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

DEPARTMENT OF
INSURANCE AND FINANCIAL INSTITUTIONS

# REPORT OF MARKET CONDUCT EXAMINATION

**OF**

**AMERICAN FAMILY INSURANCE COMPANY, NAIC 10386**

**HOMESITE INSURANCE COMPANY, NAIC 17221**

**HOMESITE INDEMNITY COMPANY, NAIC 20419**

**AND**

**AMERICAN FAMILY CONNECT PROPERTY AND CASUALTY INSURANCE COMPANY, NAIC 29068**

**AS OF**

**July 31, 2021**

**AZ Exam No. 47126**

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**MARKET CONDUCT SECTION**
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**Katie M. Hobbs**
**Governor**

**Barbara D. Richardson**
**Cabinet Executive Officer**
**Executive Deputy Director**

Director Barbara D. Richardson
Arizona Department of Insurance and Financial Institutions
100 N. 15th Ave, Suite 261
Phoenix, Arizona 85007-2624

Dear Director Richardson:

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:

**American Family Insurance Company, NAIC 10386**

**Homesite Insurance Company, NAIC 17221**

**Homesite Indemnity Company, NAIC 20419**

**AND**

**American Family Connect Property and Casualty Insurance Company, NAIC 29068**

Shelly Schuman, ACS, AIE, AMCM, CICSR, CIS, FLMI, HIA, PAHM, Market Conduct Examination Supervisor, conducted the examination with the assistance of Bruce Glaser, CIE, MCM, AIRC, CPCU, CLU, ChFC, FLMI, ARM-Pe, PAHM, Market Conduct Examiner-in-Charge, and Tony Taylor, DM, MCM, Market Conduct Data Management Specialist.

The examination covered January 1, 2015, through July 31, 2021.

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

Sincerely yours,

Maria G. Ailor, AIE, AMCM, Assistant Director
Market Regulation, and Consumer Services Division

**AFFIDAVIT**

STATE OF MISSOURI )
) ss.
COUNTY OF JACKSON )

Shelly Schuman, ACS, AIE, AMCM, CICSR, CIS, FLMI, HIA, PAHM, being first duly sworn, states that I am a duly appointed Market Conduct Examination Supervisor for the Arizona Department of Insurance and Financial Institutions. Under my direction and with my participation and the participation of Bruce Glaser, CIE, MCM, AIRC, CPCU, CLU, ChFC, FLMI, ARM-Pe, PAHM, Market Conduct Examiner-in-Charge, and Tony Taylor, DM, MCM, Market Conduct Data Management Specialist, the Examination of American Family Insurance Company, Homesite Insurance Company, Homesite Indemnity Company, and American Family Connect Property and Casualty Insurance Company (herein referred to as the "Companies") was performed at the request of the Arizona Department of Insurance and Financial Institutions. The information contained in this Report, which consists of the following pages, is true and correct to the best of my knowledge and belief, and any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.

Shelly Schuman

Shelly Schuman, ACS, AIE, AMCM, CICSR, CIS, FLMI, HIA, PAHM,
Market Conduct Examination Supervisor
INS Regulatory Insurance Services, Inc.

Subscribed and sworn to before me this 20 day of October, 2023.

Todd Hembree

Notary Public

My Commission Expires: July 21, 2024

TODD HEMBREE
Notary Public - Notary Seal
Jackson County - State of Missouri
Commission Number 20050182
My Commission Expires Jul 21, 2024

## FOREWARD

This market conduct examination report of American Family Insurance Company, Homesite Insurance Company, Homesite Indemnity Company, and American Family Connect Property and Casualty Insurance Company (herein referred to as the "Companies") was prepared by employees of the Arizona Department of Insurance and Financial Institutions ("Department" and "DIFI") as well as independent examiners contracting with the Department. A market conduct examination reviews certain business practices of insurers licensed to conduct insurance business in Arizona. The examiners reviewed the Companies in accordance with Arizona Revised Statutes (A.R.S.) §§ 20-142, 20-156, and 20-157. 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 Homeowners (HO) business operations related to Underwriting and Rating.

