


APR 8 2012

DEPT OF INSURANCE
BY 

STATE OF ARIZONA
DEPARTMENT OF INSURANCE

In the Matter of:

CORNERSTONE NATIONAL INSURANCE COMPANY,
NAIC # 10783,
Respondent.

) Docket No. 12A-039-INS
)
) **CONSENT ORDER**

Examiners for the Department of Insurance (the "Department") conducted a target market conduct examination of Cornerstone National Insurance Company ("CNIC"). In the Report of Target Market Conduct Examination of the Market Conduct Affairs of Cornerstone National Insurance Company, the examiners allege that CNIC violated A.R.S. §§20-259.01, 20-461, 20-466.03, 20-1631, 20-1632, 20-1632.01, 20-2106, 20-2110 and A.A.C. R20-6-801.

Cornerstone National Insurance Company wishes to resolve this matter without formal proceedings, admits that the following Findings of Fact are true, and consents to the entry of the following Conclusions of Law and Order.

FINDINGS OF FACT

1. Cornerstone National Insurance Company is authorized to transact property and casualty insurance pursuant to a Certificate of Authority issued by the Director.

2. The Director authorized the examiners to conduct a target market conduct examination of Cornerstone National Insurance Company. The examination covered the time period from January 1, 2010 through December 31, 2010 and concluded on September 9, 2011. Based on their findings, the examiners prepared the "Report of Target Market Conduct Examination of Cornerstone National Insurance Company" dated December 31, 2010.

1 3. The examiners reviewed 100 of 1,942 private passenger automobile
2 policies charged a premium increase due to an adverse underwriting decision, 70 of
3 161 private passenger policies cancelled and 9 of 9 private passenger policies non-
4 renewed due to an adverse underwriting decision during the time frame of the
5 examination and found that CNIC failed to provide a compliant Summary of Rights for
6 56 surcharged policies, 70 cancellations and 9 non-renewals.

7 4. The examiners reviewed 100 of 1,197 new business files in which the
8 applicant selected coverage limits less than limits for bodily injury or death contained in
9 their policy during the time frame of the examination and found the Company failed to
10 properly document and retain signed uninsured and underinsured selection forms for
11 48 new business applicants.

12 5. The examiners reviewed 70 of 161 private passenger automobile policies
13 cancelled during the time frame of the examination and found that CNIC cancelled 19
14 policies that had been in effect for more than 60 days for reasons not allowed by
15 statute.

16 6. The examiners reviewed 68 of 161 private passenger automobile policies
17 cancelled during the time frame of the examination and found that CNIC failed to
18 refund unearned premium within 10 days after policy cancellation to 49 policyholders.

19 7. The examiners reviewed 50 of 494 private passenger automobile policies
20 cancelled for non-payment of premium during the time frame of the examination and
21 found that CNIC failed to use non-payment cancellation notices that informed
22 policyholders of their right to complain to the Director on 48 notices.

23 8. The examiners found 4 claim forms used by the Company during the time
24 frame of the examination that failed to contain a compliant fraud warning notice. (see
25 Exhibit A)

1 automobile policies that had been in effect for more than 60 days for reasons not
2 allowed by statute.

3 4. CNIC violated A.R.S. §20-1632(A)(3) by failing to refund unearned
4 premium within 10 days after policy cancellation.

5 5. CNIC violated A.R.S. §20-1632.01(B) by using non-payment cancellation
6 notices that failed to inform policyholders of their right to complain to the Director.

7 6. CNIC violated A.R.S. §20-466.03 by using claim forms that failed to
8 contain a compliant fraud warning notice.

9 7. CNIC violated A.R.S. §20-2106(6), (8)(b) and (9) by using claim
10 authorization forms that failed to contain a compliant *Authorization for the Release of*
11 *Information*.

12 8. CNIC violated A.A.C. R20-6-801(H)(1)(b) by failing to correctly calculate
13 and fully pay the sales tax and/or fees payable in the settlement of total losses.

14 9. CNIC violated A.R.S. §20-461(A)(6) by not attempting to effectuate
15 prompt, fair and equitable settlement of third party claims.

16 10. CNIC violated A.R.S. §20-461(A)(1) by failing to identify the correct state
17 and/or state statutes on claims correspondence.

18 11. Grounds exist for the entry of the following Order in accordance with
19 A.R.S. §§20-220 and 20-456 and 20-2117.

