

STATE OF ARIZONA
FILED

JUN 14 2012

DEPT. OF INSURANCE

REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

SAFECO INSURANCE COMPANY OF AMERICA

NAIC #24740

AS OF

December 31, 2010

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CHRISTINA URIAS
Director of Insurance

Honorable Christina Urias
Director of Insurance
State of Arizona
2910 North 44th 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:

Safeco Insurance Company of America
NAIC #24740

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,

Helene I. Tomme, CPCU, CIE
Market Examinations Supervisor
Market Oversight Division

AFFIDAVIT

STATE OF ARIZONA)
)
County of Maricopa) ss.

Helene I. Tomme, CPCU, CIE being first duly sworn, states that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of 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 on the Examination of Safeco Insurance Company of America, hereinafter referred to as the "Company" was performed at the office of the Arizona Department of Insurance. A teleconference meeting with appropriate Company officials in Boston, Massachusetts and Seattle, Washington was held to discuss this Report, but a copy was not provided to management as the Examination was incomplete and had not yet been finalized. The information contained in this Report, consists of the following pages, is true and correct to the best of my knowledge and belief and that 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.

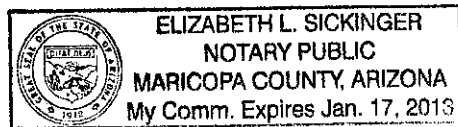
Helene I. Tomme

Helene I. Tomme, CPCU, CIE
Market Examinations Supervisor
Market Oversight Division

Subscribed and sworn to before me this 19th day of January, 2012.

Elizabeth L. Sickinger
Notary Public

My Commission Expires Jan. 17, 2013



FOREWORD

This targeted market conduct examination report of the Safeco Insurance Company of America (herein referred to as, "SAFECO", 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) and Private Passenger Auto (PPA) 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 8.

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)

Safeco Insurance Company of America (“the Company”) was incorporated on September 2, 1953 in the State of Washington. Operations were conducted under the corporate name of Selective Auto and Fire Insurance Company of America until November 2, 1953, at which time the present name was adopted. Since January 1, 1973, all outstanding capital stock has been held by Safeco Corporation, Seattle, Washington. Safeco Corporation acquired ownership from its subsidiary, General Insurance Company of America.

On September 22, 2008, Liberty Mutual Group acquired control of Safeco Corporation, which is the parent of Safeco Insurance Company of America.

PROCEDURES REVIEWED WITHOUT EXCEPTION

The Examiners review of the following Company departments¹ 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 12 compliance issues that resulted in 235 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 PPA and HO applications. This resulted in two (2) exceptions.
- 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 PPA and HO applications. This resulted in two (2) exceptions.

¹ 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, six (6) compliance issues are addressed in this Report as follows:

- The Company failed to provide a compliant Summary of Rights, on 46 HO non renewals, 48 HO cancellations for underwriting reasons, 10 PPA non renewals and 49 PPA cancellations for underwriting reasons to its policyholders/insureds cancelled for an adverse underwriting decision for a total of 153 notices.
- The Company's time variances between effective dates on 32 HO non payment cancellation notices and its HO Declaration Pages are confusing and misleading.
- The Company failed to provide a named driver exclusion offer prior to sending out eight (8) PPA cancellations.
- The Company failed to provide PPA non renewal notices at least 45-days before the effective date of the non renewal on eight (8) PPA non renewals.
- The Company failed to include the unearned premium refunds with its policy cancellation notice on 15 PPA cancellations for underwriting reasons.
- The Company failed to send one (1) PPA non renewal notice and three (3) PPA cancellation for underwriting reasons notices via certified mailing or certificate of mailing for a total of four (4) notices.

Claims Processing

In the area of Claims Processing, four (4) compliance issues are addressed in this Report as follows:

- 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 correctly calculate and pay the Transaction Privilege Tax (TPT) on five (5) HO first party paid claims.

- The Company failed to include a fraud warning statement in at least 12-point type on one (1) claim form.
- The Company failed to reimburse one (1) PPA insured a portion of their deductible in a timely manner when subrogation recovery was successful, which resulted in a payment of \$57.86 (including interest).

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET CONDUCT EXAMINATIONS

During the past five (5) years, there were nine (9) Market Conduct Examinations completed by the state of Alaska, Arizona, California, Connecticut, Kansas, North Carolina, New York, Pennsylvania and Virginia. No significant patterns of non-compliance were noted.

UNDERWRITING AND RATING

Homeowners (HO):

The Examiners reviewed 100 HO New/Renewal Business files out of a population of 21,110 during the examination period.

Private Passenger Automobile (PPA):

The Examiners reviewed 100 PPA New/Renewal Business files out of a population of 7,824 and 50 PPA Surcharge files out of a population of 1,086 during the examination period. This new/renewal and surcharge review included a total sample size of 150 PPA files from a total population of 8,910.

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
5	Policies and endorsements are issued or renewed accurately, timely and completely.	A.R.S. §§ 20-1120, 20-1121, 20-1632 and 20-1654
6	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
4	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 # 4 – failed

Preliminary Finding-007– Underwriting Authorization Disclosures – The Examiners identified two (2) policy applications (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.

