

STATE OF ARIZONA
Department of Insurance and Financial Institutions
FILED July 30, 2024 by AS

STATE OF ARIZONA

DEPARTMENT OF INSURANCE AND FINANCIAL INSTITUTIONS

In the Matter of:

**American Family Insurance Company (NAIC # 10386),
Homesite Insurance Company (NAIC # 17221), and
Homesite Indemnity Company (NAIC # 20419),**

No. 24A- 064 -INS

CONSENT ORDER

6000 American Parkway
Madison, WI 53783

Respondents.

The Arizona Department of Insurance and Financial Institutions (“Department”) conducted a targeted market conduct examination of American Family Insurance Company, Homesite Insurance Company, and Homesite Indemnity Company (collectively “Respondents”) to determine Respondents’ compliance with provisions of Title 20, Arizona Revised Statutes (“A.R.S.”). In the Report of Market Conduct Examination of Respondents (“Report”), the Department alleges that Respondents violated A.R.S. § 20-2110(F)(3).

Respondents wish to resolve this matter without the commencement of formal proceedings, and admit the following Findings of Fact are true, and consent to the entry of the following Conclusions of Law and Order.

FINDINGS OF FACT

1. Respondents are Wisconsin domiciled companies. Respondents are authorized to transact property and casualty insurance in Arizona pursuant to the certificates of authority issued by the Director. The Director authorized examiners, consisting of Department employees and independent examiners contracting with the Department, to conduct a target market conduct examination of Respondents.

1 **B. Renewal Business**

2 8. In its May 4, 2022 response, Respondent American Family Insurance Company indicated
3 that for 641 HO renewal policies, the consumer was rated as having one or more bankruptcies.

4 9. On or about March 10, 2023, Respondent American Family Insurance Company provided
5 the Department with a copy of an audit report conducted by Respondent American Family Insurance
6 Company's vendor. After the examiners reviewed the audit results, the examiners concluded there were
7 7 substantiated violations of A.R.S. § 20-2110(F)(3) in connection with Respondent American Family
8 Insurance Company's renewal business finding.

9 **Homesite Insurance Company**

10 **A. New Business**

11 10. On or about May 4, 2022, Respondent Homesite Insurance Company identified 122,952 HO
12 new business and renewal business policies that were active during the examination period.

13 11. In its May 4, 2022 response, Respondent Homesite Insurance Company indicated that for
14 6,816 new business policies, the consumer was rated as having one or more bankruptcies.

15 12. On or about February 3, 2023, Respondent Homesite Insurance Company provided the
16 Department with a copy of an audit report conducted by Respondent Homesite Insurance Company's
17 vendor. Respondent Homesite Insurance Company conducted the audit after notifying the Department
18 that a programming logic issue occurred when merging two models, and this resulted in the improper
19 inclusion of bankruptcy data that was aged beyond 7 years for a number of consumers.

20 13. After the examiners reviewed the audit results and additional information provided by
21 Respondent Homesite Insurance Company, the examiners concluded there were 1,565 violations of
22 A.R.S. § 20-2110(F)(3) in connection with Respondent Homesite Insurance Company's new business
23 finding.

1 **B. Renewal Business**

2 14. For Respondent Homesite Insurance Company’s May 4, 2022 response, the examiners
3 reviewed 6,816 policies, and the examiners initially identified 854 different insureds, affecting 1,329
4 renewal periods, in which the bankruptcy date was more than 7 years old for one or more renewal dates.

5 15. On or about February 3, 2023, Respondent Homesite Insurance Company provided the
6 Department with a copy of the model-merger audit report conducted by Respondent Homesite Insurance
7 Company’s vendor. Following a review of the audit results and additional information submitted by the
8 Company, the examiners concluded there were 1,054 violations of A.R.S. § 20-2110(F)(3) in connection
9 with Respondent Homesite Insurance Company’s renewal business policies.

10 **Homesite Indemnity Company HO-3 Type Policies**

11 **A. New Business**

12 16. On or about May 4, 2022, Respondent Homesite Indemnity Company identified 35,016 new
13 business and renewal business HO-3 type policies that were active during the examination period.

14 17. In its May 4, 2022 response, Respondent Homesite Indemnity Company indicated that for
15 293 new business policies, the consumer was rated as having one or more bankruptcies.

16 18. On or about February 3, 2023, Respondent Homesite Indemnity Company provided the
17 Department with a copy of the model-merger audit report conducted by Respondent Homesite Indemnity
18 Company’s vendor. After the examiners reviewed the audit results and additional information provided
19 by Respondent Homesite Indemnity Company, the examiners concluded there was 1 violation of A.R.S.
20 § 20-2110(F)(3) in connection with Respondent Homesite Indemnity Company’s new business HO-3
21 type policies.