Certain unacceptable or non-complying practices may not have been discovered during 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 Director may examine and investigate the affairs of every insurance institution or insurance producer doing business in this state to determine whether the insurance institution or insurance producer has been or is engaged in any conduct in violation of this chapter, pursuant to A.R.S. §§ 20-142, 20-156, 20-157, 20-158, and 20-159 in addition to § 20-2114.

The examination of the Companies was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) along with standards and data requests specified by the Department. The purpose of the examination was to determine the Companies' compliance with Arizona's insurance laws.

The focus of the examination was the Companies' compliance with A.R.S. § 20-2110(F)(3) and the use of bankruptcies as a rating factor. The Companies were requested to conduct a self-audit of their credit scoring models for all property and casualty products sold in Arizona for the period from January 1, 2015, to July 31, 2021. The purpose of the self-audit was to determine if consumers were rated and paid higher premiums as the result of a bankruptcy aged more than seven years, in violation of A.R.S. § 20-2110(F)(3). If violations were found as part of the self-audit, the Companies would be required to submit a Corrective Action Plan to remediate those violations.

## EXAMINATION REPORT SUMMARY

The examination concluded that during the examination period, American Family Connect Property and Casualty Insurance Company's (Connect) responses and supporting documentation demonstrated compliance with A.R.S. § 20-2110(F), and resulted in no findings. Specifically, Connect demonstrated that their vendor insurance score model only utilized bankruptcy information aged up to twenty-four (24) months in the initial calculation of a credit based insurance score (CBIS). The CBIS was then refreshed every three (3) years, and any previously utilized bankruptcy information would be excluded in the updated CBIS. When audited during the course of the examination, this process was found to be compliant with A.R.S. § 20-2110(F).

Additionally, the examination concluded that American Family Insurance Company, Homesite Insurance Company, and Homesite Indemnity Company provided responses, data, and audit findings that demonstrated noncompliance with A.R.S. § 20-2110(F). These findings are discussed in more detail below.

A. American Family Connect Property and Casualty Insurance Company
   - New Business Policies: There are no findings related to the examination.
   - Renewed Policies: There are no findings related to the examination.

B. American Family Insurance Company
   - New Business Policies: There are no findings related to the examination.
   - Renewed Policies: There are 4 different insureds, affecting 7 renewal periods, with an error rate of 1 percent, in which the bankruptcy date used in the calculation of the CBIS was more than 7 years old, which is a violation of A.R.S. § 20-2110(F)(3).

C. Homesite Insurance Company

- New Business Policies: There are 1,565 different insureds, with an error rate of 23 percent, in which the bankruptcy date was more than 7 years old, and therefore improperly considered as part of the CBIS, which is a violation of A.R.S. § 20-2110(F)(3).
- Renewed Policies: There are 1,054 renewal periods, with an error rate of 16 percent, in which the bankruptcy date was more than 7 years old, and therefore improperly considered as part of the CBIS, which is a violation of A.R.S. § 20-2110(F)(3).

D. Homesite Indemnity Company

- New Business HO-3 Policies: There is 1 insured, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old, and therefore improperly considered as part of the CBIS, which is a violation of A.R.S. § 20-2110(F)(3).
- New Business HO-4 Policies: There are 205 different insureds, with an error rate of 2 percent, in which the bankruptcy date was more than 7 years old, and therefore improperly considered as part of the CBIS, which is a violation of A.R.S. § 20-2110(F)(3).
- New Business HO-6 Policies: There are 2 different insureds, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old, and therefore improperly considered as part of the CBIS, which is a violation of A.R.S. § 20-2110(F)(3).
- Renewed HO-3 Policies: There are 10 renewal periods, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old, and therefore improperly considered as part of the CBIS, which is a violation of A.R.S. § 20-2110(F)(3).
- Renewed HO-4 Policies: There are 21 renewal periods, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old, and therefore improperly considered as part of the CBIS, which is a violation of A.R.S. § 20-2110(F)(3).
- Renewed HO-6 Policies: There is 1 renewal period, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old, and therefore improperly considered as part of the CBIS, which is a violation of A.R.S. § 20-2110(F)(3).

