STATE OF ARIZONA
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DEPT. OF INSURANCE

REPORT OF TARGET MARKET CONDUCT EXAMINATION

OF

OCCIDENTAL FIRE & CASUALTY COMPANY OF NORTH CAROLINA

NAIC #23248

AS OF

DECEMBER 31, 2011

TABLE OF CONTENTS

AFFIDAVIT 4

FOREWORD 5

SCOPE AND METHODOLOGY 5

HISTORY OF THE COMPANY 6

PROCEDURES REVIEWED WITHOUT EXCEPTION 7

EXAMINATION REPORT SUMMARY 7

RESULTS OF PREVIOUS MARKET EXAMINATIONS 9

UNDERWRITING AND RATING 10

DECLINATIONS, CANCELLATIONS AND NON-RENEWALS 14

CLAIM PROCESSING 18

SUMMARY OF FAILED STANDARDS 23

SUMMARY OF PROPERTY AND CASUALTY STANDARDS 24

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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:

OCCIDENTAL FIRE & CASUALTY COMPANY OF NORTH CAROLINA
NAIC # 23248

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

The examination covered the period of January 1, 2011 through December 31, 2011.

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 Examiners Laura Sloan-Cohen and Robert DeBerge on the Examination of Occidental Fire & Casualty Company of North Carolina, hereinafter referred to as "the Company," was performed at the examiners' residences. 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, CPCU, CLU, CIE
Market Conduct Examiner-in-Charge
Market Oversight Division

Subscribed and sworn to before me this 21st day of February, 2013.

Notary Public

My Commission Expires May 15, 2016

Kaylene Gammon
Notary Public - Arizona
Maricopa County
My Commission Expires
May 15, 2016

FOREWORD

This target market conduct examination report of Occidental Fire & Casualty Company of North Carolina (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), Commercial Multi-Peril (CMP) and Homeowner (HO) 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, 2011 through December 31, 2011 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 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 incorporated on 10/31/61 under the laws of North Carolina and began business 1/2/62. The words "North Carolina" were added to the Company name 7/27/66. The Company is a 100% owned subsidiary of McM Corporation (McM) and is one (1) of four (4) property and casualty companies in a holding company group, Occidental/Acceptance Group. In 1998, IAT Reinsurance Company, Ltd. (IAT), a Bermuda based reinsurer, purchased 41% of McM and since then has increased ownership to all outstanding common stock.

The Company historically has served as a specialty insurance company for the transportation industry, writing full coverage for local, intermediate and long haul truckers. The Company also markets PPA, HO and CMP in a limited number of states using independent agents. The marketing and underwriting for PPA business is located in Scottsdale, AZ. Administrative support functions including accounting, regulatory compliance, information technology (IT), human resources and investment management are headquartered in Raleigh, NC. Claims adjusting services for PPA are located in Coral Springs, FL, whereas HO and CMP claims are handled in Omaha, NB. Arizona admitted the Company as a property and casualty insurer on 9/16/64.

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 thirteen (13) issues that resulted in 205 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, four (4) compliance issues are addressed in this report as follows:

- The Company failed to indicate a policy fee was included in the policy's total premium on eighty-nine (89) PPA renewal certificates.
- The Company failed to provide two (2) AZ based CMP insureds, thirty (30) days before expiration, a written notice of their policy's premium increase.
- The Company failed on one (1) HO application to:

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

(a) specify the authorization remains valid for no longer than one (1) year from the date the authorization is signed; and

(b) 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.

Declinations, Cancellations and Non-Renewals

In the area of Cancellations and Non-renewals, four (4) compliance issues are addressed in this report as follows:

- The Company failed to provide a Summary of Rights to seventeen (17) insureds that had their policies cancelled or non-renewed for an adverse underwriting decision.
- The Company failed to provide thirty-five (35) HO policyholders at least a ten (10) day prior notice of a pending non-payment cancellation.
- The Company failed to provide one (1) CMP insured at least a forty-five (45) day advance notice of non-renewal.
- The Company failed to provide one (1) CMP insured the specific reason for the Company's cancellation for underwriting reasons.

Claims Processing

In the area of Claims Processing, five (5) issues are addressed in this report as follows:

- The Company failed to correctly calculate and fully pay:
  (a) the transaction privilege tax (TPT) on eighteen (18) HO first party real property losses;
  (b) total sales taxes owed on eleven (11) first and three (3) third party PPA total loss settlements; and
  (c) total fees payable on twelve (12) first and three (3) third party PPA total loss settlements.
- The Company failed to return the proportionate amount of one (1) PPA insured's deductible after recovery from the at-fault party.
- The Company failed to provide ten (10) claimants a denial in writing within fifteen (15) working days after receipt of proofs of loss.

