REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

YOUNG AMERICA INSURANCE COMPANY

NAIC #27090

AS OF

JUNE 30, 2013

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Department of Insurance
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GERMAINE L. MARKS
Director of Insurance

Honorable Germaine L. Marks
Director of Insurance
State of Arizona
2910 North 44th Street
Suite 210, Second Floor
Phoenix, Arizona 85108-7269

Dear Director Marks:

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:

YOUNG AMERICA INSURANCE COMPANY
NAIC # 27090

The above examination was conducted by William Hobert, Examiner-in-Charge, and Market Conduct Examiner Laura Sloan-Cohen.

The examination covered the period of January 1, 2012 through June 30, 2013.

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

Sincerely yours,

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

AFFIDAVIT

STATE OF ARIZONA)
) ss.
County of Maricopa)

William P. Hobert being first duly sworn, states that I am a duly appointed Market Conduct Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of Market Conduct Examiner Laura Sloan-Cohen on the Examination of Young America Insurance Company, hereinafter referred to as "the Company," was performed at the Company's headquarters at 1800 Lee Trevino Drive, Suite 201, El Paso, TX 79936. A teleconference meeting with appropriate Company officials 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.

William P. Hobert

William P. Hobert, CPCU, CLU, CIE
Market Conduct Examiner-in-Charge
Market Oversight Division

Subscribed and sworn to before me this 23 day of October, 2013.

Elizabeth Luna

Notary Public

My Commission Expires March 25, 2016

Elizabeth Luna
Notary Public - Arizona
Maricopa County
My Commission Expires
March 25, 2016

FOREWORD

This target market conduct examination report of Young America Insurance Company (herein referred to as the "Company"), was prepared by employees of the Arizona Department of Insurance (Department) as well as independent examiners contracting with the Department. A target 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 product developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the following Private Passenger Automobile (PPA) business operations:

1. Complaint Handling
2. Marketing and Sales
3. Producer Compliance
4. Underwriting and Rating
5. Declinations, 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 target market conduct examination of the Company covered the period of

January 1, 2012 through June 30, 2013. 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 7.

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

The Company was organized in 1987 as Windsor Lloyds (Lloyds). Lloyds began writing policies in April 1988. On 6/20/96, Lloyds was converted to a stock fire and casualty company and was renamed Young America Insurance Company. On 12/31/98, RDY Holding Company, Inc. (RDYHC) owned all outstanding Company stock and in 2006 RDYHC contributed 100% of the stock to BFS Holdings, a newly formed subsidiary of RDYHC, in exchange for 100% of BFS stock. Effective 5/11/12, the Company was acquired by EP Loya Group, LP (Loya).

Until 2002, the Company specialized in the reinsurance of non-standard PPA coverage in Texas, Missouri and Illinois. In 2004, the Company began assuming PPA business in several other states, including Arizona, from American Bankers Insurance Company (ABIG). The Company did not renew its reinsurance contract with ABIG as respect Arizona in 2010. Arizona admitted the Company as a property and casualty insurer 5/25/05 and the Company began writing direct business in 2009. Effective 7/1/12, the Company entered into a Managing General Agency (MGA) Agreement with its affiliate Rodney D Young General Agency, Inc. (RDY) to act as its MGA for the production of its business in all states in which the Company operates. The Company is licensed in eighteen (18) states, but is actively writing business in only seven (7). The statutory home office and primary location of Company books and records is 1800 Lee Trevino Drive, Suite 201, El Paso, TX 79936. The Company currently operates twelve (12) captive agent sales offices throughout the state. All sales agents are employees of RDY. The Company's AZ program consists of a non-standard, state-mandated minimum limit, one (1) month policy that targets a vulnerable insurance market.

PROCEDURES REVIEWED WITHOUT EXCEPTION

The examiners' review of the following Company departments[1] 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 revealed fifteen (15) compliance issues that resulted in 297 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 examiners' findings:

Underwriting and Rating

In the area of Underwriting and Rating, two (2) compliance issues are addressed in this report as follows:

[1] If a department name is listed there were no exceptions noted during the review.

- The Company failed to produce and make accessible evidence to justify rating surcharges with seventeen (17) CSC PPA insureds.
- The Company failed to fully document and accurately apply rating surcharges (i.e. points) used to determine nine (9) Loya PPA policy premiums.

