

1 2. The Examiners were authorized by the ADOI to conduct a
2 market conduct examination of Respondents. The on-site
3 examination was concluded as of February 4, 1994 and a Report of
4 Examination ("Report") was written. The Examiners reviewed open
5 and closed claim files from June 2, 1987 through October 24,
6 1993 and underwriting, rating and cancellations from January 21,
7 1992 through November 7, 1993.

8 3. Southern issued seventeen (17) personal automobile
9 ("PA") policies in which thirteen (13) policies were not
10 countersigned and four (4) policies were countersigned by a
11 licensed agent residing outside of Arizona.

12 4. Republic, Blue Ridge and Vanguard issued Homeowners
13 policies using unfiled rates as follows:

14 a. Republic issued two (2) policies in which
15 Respondents failed to use the correct rate page as filed with
16 the ADOI. This resulted in overcharges totaling \$60.00.

17 b. Republic issued one (1) policy using an incorrect
18 territory code which resulted in an undercharge of \$40.00.

19 c. Blue Ridge issued one (1) policy in which
20 Respondents failed to apply the new home credit of 6% which
21 resulted in an overcharge of \$22.00.

22 d. Republic issued one (1) policy but failed to use
23 the correct effective date which resulted in an overcharge of
24 \$5.00.

25 e. Vanguard issued one (1) policy using the rates
26 for Blue Ridge resulting in an undercharge of \$2.00.

27 f. Republic issued one (1) policy but applied the
28 wrong base rate which resulted in an undercharge of \$1.00.

1 5. Republic, Blue Ridge and Vanguard issued dwelling fire
2 policies using unfiled rates as follows:

3 a. Republic issued twenty-one (21), Vanguard issued
4 eleven (11) and Blue Ridge issued three (3) policies but applied
5 an alarm credit of 2% when the plan filed with with the ADOI
6 provided for a 5% credit.

7 b. Republic issued two (2) policies applying an
8 incorrect deductible factor resulting in net undercharges of
9 \$5.00 on each of the policies.

10 c. Republic issued one (1) policy in which
11 Respondents developed a liability premium of \$324.00 and the
12 Examiners developed a premium of \$363.00. This resulted in an
13 undercharge of \$39.00. Neither Respondents or the Examiners
14 could find a reason for the discrepancy.

15 d. Vanguard issued one (1) policy in which
16 Respondents developed a base rate inconsistent with the filed
17 plan. Respondents also applied a 2% alarm credit instead of the
18 filed 5% credit. These two (2) errors resulted in an overcharge
19 of \$35.00.

20 6. Southern issued PA policies using unfiled rates as
21 follows:

22 a. Issued forty-four (44) policies containing rating
23 errors which were the result of Southern providing its agent
24 with a rate chart that was not consistent with the rates filed
25 with the ADOI. This resulted in nineteen (19) undercharges
26 totaling \$47.00 and twenty-five (25) overcharges totaling \$48.00.

27 b. Issued one (1) policy but used an incorrect rate
28 resulting in an undercharge of \$351.00.

1 c. Issued one (1) policy but failed to apply a
2 policy fee in accordance with its filed plan resulting in a
3 \$25.00 undercharge.

4 d. Issued one (1) policy using a rating factor
5 against an incorrect vehicle value resulting in an undercharge
6 of \$19.00.

7 7. Southern may have failed to pay all sales taxes due on
8 PA first party total loss claims. Also Southern failed to pay
9 license fees to 226 PA first party total loss claimants. A total
10 of \$2,915.96 was due these claimants, but was not paid.

11 8. Southern applied either undocumented, incorrect and/or
12 documented deductions which were not appropriate. A total of
13 \$5,161.47 was due these forty-three (43) first party claimants,
14 but was not paid.

15 9. Southern paid thirteen (13) PA first party total loss
16 claims in excess of thirty (30) days from receipt of an
17 acceptable proof of loss and failed to pay interest on the
18 amounts due.

19 10. In twenty-five (25) PA first party total loss claims,
20 Southern developed actual cash value ("ACV") of the vehicles
21 using the Kelly Blue Book or the NADA book rather than two (2)
22 dealer quotations.

23 11. Southern failed to document in two (2) PA claim files
24 whether or not Southern had pursued subrogation.

25 12. Southern failed on five (5) PA claims to acknowledge
26 receipt of the claims within ten (10) working days.