FACTUAL FINDINGS

RESULTS OF PREVIOUS MARKET EXAMINATIONS

During the past three (3) years, California and Massachusetts conducted and finalized market conduct examinations of the Company.

FACTUAL FINDINGS

UNDERWRITING AND RATING

Private Passenger Automobile (PPA):

The examiners reviewed:
(1) fifty (50) PPA new business and/or renewal policies from a population of 780; and
(2) fifty (50) PPA surcharged policies from a population of 207.

Commercial Multi-Peril (CMP):

The examiners reviewed fifty (50) CMP new business and/or renewal policies from a population of 823.

Homeowner (HO):

The examiners reviewed fifty (50) HO new business and/or renewal policies from a population of 1,117.

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 20-38598
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	Schedule rating, individual risk premium modification (IRPM) or experience rating plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.	A.R.S. § 20-400.01
6	Policies and endorsements are issued or renewed accurately, timely and completely.	A.R.S. §§ 20-1120, 20-1121
7	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
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

Preliminary Finding #1 – Undisclosed Policy Fee - The Company failed to indicate on eighty-nine (89) PPA renewal certificates a policy fee was included in the policy's total premium. These represent eighty-nine (89) violations of A.R.S. § 20-443(A) and Company policy provisions.

PPA RENEWAL & SURCHARGED POLICIES
Failed to indicate a policy fee included in total policy premium
Violation of A.R.S. § 20-443(A) and Company policy provisions

Population	Sample	# of Exceptions	% to Sample
694	89	89	100%

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

Subsequent Event
The Company, before the close of the exam, explained correction was implemented 1/24/13 and provided examiners an example of the policy fee clearly shown on a Company renewal certificate's declarations page.

Preliminary Finding #4 – Late CMP Renewal - The Company failed to provide two (2) AZ based CMP insureds, thirty (30) days before expiration, a written notice of their premium increase. These represent two (2) violations of A.R.S. § 20-1677.

CMP RENEWAL POLICIES
Failed to provide thirty (30) day written prior notice of renewal premium increase
Violation of A.R.S. § 20-1677

Population	Sample	# of Exceptions	% to Sample
823	26	2	7.7%

A 7.7% 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 the Company provides AZ based CMP policyholders, at least thirty (30) days before the policy expiration, a written notice of any premium increase, change in deductible or other substantial change in coverage, in accordance with the statute.

The following Underwriting and Rating Standard failed:

#	STANDARD	Regulatory Authority
5	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

Preliminary Finding #13 – Underwriting Authorization - In the Company's HO application, the Company failed to:

(a) specify the authorization remains valid for no longer than one (1) year from the date the authorization is signed; and

(b) 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.

This form fails to comply with A.R.S. § 20-2106(7)(b) and (9) and represents two (2) violations of the statute.

Application Description	Form #	Statute Provision
Homeowners Application	H102SWAZ (04/2004)	7(b) and 9

UNDERWRITING FORMS

Failed to specify the authorization remains valid for no longer than one (1) year from date signed

Violation of A.R.S. § 20-2106(7)(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.

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.

Subsequent Event

The Company, before the close of the exam, provided the examiners a copy of its Underwriting Authorization Disclosure Notice (AZ HO 0213), which was in compliance with the statute.

FACTUAL FINDINGS

DECLINATIONS, CANCELLATIONS AND NON-RENEWALS

Private Passenger Automobile (PPA):
The examiners reviewed fifty (50) PPA non-payment cancellations from a population of 138. The Company stated that during the exam period it had no PPA underwriting cancellations or non-renewals.

Commercial Multi-Peril (CMP):
The examiners reviewed:
(1) fifty (50) CMP non-payment cancellations from a population of 116;
(2) both CMP non-renewals; and
(3) all five CMP underwriting cancellations.

Homeowner (HO):
The examiners reviewed:
(1) fifty (50) HO non-payment cancellations from a population of 100;
(2) all six (6) HO non-renewals; and
(3) all eleven (11) HO underwriting cancellations.

The following Declination, Cancellation and Non-Renewal Standard 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 applicant and shall not be unfairly discriminatory.	A.R.S. §§ 20-448, 20-2108, 20-2109 and 20-2110

Preliminary Findings #12 – No Summary of Rights - The Company failed to provide a Summary of Rights to eleven (11) HO insureds that had their policies cancelled and six (6) HO insureds that had their policies non-renewed for an adverse underwriting decision. These represent a total of seventeen (17) violations of A.R.S. § 20-2110.