22 **B. Renewal Business**

23 19. Additionally, in the May 4, 2022 response, the examiners reviewed 911 renewed HO-3 type
24 policies with a date of bankruptcy less than 7 years old at the inception date. The examiners initially
25

1 identified 108 different insureds, affecting 162 renewal periods, in which the bankruptcy date was more
2 than 7 years old for one or more renewal dates.

3 20. On or about February 3, 2023, Respondent Homesite Indemnity Company provided the
4 Department with a copy of the model-merger audit report conducted by Respondent Homesite Indemnity
5 Company's vendor. Following a review of the audit results and additional information submitted by the
6 Company, the examiners concluded there were 10 violations of A.R.S. § 20-2110(F)(3) in connection
7 with Respondent Homesite Indemnity Company's renewal business HO-3 type policies.

8 **Homesite Indemnity Company HO-4 Type Policies**

9 **A. New Business**

10 21. On or about May 4, 2022, Respondent Homesite Indemnity Company identified 81,753 new
11 business and renewal business HO-4 type policies that were active during the examination period.

12 22. In its May 4, 2022 response, Respondent Homesite Indemnity Company indicated that for
13 8,743 new business policies, the consumer was rated as having one or more bankruptcies.

14 23. On or about February 3, 2023, Respondent Homesite Indemnity Company provided the
15 Department with a copy of the model-merger audit report conducted by Respondent Homesite Indemnity
16 Company's vendor. Following a review of the audit results and additional information submitted by the
17 Company, there were 205 different insureds, in which the bankruptcy date was more than seven (7) years
18 old, which is a violation of A.R.S. § 20-2110(F)(3).

19 **B. Renewal Business**

20 24. Additionally, in the May 4, 2022 response, the examiners reviewed 1,396 renewed HO-4 type
21 policies with a date of bankruptcy less than 7 years old at the inception date. The examiners initially
22 identified 201 different insureds, affecting 366 renewal periods, in which the bankruptcy date was more
23 than 7 years old for one or more renewal dates.

24 25. On or about February 3, 2023, Respondent Homesite Indemnity Company provided the
25 Department with a copy of the model-merger audit report conducted by Respondent Homesite Indemnity

1 Company's vendor. Following review of the audit results and additional information submitted by the
2 Company, the examiners concluded there were 21 violations of A.R.S. § 20-2110(F)(3) in connection
3 with Respondent Homesite Indemnity Company's renewal business HO-4 type policies.

4 **Homesite Indemnity Company HO-6 Type Policies**

5 **A. New Business**

6 26. On or about May 4, 2022, Respondent Homesite Indemnity Company identified 10,773 new
7 business and renewal business HO-6 type policies that were active during the examination period.

8 27. In its May 4, 2022 response, Respondent Homesite Indemnity Company indicated that for
9 668 new business policies, the consumer was rated as having one or more bankruptcies.

10 28. On or about February 3, 2023, Respondent Homesite Indemnity Company provided the
11 Department with a copy of the model-merger audit report conducted by Respondent Homesite Indemnity
12 Company's vendor. Following a review of the audit results and additional information submitted by the
13 Company, the examiners concluded there were 2 violations of A.R.S. § 20-2110(F)(3) in connection
14 with Respondent Homesite Indemnity Company's new business HO-6 type policies.

15 **B. Renewal Business**

16 29. In the May 4, 2022 response, the examiners reviewed 198 renewed HO-6 type policies with
17 a date of bankruptcy less than 7 years old at the inception date. The examiners initially identified 28
18 different insureds, affecting 56 renewal periods, in which the bankruptcy date was more than 7 years old
19 for one or more renewal dates.

20 30. On or about February 3, 2023, Respondent Homesite Indemnity Company provided the
21 Department with a copy of an audit report conducted by Respondent Homesite Indemnity Company's
22 vendor. Following review of the audit results and additional information submitted by the Company, the
23 examiners concluded there was 1 violation of A.R.S. § 20-2110(F)(3) in connection with Respondent
24 Homesite Indemnity Company's renewal business HO-6 type policies.

1 CONCLUSIONS OF LAW

2 31. The Director has jurisdiction over this matter.

3 32. The Director has the authority to conduct examinations and investigations of insurance
4 matters and to request the accounts, records, documents, files, assets and matters in the person's
5 possession or control pursuant to A.R.S. §§ 20-142(C), and 20-157(A).

6 33. Respondents' conduct, as alleged above, constitutes a violation of the prohibition that
7 insurers cannot use bankruptcies or lien satisfactions older than seven years when calculating an
8 insurance score. A.R.S. § 20-2110(F)(3).

9 34. For Respondent American Family Insurance Company, grounds exist for the Director to
10 impose a civil penalty of not more than one thousand dollars for each act or violation and not to exceed
11 an aggregate of ten thousand dollars within any six-month period with respect to unintentional violations.
12 A.R.S. § 20-220(B)(1).

