. (A.R.S. §§ 20-448, 20-2108, 20-2109 and 20-2110)		X
2	Cancellations and non-renewal notices comply with state laws, Company guidelines and policy provisions, including the amount of advance notice required and grace period provisions to the policyholder, and shall not be unfairly discriminatory. (A.R.S. §§ 20-191, 20-443, 20-448, 20-1631, 20-1632, 20-1632.01)		X

F. Claim Processing

#	STANDARD	PASS	FAIL
1	The initial contact by the Company with the claimant is within the required time frame. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
3	The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations. (A.R.S. §§ 20-461, 20-466.03, 20-2106, A.A.C. R20-6-801)		X

#	STANDARD	PASS	FAIL
4	Claim files are adequately documented in order to be able to reconstruct the claim. (A.R.S. §§ 20-461, 20-463, 20-466.03, A.A.C. R20-6-801)	X	
5	Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations. (A.R.S. §§ 20-268, 20-461, 20-462, 20-468, A.A.C. R20-6-801)		X
6	The Company uses reservation of rights and excess of loss letters, when appropriate. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	
7	Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner. (A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801)	X	
8	The Company responds to claim correspondence in a timely manner. (A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801)	X	
9	Denied and closed without payment claims are handled in accordance with policy provisions and state law. (A.R.S. §§ 20-461, 20-462, 20-463, 20-466, 20-2110, A.A.C. R20-6-801)	X	
10	No insurer shall fail to fully disclose to first party insureds all pertinent benefits, coverages, or other provisions of an insurance policy or insurance contract under which a claim is presented. (A.A.C. R20-6-801)	X	
11	Adjusters used in the settlement of claims are properly licensed. (A.R.S. §§ 20-321 through 20-321.02)	X	