

STATE OF ARIZONA  
FILED

JUN 14 2012

DEPT. OF INSURANCE

**REPORT OF TARGET MARKET CONDUCT EXAMINATION**

**OF**

**COLORADO CASUALTY INSURANCE COMPANY**

**NAIC #41785**

**AS OF**

**December 31, 2010**

**TABLE OF CONTENTS**

AFFIDAVIT .....	4
FOREWORD .....	5
SCOPE AND METHODOLOGY .....	6
HISTORY OF THE COMPANY .....	7
PROCEDURES REVIEWED WITHOUT EXCEPTION .....	9
EXAMINATION REPORT SUMMARY .....	9
RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS.....	12
UNDERWRITING AND RATING.....	13
CANCELLATIONS AND NON-RENEWALS .....	17
CLAIMS PROCESSING .....	24
SUMMARY OF FAILED STANDARDS.....	32
SUMMARY OF PROPERTY AND CASUALTY STANDARDS .....	34



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**JANICE K. BREWER**  
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**CHRISTINA URIAS**  
Director of Insurance

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Honorable Christina Urias  
Director of Insurance  
State of Arizona  
2910 North 44<sup>th</sup> Street  
Suite 210, Second Floor  
Phoenix, Arizona 85018-7269

Dear Director Urias:

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:

**Colorado Casualty Insurance Company**  
**NAIC #41785**

The above examination was conducted by Helene I. Tomme, CPCU, CIE, Market Examinations Supervisor, Examiner-in Charge, and Linda L. Hofman, AIE, MCM, FLMI, AIRC, CCP, Market Conduct Senior Examiner and Christopher G. Hobert, CIE, MCM, FLMI, AIRC, CCP, Market Conduct Senior Examiner.

The examination covered the period of January 1, 2010 through December 31, 2010.

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 Colorado Casualty Insurance Company (herein referred to as, "CCIC", 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 Homeowners' (HO), Private Passenger Auto (PPA) and Commercial Multi-Peril (CMP) 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, 2010 through December 31, 2010 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)

Colorado Casualty Insurance Company ("the Company") was incorporated under the laws of the State of Colorado April 24, 1980. The Company commenced business November 27, 1981. The sole shareholder of the Company was Colorado Management Corporation, which was formed for the sole purpose of organizing and capitalizing the Company.

Colorado Management Corporation sold the Company December 24, 1986, to Colonial Indemnity Insurance Company of Kingston, New York. On January 1, 1988, the Company was sold to Providence Washington Insurance Company of Providence, Rhode Island. The Company was sold to Guaranty National Insurance Company, effective October 26, 1992. Existing and future liabilities for policies written prior to October 26, 1992 were retained by Providence Washington Insurance Company.

The Company was subsequently purchased by Liberty Mutual Insurance Company (LMIC) from Guaranty National Insurance Company on September 29, 1998. All the stock of the Company was held by Liberty Mutual Insurance Company. At the time of purchase the Company entered into a commutation of the Reinsurance Agreement between itself and Guaranty National Insurance Company. Under the terms of the Commutation Agreement and Release, the Company assumed all past, present, and future liabilities.

When the Company was acquired by Liberty Mutual Group, the Company assumed any current and future liabilities from Unisun and Peak for their "voluntary" standard (non designated agents) commercial business written on those entities. At the date of sale to the Liberty Mutual Group, the Company agreed to service, for a fee, on behalf of Unisun, the commercial auto facility business written for North Carolina and South Carolina designated agents until runoff was complete. The Company transferred this Southeast business to Montgomery Mutual Insurance Company, an affiliate, early in 2000, although the Company continued to service the Unisun Facility policies for North Carolina and South Carolina. As of September, 2004, there are no in-force policies left and approximately 20 open claims.

On October 1, 2009, the Company redomesticated from Colorado to New Hampshire.

