

1 FINDINGS OF FACT

2 1. Respondent is authorized to transact property and
3 casualty insurance pursuant to Certificates of Authority issued
4 by the Director.

5 2. The Examiners were authorized by the ADOI to conduct a
6 market conduct examination of Respondent. The on-site
7 examination was concluded as of July 10, 1992 and a Report of
8 Examination ("the Report") was written.

9 3. The USAA personal automobile policies reviewed by the
10 Examiners were amended by USAA's "Amendment of Policy Provisions
11 - Arizona", Form Number 5667(06) REV. 6-92 or by USAA's
12 "Amendment of Policy Provisions - Arizona", Form Number 5667(05)
13 REV. 9-88 (hereinafter referred to as the "Endorsement"). The
14 Endorsement specifically lists the reasons for which a personal
15 automobile policy may be cancelled or nonrenewed by USAA at Item
16 4, "TERMINATION", page 2. The reasons listed are the same
17 reasons found in A.R.S. § 20-1631(C) for which an insurer may
18 cancel or nonrenew a policy after the policy has been in effect
19 for sixty (60) days. The Endorsement appeared on six (6)
20 policies which USAA cancelled for reasons other than those
21 listed in the Endorsement and which policies had been in effect
22 for more than sixty (60) days. USAA sent notice of cancellation
23 stating that the policies were being cancelled on these six (6)
24 policies.

25 4. Respondents cancelled seventeen (17) personal
26 automobile policies without offering the named insured the
27 opportunity to exclude from coverage the person other than the
28 named insured whose actions led to policy cancellation.

1 5. Respondents issued 155 notices of cancellation of
2 personal automobile policies which did not include a notice of
3 the named insured's right to complain to the Director of the
4 cancellation within ten days after receipt.

5 6. Respondents issued ninety-nine (99) notices of
6 cancellation of personal automobile policies which did not
7 inform the insureds of their possible eligibility for the
8 automobile assigned risk plan.

9 7. Respondents failed to include refunds of unearned
10 premium with the notices of cancellation of of sixty (60)
11 personal automobile policies which were not financed. These
12 refunds have been made by Respondents to the insureds.

13 8. USAA, routinely, issues a series of premium due
14 statements. Each statement gives a premium due date on which
15 date the policyholder is required to pay his premium to USAA.
16 If the policyholder continues to fail to pay his premium, USAA
17 sends a final statement, together with a Notice of
18 Cancellation. The Notice of Cancellation states in material
19 part:

20 This is notice to you that the below listed insurance
21 will be cancelled for nonpayment of premium as of the time
22 and date shown ...

23 If the insured has not paid his premium by the due date stated
24 in the Notice of Cancellation, USAA cancels the policy on the
25 date stated in the Notice of Cancellation and sends no further
26 notice of cancellation. The Examiners found that USAA had
27 cancelled 3,311 policies in this fashion. The policies had all
28

1 been in effect more than sixty (60) days. USAA's personal
2 automobile policy states:

3
4 We may cancel if the named insured shown in the
5 Declarations fails to pay the premium for this policy or
6 any installment thereof within 7 days after the premium due
7 date.

8
9 USAA states that the seven (7) day grace period required by
10 A.R.S. § 20-1632.01(A) is contained within the nineteen (19)-
11 day period provided by USAA's final statement and Notice of
12 Cancellation to the insured.

13
14 9. Respondents cancelled two (2) residential property
15 policies, #0491148 and 2245715, which had been in effect for at
16 least sixty (60) days for reasons other than those permitted by
17 A.R.S. § 20-1652(A).

18
19 10. Respondents non-renewed two (2) property policies
20 without giving the insureds notice of the specific facts which
21 constituted the grounds for non-renewal.

22
23 11. The Examiners found that Respondents had failed to pay
24 the full amount of applicable sales taxes and /or license fees
25 due on 947 of the 2,701 first party automobile total loss claims
26 examined. A total of \$40,931.23 was not paid by Respondents to
27 these claimants.