Declinations, Cancellations and Non-Renewals

In the area of Cancellations and Non-renewals, two (2) compliance issues are addressed in this report as follows:

- The Company failed to provide twenty-one (21) recipients of a non-payment cancellation, whose policies had been in effect for more than sixty (60) days, notice of their right to complain to the Director.
- The Company failed to provide 122 insureds, whose policies had been in effect for more than sixty (60) days, a non-renewal notice for non-payment of premium.

Claims Processing

In the area of Claims Processing, eleven (11) compliance issues are addressed in this report as follows:

- The Company failed to conduct timely claim investigations with one (1) first and eight (8) third party claims.
- The Company failed on one (1) claim authorization form to specify the purposes for which the information is collected.
- The Company failed on one (1) claim authorization form to specify the length of time the authorization remains valid shall be no longer than the duration of the claim.
- The Company failed on one (1) claim authorization form to advise the individual or a person authorized to act on behalf of the individual they are entitled to receive a copy of the authorization form.
- The Company failed on one (1) claim form to provide a fraud warning statement.
- The Company failed to provide with ten (10) CWP, thirty-five (35) paid and eleven (11) total loss CSC claims sufficient detail so that pertinent events and dates could be reconstructed.

- The Company failed to correctly calculate and fully pay:
  (a) sales taxes owed on ten (10) first and four (4) third party CSC total loss settlements and seven (7) first and fifteen (15) third party Loya total loss settlements; and
  (b) total fees payable on five (5) first and fifteen (15) third party Loya total loss settlements.
- The Company failed to correctly calculate and fully pay the settlement amount owed one (1) third party owner-retained, total loss claimant subject to policy's $10,000 Property Damage limit.
- The Company failed to consider one (1) third party diminished value claim.
- The Company failed to extend rental coverage to one (1) first party claimant.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET EXAMINATIONS

During the past three (3) years, Colorado conducted a market conduct examination of the Company.

FACTUAL FINDINGS

UNDERWRITING AND RATING

CSC Private Passenger Automobile (PPA):

The examiners reviewed:

(1) fifty (50) PPA new business and/or renewal policies from a population of 79,211; and
(2) seventeen (17) PPA surcharged policies from an unknown population

Loya Private Passenger Automobile (PPA):

The examiners reviewed:

(1) eighty-nine (89) PPA new business and/or renewal policies from a population of 74,255; and
(2) sixty–one (61) PPA surcharged policies from an unknown population.

The following Underwriting and Rating Standards were met:

#	STANDARD	Regulatory Authority
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, 20-2110
3	All forms and endorsements forming a part of the contract should be filed with the director, if applicable.	A.R.S. § 20-398
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, 20-2113
5	Policies and endorsements are issued or renewed accurately, timely and completely.	A.R.S. §§ 20-1120, 20-1121, 20-1632, 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
1	The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan.	A.R.S. §§ 20-157, 20-341 through 20-385

Preliminary Findings #2 & #6 – Undocumented Surcharges - The Company failed to fully document and accurately apply rating surcharges (i.e. points) used to determine premium for nine (9) Loya PPA policies. These represent nine (9) violations of A.R.S. § 20-385.

PPA SURCHARGED POLICIES

Failed to accurately apply surcharge points to determine policy premium
Violation of A.R.S. § 20-385

Population	Sample	# of Exceptions	% to Sample
Unknown	61	9	14.8%

A 14.8% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #1

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure PPA surcharges (i.e. points) are fully documented and accurately applied to determine policy premium, in accordance with applicable statutes.

Subsequent Event

Before the close of the exam, the Company removed incorrect surcharges, recalculated premiums and paid restitution to these insureds totaling $152.00.

Preliminary Finding #14 – Inaccessible Surcharge Documentation - The Company failed to produce and make accessible any evidence (i.e. screen prints, CLUE or MV reports, etc.) to justify CSC PPA surcharges for seventeen (17) insureds. These represent seventeen (17) violations of A.R.S. § 20-157.

PPA NEW, RENEWAL & SURCHARGED POLICIES

Failed to produce and make accessible evidence to justify CSC PPA policy surcharges
Violation of A.R.S. § 20-157

Population	Sample	# of Exceptions	% to Sample
79,211	17	17	100%

A 100% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #2

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure accounts, records, documents, files, etc. are freely accessible for examinations subjects, in accordance with applicable statutes.

FACTUAL FINDINGS

DECLINATIONS, CANCELLATIONS AND NON-RENEWALS

CSC Private Passenger Automobile (PPA):
The examiners reviewed twenty-five (25) CSC PPA non-payment cancellations from a population of 496.
The Company had no policies cancelled or non-renewed for underwriting reasons.