Peerless Insurance Company is the sole shareholder of the Company. Liberty Mutual Agency Corporation is the sole shareholder of Peerless Insurance Company. Liberty Insurance Holdings, Inc. is Liberty Mutual Agency Corporation's parent corporation. Liberty Mutual Insurance Company owns 100% of Liberty Insurance Holdings, Inc.'s stock. Liberty Mutual Group Inc. owns 100% of the stock of Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, and Employers Insurance Company of Wausau. LMHC Massachusetts Holdings Inc. owns 100% of the stock of Liberty Mutual Group Inc. Liberty Mutual Holding Company Inc., the ultimate controlling parent of the Company, owns 100% of the stock of LMHC Massachusetts Holdings Inc.

The Company is part of the Liberty Mutual Agency Corporation strategic business unit that uses the independent agency distribution system. Although the Company holds a Certificates of Authority in 21 states, the underwriting companies of Liberty Mutual Agency Corporation have been assigned certain states for their region. The Colorado Casualty region currently consists of 6 states: Colorado, Wyoming, Arizona, Utah, New Mexico, and Nevada.

Currently the Company writes commercial lines in all six states within its region and writes Personal Automobile and Homeowners in Colorado, Utah, and Wyoming. In Colorado, the Company is authorized to transact General Property, Motor Vehicle, General Casualty, Fidelity & Surety, Workers' Compensation, and Professional Malpractice.



## **PROCEDURES REVIEWED WITHOUT EXCEPTION**

The Examiners review of the following Company departments<sup>1</sup> or functions indicates that they appear to be in compliance with Arizona statutes and rules:

Complaint Handling

Marketing and Sales

Producer Compliance

## **EXAMINATION REPORT SUMMARY**

The examination identified 15 compliance issues that resulted in 199 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, two (2) compliance issues are addressed in this Report as follows:

- The Company failed to specify the length of time the authorization remains valid under the applicant authorization section of its HO application. This resulted in one (1) exception.
- 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 its HO application. This resulted in one (1) exception.

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

### **Cancellation and Non Renewals**

In the area of Cancellations and Non Renewals, seven (7) compliance issues are addressed in this Report as follows:

- The Company failed to provide a compliant Summary of Rights, on 22 HO non renewals, 26 HO cancellations for underwriting reasons, 33 PPA non renewals and 15 PPA cancellations for underwriting reasons to its policyholders/insureds cancelled for an adverse underwriting decision for a total of 96 notices.
- The Company issued seven (7) HO cancellations for underwriting reasons without a valid cancellation reason.
- The Company failed to provide a named driver exclusion offer prior to sending out 4 PPA cancellation notices and 9 PPA non renewal notices for a total of 13 notices.
- The Company failed to mail PPA non renewal notices at least 45-days before the effective date of the non renewal on seven (7) PPA non renewals.
- The Company failed to mail two (2) PPA Cancellation notices for Underwriting Reasons and seven (7) PPA Non Renewal notices at least 10-days before the effective date of the cancellation or non renewal for a total of nine (9) notices.
- The Company failed to include the specific facts which constitute the reason for non renewal on five (5) PPA Non Renewals.
- The Company failed to include the right to complain to the Director and the insured's possible eligibility for insurance through the automobile assigned risk plan on three (3) PPA non renewal notices.

### **Claims Processing**

In the area of Claims Processing, six (6) compliance issues are addressed in this Report as follows:

- The Company failed to correctly calculate and pay the Transaction Privilege Tax (TPT) on four (4) first party homeowner paid claims and two (2) commercial multi-peril paid claims, for a total of six (6) paid claims.
- The Company failed to correctly calculate and pay the appropriate tax, license registration and/or air quality fees on four (4) PPA first/third party total loss settlements.
- The Company failed to include a fraud warning statement in at least 12-point type and/or incorrectly referenced the wrong state statute on six (6) claim forms.
- The Company failed to specify the length of time the authorization remains valid (shall be no longer than the duration of the claim) on two (2) claim authorization forms.
- 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 three (3) claim authorization forms.
- The Company failed to identify the appropriate insuring company name on 6 HO closed without payment, 18 HO paid, 9 PPA subrogation, 2 PPA paid and 1 PPA total loss for a total of 36 claims correspondence/letters.