28
29 12. In first party total loss claims reviewed, the
30 Examiners found that USAA had taken "make ready" deductions
31 which were in addition to deductions already taken by USAA for
32 the vehicles' conditions. USAA's claim files were silent on the
33 particulars of these "make ready" deductions. It was only from
34 having spoken to USAA personnel that the Examiners learned that

1 the "make ready" deduction was taken by USAA for the purpose of
2 washing, cleaning, and making the vehicle generally ready for
3 sale. However, these flat deductions ranging in amount from \$25
4 to \$300 were not supported by documentation in the filing
5 specifically explaining the purpose of the deduction and stating
6 what services and/or activities were included in the "make
7 ready" charge.

8 15. Respondents failed to pay the 1,635 first party total
9 loss claims cited in the above two paragraphs within thirty (30)
10 days after the receipt of an acceptable proof of loss which
11 contained all information necessary for claim adjudication, and
12 did not pay interest thereon. Respondents also failed to pay an
13 additional thirty-two (32) first party total loss claims within
14 thirty (30) days after the receipt of an acceptable proof of
15 loss which contained all information necessary for claim
16 adjudication, and did not pay interest thereon.

17 16. Respondents failed to complete their investigation of
18 nineteen (19) first party automobile total loss claims within
19 thirty (30) days after notification of the claims and did not
20 show that the examinations could not reasonably have been
21 completed that thirty (30) day period.

22 17. In one hundred and fifty-two (152) instances where
23 claimants retained the salvage of their total loss vehicles,
24 Respondents deducted the salvage value of the vehicle from the
25 total and determined the sales taxes due on the basis of this
26 "net" amount, rather than paying sales taxes to claimants based
27 upon the value of the total loss.

28

CONCLUSIONS OF LAW

1
2 1. USAA's action of cancelling automobile policies for
3 reasons other than those permitted by Arizona law violates
4 A.R.S. § 20-1631(C)(3).

5 2. A.R.S. § 20-1631(D) states in material part:

6 The company shall not cancel or fail to renew the
7 insurance when a person other than the named insured has
8 violated subsection B, paragraph 3 if the named insured
9 in writing agrees to exclude as insured such person by
10 name...

11 USAA argues that A.R.S. § 20-1631(D) does not explicitly require
12 USAA to offer to exclude a driver, other than the named insured,
13 who has violated Subsection C. The ADOI agrees. However, the
14 ADOI also contends that this Section of the law is rendered
15 meaningless unless an offer is made and believes USAA should
16 make such offers in the future.

17 3. By issuing notices of cancellation of personal
18 automobile policies which did not include a notice of the named
19 insured's right to complain to the Director of the cancellation
20 within ten days after receipt, Respondents violated A.R.S. §
21 20-1632(A)(1).

22 4. By issuing notices of cancellation of personal
23 automobile policies which did not inform the insureds of their
24 possible eligibility for the automobile assigned risk plan,
25 Respondents violated A.R.S. § 20-1632(A)(2).

26 5. By failing to include refunds of unearned premium with
27 the notices of cancellation of non-financed personal automobile
28 policies, Respondents violated A.R.S. § 20-1632(A)(3).

1 6. USAA fails to send a notice of cancellation AFTER its
2 grace period by which notice the policyholder is informed of his
3 right to complain to the Director. Therefore, USAA has violated
4 A.R.S. § 20-1632.01(B).

5 7. By cancelling residential property policies which had
6 been in effect for at least sixty (60) days for reasons other
7 than those permitted by law, Respondents violated A.R.S. §
8 20-1652(A).

9 8. By non-renewing residential property policies, without
10 giving the insureds notice of the specific facts which
11 constituted the grounds for non-renewal, Respondents violated
12 A.R.S. § 20-1653.

13 9. By failing to pay the full amount of sales taxes and
14 license fees required for the purchase of comparable automobiles
15 to first-party claimants in their settlement of some first-party
16 automobile total loss claims, Respondents violated A.A.C. Rule
17 4-14-801(H)(1)(b) and A.R.S. § 20-461(A). In addition, USAA
18 also violated the 1984 Order and A.R.S. § 20-220(B).