Loya Private Passenger Automobile (PPA):
The examiners reviewed all fifty-four (54) PPA non-payment cancellations.
The Company had no policies cancelled or non-renewed for underwriting reasons.

The following Declination, Cancellation and Non-Renewal Standard passed:

#	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 applicant and shall not be unfairly discriminatory.	A.R.S. §§ 20-448, 20-2108, 20-2109, 20-2110

The following Declination, Cancellation and Non-Renewal Standard failed:

#	STANDARD	Regulatory Authority
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, 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

Preliminary Finding #13 – PPA Non-Payment Notices Fail to Include Right to Complain to the Director - The Company failed to provide twenty-one (21) insureds, whose Loya PPA policies had been in effect more than sixty (60) days, non-payment notices that included right to complain to the Director of the Company's action within ten (10) days after receipt of the notice. These represent twenty-one (21) violations of A.R.S. § 20-1632.01(B).

Note: The Company must notify the Arizona Motor Vehicle Department of all PPA cancellations or non-renewals of or failure to renew or issue policies processed and to disclose to all policyholders the Company's need to inform the MVD of the Company's actions and the possible suspension of the insured's motor vehicle registration. Failure to report to the MVD and make appropriate disclosures to policyholders is a violation of A.R.S. § 28-4148.

LOYA PPA NON-PAYMENT CANCELLATIONS
Failed to provide Loya non-payment notices that included right to complain to the Director
Violation of A.R.S. § 20-1632.01(B)

Population	Sample	# of Exceptions	% to Sample
54	54	21	38.9%

A 38.9% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #3

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure non-payment and policy termination notices sent policyholders, whose policies have been in effect more than sixty (60) days, contain the right to complain to the Director, in accordance with the applicable state statute.

Preliminary Finding #18 – Loya PPA Non-Payment Non-Renewal Notices - The Company failed to provide 122 insureds, whose Loya PPA policies had been in effect more than sixty (60) days, a non-renewal notice for non-payment of premium. These represent 122 violations of A.R.S. § 20-1632.01.

LOYA PPA NON-PAYMENT NON-RENEWALS

Failed to provide Loya insureds non-payment non-renewal notices

Violation of A.R.S. § 20-1632.01

Population	Sample	# of Exceptions	% to Sample
Unknown	122	122	100%

A 100% error ratio does not meet the Standard; therefore, a recommendation is warranted.

Recommendation #4

Within ninety (90) days of the filed date of this report, provide the Department with documentation that Company procedures and controls are in place to ensure non-renewal notices for non-payment of premium are sent to policyholders, whose policies have been in effect more than sixty (60) days, prior to the non-payment of premium, in accordance with the applicable state statute.

FACTUAL FINDINGS

CLAIM PROCESSING

CSC Private Passenger Automobile:

The examiners reviewed:

(1) thirty-two (32) CSC PPA claims closed without payment (CWP) from a population of 596;
(2) fifty (50) CSC PPA paid claims from a population of 529;
(3) twenty-nine (29) CSC PPA paid total loss claims from an unknown population; and
(4) two (2) CSC PPA subrogated claims from an unknown population.

Loya Private Passenger Automobile:

The examiners reviewed:

(1) fifty (50) Loya PPA claims CWP from a population of 1,862;
(2) fifty (50) Loya PPA paid claims from a population of 925;
(3) fifty-five (55) Loya PPA paid total loss claims from a population of 147; and
(4) all thirty-five (35) Loya PPA subrogated claims.

The following Claim Processing 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
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
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
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 Processing Standard failed:

#	STANDARD	Regulatory Authority
2	Timely investigations are conducted.	A.R.S. § 20-461, A.A.C. R20-6-801

Preliminary Finding #10 – Prompt Claim Investigations – The Company failed to promptly investigate one (1) first and eight (8) third party Loya claims within thirty (30) days after receipt of the claim notice. These represent nine (9) violations of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(F).

PAID & TOTAL LOSS CLAIMS

Failed to promptly investigate claims within thirty (30) days after notification
Violation of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(F)

Population	Sample	# of Exceptions	% to Sample
1072	100	9	9%

A 9% error ratio does not meet the Standard; therefore a recommendation is warranted.

Recommendation #5

Within ninety (90) days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure claim investigations are promptly investigated and settled, in accordance with applicable state statutes and regulations.