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**

Homeowners (HO):

The Examiners reviewed 100 HO New/Renewal Business files out of a population of 7,465 during the examination period.

Private Passenger Automobile (PPA):

The Examiners reviewed 100 PPA New/Renewal Business files out of a population of 11,497 and 50 PPA Surcharge files out of a population of 851 during the examination period. This new/renewal and surcharge review included a total sample size of 150 PPA files from a total population of 12,348.

Commercial Multi-Peril (CMP):

The Examiners reviewed 50 CMP New/Renewal Business files out of a population of 1,585 during the examination period.

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
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
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
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	Schedule rating, individual risk premium modification (IRPM) or experience rating plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.	A.R.S. § 20-400.01
6	Policies and endorsements are issued or renewed accurately, timely and completely.	A.R.S. §§ 20-1120, 20-1121, 20-1632 and 20-1654
7	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
5	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

**Underwriting and Rating, Standard # 5 – failed**

**Preliminary Finding -001 – Disclosure Authorization Forms - Underwriting –** The Examiners identified one (1) policy application (shown in the table below) where the Company failed to:

- specify the authorization remains valid one year from the date the authorization on the application is signed involving property or casualty insurance; 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(7)(b) and (9) and represent two (2) violations of the statute. The following table summarizes these application form findings.

	Form Description / Title	Form #	Statute Provision
1	Homeowners Application	ACORD 80 (2003/02)	7(b) and 9

**UNDERWRITING FORMS**

Failed to specify the authorization remains valid one year from the date the authorization is signed on the application

Violation of A.R.S. § 20-2106(7)(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.**

### UNDERWRITING FORMS

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 #1**

Within 90 days of the filed date of this Report, provide the Department with documentation that Company procedures are in place so the application form listed above include the following:

- specify the authorization remains valid one year from the date the authorization on the application is signed involving property or casualty insurance; 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 , in accordance with the applicable state statute.



**CANCELLATIONS AND NON-RENEWALS**

Homeowners (HO):

The Examiners reviewed 50 HO cancellation files for non-payment of premium out of a population of 292, 36 HO cancellation files for underwriting reasons out of a population of 36 and 50 HO non renewals out of a population of 114. This cancellation and non renewal review included a total sample size of 136 HO files from a total population of 442.

Private Passenger Automobile (PPA):

The Examiners reviewed 50 PPA cancellation files for non-payment of premium out of a population of 569, 27 PPA cancellation files for underwriting reasons out of a population of 27 and 50 PPA non renewals out of a population of 171. This cancellation, non renewal and declination review included a total sample size of 127 PPA files from a total population of 767.

Commercial Multi-Peril (CMP):

The Examiners reviewed 50 CMP cancellation files for non-payment of premium out of a population of 439, 30 CMP cancellation files for underwriting reasons out of a population of 30 and 24 CMP non renewals out of a population of 24. This cancellation/non renewal review included a total sample size of 104 CMP files from a total population of 493.

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

**The following Cancellation and Non Renewal Standards 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 002 – Summary of Rights** – The Examiners identified 22 HO non renewals, 26 HO cancellations for underwriting reasons, 33 PPA non renewals and 15 PPA cancellations for underwriting reasons, cancelled for an adverse underwriting decision which totaled 96 notices. These notices failed to provide a compliant Summary of Rights language to its policyholders, an apparent violation of A.R.S. §§ 20-2108, 20-2109 and 20-2110.

**HOMEOWNERS AND PRIVATE PASSENGER AUTOMOBILE  
Summary of Findings – Standard 1 File Review  
Failed to Provide Summary of Rights  
A.R.S. §§ 20-2108, 20-2109 and 20-2110**

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
HO Non Renewals	114	22	22	010
HO UW Reasons	36	26	26	012
PPA Non Renewals	171	33	33	014
PPA UW Reasons	27	15	15	017
<b>Totals</b>	<b>348</b>	<b>96</b>	<b>96</b>	
			<b>Error Ratio</b>	<b>100%</b>

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

**Recommendation #2**

Within 90 days of the filed date of this Report provide the Department with documentation that Company procedures 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.