19 10. By failing to document deviations from the
20 methodology of A.A.C. Rule 4-14-801(H)(1)(a) and (b) in the
21 calculation of ACV of automobiles involved in first party total
22 loss claims, to give particulars of the automobiles' conditions
23 and to make deductions from the ACV which were measurable,
24 discernible, itemized and specified as to dollar amount and
25 appropriate in amount, Respondents violated A.A.C. Rules
26 4-14-801(H)(1)(c) and (H)(6) and A.R.S. § 20-461(A).

27 11. By failing to pay all first party claims within thirty
28 (30) days of the receipt of an acceptable proof of loss which

1 contained all information necessary for claim adjudication and
2 by failing to pay interest on the amount due from the date the
3 claim was received by the insurer, Respondents violated A.R.S. §
4 20-462(A).

5 12. Respondents violated A.A.C. Rule 4-14-801(G) and
6 A.R.S. § 20-461(A)(3) by failing to complete their investigation
7 of claims within thirty (30) days after notification of the
8 claims, where Respondents did not document that investigation
9 could not reasonably be completed within thirty (30) days.

10 13. By failing to pay sales taxes to claimants on the
11 basis of the total ACV of the vehicle, rather than the ACV net
12 of salvage, Respondents violated A.A.C. Rule 4-14-801(H)(1)(b)
13 and A.R.S. § 20-461(A).

14 ORDER

15 Respondents having admitted the jurisdiction of the
16 Director to enter the Order set forth herein, having waived the
17 Notice of Hearing, and having consented to the entry of the
18 Order set forth hereinafter, and there being no just reason for
19 delay:

20 IT IS HEREBY ORDERED THAT:

21 1. Respondents shall cease and desist from cancelling
22 personal automobile policies for reasons other than those
23 consistent with A.R.S. § 20-1631; from cancelling personal
24 automobile policies without offering the named insureds the
25 opportunity to exclude from coverage the person other than the
26 named insured whose actions led to policy cancellation; from
27 failing to include within all personal auto policy cancellation
28 notices a notice of the named insureds' right to complain to the

1 Director of the cancellation and notice of possible eligibility
2 for the assigned risk plan; from failing to include refunds of
3 unearned premium with all notices of cancellation of
4 non-financed personal auto policies; from cancelling residential
5 property policies which have been in effect for at least sixty
6 (60) days for reasons other than those permitted by A.R.S. §
7 20-1652(A); from failing to notify insureds of the specific
8 facts which constitute the reasons for non-renewal of
9 residential property policies; from failing to pay the full
10 amount of applicable sales taxes due on first-party personal
11 automobile claims; from failing to follow orders of the
12 Director; from failing to support vehicle ACV in first-party
13 automobile total loss claims with documentation giving
14 particulars of the automobile's condition or documenting that
15 the settlement amount is determined by the value of a comparable
16 automobile in the market area or by utilizing two (2) dealer
17 quotes when available; from failing to pay interest on
18 first-party claims not paid within thirty (30) days after the
19 receipt of acceptable proofs of loss which contain all
20 information necessary for claim adjudication; from failing to
21 complete the investigation of claims within thirty (30) days
22 after notification thereof, unless the investigation cannot
23 reasonably be completed within that time; and from making
24 payments of sales taxes to claimants on first party total losses
25 which do not include the value of salvage retained by the
26 insured.

27 2. Within sixty (60) days of the filed date of this
28 Order, Respondents shall file with the ADOI for approval amended

1 copies of their personal auto policy cancellation form letters
2 which include the provisions required by A.R.S. § 20-1632(A)(1),
3 (2), and (3).

4 3. Within sixty (60) days of this Order's filed date,
5 Respondents shall submit to the Director written action plans to
6 provide ongoing training of all personal lines underwriters in
7 the cancellation statute provisions of A.R.S. §§ 20-1631,
8 20-1632, 20-1632.01, 20-1652, 20-1653 and 20-1654.