20 **ORDER**

21 **IT IS HEREBY ORDERED THAT:**

- 22 1. Cornerstone National Insurance Company will not fail to:
- 23 a. provide insureds a compliant Summary of Rights in the event of an
24 adverse underwriting decision.
- 25 b. retain signed uninsured and underinsured selection forms for personal

1 automobile applicants that select coverage limits less than bodily injury or death
2 limits contained in their policy.

3 c. use only reasons allowed by statute to cancel private passenger
4 automobile policies in effect for more than 60 days.

5 d. refund unearned private passenger automobile premiums within 10
6 days after policy cancellation.

7 e. use non-payment cancellation notices that inform policyholders of
8 their right to complain to the Director.

9 f. use claim forms that contain a compliant fraud warning notice.

10 g. use claim authorization disclosure forms that contain a compliant
11 *Authorization for the Release of Information*.

12 h. correctly calculate and fully pay any sales tax and fees, payable in the
13 settlement of total losses.

14 i. handle third party total loss settlements in a fair and equitable manner.

15 j. identify the correct state and/or state statutes on all claims
16 correspondence.


17 2. Within 90 days of the filed date of this Order, Cornerstone National
18 Insurance Company shall submit to the Arizona Department of Insurance, for approval,
19 evidence that CNIC implemented corrections and communicated these corrections to
20 the appropriate personnel, regarding the issues outlined in Paragraph 1 of the Order
21 section of this Consent Order. Evidence of corrective action and communication
22 thereof includes, but is not limited to, memos, bulletins, E-mails, correspondence,
23 procedures manuals, print screens, and training materials.

24 3. The Department shall, through authorized representatives, verify that
25 CNIC has complied with all provisions of this Order.

1 4. Cornerstone National Insurance Company shall pay a civil penalty of
2 \$45,000.00 to the Director for remission to the State Treasurer for deposit in the State
3 General Fund in accordance with A.R.S. §20-220(B). CNIC shall submit the civil
4 penalty to the Market Oversight Division of the Department prior to the filing of this
5 Order.

6 5. The Report of Target Market Examination of Cornerstone National Insurance
7 Company of December 31, 2010, including the letter with their objections to the Report
8 of Examination, shall be filed with the Department upon the filing of this Order.

9 DATED at Arizona this 30th day of March, 2012.

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Christina Urias
14 Director of Insurance
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1 CONSENT TO ORDER

2 1. Cornerstone National Insurance Company has reviewed the foregoing
3 Order.

4 2. Cornerstone National Insurance Company admits the jurisdiction of the
5 Director of Insurance, State of Arizona, admits the foregoing Findings of Fact, and
6 consents to the entry of the Conclusions of Law and Order.

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

11 4. Cornerstone National Insurance Company states that no promise of any
12 kind or nature whatsoever was made to it to induce it to enter into this Consent Order
13 and that it has entered into this Consent Order voluntarily.

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

19 6. Kirk Schmidt, who holds the office of
20 President of Cornerstone National Insurance Company, is
21 authorized to enter into this Order for them and on their behalf.

22 **CORNERSTONE NATIONAL INSURANCE COMPANY**

23
24 3/27/12
25 Date

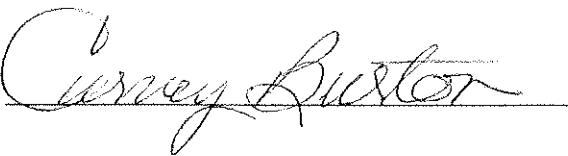
By Kirk Schmidt

1 COPY of the foregoing mailed/delivered
2 this 3rd day of April, 2012, to:

- 3 Gerrie Marks
4 Deputy Director
5 Mary Butterfield
6 Assistant Director
7 Consumer Affairs Division
8 Helene I. Tomme
9 Market Examinations Supervisor
10 Market Oversight Division
11 Dean Ehler
12 Assistant Director
13 Property and Casualty Division
14 Steve Ferguson
15 Assistant Director
16 Financial Affairs Division
17 David Lee
18 Chief Financial Examiner
19 Alexandra Shafer
20 Assistant Director
21 Life and Health Division
22 Chuck Gregory
23 Special Agent Supervisor
24 Investigations Division
25

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17 2910 North 44th Street, Suite 210
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19

20 Kirk Schmidt, President
21 Cornerstone National Insurance Company
22 P.O. Box 6040
23 Columbia, MO 65205-6040

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