These forms fail to comply with A.R.S. § 20-2106(7)(b) and (9) and represent four (4) violations of the statute. The following table summarizes these application form findings.

	Form Description / Title	Form #	Statute Provision
1	Homeowners Application	Unknown	7(b) and 9
2	Personal Automobile Application	Unknown	7(b) and 9

UNDERWRITING FORMS

Failed to specify the authorization remains valid one year from the date 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	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.

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	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.

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 forms 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 1,035, 50 HO cancellation files for underwriting reasons out of a population of 250 and 50 HO non renewals out of a population of 132. This cancellation and non renewal review included a total sample size of 150 HO files from a total population of 1,417.

Private Passenger Automobile (PPA):

The Examiners reviewed 50 PPA cancellation files for non-payment of premium out of a population of 1,788, 50 PPA cancellation files for underwriting reasons out of a population of 103 and 40 PPA non renewals out of a population of 40. This cancellation, non renewal and declination review included a total sample size of 140 PPA files from a total population of 1,931.

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 008 – Summary of Rights – The Examiners identified 46 HO non renewals, 48 HO cancellations for underwriting reasons, 10 PPA non renewals and 49 PPA cancellations for underwriting reasons, cancelled for an adverse underwriting decision which totaled 153 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 Compliant Summary of Rights
 A.R.S. §§ 20-2108, 20-2109 and 20-2110**

Files Reviewed	Population	Reviewed	Exceptions	Request #
HO Non Renewals	132	46	46	003
HO UW Reasons	250	48	48	005
PPA Non Renewals	40	10	10	014
PPA UW Reasons	103	49	49	017
Totals	525	153	153	
			Error Ratio	100%

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 compliant 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 009 – Time Variance – The Examiners identified 32 Homeowner non payment cancellation notices where the effective time/date shows a cancel time of “12:00 Noon” which differs from the Homeowners’ Declaration (DEC) Pages of “12:01 am”. Reference to two different times/dates is confusing and misleading, an apparent violation of A.R.S. § 20-443(A)(1).

**HOMEOWNERS TIME VARIANCE
 Incorrect time/date on HO Non Payment Cancellations
 A.R.S. § 20-443(A)(1)**

Population	Sample	# of Exceptions	% to Sample
1,035	50	32	64%

A 64% 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 the Homeowners' Non Payment Cancellations Notices display the correct effective time of 12:01 AM.

Cancellation and Non-Renewal Standard #2

Preliminary Finding #010 – The Company failed to offer a named driver exclusion prior to terminating coverage due to driving records on eight (8) PPA cancellations for underwriting reasons. These are violations of A.R.S. § 20-1631(F).

PRIVATE PASSENGER AUTOMOBILE DRIVER EXCLUSION

Failed to offer a named driver exclusion prior to cancellation

A.R.S. § 20-1631(F)

Population	Sample	# of Exceptions	% to Sample
103	50	8	16%

A 16% 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 011 – Personal Automobile Non Renewal Notices Mailed less than 45-days – The Examiners reviewed a sample size of 40 PPA non renewals and identified 8 that met the criteria. The Company failed to provide non renewal notices at least 45-days before the effective date on these 8 notices, an apparent violation of A.R.S. §§ 20-1631(E) and 20-1632(A).

PRIVATE PASSENGER AUTOMOBILE NON RENEWALS

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

A.R.S. §§ 20-1631(E) and 20-1632(A)

Population	Sample	# of Exceptions	% to Sample
40	8	8	100%

A 100% 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 012 – Late Unearned Premium Refunds - The Company failed to include the unearned premium refund with the policy cancellation notice, which is sent out at least 10 days prior to the effective date of cancellation, to 15 PPA policyholders where a refund was owed. These represents violations of A.R.S. § 20-1632(A)(3).

PRIVATE PASSENGER AUTOMOBILE CANCELLATIONS

Failed to include the unearned premium refund with the policy cancellation notice
Violation of A.R.S. § 20-1632(A)(3)

Population	Sample	# of Exceptions	% to Sample
250	15	15	100%

A 100% 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 and controls are in place to ensure that the unearned premium refund accompanies the cancellation notice sent out at least 10 days prior to the effective date of the cancellation, in accordance with the applicable state statute.

Cancellation and Nonrenewal, Standard #2 - failed

Preliminary Finding 013 – Personal Automobile Cancellation Notices Mailed via Certified Mailing or Certificate of Mailing – The Examiners identified one (1) PPA Non Renewals and three (3) PPA Cancellations for Underwriting Reasons for a total of four (4) notices, where the Company failed to mail the notices via certified mailing or certificate of mailing, an apparent violation of A.R.S. § 20-1632(A).

PRIVATE PASSENGER AUTOMOBILE
Summary of Findings – Standard 2 File Review
Failed to mail cancellation notices via certified mailing or certificate of mailing
A.R.S. § 20-1632(A)

Files Reviewed	Population	Reviewed	Exceptions	Request #
PPA Non Renewals	40	10	1	014
PPA UW Reasons	103	50	3	017
Totals	143	60	4	
			Error Ratio	7%

A 7% 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 ensure the required PPA Non Renewals and PPA Cancellations for Underwriting Reasons are mailed via certified mailing or certificate of mailing.