9 4. Respondents shall refund to the 1,109 claimants listed
10 in the Report the full amount of sales taxes and/or license fees
11 not paid on first party total loss claims, totalling
12 \$60,042.44. Included in the above are the 948 claims files
13 cited by the Examiners on Page 16 of the Report and the ten (10)
14 files cited as "concessions" on Page 18 of the Report.

15 5. From and after the filed date of this Order,
16 Respondents shall not deduct the salvage value of the vehicle
17 before paying taxes and fees on a first party total loss claim.

18 6. Respondents shall refund the "make ready" charges to
19 those first party total loss claimants from whose claims USAA
20 deducted these charges and which claims were reviewed by the
21 Examiners.

22 7. Respondents shall pay interest to the 33 claimants
23 listed in Exhibit #15 of the Report on the amount of their
24 claims which was not paid within thirty (30) days of receipt of
25 properly executed proofs of loss giving all information
26 necessary for claim adjudication, at the rate of ten percent
27 (10%) per annum calculated from the date the claim was received
28 by the insurer to the date of repayment.

1 8. The payments listed in Paragraphs 4, 5, and 6 shall be
2 refunded. The refunds may be made by crediting the account of
3 the insured. A letter acceptable to the Director explaining the
4 reason for the payment shall accompany each payment. Where an
5 insured's account is credited, the letter shall be sent to the
6 insured. A list of payments, giving the name and address of
7 each party to whom payments were made and the date of payment,
8 shall be provided to the ADOI when all payments have been made.
9 The Respondents shall be deemed to have complied with this Order
10 if the Respondents mailed the check to the policyholder's last
11 address on record with USAA and no forwarding address has been
12 provided on returned mail. In the event the check is returned
13 with no forwarding address, the Respondents shall be under no
14 further obligation to locate the policyholder. All payments
15 shall be made within thirty (30) days of the filed date of this
16 Order.

17 9. The ADOI shall be permitted, through authorized
18 representatives, to verify Respondents have fully complied with
19 all requirements of this Order, and the Director may separately
20 order Respondents to comply.

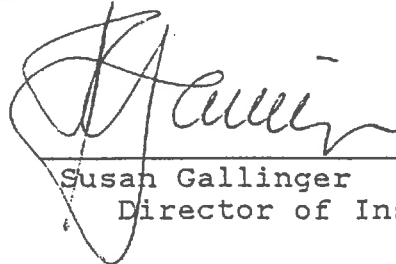
21 10. Ninety (90) days after the filed date of this Order,
22 any premium due notice or billing statement intended by the
23 Respondents to include the seven-day grace period shall include
24 the language contained in Exhibit 1 attached hereto. "Grace
25 period" is defined by A.R.S. § 20-1632.01(D) to mean "the
26 period of time after the premium due date during which the
27 policy remains in force without penalty even though the premium
28 due has not been paid".

1 Additionally, Respondents shall ninety (90) days after the
2 filed date of this Order send a notice of cancellation or
3 nonrenewal to the policyholder of any motor vehicle insurance
4 policy cancelled or nonrenewed for nonpayment of premium by
5 Respondents after the grace period in the format found in
6 Exhibit 2 attached hereto. Said notice shall include the
7 reasons for cancellation or nonrenewal and indicate the name
8 insured's right to complain to the Director.

9 11. Respondents shall pay a civil penalty of Twenty-Five
10 Thousand Dollars (\$25,000) to the Director for remission to the
11 State Treasurer for deposit in the State General Fund in
12 accordance with A.R.S. §20-220 (B). Said \$25,000 shall be
13 provided to the Hearing Division of the ADOI on or before July
14 17, 1993.

15 12. The July 10, 1992 Report of Examination, to include
16 any objections to the Report by Respondents, shall be filed with
17 the ADOI.

