

MAR 24 2004

STATE OF ARIZONA  
DEPARTMENT OF INSURANCE

DEPT OF INSURANCE  
BY 

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4 In the Matter of: ) Docket No. 04A-053-INS  
5 **AUTO-OWNERS INSURANCE COMPANY,** ) **CONSENT ORDER**  
6 NAIC # 18988, )  
7 Respondent. )

8 Examiners for the Department of Insurance (the "Department") conducted a  
9 market conduct examination of Auto-Owners Insurance Company ("Auto-Owners").  
10 The Report of Examination of the Market Conduct Affairs of Auto-Owners, dated  
11 September 15, 2002 alleges that Auto-Owners has violated A.R.S. §§ 20-400.01, 20-  
12 461, 20-1674, A.A.C. R20-6-801, and the prior Consent Order, Docket #01A-013-INS,  
13 filed January 18, 2001.

14 Auto-Owners wishes to resolve this matter without formal adjudicative  
15 proceedings, admits that the following Findings of Fact are true, and consents to the  
16 entry of the following Conclusions of Law and Order.

17 **FINDINGS OF FACT**

18 1. Auto-Owners is authorized to transact property and casualty insurance  
19 pursuant to Certificate of Authority issued by the Director.

20 2. The Examiners were authorized by the Director to conduct a market  
21 conduct examination of Auto-Owners. The on-site examination covered the time  
22 period from January 1, 2001 through December 31, 2001, and was concluded on  
23 September 15, 2002. Based on the findings the Examiners prepared the "Report of  
24 Examination of the Market Conduct Affairs of Auto-Owners Insurance Company,"  
25 dated September 15, 2002.

1           3.     The Department previously conducted a market conduct examination of  
2 Auto-Owners. The on-site examination was concluded as of April 1, 1994. As a result,  
3 a Consent Order (the "2001 Consent Order"), was filed by the Director on January 18,  
4 2001. The 2001 Consent Order stated in part as follows:

5           "Auto-Owners Insurance Company and Owners Insurance Company shall cease and  
6 desist from the following:

7           b.     Developing premiums for commercial policies that are not consistent with their  
8 filed rates and rules."

9           4.     The Examiners reviewed 40 of 2,685 commercial automobile policies  
10 administered by the Company during the time frame of the Examination and found as  
11 follows:

12           a.     Auto-Owners failed to use the correct classification on the risk in  
13 the premium determination of two policies.

14           b.     Auto-Owners incorrectly applied its filed rates and rules to the  
15 premium determination of four policies.

16           5.     The Examiners reviewed 50 of 5,978 commercial general liability policies  
17 administered by the Company during the time frame of the examination and found that  
18 Auto-Owners failed to use the correct classification on the risk in the premium  
19 determination of two policies.

20           6.     The Examiners reviewed 20 of 42 commercial package policies that were  
21 canceled by the Company during the time frame of the examination and found that  
22 Auto-Owners failed to mail six cancellation notices by certified mail.

23           7.     The Examiners reviewed 26 of 26 first-party automobile total loss claims  
24 paid by the Company during the time frame of the examination and found that Auto-  
25 Owners failed to pay five insureds the correct amount of sales taxes and license fees.

1 8. The Examiners reviewed 28 of 28 third-party automobile total loss claims  
2 paid by the Company during the time frame of the examination and found that Auto-  
3 Owners failed to pay the correct amount of sales taxes and license fees to three  
4 claimants.

5 9. Auto-Owners underpaid nine insureds and claimants \$634.05.

6 **CONCLUSIONS OF LAW**

7 1. Auto-Owners violated A.R.S. § 20-400.01(A) and the 2001 Consent  
8 Order by failing to use the correct classification on the risk in the premium  
9 determination.

10 2. Auto-Owners violated A.R.S. § 20-400.01(A) and the 2001 Consent  
11 Order by failing to apply eligible discounts and by using unfiled policy fees to premium  
12 calculations.

13 3. Auto-Owners violated A.R.S. § 20-1674(A) by failing to send a  
14 cancellation notice for a commercial policies by certified mail.

15 4. Auto-Owners violated A.A.C. R20-6-801(H)(1)(b) and A.R.S. § 20-  
16 461(A)(6) by failing to pay the correct amount of sales taxes and license fees in the  
17 settlement of first-party automobile total-loss claims.

18 5. Auto-Owners violated A.R.S. § 20-461(A)(6) by failing to pay third party  
19 claimants the correct amount of sales taxes and license fees.

20 6. Grounds exist for the entry of the following Order, in accordance with  
21 A.R.S. §§ 20-220 and 20-456.