13 35. For Respondent American Family Insurance Company, there were no substantiated
14 violations related to new business policies. There was a total of 7 substantiated violations related to
15 renewal business.

16 36. For Respondent Homesite Insurance Company, grounds exist for the Director to impose a
17 civil penalty of not more than one thousand dollars for each act or violation and not to exceed an
18 aggregate of ten thousand dollars within any six-month period with respect to unintentional violations.
19 A.R.S. § 20-220(B)(1).

20 37. For Respondent Homesite Insurance Company, there was a total of 1,565 substantiated
21 violations related to new business policies. There were 1,054 total substantiated violations related to
22 renewal business policies.

23 38. For Respondent Homesite Indemnity Company, grounds exist for the Director to impose a
24 civil penalty of not more than one thousand dollars for each act or violation and not to exceed an
25

1 aggregate of ten thousand dollars within any six-month period with respect to unintentional violations.

2 A.R.S. § 20-220(B)(1).

3 39. For Respondent Homesite Indemnity Company's HO-3 Type Policies, there was 1
4 substantiated violation related to new business policies. There were 10 substantiated violations related
5 to renewal business policies.

6 40. For Respondent Homesite Indemnity Company's HO-4 Type Policies, there were a total of
7 205 substantiated violations related to new business policies. There were 21 substantiated violations
8 related to renewal business policies.

9 41. For Respondent Homesite Indemnity Company's HO-6 Type Policies, there were 2
10 substantiated violations related to new business policies. There was 1 total substantiated violation related
11 to renewal business policies.

12 **ORDER**

13 **IT IS ORDERED:**

14 1. Respondent American Family Insurance Company shall immediately pay a civil money penalty
15 in the amount of **two thousand and five hundred dollars (\$2,500.00)**.

16 2. Respondent Homesite Insurance Company shall immediately pay a civil monetary penalty in
17 the amount of **five thousand dollars (\$5,000.00)**.

18 3. Respondent Homesite Indemnity Company shall immediately pay a civil monetary penalty in
19 the amount of **five thousand dollars (\$5,000.00)**.

20 4. Respondents are jointly and severally liable for the payment of the civil money penalty.

21 5. Respondents shall implement all recommendations as listed in the Corrective Action Plan
22 ("CAP")

23 6. Respondents shall provide a timely and complete response to any future inquiries by the
24 Department on the CAP.

1 **CORRECTIVE ACTION PLAN**

2 This Corrective Action Plan defines the corrective action requirements applicable to American
3 Family Insurance Company, Homesite Insurance Company, and Homesite Indemnity Company resulting
4 from the market conduct examination conducted by the Department.

5 **Area of Concern: Bankruptcy Factor Rating of Policies**

6 **Corrective Actions**

7 **American Family Insurance Company (AFIC)**

- 8 1. No later than sixty days after the filing of this report, AFIC will file in SERFF all applicable
9 changes to its rate/rule filings to reflect the change that the re-ordering of credit-based insurance
10 scores is automatically triggered for insureds whose CBIS calculation at new business included
11 a bankruptcy where the bankruptcy would age beyond seven (7) years prior to the next renewal
12 effective date. If this change has already been filed in SERFF, please provide the SERFF filing
13 number to the Department.

14 **Homesite Indemnity Company**

- 15 1. No later than September 13, 2024, Homesite Indemnity Company will provide the Department
16 with a data set for the **remaining new and renewal business** policyholders that were not
17 included in the original refund data sent to the Department. This data set will include the
18 information contained in the approved remediation plan. This data set will specifically include:
19 a. The updated CBIS pull date for the above-identified policyholders, and confirmation that
20 any bankruptcies or liens as rating factors older than seven (7) years, were excluded;
21 b. Confirmation that the Homesite Indemnity Company re-rated those policyholders using
22 the updated credit-based insurance score, and adjusted their rates/premiums accordingly;
23 c. The date and refund amount for the above-identified policyholders, with interest
24 calculated as proscribed by A.R.S. § 44-1201(A); and
25

- 1 d. The Department will provide the specific format for the data set.
- 2 2. No later than sixty days after the filing of this report, Homesite Indemnity Company will file in
- 3 SERFF all applicable changes to its rate/rule filings to reflect the changes in its TRC model as
- 4 proposed in the September 30, 2022 remediation plan. If this change has already been filed in
- 5 SERFF, please provide the SERFF filing number to the Department.
- 6 3. No later than sixty days after the filing of this report, Homesite Indemnity Company will confirm,
- 7 in writing, the CBIS refresh interval (i.e. refresh occurs every 3 years), and the look-back period
- 8 for using bankruptcy information (i.e. only using bankruptcies aged to 4 years).