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1 first party automobile total loss claims, Southern would violate
2 A.C.C. Rule 4-14-801(H)(1)(b) and A.R.S. § 20-461(A)(6).

3 5. Southern failed to pay the full amount of license
4 fees required for the purchase of comparable automobiles to
5 first party claimants in their settlement of first
6 party automobile total loss claims, Southern would violate
7 A.C.C. Rule 4-14-801(H)(1)(b) and A.R.S. § 20-461(A)(6).

8 6. By applying either undocumented, incorrect and/or
9 documented deductions which were inappropriate, Southern
10 violated A.A.C. R4-14-801(H)(1)(b) and A.R.S. § 20-461(A)(6).

11 7. By failing to pay interest to claimants on claims not
12 paid within thirty (30) days of receipt of an acceptable proof
13 of loss, Respondents violated A.R.S. § 20-462(A).

14 8. By failing to use the cost of a comparable automobile
15 or dealer quotations to establish the basis for a cash
16 settlement of an automobile total loss claim, Southern violated
17 A.A.C. R4-14-801(H)(1)(b) and A.R.S. § 20-461(A)(6).

18 9. By failing to document in the claim file that Southern
19 had pursued subrogation, Southern violated A.A.C. R4-14-801(C).

20 10. By failing to acknowledge receipt of claims within ten
21 (10) working days of the notice of the claim, Southern violated
22 A.A.C. R4-14-801(E)(1).

23 11. By failing to complete the investigation of PA and
24 dwelling claims within thirty (30) days of notice of the claim,
25 Respondents violated A.A.C. R4-14-801(F).

26 12. By failing to provide in the claim file of a
27 homeowners policy documentation to support the amount of payment
28 made to the insured, Respondents violated A.A.C. R4-14-801(C).

1 claims adjusters, appraisers and independent adjustors in all
2 requirements of the rule.

3 3. Southern shall send a letter of explanation acceptable
4 to the ADOI to the insureds identified by the Examination and
5 pay \$2915.96 in fees which were not paid in settling first party
6 automobile losses. Southern shall pay interest on these unpaid
7 amounts at the rate of ten percent (10%) per annum calculated
8 from the date the claim was received until the date of payment.

9 4. Southern shall send a letter of explanation acceptable
10 to the ADOI to the forty-three (43) insureds identified by the
11 Examination and pay \$5,161.47 in undocumented deductions.
12 Southern shall pay interest on these unpaid amounts at the rate
13 of ten percent (10%) per annum calculated from the date the
14 claim was received until the date of payment.

15 5. Southern has confirmed with the Navajo Office of Vital
16 Records that approximately half of the 226 PA first party total
17 loss claimants are tax exempt members of the Navajo Tribe; the
18 Navajo Office requires additional information, not currently
19 available in Southern's files, to verify the tax exempt status
20 of the remaining claimants. Southern shall send a letter (the
21 form of which is attached to this Order and hereby approved by
22 the Director) to each of the remaining claimants regarding his
23 or her tax exempt status within ten (10) days of the filed date
24 of this Order. Southern shall report to the ADOI within
25 forty-five (45) days of the filed date of this Order a summary
26 of the responses received by Southern within thirty (30) days of
27 the filed date of this Order. Southern will pay all sales taxes
28 due plus interest at the rate of ten per cent (10%) per annum

1 from the date the claim was received, within sixty (60) days of
2 the filed date of this Order to those claimants which return
3 responses to Southern within thirty (30) days of the filed date
4 of this Order that state they are not tax exempt individuals.

5 6. Respondents shall send a letter of explanation
6 acceptable to the ADOI to the thirteen (13) automobile insureds
7 and the six (6) homeowner/dwelling insureds indentified in the
8 Report and pay interest to these insureds at the rate of ten
9 percent (10%) per annum calculated from the date the claim was
10 received until the date of payment.

11 7. Respondents shall send a letter of explanation
12 acceptable to the ADOI to the four (4) homeowner insureds
13 identified in the Report and pay to these insureds what they
14 were overcharged as a result of using incorrect rate pages,
15 effective date and failure to apply a new home credit.

16 8. Respondents shall send a letter of explanation
17 acceptable to the ADOI to the insureds identified in the Report,
18 who were overcharged as a result of applying an incorrect alarm
19 credit, and pay to these insureds what they were overcharged as
20 a result of using the incorrect alarm credit.

21 9. Respondents shall send a letter of explanation
22 acceptable to the ADOI to the twenty-five (25) insureds
23 identified in the Report, who were overcharged as a result of
24 using a rate chart which was inconsistent with its filed rates.