## CORRECTIVE ACTION PLAN

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

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

**Corrective Actions**

American Family Insurance Company (AFIC)

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

Homesite Indemnity Company

1. No later than September 13, 2024, Homesite Indemnity Company will provide the Department with a data set for the **remaining new and renewal business** policyholders that were not included in the original refund data sent to the Department. This data set will include the information contained in the approved remediation. This data set will specifically include:
    a. The updated CBIS pull date for the above-identified policyholders, and confirmation that any bankruptcies or liens as rating factors that were aged to more than seven (7) years, were excluded;
    b. Confirmation that the Homesite Indemnity Company re-rated those policyholders using the updated credit-based insurance score, and adjusted their rates/premiums accordingly;
    c. The date and refund amount for the above-identified policyholders, with interest calculated as proscribed by A.R.S. § 44-1201(A); and
    d. The Department will provide the specific format for the data set.
2. No later than sixty days after the filing of this report, Homesite Indemnity Company will file

in SERFF all applicable changes to its rate/rule filings to reflect the changes in its TRC model as proposed in the September 30, 2022 remediation plan. If this change has already been filed in SERFF, please provide the SERFF filing number to the Department.

3. No later than sixty days after the filing of this report, Homesite Indemnity Company will confirm, 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).

<u>Homesite Insurance Company</u>

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

## EXAMINERS' FINDINGS

The following is a summary of the examiners' findings:

## UNDERWRITING AND RATING

**American Family Connect Property and Casualty Insurance Company**
**Renewal Business – Homeowners (HO)**

The examiners reviewed the initial data of 8,954 new business policies active during the examination period. policies active during the period under examination. In 31 renewed policies, the Company indicated 'Yes' that "the consumer was rated for having one or more bankruptcies" and 'No' consumer had at least one bankruptcy (that) was older than seven years old. The examiners compared the date of bankruptcy and the policy's renewal date to identify whether the date of bankruptcy was more than seven years old. There were no substantiated violations of A.R.S. § 20-2110(F)(3).

**The following Underwriting and Rating Standard Passed:**

| Standard | Regulatory Authority |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third party if the score is calculated using any of the following types of credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, 20-158, 20-159, and 20-2114 |

**American Family Insurance Company**
**New Business – Homeowners (HO)**

The examiners reviewed the initial data of 84,937 HO new business and renewal business policies active during the examination period. In 593 new business policies, the Company indicated ‘Yes’ that “the consumer was rated for having one or more bankruptcies” and ‘No’ consumer had at least one bankruptcy (that) was older than 7 years. The examiners compared the date of bankruptcy and the policy’s inception date to identify whether the date of bankruptcy was more than 7 years old. The examiners initially identified 191 different insureds from the 593 policies. Following review of the audit results submitted by the company, 85 files were withdrawn.

Based upon the audit results and the Company’s demonstration that bankruptcy information aged to more than seven years old was correctly excluded from consideration, the examiners withdrew the new business findings. Therefore, there were no substantiated violations of A.R.S. § 20-2110(F)(3) in connection with this finding.

**<u>The following Underwriting and Rating Standard Passed:</u>**

| Standard | Regulatory Authority |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third party if the score is calculated using any of the following types of credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, 20-158, 20-159, and 20-2114 |

**<u>American Family Insurance Company</u>**
**<u>Renewal Business – Homeowners (HO)</u>**

The examiners reviewed the initial data of 84,937 HO new business and renewal policies active during the period under examination. In 641 renewal policies, the Company indicated ‘Yes’ that “the consumer was rated for having one or more bankruptcies” and ‘No’ consumer had at least one bankruptcy (that) was older than seven years old. The examiners compared the date of bankruptcy and the policy’s renewal date to identify whether the date of bankruptcy was more than seven years old. The examiners initially identified 19 different insureds, affecting 38 renewal periods in which the bankruptcy date was over 7 years old for one or more renewal dates. Following review of the audit results and additional information submitted by the company, there were 4 different insureds, affecting 7 renewal periods, with an error rate of 1 percent, in which the bankruptcy date was more than seven years old.