9 Homesite Insurance Company

- 10 1. No later than September 13, 2024, Homesite Insurance Company will provide the Department
- 11 with data for the **26 new business** policyholders identified in the Homesite Insurance Company
- 12 New Business Final Finding. This data set will include the information contained in the approved
- 13 remediation plan. This data set will specifically include:
 - 14 a. The date that the CBIS re-run/refresh was completed for the above-identified
 - 15 policyholders, and confirmation that any bankruptcies or liens as rating factors that were
 - 16 aged to more than seven (7) years, were excluded;
 - 17 b. Confirmation that the Homesite Insurance Company re-rated those policyholders using
 - 18 the updated credit-based insurance score, and adjusted their rates/premiums accordingly;
 - 19 c. The date and refund amount for the above-identified policyholders, with interest
 - 20 calculated as proscribed by A.R.S. § 44-1201(A); and
 - 21 d. The Department will provide the specific format for the data set.
- 22 2. No later than September 13, 2024, Homesite Insurance Company will provide the Department
- 23 with data for the **remaining renewal business** policyholders that were not included in the initial
- 24 remediation data set provided to the Department.
- 25 3. No later than sixty days after the filing of this report, Homesite Insurance Company will confirm,

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

in writing, the CBIS refresh interval (i.e. refresh occurs every 3 years), and the look-back period for using bankruptcy information (i.e. only using bankruptcies aged to 4 years).

- 4. During the course of the implementation and compliance period, the Department may request additional documentation and/or supporting materials not specifically listed herein that demonstrate Homesite Insurance Company’s progress with the CAP requirements above.

DATED AND EFFECTIVE this 30th day July, 2024.

Barbara D. Richardson

Barbara D. Richardson
Cabinet Executive Officer
Executive Deputy Director
Arizona Department of Insurance and Financial Institutions

CONSENT TO ORDER

1
2 1. Respondents acknowledge that they have been served with a copy of the foregoing
3 Consent Order in the above-referenced matter, have read it, are aware of their right to an administrative
4 hearing in this matter and have knowingly and voluntarily waived that right.

5 2. Respondents accept the personal and subject matter jurisdiction of the Department over
6 them in this matter.

7 3. Respondents acknowledge that no promise of any kind or nature has been made to induce
8 them to sign the Consent to Order and they have done so knowingly and voluntarily.

9 4. Respondents acknowledge and agree that the acceptance of this Consent to Order by the
10 Director is solely to settle this matter and does not preclude the Department from instituting other
11 proceedings as may be appropriate now or in the future. Furthermore, and notwithstanding any language
12 in this Consent Order, this Consent Order does not preclude in any way any other state agency or officer
13 or political subdivision of this state from instituting proceedings, investigating claims, or taking legal
14 action as may be appropriate now or in the future relating to this matter or other matters concerning
15 Respondent, including but not limited to violations of Arizona's Consumer Fraud Act. Respondent
16 acknowledges that, other than with respect to the Department, this Consent Order makes no
17 representations, implied or otherwise, about the views or intended actions of any other state agency or
18 officer or political subdivision of the state relating to this matter or other matters concerning Respondent.

19 5. Respondents acknowledge and agree that failure to correct the violations set forth above
20 in this Consent Order, or any repeat findings of the above violations in the future, can result in
21 disciplinary action which may include a greater civil money penalty and suspension or revocation of
22 their certificates of authority.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

6. Bryce Tolefree represents that he is Vice President of Compliance and Corporate Legal Department for the American Family Insurance Group, and, as such, is authorized to enter this Consent Order on its behalf.

7/17/24
Date

American Family Insurance Company
Bryce Tolefree
Bryce Tolefree,
VP Compliance and Corporate Legal

1 **ORIGINAL** of the foregoing filed
this 30th day of July, 2024 in the office of:

2
3 Barbara D. Richardson
4 Cabinet Executive Officer
5 Executive Deputy Director
6 Arizona Department of Insurance and Financial Institutions
7 Attn: Ana Starcevic, Paralegal
8 100 North 15th Avenue, Suite 261
9 Phoenix, Arizona 85007
10 Ana.Starcevic@difi.az.gov

11 **COPY** of the foregoing delivered and/or emailed same date to:

12
13 Deian Ousounov, Chief Financial Deputy Director
14 Alena Caravetta, Regulatory Legal Affairs Officer
15 Kurt Regner, Deputy Assistant Director
16 Maria Ailor, Assistant Director
17 Ana Starcevic, Paralegal
18 Arizona Department of Insurance and Financial Institutions
19 100 North 15th Avenue, Suite 261
20 Phoenix, AZ 85007

21 **COPY** of the foregoing transmitted electronically the same date to:

22
23 American Family Insurance Group
24 Attn: David Spahos, Compliance and Ethics Senior Consultant
25 6000 American Parkway
Madison, WI 53783
dspahos@amfam.com
Respondents

26
27 *Ana Starcevic*
28 _____

29
30
31
32
33
34
35