18 DATED at Phoenix, Arizona this 8th day of July, 1993.

19
20
21 
22 _____
23 Susan Gallinger
24 Director of Insurance
25
26
27
28

NOTICE OF CANCELLATION FOR NONPAYMENT OF PREMIUM

FILE COPY



EXAMPLE

WILLIAM S KNIGHT
880-B S PANTANO RD
TUCSON AZ 85710-5877

DATE OF NOTICE FEBRUARY 22, 1993

ACCORDING TO OUR RECORDS YOU HAVE NOT PAID YOUR ACCOUNT AS REQUIRED. THIS IS NOTICE TO YOU THAT THE BELOW LISTED INSURANCE WILL BE CANCELLED FOR NONPAYMENT OF PREMIUM AS OF THE TIME AND DATE SHOWN.

EFFECTIVE MARCH 12, 1993 (12:01 A.M., STANDARD TIME FOR PROPERTY DESCRIBED)
CIC AUTO POLICY 005126086C 7101 7 92 TOYOTA

Exhibit No. 1

CANCELLATION OF AN AUTO POLICY ALSO TERMINATES ALL COVERAGE FOR ADDITIONAL OR REPLACEMENT VEHICLES. THE POLICY INCLUDED IN THIS NOTICE WILL NEITHER BE CONTINUED NOR RENEWED. ANY RENEWAL DECLARATION OR AMENDMENT PAGES YOU MAY HAVE OR RECEIVE FOR THIS POLICY WILL BE VOID AND WILL NOT PROVIDE YOU WITH INSURANCE PROTECTION. YOU HAVE THE RIGHT TO CONTINUE YOUR COVERAGE IF PAYMENT OF THE AMOUNT DUE IS RECEIVED POSTMARKED ON OR BEFORE THE EFFECTIVE DATE OF CANCELLATION.

PAYMENT AMOUNT REQUIRED TO AVOID CANCELLATION	\$ 325.87
PLEASE SEE THE ATTACHED STATEMENT	

THE INFORMATION BELOW IS APPLICABLE TO CANCELLATION OF ARIZONA AUTOMOBILE INSURANCE

YOUR GRACE PERIOD TO PAY THE PREMIUM WILL EXPIRE AND YOUR POLICY WILL BE CANCELLED EFFECTIVE MARCH 12, 1993.

YOU ARE HEREBY ADVISED THAT ARIZONA LAW PROVIDES THAT YOU HAVE THE RIGHT TO OBJECT, WITHIN 10 DAYS OF RECEIPT OF THIS NOTICE, TO THE ARIZONA DEPARTMENT OF INSURANCE OF THIS ACTION TAKEN BY THE COMPANY.

I HEREBY CERTIFY THAT I MADE THE ORIGINAL CANCELLATION/TERMINATION AND AT SAID TIME RECEIVED THE U.S. POSTAL SERVICE CERTIFICATE OF MAILING WHICH IS LEFT ON FILE AT USAA.
PERSON MAKING NOTICE: J. ADAMS 11603
FEB 24 1993

USAA CASUALTY INSURANCE COMPANY
USAA BUILDING • SAN ANTONIO, TEXAS 78288

USAA CASUALTY INSURANCE COMPANY

USAA Building - San Antonio, Texas 78288
 THE EASY READING AUTO POLICY
 DECLARATIONS
 CANCELED MAR 12, 1993

State	Year	POLICY NUMBER
AZ		00512 60 B6C 7101
POLICY PERIOD:		(12:01 A.M. standard time)

Insured and Address

WILLIAM S KNIGHT
 660-B S PANTANO RD
 TUCSON AZ 85710-5877

EXAMPLE

Description of Vehicle(s)					VEH USE	WORKING
TRADE NAME	MODEL	BODY TYPE	REGISTRATION NUMBER	VEH USE	VEH USE	VEH USE
TOYOTA	TECNEL BASE	SED 2D	JT2EL46B6N0227237			

Vehicle(s) described herein is principally garaged at the above address unless otherwise stated.