22 **ORDER**

23 **IT IS HEREBY ORDERED THAT:**

24 1. Auto-Owners Insurance Company shall cease and desist from  
25 committing the following practices:

- 1 a. Failing to comply with an Order of the Director.
- 2 b. Failing to determine premium for commercial automobile policies
- 3 without correctly applying its filed rates and rules.
- 4 c. Incorrectly classifying a risk associated with its commercial liability
- 5 policies.
- 6 d. Failing to mail commercial policy cancellation notices by certified
- 7 mail.
- 8 e. Failing to pay first-party and third-party automobile total loss
- 9 insureds and claimants the correct amount of sales taxes and license fees.

10 2. Within 90 days of the filed date of this Order, Auto-Owners shall submit  
11 written action plans to the Arizona Department of Insurance, for approval, evidence  
12 that corrections have been implemented and communicated to the appropriate  
13 personnel, regarding the issues outlined in Paragraph 1 of the Order section of this  
14 Consent Order. Evidence of corrective action and communication thereof includes, but  
15 is not limited to, memos, bulletins, E-mails, correspondence, procedures manuals, print  
16 screens, and training materials.

17 3. Within 90 days of the filed date of this Order, Auto-Owners shall pay the  
18 amount of \$634.05, plus interest at the rate of ten per cent per annum, calculated from  
19 the date the claim was received by the Company, to the date of the payment, to the  
20 nine insureds and claimants listed in Exhibit A of this Order.

21 4. Each payment made pursuant to paragraph 3 above shall include a letter  
22 to the insured in a form previously approved by the Director. A list of payments, giving  
23 the name and address of each party paid, the amount of the payment, the amount of  
24 interest paid, and the date of payment, shall be provided to the Department within 90  
25 days of the filed date of this Order.



**EXHIBIT A**

1  
2 **First-Party Commercial Automobile Total Loss Claim Refunds**

3 Claim Number	Amount Due Insured
450062801	\$20.35
	\$113.07
450434401	\$115.89
450234701	\$101.10
45317801	\$36.08
<b>TOTAL</b>	<b>\$386.49</b>

7 **Third-Party Commercial Automobile Total Loss Claim Refunds**

8 Claim Number	Amount Due Insured
45520901	\$26.76
45151401	\$30.84
45234701	\$147.36
45234701	\$42.60
<b>TOTAL</b>	<b>\$247.56</b>

**CONSENT TO ORDER**

1           1.     Auto-Owners Insurance Company has reviewed the foregoing Order.

2           2.     Auto-Owners Insurance Company admits the jurisdiction of the Director  
3 of Insurance, State of Arizona, admits the foregoing Findings of Fact, and consents to  
4 the entry of the Conclusions of Law and Order.

5           3.     Auto-Owners Insurance Company of is aware of the right to a hearing, at  
6 which it may be represented by counsel, present evidence, and cross-examine  
7 witnesses. Auto-Owners Insurance Company irrevocably waives the right to such  
8 notice and hearing and to any court appeals related to this Order.

9           4.     Auto-Owners Insurance Company states that no promise of any kind or  
10 nature whatsoever was made to it to induce it to enter into this Consent Order and that  
11 it has entered into this Consent Order voluntarily.

12           5.     Auto-Owners Insurance Company acknowledges that the acceptance of  
13 this Order by the Director of the Arizona Department of Insurance is solely for the  
14 purpose of settling this matter and does not preclude any other agency or officer of this  
15 state or its subdivisions or any other person from instituting proceedings, whether civil,  
16 criminal, or administrative, as may be appropriate now or in the future.

17           6.     William Woodbury, who holds the office of  
18 Senior Attorney of Auto-Owners Insurance Company, is authorized to  
19 enter into this Order for it and on its behalf.

20  
21  
22     2-27-04  
23     Date

**AUTO-OWNERS INSURANCE COMPANY**  
By William Woodbury

1 COPY of the foregoing mailed/delivered  
2 this 24th day of March , 2004, to:

3 Gerrie Marks  
4 Deputy Director  
5 Mary Butterfield  
6 Assistant Director  
7 Consumer Affairs Division  
8 Paul J. Hogan  
9 Market Oversight Administrator  
10 Market Oversight Division  
11 Deloris E. Williamson  
12 Assistant Director  
13 Rates & Regulations Division  
14 Steve Ferguson  
15 Assistant Director  
16 Financial Affairs Division  
17 Alan Griffieth  
18 Chief Financial Examiner  
19 Alexandra Schafer  
20 Assistant Director  
21 Life and Health Division  
22 Terry L. Cooper  
23 Fraud Unit Chief

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16 2910 North 44th Street, Suite 210  
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18  
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20 Auto-Owners Insurance Company  
21 P.O. Box 30660  
22 Lansing, MI 48909-8796

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