**Cancellation and Nonrenewal, Standard #2 – failed**

**Preliminary Finding 003 – Homeowners' Grounds for Valid Cancellation** – The Examiners identified seven (7) HO cancellations for underwriting reason files where the Company failed to provide a valid cancellation reason, an apparent violation of A.R.S. § 20-1652.

**HOMEOWNERS' UNDERWRITING CANCELLATIONS  
Failed to provide a Valid Cancellation Reason  
A.R.S. § 20-1652**

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
36	36	7	19%

**A 19% error ratio does not meet the Standard; therefore, a recommendation is warranted.**

**Recommendation #3**

Within 90 days of the filed date of this report provide the Department with documentation that Company procedures are in place so that in the event of cancellation for underwriting reason, the insured shall be given a valid cancellation reason.

**Cancellation and Non-Renewal Standard #2**

**Preliminary Finding #004** – The Company failed to offer a named driver exclusion prior to terminating coverage due to driving records on nine (9) non-renewals and four (4) cancellations for underwriting reasons. These are violations of A.R.S. § 20-1631(F).

**PRIVATE PASSENGER AUTOMOBILE  
Summary of Findings – Standard 2 File Review  
Failed to offer a named driver exclusion prior to non renewal/cancellation  
Violation of A.R.S. § 20-1631(F)**

<b>Files Reviewed</b>	<b>Population</b>	<b>Reviewed</b>	<b>Exceptions</b>	<b>Request #</b>
PPA Non Renewals	171	44	9	014
PPA UW Reasons	27	24	4	017
<b>Totals</b>	<b>198</b>	<b>68</b>	<b>13</b>	
			<b>Error Ratio</b>	<b>19%</b>

**A 19% 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 documentation to the Department that Company procedures and controls are in place to ensure that policyholders are offered the option of a named driver exclusion prior to terminating coverage due to driving record of an individual on the policy.

**Cancellation and Nonrenewal, Standard #2 - failed**

**Preliminary Finding 005 – Personal Automobile Non Renewal Notices Mailed less than 45-days** – The Examiners identified seven (7) PPA Non Renewals where the Company failed to mail non renewal notices at least 45-days before the effective date of the non renewal, an apparent violation of A.R.S. §§ 20-1631(E) and 20-1632(A).

**PRIVATE PASSENGER AUTOMOBILE NON RENEWALS**

Failed to provide a non renewal notice at least 45-days before effective date

A.R.S. §§ 20-1631(E) and 20-1632(A)

Population	Sample	# of Exceptions	% to Sample
171	44	7	16%

**A 16% 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 the Department with documentation that Company procedures are in place to ensure the required 45-days is given on PPA Non Renewals.

**Cancellation and Nonrenewal, Standard #2 - failed**

**Preliminary Finding 006 – Personal Automobile Cancellation Notices Mailed less than 10-days** – The Examiners identified seven (7) PPA Non Renewals and two (2) PPA Cancellations for Underwriting Reasons for a total of nine (9) notices, where the Company failed to mail non renewal or cancellation notices at least 10-days before the effective date of the non renewal or cancellation, an apparent violation of A.R.S. § 20-1632(A).

**PRIVATE PASSENGER AUTOMOBILE**

**Summary of Findings – Standard 2 File Review**

Failed to mail cancellation notice at least 10 days before the effective date

A.R.S. § 20-1632(A)

Files Reviewed	Population	Reviewed	Exceptions	Request #
PPA Non Renewals	171	44	7	014
PPA UW Reasons	27	24	2	017
<b>Totals</b>	<b>198</b>	<b>68</b>	<b>9</b>	
			<b>Error Ratio</b>	<b>13%</b>

**A 13% 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 to ensure the required 10-days is given on PPA Non Renewals and PPA Cancellations for Underwriting Reasons.

**Cancellation and Nonrenewal, Standard #2 - failed**

**Preliminary Finding 007 – Personal Automobile Specific Facts which constitute the reason for non renewals**– The Examiners identified five (5) PPA Non Renewals, where the Company failed to give the specific reason for non renewal, an apparent violation of A.R.S. § 20-1632(A)(1).