CLAIMS PROCESSING

Homeowners (HO):

The Examiners reviewed 50 HO claims closed without payment from a population of 439; 50 HO paid claims from a population of 791 and 12 HO subrogation claims from a population of 12. This claim review included a total sample size of 112 HO claims files from a total population of 1,242.

Private Passenger Automobile (PPA):

The Examiners reviewed 50 PPA claims closed without payment from a population of 539; 50 PPA paid claims from a population of 2,473; 50 total loss PPA claims out of a population of 567 and 50 PPA subrogation claims out of a population of 217. This claims review included a total sample size of 200 PPA claim files from a total population of 3,796.

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
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 Standard passed with Comment:

#	STANDARD	Regulatory Authority
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

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 001 –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 license registration and/or air quality fees. 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, license registration and/or air quality fees on total loss settlements

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

Population	Sample	# of Exceptions	% to Sample
567	50	4	8%

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

Recommendation #8

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 \$15.06 (includes interest) to the one (1) first party total loss settlement (TL-32).

Subsequent Events: During the course of the Phase I Examination, the Company agreed with the incorrect settlement of three (3) third party total losses and made restitution payments to the parties affected in the amount of \$53.75. 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-002 – Transaction Privilege Tax (TPT). - The Examiners identified five (5) first party homeowner settlements, in which the Company failed to pay the correct Transaction Privilege Tax (TPT), which is an apparent violation of A.R.S. §§ 20-461, 20-462(A) and 44-1201.

HOMEOWNER CLAIMS

Failed to pay the correct Transaction Privilege Tax

A.R.S. §§ 20-461, 20-462(A) and 44-1201

Population	Sample	# of Exceptions	% to Sample
791	50	5	10%

A 10% 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 calculate the correct Transaction Privilege Tax (TPT) on Homeowner Paid Claims. The Company should make restitution payments, in the amount of \$552.68 (including interest) to the remaining four (4) first party HO settlements (HO-36, HO-41, HO-42 and HO-46).

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: During the course of the Phase I Examination, the Company agreed with one (1) first party underpayment and paid restitution to the party affected in the amount of \$23.51 plus \$4.04 in interest for a total of \$27.55. A copy of letter of explanation and payment were sent to the Department prior to completion of the Examination.

Claims Processing Standard #3 – failed

Preliminary Finding 003 – Fraud Warning Statement – The Company failed to provide a fraud warning statement in at least twelve (12) point type on one (1) claim form. This represents one (1) violation of A.R.S. § 20-466.03. The following table summarizes the fraud warning statement findings.

	Form Description / Title	Form Number
1	Contents Inventory for NEW CVR Sheet	NA

CLAIM FORMS

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

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 #10

Within 90 days of the filed date of this Report, provide the Department with documentation that the required fraud warning statement, in 12-point type, is included on the claim form cited, 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 corrected form to the Department prior to completion of the Examination.

Claims Processing Standard #7 – passed with comment:

Preliminary Finding-004 – PPA subrogation against adverse carrier – delay in returning deductible. The Examiners identified one (1) first party private passenger automobile total loss settlement, in which the Company failed to return the insured's deductible in a timely manner after subrogation recovery was successful, which is an apparent violation of A.R.S. §§ 20-461, 20-462 and A.A.C. R20-6-801 (H)(4).

PRIVATE PASSENGER AUTOMOBILE CLAIMS
Failed to return insured's deductible in a timely manner
A.R.S. §§ 20-461, 20-462 and A.A.C. R20-6-801 (H)(4).

Population	Sample	# of Exceptions	% to Sample
217	50	1	2%

A 2% error ratio meets the standards; therefore, no recommendation is warranted

Subsequent Events: During the course of Phase I Examination, the Company agreed and made a restitution payment in the amount of \$50.00 plus \$7.86 in interest for a total of \$57.86. Copies of letter of explanation and payment were sent to the Department prior to completion of the Examination.

SUMMARY OF FAILED STANDARDS

EXCEPTIONS	Rec. No.	Page No.
UNDERWRITING AND RATING		
<p><u>Standard #4</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	14
CANCELLATIONS AND NON RENEWALS		
<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	18
<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	19
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CLAIM PROCESSING		
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	8	24
<u>Standard #5</u> Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	9	25
<u>Standard #3</u> The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	10	26

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)	8	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)	8	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)	8	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)	8	X	
2	An insurer shall not pay any commission, fee, or other valuable consideration to unlicensed producers. (A.R.S. § 20-298)	8	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)	13	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)	13	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)	13	X	
4	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)	14		X
5	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1632 and 20-1654)	13	X	
6	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463 and 20-1109)	13	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)	17		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)	17		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)	23	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, and A.A.C. R20-6-801)	23	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)	24		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)	23	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)	24		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)	23	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)	24	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)	23	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)	23	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)	23	X	
11	Adjusters used in the settlement of claims are properly licensed (A.R.S. §§ 20-321 through 20-321.02)	23	X	