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
3	The Company's 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

Preliminary Finding #4 – Authorization Disclosures – On one (1) claim authorization form, Authorization to Release Confidential Health Information, the Company failed to:

(1) specify the purposes for which the information is collected;
(2) specify the authorization remains valid for no longer than the duration of the claim; and
(3) 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.

The form fails to comply with A.R.S. § 20-2106(6), (8)(b) and (9) and represents three (3) violations of the statute.

CLAIM FORMS

Failed to specify the purposes for which the information is collected
Violation of A.R.S. § 20-2106(6)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	1	N/A

Any form error does not meet the Standard; therefore a recommendation is warranted.

CLAIM FORMS

Failed to specify the authorization remains valid for no longer than the duration of the claim
Violation of A.R.S. § 20-2106(8)(b)

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	1	N/A

Any form error does not meet the Standard; therefore a recommendation is warranted.

CLAIM 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	1	N/A

Any form error does not meet the Standard; therefore a recommendation is warranted.

Preliminary Finding #5 – Fraud Warning Statement – The Company failed to include the required fraud warning statement on one (1) claim form, Authorization to Release Confidential Health Information. This represents one (1) violation of A.R.S. § 20-466.03

CLAIM FORMS

Failed to include the fraud warning statement
Violation of A.R.S. § 20-466.03

Population	Sample	# of Exceptions	% to Sample
N/A	N/A	1	N/A

Any error does not meet the Standard; therefore a recommendation is warranted.

Subsequent Event

The Company, before the close of the exam, provided the examiners with a copy of their Authorization to Release Confidential Information form that

(a) specified the purposes for which the information is collected;
(b) specified the authorization remains valid for no longer than the duration of the claim;
(c) advised 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; and
(d) provided a fraud warning statement in at least twelve (12) point type,

in accordance with the applicable state statutes.

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
4	Claim files are adequately documented in order to be able to reconstruct the claim.	A.R.S. §§ 20-157, 20-461,20-463, 20-466.03, A.A.C. R20-6-801

Preliminary Findings #15R and #16 – Inaccessible Claim Documentation – The Company failed to produce and make accessible documents, denial letters, damage estimates, adjuster notes, payments, etc. that permitted the examiners to reconstruct events and dates pertinent to ten (10) CWP, thirty-five (35) paid and eleven (11) total loss CSC claims. These represent fifty-six (56) violations of A.R.S. §§ 20-157, 20-157.01 and A.A.C. R20-6-801(C).

CSC CWP, PAID & TOTAL LOSSES

Failed to produce documentation sufficient to permit claim file reconstruction
Violation of A.R.S. §§ 20-157, 20-157.01 and A.A.C. R20-6-801(C)

Population	Sample	# of Exceptions	% to Sample
Unknown	111	56	50.1%

A 50.1% error ratio does not meet the Standard; therefore a recommendation is warranted.

Recommendation #6

Within ninety (90) days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure the Company can produce and make freely accessible all accounts, records, documents, files, etc. that will permit examiners to reconstruct pertinent claim file events and dates, in accordance with applicable state statutes and regulations.

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
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, A.A.C. R20-6-801

Preliminary Findings #7, #8 and #17 – Total Loss Sales Tax and Fees – The Company failed to accurately calculate and fully pay the correct:

(a) sales tax with ten (10) first and four (4) third party CSC total loss settlements;
(b) sales tax with seven (7) first and fifteen (15) third party Loya total loss settlements; and
(c) fees with five (5) first and fifteen (15) third party Loya total loss settlements.

These represent fifty-six (56) violations of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(1)(b).

PPA TOTAL LOSSES

Failed to correctly calculate and fully pay taxes and fees associated with total loss settlements
Violation of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(1)(b)

Population	Sample	# of Exceptions	% to Sample
Unknown	84	56	66.6%

A 66.6% error ratio does not meet the Standard; therefore a recommendation is warranted.

Recommendation #7

Within ninety (90) days of the filed date of this report, provide documentation to the Department that procedures and controls are in place to ensure the Company correctly calculates and fully pays any sales tax and title, registration or other fees, owed any claimant in the settlement of a total loss, in accordance with applicable state statutes and regulations.

Subsequent Event

Before the close of the exam, the Company paid restitution to all claimants totaling $5,089.46, which included $94.87 interest.

Preliminary Finding #9 – Incorrect $10,000 PD Limit Offer - The Company failed to accurately calculate and fully pay one (1) Loya third party total loss settlement, subject to a $10,000 property damage (PD) limit. This represents one (1) violation of A.R.S. § 20-461(A)(6).