**PRIVATE PASSENGER AUTOMOBILE NON RENEWAL**

Failed to provide specific non renewal reason

A.R.S. § 20-1632(A)(1)

Population	Sample	# of Exceptions	% to Sample
171	44	5	11%

**An 11% 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 provide policyholders with the specific facts which constitute the reason for their cancellation or non renewal.

**Cancellation and Nonrenewal, Standard #2 - failed**

**Preliminary Finding 008 – Private Passenger Automobile non renewals failed to include the right to complain to the Director and information on the assigned risk plan** – The Examiners identified three (3) PPA non renewal notices, where the Company failed to include the right to complain to the Director and the insured’s possible eligibility for insurance through the automobile assigned risk plan, an apparent violation of A.R.S. § 20-1632(A)(1) and (2).

**PRIVATE PASSENGER AUTOMOBILE NON RENEWAL**

Failed to Include Right to Complain to the Director/Assigned Risk Eligibility

A.R.S. § 20-1632(A)(1) and (2)

Population	Sample	# of Exceptions	% to Sample
171	44	3	7%

**A 7% 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 so that the required right to complain to the Director and the insured's eligibility for the assigned risk plan is provided on its personal automobile non renewals and cancellations for underwriting reason notices.

**CLAIMS PROCESSING**



Homeowners (HO):

The Examiners reviewed 50 HO claims closed without payment from a population of 135; 50 HO paid claims from a population of 318 and 3 HO subrogation claims from a population of 3. This claim review included a total sample size of 103 HO claims files from a total population of 456.

Private Passenger Automobile (PPA):

The Examiners reviewed 50 PPA claims closed without payment from a population of 681; 50 PPA paid claims from a population of 1,244; 50 total loss PPA claims out of a population of 268 and 50 PPA subrogation claims out of a population of 340. This claims review included a total sample size of 200 PPA claim files from a total population of 2,533.

Commercial Multi-Peril (CMP):

The Examiners reviewed 50 CMP claims closed without payment from a population of 154; 50 CMP paid claims from a population of 218 and 34 CMP subrogation claims out of a population of 34. This claim review included a total sample size of 134 CMP claims files from a total population of 406.

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
7	Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner.	A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801
8	The Company responds to claim correspondence in a timely manner.	A.R.S. § 20-461, 20-462, A.A.C. R20-6-801

9	Denied and Closed Without Payment claims are handled in accordance with policy provisions and state law.	A.R.S. §§ 20-461, 20-462, 20-463, 20-466, 20-2110, A.A.C. R20-6-801
10	No insurer shall fail to fully disclose to first party insureds all pertinent benefits, coverages or other provisions of an insurance policy or insurance contract under which a claim is presented.	A.A.C. R20-6-801
11	Adjusters used in the settlement of claims are properly licensed.	A.R.S. §§ 20-321 through 20-321.02

**The following Claim Standards 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
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 – failed**

**Preliminary Finding-012 – Transaction Privilege Tax (TPT)** - The Examiners identified four (4) homeowner settlements and two (2) commercial multi-peril settlements for a total of six (6), in which the Company failed to correctly calculate and pay the Transaction Privilege Tax (TPT), which is an apparent violation of A.R.S. §§ 20-461, 20-462(A) and 44-1201.

**Summary of Findings – Standard 5 File Review  
Failed to correctly calculate and pay the Transaction Privilege Tax  
A.R.S. §§ 20-461, 20-462(A) and 44-1201**

Files Reviewed	Population	Reviewed	Exceptions	Request #
Homeowner Paid Claims	318	50	4	005
Commercial Multi-Peril Paid Claims	218	50	2	008
<b>Totals</b>	<b>536</b>	<b>100</b>	<b>6</b>	
			<b>Error Ratio</b>	<b>6%</b>

**A 6% error ratio does not meet the standards; 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 to correctly calculate and pay the correct Transaction Privilege Tax (TPT) on Homeowner Paid Claims and Commercial Multi-Peril Paid Claims. The Company should make restitution payments, in the amount of \$466.35(including interest) to the two (2) remaining first party HO settlements (HO-29 and HO-38).