Accordingly, there were 7 substantiated violations of A.R.S. § 20-2110(F)(3).

**The following Underwriting and Rating Standard Failed:**

| **Standard** | **Regulatory Authority** |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third party if the score is calculated using any of the following types of credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, 20-158, 20-159, and 20-2114 |

**American Family Insurance Company Finding #1 – Bankruptcy Rating of Policies**

There are 4 different insureds, affecting 7 renewal periods, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old.

Because A.R.S. § 20-2110(F) prohibits the use of bankruptcies that are aged more than 7 years, and this timeline begins on the date that the bankruptcy is adjudicated, AFIC's responses and supporting documentation during the course of the examination demonstrated noncompliance with Arizona law. Accordingly, there are 7 violations in connection with this finding.

**American Family Insurance Company Recommendation #1**

AFIC should implement the Corrective Action Plan detailed in the Examination Report Summary.

**Subsequent Event**

Prior to the publication of this Report, AFIC corrected the CBIS score for the 4 insureds which resulted in a total of $1,205 in refunded premiums and interest to those affected insureds.

**Homesite Insurance Company**
**New Business - Homeowners (HO)**

The examiners reviewed 122,952 new and renewal business policies active during the examination period. For 6,816 specific policies, the Company indicated ‘Yes’ that “the consumer was rated for having one or more bankruptcies” and ‘No’ consumer had at least one bankruptcy (that) was older than 7 years old. The examiners reviewed the 6,816 new business policies and initially identified 2,708 different insureds, affecting 6,662 renewal periods in which the bankruptcy date was more than 7 years old. The Company agreed with 1,530 violations and disagreed with the remaining 1,178 files.

Homesite Insurance Company provided a response explaining their rating factors, and that the time between the bankruptcy date and policy inception date was more than 7 years old, on the 1,178 files that they disagreed with. Specifically, Homesite Insurance Company explained that after conducting an audit, it was discovered that a programming logic issue occurred when merging two models. While both models previously screened out public records data (including bankruptcies) that exceeded a set age cap, the merger resulted in the removal of this screen, and the improper inclusion of bankruptcy data that was aged beyond 7 years. After reviewing the response, 1,143 files were withdrawn, and 35 files remained. Following review of the audit results and additional information submitted by the Company, there were 1,565 different insureds, with an error rate of 23 percent, in which the bankruptcy date was more than seven years old.

Accordingly, there are 1,565 substantiated violations of A.R.S. § 20-2110(F)(3) related to this finding.

**The following Underwriting and Rating Standard Failed:**

| **Standard** | **Regulatory Authority** |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third party if the score is calculated using any of the following types of | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, 20-158, 20-159, and 20-2114 |

| Standard | Regulatory Authority |
|---|---|
| credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | |

**Homesite Insurance Company Finding #1 – Bankruptcy Rating of Policies**

There are 1,565 different insureds, with an error rate of 23 percent, in which the bankruptcy date was more than 7 years old.

Because A.R.S. § 20-2110(F) prohibits the use of bankruptcies that are aged more than seven years, and this timeline begins on the date that the bankruptcy is adjudicated, Homesite Insurance Company's responses during the course of the examination demonstrated noncompliance with A.R.S. § 20-2110(F) which resulted in 1,565 violations in connection with this finding.

**Homesite Insurance Company Recommendation #1**

The Homesite Insurance Company should implement the Corrective Action Plan detailed above.