PAID TOTAL LOSSES

Failed to correctly calculate and pay Loya total loss settlement, subject to PD limit
Violation of A.R.S. § 20-461(A)(6)

Population	Sample	# of Exceptions	% to Sample
147	58	1	1.7%

A 1.7% error ratio does meet the Standard; therefore a recommendation is not warranted.

Subsequent Event

Before the close of the exam, the Company paid restitution to the third party claimant totaling $899.88, which included no interest.

Preliminary Finding #11 – Diminished Value Denied - The Company failed to take into account a diminished value request from one (1) third party claimant. This represents one (1) violation of A.R.S. § 20-461(A)(6).

PAID LOSSES

Failed to consider diminished value request in the settlement of a paid loss
Violation of A.R.S. § 20-461(A)(6)

Population	Sample	# of Exceptions	% to Sample
925	50	1	2%

A 2% error ratio does meet the Standard; therefore a recommendation is not warranted.

Subsequent Event

Before the close of the exam, the Company paid restitution to the third party claimant totaling $250, which included no interest.

Preliminary Finding #12 – Rental Reimbursement Denied - The Company failed to extend the full rental reimbursement coverage limit to one (1) Loya first party total loss claimant. This represents one (1) violation of A.R.S. § 20-461(A)(6).

PAID TOTAL LOSSES

Failed to extend full rental reimbursement coverage limit to total loss claimant

Violation of A.R.S. § 20-461(A)(6)

Population	Sample	# of Exceptions	% to Sample
147	58	1	1.7%

A 1.7% error ratio does meet the Standard; therefore a recommendation is not warranted.

Subsequent Event

Before the close of the exam, the Company paid restitution to the first party claimant totaling $236.25, which included $26.25 interest.

SUMMARY OF FAILED STANDARDS

EXCEPTION	Rec. No.	Page No.
UNDERWRITING & RATING		
Standard #1 The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company Rating Plan.	1 & 2	13
DECLINATIONS, CANCELLATIONS & NON-RENEWALS		
Standard #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, and shall not be unfairly discriminatory.	3 & 4	16
CLAIM PROCESSING		
Standard #2 Timely investigations are conducted.	5	19
Standard #3 The Company claim forms are appropriate for the type of product and comply with statutes, rules and regulations.	N/A	-----
Standard #4 Claim files are adequately documented in order to be able to reconstruct the claim..	6	21
Standard #5 Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	7	22

SUMMARY OF PROPERTY AND CASUALTY STANDARDS

A. Complaint Handling

#	STANDARD	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, A.A.C. R20-6-801)	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, A.A.C. R20-6-801)	X	

B. Marketing and Sales

#	STANDARD	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)	X	

C. Producer Compliance

#	STANDARD	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, 20-311 through 311.03)	X	
2	An insurer shall not pay any commission, fee, or other valuable consideration to unlicensed producers. (A.R.S. § 20-298)	X	

D. Underwriting and Rating

#	STANDARD	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. §§ 20-157, 20-341 through 20-385)		X
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, 20-2110)	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)	X	

#	STANDARD	PASS	FAIL
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)	X	
5	Policies and endorsements are issued or renewed accurately, timely and completely. (A.R.S. §§ 20-1120, 20-1121, 20-1632, 20-1654)	X	
6	Rescissions are not made for non-material misrepresentations. (A.R.S. §§ 20-463 and 20-1109)	X	

E. Declinations, Cancellations and Non-Renewals

#	STANDARD	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 applicant and shall not be unfairly discriminatory. (A.R.S. §§ 20-448, 20-2108, 20-2109 and 20-2110)	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)		X

F. Claim Processing

#	STANDARD	PASS	FAIL
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)	X	
2	Timely investigations are conducted. (A.R.S. § 20-461, A.A.C. R20-6-801)		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, A.A.C. R20-6-801)		X

#	STANDARD	PASS	FAIL
4	Claim files are adequately documented in order to be able to reconstruct the claim. (A.R.S. §§ 20-157, 20-461, 20-463, 20-466.03, A.A.C. R20-6-801)		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, A.A.C. R20-6-801)		X
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)	X	
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)	X	
8	The Company responds to claim correspondence in a timely manner. (A.R.S. §§ 20-461, 20-462, A.A.C. R20-6-801)	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, A.A.C. R20-6-801)	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)	X	
11	Adjusters used in the settlement of claims are properly licensed. (A.R.S. §§ 20-321 through 20-321.02)	X	