Also, the Company must conduct a self-audit of the remaining Homeowner Paid Claims in 2010 and provide the Department with documentation that all monies owed have been properly reimbursed including copies of all AZ Refund letters and checks (including interest) to insureds and a summary spreadsheet.

*Subsequent Events (HO): During the course of the Phase I Examination, the Company agreed with two (2) first party underpayments and paid restitution to the parties affected in the amount of \$142.85 plus \$16.47 in interest for a total of \$159.32. Copies of letters of explanation and payments were sent to the Department prior to completion of the Examination.*

*Subsequent Events (CMP): During the course of the Phase I Examination, the Company agreed with the two (2) incorrect Commercial Multi-Peril Paid Claims and made restitution payments to the parties affected in the amount of \$120.31 plus \$11.09 in interest for a total of \$131.40. Copies of letters of explanation and payments were sent to the Department prior to completion of the Examination.*

**Claims Processing Standard #5 - failed**

**Preliminary Finding 013 –Total Loss Taxes and Fees -** The Examiners identified four (4) first/third party total loss settlements, in which the Company failed to correctly calculate and pay appropriate tax. This is an apparent violation of A.R.S. §§ 20-461, 20-462(A) and A.A.C. R20-6-801 (H)(1)(b).

**PRIVATE PASSENGER TOTAL LOSS AUTOMOBILE CLAIMS**

Failed to correctly calculate and pay appropriate tax on total loss settlements

A.R.S. §§ 20-461, 20-462(A) and A.A.C. R20-6-801 (H)(1)(b)

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
268	50	4	8%

**An 8% error ratio does not meet the standards; therefore, a recommendation is warranted**

**Recommendation #10**

Within 90 days of the filed date of this Report provide documentation to the Department to show that the Company’s procedures have been corrected to comply with Arizona Statutes and Rules when processing total loss settlements for First and Third Parties. Also, the Company should

make a restitution payment, in the amount of \$109.14 to the one (1) third party total loss settlement (TL-42).

*Subsequent Events: During the course of the Phase I Examination, the Company agreed with the incorrect settlement of three (3) total losses and made restitution payments to the parties affected in the amount of \$57.37 plus \$8.23 in interest for a total of \$65.60. Copies of letters of explanation and payments were sent to the Department prior to completion of the Examination.*

**Claims Processing Standard #3 – failed**

**Preliminary Finding 014 – Fraud Warning Statement** –The Company failed to provide six (6) fraud warning statements in at least twelve (12) point type. These represent six (6) violations of A.R.S. § 20-466.03. The following tables summarize the fraud warning statement findings.

**Fraud Warning Statement**

Failed to provide fraud warning statement in at least twelve (12) point type  
A.R.S. § 20-466.03

	<b>Form Description / Title</b>	<b>Form Number</b>
1	Release of Property Damage Claims (Comml/PPA)	NA
2	Authorization to Disclose Protected Health Information (Comml/PPA)	NA
3	Release Property Damage Claims Only (Comml)	NA
4	Authorization to Release Health Information (PPA)	NA
5	Minors Release and Parental Release and Indemnity Agreement (PPA)	NA
6	Uninsured/Underinsured Motorist Release (PPA)	NA

**CLAIM FORMS**

Failed to provide fraud warning statement in at least twelve (12) point type  
Violation of A.R.S. § 20-466.03

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
N/A	N/A	6	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 #11**

Within 90 days of the filed date of this Report, provide the Department with documentation that when referencing a state statute the correct one is provided as well as the required fraud warning statement, be in 12-point type. This would include each of the claim forms cited above, in accordance with the applicable state statutes.

*Subsequent Events: During the course of the Phase I Examination, the Company agreed with the finding and provided corrected forms to the Department prior to completion of the Examination.*

**Claims Processing Standard #3 – failed**

**Preliminary Finding-015– Disclosure Authorization Forms- Claims** – The Examiners identified three (3) claim authorization forms (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.

