

PRESS RELEASE

JANE DEE HULL
GOVERNOR



CHARLES R. COHEN
DIRECTOR

ARIZONA DEPARTMENT OF INSURANCE

2910 North 44th Street, Suite 210, Phoenix, Arizona 85018-7256 · (602) 912-8456 · FAX: (602) 912-8452
www.state.az.us/id

Media Contact: Erin Klug
Public Information Officer
(602) 912-8456

2002-13
For Immediate Release
December 18, 2002

STATE NATIONAL INSURANCE COMPANY FINED \$110,000 FOR AUTO INSURANCE VIOLATIONS

The Arizona Department of Insurance ordered State National Insurance Company (State National) to cease and desist from violating auto insurance laws on December 10, 2002.

The Department of Insurance conducted an examination of the automobile business of State National covering the period of January 1, 2000 through June 30, 2001. The Department reviewed the insurer's records related to automobile insurance policy pricing, cancellations and claims handling. State National relied on a third party general agent, Associated General Agency (AGA), to perform these activities on its behalf. While an insurer can delegate such functions to a third party, the insurer is ultimately responsible for ensuring that its transactions comply with Arizona insurance laws.

Pricing. Auto insurers must abide by the rates they file with the Department of Insurance when pricing policies. The system State National had in place for selling new policies, through its general agent, resulted in the use of non-filed rates for all the policies reviewed by the Department during the examination. As a result, State National both overcharged and undercharged applicants for auto insurance. State National has refunded the overcharges.

Cancellations. The Department's examiners found that State National's auto policy cancellation notices were not mailed in accordance with the terms of its policies and did not give policyholders enough notice of cancellation.

In addition, when State National decided to discontinue selling new auto insurance policies in Arizona, its general agent sent 3,000 cancellation notices without giving the proper amount of notice (on policies eligible for mid-term cancellation). State National ultimately reinstated these policies.

Claims. State National's claims were also handled by its general agent. The process for handling *denied* claims did not involve adequate record keeping. Therefore, the Department's examiners could not review documentation to determine whether denied claims were processed in accordance with law. State National is auditing all of its denied claims to evaluate whether the claim was appropriately denied and will re-open and pay claims requiring payment.

State National was ordered to implement a corrective action plan to remedy issues not already corrected, and to pay a civil penalty of \$110,000 for deposit in the State General Fund. State National chose to stop selling auto insurance in Arizona. In addition, during the course of the examination, State National replaced AGA with another managing agent.

Consumers can learn more about their rights under Arizona's Auto Insurance laws by obtaining a copy of Department of Insurance publication, "A Consumer Guide to Automobile Insurance". The brochure is available on our website at www.state.az.us/id/publications, or by calling (602) 912-8444 or (800) 325-2548.

###