25 10. Respondents shall send a letter of explanation
26 acceptable to the ADOI to insured of dwelling fire policy #DW
27 928688 in the amount of \$35.00 for overcharges resulting from
28 the use of an incorrect base rate.

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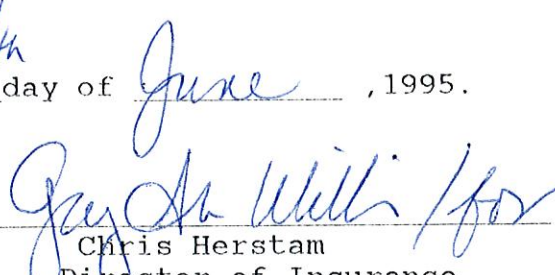
11. A list of the payments made pursuant to Paragraphs 3 through 9, giving the name and address of each party to whom payments were made, the base amount of the payment, the amount of interest paid (if applicable) and the date of payment shall be provided to the ADOI within sixty (60) days of the filed date of this Order.

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

13. Respondents shall pay a civil penalty of Fifteen Thousand Dollars (\$15,000.00) to the Director for remission to the State Treasurer for deposit in the State General Fund in accordance with A.R.S. §20-220(B). (Republic \$1,094, Vanguard \$617, Blue Ridge \$137, Southern \$13,152) Said amount shall be provided to the Administrative Law Division of the ADOI on or before May 26, 1995.

14. The February 4, 1994 Report of Examination, to include any objections to the Report by Respondents, shall be filed with the ADOI.

DATED at Phoenix, Arizona this 12th day of June, 1995.


Chris Herstam
Director of Insurance

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CONSENT TO ORDER

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2 1. Respondents, Republic Insurance Company, Blue Ridge
3 Insurance Company, Vanguard Insurance Company and Southern
4 Insurance Company have 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. Respondents have
8 irrevocably waived its right to such public hearing and to any
9 court appeals relating thereto.

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

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

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

23 6. Notwithstanding the foregoing provision, the Director
24 of Insurance will not direct any or all of the Respondents to
25 pay any additional amounts, or to send additional notices to the
26 insureds other than stated in the Order, cancel any or all of
27 the Respondents' Certificates of Authority or otherwise penalize
28 Respondents in connection with any conduct or business occurring
on or prior to November 7, 1993 which were a part of the Market
Conduct Examination referenced in this Consent Order.

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7. Bruce R. Milligan represents that as
President he is an officer of Respondents and that, as
such, he is authorized by them to enter into this Consent Order
on their behalf.

REPUBLIC INSURANCE COMPANY
BLUE RIDGE INSURANCE COMPANY
VANGUARD INSURANCE COMPANY
SOUTHERN INSURANCE COMPANY

5/19/95
(Date)

By Bruce R. Milligan

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COPY of the foregoing mailed/delivered
this 15th day of June , 1995, to:

- Gay Ann Williams
Deputy Director
- Chuck Cohen
Executive Assistant Director
- Gregory Y. Harris
Chief Administrative Law Judge
- Erin Klüg
Executive Assistant to the Director
- Jimmy Potts
Market Conduct Examination Coordinator
Examinations Division
- Saul Saulson
Supervisor
Examinations Section
- Dean Ehler
Supervisor
Property and Casualty Section
- Deloris E. Williamson
Assistant Director
Rates & Regulations Division
- Gary Torticill
Assistant Director and Chief Financial Examiner
Corporate & Financial Affairs Division
- Cathy O,Neil
Assistant Director
Consumer Services and Investigations

DEPARTMENT OF INSURANCE
2910 North 44th Street, Suite 210
Phoenix, AZ 85018

Robert W. Frierson, Esq.
Assistant VP and Associate Counsel
Republic Insurance Company
P.O. Box 660560
Dallas, Texas 75219



[ATTACHMENT TO CONSENT ORDER]

[NAME AND
ADDRESS OF
INSURED]

Dear [Name]:

We are unable to determine from a review of our files whether or not you are exempt from paying State and local taxes. In order to complete our files, please indicate your tax exempt status by initialing the applicable box below and returning this form to Southern Insurance Company in the enclosed stamped, addressed envelope.

_____ I am **exempt** from paying State and local taxes.

_____ I am **not exempt** from paying State and local taxes.

Your prompt response is greatly appreciated.

Sincerely,