**<u>Homesite Insurance Company</u>**
**<u>Renewal Business - Homeowners (HO)</u>**

The examiners reviewed 122,952 new and renewal business policies active during the examination period. For 6,816 specific policies, the Company indicated 'Yes' that "the consumer was rated for having one or more bankruptcies" and 'No' consumer had at least one bankruptcy (that) was older than 7 years old. The examiners reviewed the 6,816 renewal policies and initially identified 854 different insureds, affecting 1,329 renewal periods, in which the bankruptcy date was more than 7 years old for one or more renewal dates.

The Homesite Insurance Company provided a response explaining their rating factors and conducted an additional audit of the identified policies. The examiners reviewed those findings and concluded that there were 1,062 renewal periods in which the bankruptcy date was more than 7 years old. The Company agree with 1,054 renewal periods and disagreed with the remaining 8.

The Homesite Insurance Company provided additional information about the remaining 8 files, stating that because the associated new business policy did not contain a bankruptcy, the subsequent renewal policies also did not contain a bankruptcy as a new CBIS was not ordered at renewal. After review of the additional information, these 8 files were withdrawn. Following review of the audit results and additional information submitted by the Company, there were 1,054 renewal periods, with an error rate of 16 percent, in which the bankruptcy date was more than 7 years old.

Accordingly, there are 1,054 substantiated violations of A.R.S. § 20-2110(F)(3) related to this finding.

**The following Underwriting and Rating Standard Failed:**

| **Standard** | **Regulatory Authority** |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third party if the score is calculated using any of the following types of credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, 20-158, 20-159, and 20-2114 |

**Homesite Insurance Company Finding #2 – Bankruptcy Rating of Policies**

There were 1,054 renewal periods, with an error rate of 16 percent, in which the bankruptcy date was more than 7 years old.

Because A.R.S. § 20-2110(F) prohibits the use of bankruptcies that are aged more than seven years, and this timeline begins on the date that the bankruptcy is adjudicated, Homesite Insurance Company's responses during the course of the examination demonstrated noncompliance with A.R.S. § 20-2110(F) which resulted in 1,054 violations in connection with this finding.

**Subsequent Event**

Prior to the publication of this Report, the Homesite Insurance Company corrected the CBIS score of 2,164 impacted insureds which resulted in a total of $478,022 in refunded premiums to those affected insureds for both new and renewal business.

**Homesite Insurance Company Recommendation #2**

The Homesite Insurance Company should implement the Corrective Action Plan detailed above.

**Homesite Indemnity Company**

**New Business - Homeowners (HO-3 Type Policies)**

The examiners reviewed the initial data of 35,016 new business and renewal HO-3 type policies. In specific policies, the Company indicated 'Yes' that "the consumer was rated for having one or more bankruptcies" and 'No' consumer had at least one bankruptcy (that) was older than 7 years old. The examiners reviewed each of the 293 new business HO-3 type policies to identify if the date of bankruptcy was more than 7 years old before the policy's effective date. The examiners initially identified 24 different insureds and 143 subsequent renewals in which the bankruptcy date was more than seven years old.

The Company agreed with 1 violation and disagreed with the remaining 23 files. Following a review of the Company's response that stated that even though the date of bankruptcy was more than seven years from the policy inception date, the audit results demonstrated that for the remaining 23 files, the bankruptcy was not used in the calculation of the premium, and these 23 files were withdrawn.

Accordingly, there was 1 substantiated violation of A.R.S. § 20-2110(F)(3) in connection with this finding.

**The following Underwriting and Rating Standard Failed:**

| Standard | Regulatory Authority |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, |

| | |
|---|---|
| party if the score is calculated using any of the following types of credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | 20-158, 20-159, and 20-2114 |

**Homesite Indemnity Company Finding #1 – Bankruptcy Rating of Policies**

There was 1 insured, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old.

Because A.R.S. § 20-2110(F) prohibits the use of bankruptcies that are aged more than seven years, and this timeline begins on the date that the bankruptcy is adjudicated, Homesite Indemnity Company's responses during the course of the examination demonstrated noncompliance with A.R.S. § 20-2110(F) which resulted in 1 violation in connection with this finding.