COVERAGES	LIMITS OF LIABILITY (*ACTY* MEANS ACTUAL CASH VALUE)	VEH		VEH		VEH		VEH	
		D=DED AMOUNT	PREMIUM \$	D=DED AMOUNT	PREMIUM \$	D=DED AMOUNT	PREMIUM \$	D=DED AMOUNT	PREMIUM \$
CY CANCELED PRO-RATA EFFECTIVE			93-12-93						
TOTAL RETURN PREMIUM			\$311.84						

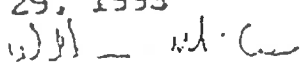
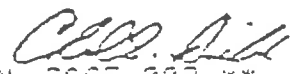
YOUR GRACE PERIOD TO PAY THE PREMIUM EXPIRED AND YOUR POLICY IS CANCELLED AS INDICATED ABOVE.

YOU ARE HEREBY ADVISED THAT ARIZONA LAW PROVIDES THAT YOU HAVE THE RIGHT TO OBJECT, WITHIN 10 DAYS OF RECEIPT OF THIS NOTICE TO THE ARIZONA DEPARTMENT OF INSURANCE OF THIS ACTION TAKEN BY THE COMPANY.

THE MOTOR VEHICLE DIVISION OF THE ARIZONA DEPARTMENT OF TRANSPORTATION HAS BEEN NOTIFIED OF THIS COVERAGE CANCELLATION. THE VEHICLE REGISTRATION MAY BE SUBJECT TO SUSPENSION.

Exhibit No. 2

WITNESS WHEREOF, we have caused this policy to be signed by our President and Secretary at San Antonio, Texas, on this date MARCH 29, 1993



 ** TOTAL PAGE.000 **

1 CONSENT TO ORDER

2 1. Respondents United Services Automobile Association, USAA
3 Casualty Insurance Company, and USAA General Indemnity Company have
4 reviewed the foregoing Consent Order.

5 2. Respondents are aware of their right to a hearing at
6 which hearing Respondents may be represented by counsel, present
7 evidence and cross-examine witnesses. Respondent have irrevocably
8 waived their right to such public hearing and to any court appeals
9 relating thereto.

10 3. Respondents admit the jurisdiction of the Director of
11 Insurance, State of Arizona, and consent to the entry of this
12 Consent Order.

13 4. Respondents state that no promise of any kind or nature
14 whatsoever was made to it to induce it to enter into this Consent
15 Order and that it has entered into this Consent Order voluntarily.

16 5. Respondents acknowledge that the acceptance of this Order
17 by the Director of Insurance, State of Arizona, is solely for the
18 purpose of settling this matter against them and does not preclude
19 any other agency or officer of this state or subdivision thereof
20 from instituting other civil or criminal proceedings as may be
21 appropriate now or in the future.

22 6. Robert L. Hoagland represents that as Assistant
23 Vice President he is
24 an officer of Respondents United Services Automobile Association,
25 USAA Casualty Insurance Company, and USAA General Indemnity
26 Company, and that, as such, he is authorized by it to enter into
this Consent Order on its behalf.

27 July 1, 1993

(Date)

R L Hoagland
UNITED SERVICES AUTOMOBILE ASSOCIATION
USAA CASUALTY INSURANCE COMPANY
USAA GENERAL INDEMNITY COMPANY

1 . . .
2 . . .
3 . . .

4 COPY of the foregoing mailed/delivered
5 this 8th day of July , 1993, to:

6 Sara Begley
7 Hearing Officer
8 *Deloris E. Williamson
9 Assistant Director
10 Rates & Regulations Division
11 Jay Rubin
12 Assistant Director
13 Consumer Affairs & Investigations Division
14 Gary Torticill
15 Assistant Director and Chief Financial Examiner
16 Corporate Affairs & Financial Division
17 DEPARTMENT OF INSURANCE
18 3030 N. 3rd Street, Suite 1100
19 Phoenix, AZ 85012

20 J. Michael Low, Esq.
21 Low & Childers, P.C.
22 1221 East Osborn Road, Suite 104
23 Phoenix, Arizona 85012

24 Michael Broll, CPCU
25 Executive Director, State Filings
26 United Services Automobile Association
27 USAA Building
28 San Antonio, Texas 78288