These forms fail to comply with A.R.S. § 20-2106 (8)(b) and (9) and represent five (5) violations of the statute. The following table summarizes these authorization form findings.

	<b>Form Description / Title</b>	<b>Form #</b>	<b>Statute Provision</b>
1	Authorization to Disclose Protected Health Information	Unknown	8(b) and 9
2	Authorization to Release Health Information	Unknown	8(b) and 9
3	Authorization to Disclose Health Information and Other Records	Unknown	9

**CLAIM FORMS**

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)

<b>Population</b>	<b>Sample</b>	<b># of Exceptions</b>	<b>% to Sample</b>
N/A	N/A	2	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 FORMS

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 or exception identified in the areas of a procedure or forms use does not meet the Standard; therefore a recommendation is warranted.**

#### **Recommendation #12**

Within 90 days of the filed date of this Report, provide the Department with documentation that Company procedures are in place so the authorization forms listed above include 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 Phase I Examination, the Company agreed with the finding and provided the Department a corrected form for Authorization to Disclose Health Information and Other Records. Further, the Company advised this is the only authorization form utilized by their claims department.*

#### **Claims Processing Standard #5 - failed**

##### **Preliminary Finding-016 –Wrong Company name identified on written correspondence: -**

The Company failed to identify the appropriate insuring company as Colorado Casualty Insurance Company on written correspondence sent to insureds/claimants on 24 HO and 12 PPA files for a total of 36 documents/correspondence, which is an apparent violation of A.R.S. § 20-461(A)(1).

### HOMEOWNER CLAIMS

Failed to include the Correct Insuring Company

A.R.S. §20-461(A)(1)

HOMEOWNERS	Population	Sample	Exceptions	Error Ratio
HO CWP	135	50	6	12%
HO Paid	318	50	18	36%
<b>Totals</b>	<b>453</b>	<b>100</b>	<b>24</b>	<b>24%</b>

**A 24% error ratio does not meet the standards; therefore, a recommendation is warranted.**

### PRIVATE PASSENGER AUTOMOBILE CLAIMS

Failed to include the Correct Insuring Company

A.R.S. §20-461(A)(1)

PERSONAL AUTO	Population	Sample	Exceptions	Error Ratio
PPA Subrogation	340	50	9	18%
PPA Paid	1,244	50	2	4%
PPA Total Loss	268	50	1	2%
<b>Totals</b>	<b>1,852</b>	<b>150</b>	<b>12</b>	<b>8%</b>

**An 8% error ratio does not meet the standards; therefore, a recommendation is warranted.**

#### **Recommendation # 13**

Within 90 days of the filed date of this Report provide the Department with documentation that the Company's procedures are in place to identify the appropriate insuring Company on all Homeowners' and Private Passenger Automobile correspondence including but not limited to claim forms and or letters sent by the Company.

**SUMMARY OF FAILED STANDARDS**

<b>EXCEPTIONS</b>	<b>Rec. No.</b>	<b>Page No.</b>
<b>UNDERWRITING AND RATING</b>		
<p><u>Standard #5</u></p> <p>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.</p>	1	16
<b>CANCELLATIONS AND NON RENEWALS</b>		
<p><u>Standard #1</u></p> <p>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.</p>	2	19
<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>	3	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>	4	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>	5	21



<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	21
<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	22
<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.	8	23
<b>CLAIM PROCESSING</b>		
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	9	27
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	10	27
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	11	27
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	12	30
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	13	31

## 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)	14	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)	14	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)	14	X	
4	Schedule rating, individual risk premium modification (IRPM) or experience rating plans, where permitted, are based on objective criteria with usage supported by appropriate documentation. (A.R.S. § 20-400.01).	14	X	
5	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)	15		X
6	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1632 and 20-1654)	14	X	
7	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463 and 20-1109)	14	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)	18		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)	18		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)	25	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, and A.A.C. R20-6-801)	25	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)	26		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)	25	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)	26		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)	25	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)	25	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)	25	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)	26	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)	26	X	
11	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	26	X	