**Homesite Indemnity Company Recommendation #1**

The Homesite Indemnity Company should implement the Corrective Action Plan as detailed above.

**Homesite Indemnity Company**
**New Business - Homeowners (HO-4 Type Policies)**

The examiners reviewed the initial data of 81,753 new business and renewal HO-4 type policies active during the examination period. In specific policies, the Company indicated 'Yes' that "the consumer was rated for having one or more bankruptcies" and 'No' consumer had at least one bankruptcy (that) was older than seven years old. The examiners reviewed each of the 8,743 new business HO-4 type policies to identify if the date of bankruptcy was more than seven years old before the policy's effective date. The examiners initially identified 1,208 different insureds and 2,556 subsequent renewals in which the bankruptcy date was more than seven years old. The Company agreed with 197 violations and disagreed with the remaining 1,011 files.

The Homesite Indemnity Company provided audit results that stated for the 1,011 remaining files that while the date of bankruptcy was more than 7 years from the policy inception date, the bankruptcy was not used in the calculation of the premium for 1,008 files.  Thus, 1,003 files were withdrawn, and 8 remained as the bankruptcy was aged to more than 7 years from the policy inception date.

Accordingly, there were 205 substantiated violations of A.R.S. § 20-2110(F)(3) in connection with this finding.

**<u>The following Underwriting and Rating Standard Failed:</u>**

| **Standard** | **Regulatory Authority** |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third party if the score is calculated using any of the following types of credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, 20-158, 20-159, and 20-2114 |

**Homesite Indemnity Company Finding #2 – Bankruptcy Rating of Policies**

There were 205 different insureds, with an error rate of 2 percent, in which the bankruptcy date was more than 7 years old.

Because A.R.S. § 20-2110(F) prohibits the use of bankruptcies that are aged more than seven years, and this timeline begins on the date that the bankruptcy is adjudicated, Homesite Indemnity Company demonstrated noncompliance with Arizona law. Accordingly, there are 205 violations in connection with this finding.

**Homesite Indemnity Company Recommendation #2**

The Homesite Indemnity Company should implement the Corrective Action Plan as detailed above.

**Homesite Indemnity Company**

**New Business - Homeowners (HO-6 Type Policies)**

The examiners reviewed the initial data of 10,773 new business and renewal HO-6 type policies active during the examination period. In specific policies, the Company indicated 'Yes' that "the consumer was rated for having one or more bankruptcies" and 'No' consumer had at least one bankruptcy (that) was older than seven years old. The examiners reviewed each of the 668 new business HO-6 type policies to identify if the date of bankruptcy was more than 7 years old before the policy's effective date. The examiners initially identified 113 different insureds in which the bankruptcy date was more than seven years old. The Company agreed with 1 violation and disagreed with the remaining 112 files.

The Homesite Indemnity Company provided a response, including audit results, that demonstrated for 111 of the remaining files, a bankruptcy was not used in the calculation of the premium despite the fact that the bankruptcy date was more than 7 years from the policy inception date. After review of the audit results, 111 files of the disagree files were withdrawn, and 1 remained.

Accordingly, there were 2 substantiated violations of A.R.S. § 20-2110(F)(3) in connection with this finding.

**The following Underwriting and Rating Standard Failed:**

| **Standard** | **Regulatory Authority** |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third party if the score is calculated using any of the following types of credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, 20-158, 20-159, and 20-2114 |

**Homesite Indemnity Company Finding #3 – Bankruptcy Rating of Policies**

There were 2 different insureds, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old.

Because A.R.S. § 20-2110(F) prohibits the use of bankruptcies that are aged more than seven years, and this timeline begins on the date that the bankruptcy is adjudicated, Homesite Indemnity Company demonstrated noncompliance with Arizona law. Accordingly, there are 2 violations in connection with this finding.

**Homesite Indemnity Company Recommendation #3**

The Homesite Indemnity Company should implement the Corrective Action Plan as detailed above.

**Homesite Indemnity Company**
**Renewal Business - Homeowners (HO-3 Type Policies)**

The examiners reviewed the initial data of 35,016 new business and renewal HO-3 type policies active during the examination period. In specific policies, the Company indicated 'Yes' that "the consumer was rated for having one or more bankruptcies" and 'No' consumer had at least one bankruptcy (that) was older than seven years old. The examiners reviewed 911 renewed HO-3 type policies with a date of bankruptcy less than 7 years old at the inception date. The examiners initially identified 108 different insureds, affecting 162 renewal periods, in which the bankruptcy date was more than 7 years old for one or more renewal dates. The Company agreed with 5 violations and disagreed with the remaining 157 files.

The Homesite Indemnity Company provided a detailed response, including audit results that demonstrated that a bankruptcy was not used in the calculation of the premium despite the fact that the bankruptcy date was more than 7 years from the policy inception date. After review of this response, 56 remained.

The Homesite Indemnity Company provided additional information about 46 of the remaining files, stating that because the associated new business policy did not contain a bankruptcy, the subsequent renewal policies also did not contain a bankruptcy as a new CBIS was not ordered at renewal. After review of the additional information, these 46 files were withdrawn. Following review of the audit results and additional information submitted by the Company, there were 10 renewal periods, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old, which is a violation of A.R.S. § 20-2110(F)(3).

Accordingly, there are 10 substantiated violations of A.R.S. § 20-2110(F) in connection with this finding.

**The following Underwriting and Rating Standard Failed:**

| Standard | Regulatory Authority |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third party if the score is calculated using any of the following types of credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, 20-158, 20-159, and 20-2114 |

**Homesite Indemnity Company Finding #4 – Bankruptcy Rating of Policies**

There are 10 renewal periods, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old, which is a violation of A.R.S. § 20-2110(F)(3).

Because A.R.S. § 20-2110(F) prohibits the use of bankruptcies that are aged more than seven years, and this timeline begins on the date that the bankruptcy is adjudicated, Homesite Indemnity Company demonstrated noncompliance with Arizona law. Accordingly, there are 10 violations related to this finding.

**Homesite Indemnity Company Recommendation #4**

The Homesite Indemnity Company should implement the Corrective Action Plan as detailed above.

**Homesite Indemnity Company**

**Renewal Business - Homeowners (HO-4 Type Policies)**

The examiners reviewed the initial data of 81,753 new business and renewal HO-4 type policies active during the examination period. In specific policies, the Company indicated ‘Yes’ that “the consumer was rated for having one or more bankruptcies” and ‘No’ consumer had at least one bankruptcy (that) was older than seven years old. The examiners reviewed 1,396 renewed HO-4 type policies with a date of bankruptcy less than 7 years old at the inception date. The examiners initially identified 201 different insureds, affecting 366 renewal periods, in which the bankruptcy date was more than 7 years old for one or more renewal dates. The Company agreed with 10 violations and disagreed with the remaining 356 files.

The Homesite Indemnity Company provided a detailed response, including audit results that demonstrated that a bankruptcy was not used in the calculation of the premium despite the fact that the bankruptcy date was more than 7 years from the policy inception date. Following a review of the Company’s audit results, 171 files remained because the bankruptcy date had aged to more than 7 years at the time of renewal.

The Homesite Indemnity Company provided additional information about 150 of the remaining files, stating that because the associated new business policy did not contain a bankruptcy, the subsequent renewal policies also did not contain a bankruptcy as a new CBIS was not ordered at renewal. After review of the additional information, these 150 files were withdrawn. Following review of the audit results and additional information submitted by the Company, there were 21 renewal periods, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old, which is a violation of A.R.S. § 20-2110(F)(3).

Thus, there are 107 different insureds, 21 renewal periods, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old, which is a violation of A.R.S. § 20-2110(F)(3).

Accordingly, there are 21 substantiated violations of A.R.S. § 20-2110(F)(3) in connection with this finding.

**<u>The following Underwriting and Rating Standard Failed:</u>**

| **Standard** | **Regulatory Authority** |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third party if the score is calculated using any of the following types of credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, 20-158, 20-159, and 20-2114 |

**Homesite Indemnity Company Finding #5 – Bankruptcy Rating of Policies**

There were 107 insureds, affecting 21 renewal periods, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old.

Because A.R.S. § 20-2110(F) prohibits the use of bankruptcies that are aged more than seven years, and this timeline begins on the date that the bankruptcy is adjudicated, Homesite Indemnity Company's responses during the course of the examination demonstrated noncompliance with A.R.S. § 20-2110(F) which resulted in 21 violations in connection with this finding.

**Homesite Indemnity Company Recommendation #5**

The Homesite Indemnity Company should implement the Corrective Action Plan as detailed above.

**<u>Homesite Indemnity Company</u>**
**<u>Renewal Business - Homeowners (HO-6 Type Policies)</u>**

The examiners reviewed the initial data of 10,773 new business and renewal HO-6 type policies active during the examination period. In specific policies, the Company indicated 'Yes' that "the consumer was rated for having one or more bankruptcies" and 'No' consumer had at least one bankruptcy (that) was older than 7 years old. The examiners reviewed 198 renewed

HO-6 type policies with a date of bankruptcy less than 7 years old at the inception date. The examiners initially identified 28 different insureds, affecting 56 renewal periods, in which the bankruptcy date was more than 7 years old for 1 or more renewal dates. The Company agreed with 1 violation and disagreed with the remaining 55 files.

The Homesite Indemnity Company provided a detailed response, including audit results that demonstrated that a bankruptcy was not used in the calculation of the premium despite the fact that the bankruptcy date was more than 7 years from the policy inception date. Following a review of the Company's audit results, 27 files were withdrawn and 28 remained.

The Homesite Indemnity Company provided additional information about 27 of the remaining files, stating that because the associated new business policy did not contain a bankruptcy, the subsequent renewal policies also did not contain a bankruptcy as a new CBIS was not ordered at renewal. After review of the additional information, these 27 files were withdrawn. Following review of the audit results and additional information submitted by the Company, there was 1 renewal period, with an error rate of 1 percent, in which the bankruptcy date was more than 7 years old, which is a violation of A.R.S. § 20-2110(F)(3).

Accordingly, there was 1 substantiated violation of A.R.S. § 20-2110(F) in connection with this finding.

**<u>The following Underwriting and Rating Standard Failed:</u>**

| **Standard** | **Regulatory Authority** |
|---|---|
| F. An insurer shall not use the following types of credit history to calculate an insurance score to determine property or casualty premiums for insurance transactions that are subject to this article and shall not knowingly use an insurance score developed by a third party if the score is calculated using any of the following types of credit history: 3. A bankruptcy or a lien satisfaction that is more than seven years old. | A.R.S. § 20-2110(F)(3)<br><br>*See also* A.R.S. §§ 20-142, 20-156, 20-157, 20-158, 20-159, and 20-2114 |

**Homesite Indemnity Company Finding #6 – Bankruptcy Rating of Policies**

There is 1 renewal period, with an error rate of 1 percent, in which the bankruptcy date was more than seven years old.

Because A.R.S. § 20-2110(F) prohibits the use of bankruptcies that are aged more than seven years, and this timeline begins on the date that the bankruptcy is adjudicated, Homesite Indemnity Company's responses during the course of the examination demonstrated noncompliance with A.R.S. § 20-2110(F) which resulted in 1 violation in connection with this finding.

**Homesite Indemnity Company Recommendation #6**

The Homesite Indemnity Company should implement the Corrective Action Plan as detailed above.

**Subsequent Event**

Prior to the publication of this Report, the Homesite Indemnity Company corrected the CBIS score of 206 impacted insureds which resulted in a total of $27,352 in refunded premiums and interest to those affected insureds for both new and renewal business.