HO CANCELLATIONS AND NON-RENEWALS
Failed to provide a Summary of Rights to insureds receiving a cancellation or non-renewal notice
Violation of A.R.S. § 20-2110

Population	Sample	# of Exceptions	% to Sample
17	17	17	100%

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

Subsequent Event
The Company explained correction was implemented 1/23/13 and provided examiners an example of the Department recommended Summary of Rights form printed on the reverse side of all cancellation or non-renewal notices.

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

Preliminary Findings #5a – Late HO Non-Payment Notices - The Company failed to provide thirty-five (35) HO policyholders their non-payment notices at least ten (10) days before the effective date of the cancellation, as required by policy provisions. These represent thirty-five (35) violations of A.R.S. § 20-443(A) and Company policy provisions.

HO NON-PAYMENT CANCELLATIONS

Failed to provide HO non-payment notice at least ten (10) days before effective date
Violation of A.R.S. § 20-443(A) and Company policy provisions

Population	Sample	# of Exceptions	% to Sample
100	50	35	70%

A 70% 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 HO insureds receive notices of non-payment at least ten (10) days before the cancellation effective date, in accordance with the applicable state statute and Company policy provisions.

Preliminary Findings #10 – Late CMP Non-Renewal Notice - The Company failed to provide one (1) CMP policyholder their non-renewal notice forty-five (45) days before policy expiration. This represents one (1) violation of A.R.S. § 20-1676(B).

CMP NON-RENEWALS

Failed to provide CMP non-renewal notice at least forty-five (45) days before expiration
Violation of A.R.S. § 20-1676(B)

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

A 50% 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 CMP insureds receive notices of non-renewal at least forty-five (45) days before the expiration date, in accordance with the applicable state statute.

Preliminary Findings #11 – Non-Specific Cancellation Reason - The Company failed to provide one (1) CMP policyholder the specific facts that were the basis for the Company's cancellation for underwriting reasons. This represents one (1) violation of A.R.S. § 20-1674(A).

CMP UNDERWRITING CANCELLATIONS

Failed to provide CMP specific reason for underwriting cancellation

Violation of A.R.S. § 20-1674(A)

Population	Sample	# of Exceptions	% to Sample
5	5	1	20%

A 20% 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 CMP insureds receive underwriting cancellation notices with the specific reason for the Company's action, in accordance with the applicable state statute.

FACTUAL FINDINGS

CLAIM PROCESSING

Private Passenger Automobile (PPA):

The examiners reviewed:

(1) all thirty-seven (37) PPA claims closed without payment (CWP);
(2) all eight-three (83) PPA paid claims, which included forty (40) total losses; and
(3) all fourteen (14) PPA subrogated claims.

Commercial Multi-Peril (CMP):

The examiners reviewed:

(1) all twenty-seven (27) CMP claims CWP;
(2) all forty-four (44) CMP paid claims; and
(3) all four (4) CMP subrogated claims.

Homeowner (HO):

The examiners reviewed:

(1) all thirty-one (31) HO claims CWP;
(2) fifty (50) HO paid claims from a population of 332; and
(3) the only HO subrogated claim.

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
2	Timely investigations are conducted.	A.R.S. § 20-461, A.A.C. R20-6-801
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
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
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
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 #2a – Incorrect Transaction Privilege Tax (TPT) - The Company failed to accurately calculate and fully pay the correct transaction privilege tax (TPT) on eighteen (18) HO first party real property losses. These represent eighteen (18) violations of A.R.S. §§ 20-461(A)(6), 20-462 and 44-1201.

HO PAID LOSSES

Failed to correctly calculate and pay TPT with real property losses

Violation of A.R.S. §§ 20-461(A)(6), 20-462 and 44-1201

Population	Sample	# of Exceptions	% to Sample
332	50	18	36%

A 36% 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 the Company correctly calculates and fully pays any transaction privilege tax owed any first party claimant in the settlement of real property losses, in accordance with applicable state statutes and regulations.

Within ninety (90) days of the filed date of this report, the Company must also conduct a self-audit of the remaining first party paid real property claims during the exam period and provide the Department documentation, including copies of all refund letters, checks and/or drafts and a summary worksheet, for all monies, including interest, reimbursed.

Subsequent Events

During the course of the examination, the Company made restitution to all parties affected which totaled restitution of $3,731.69, which included $655.87 interest.

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

(a) sales tax with eleven (11) first and three (3) third party total loss settlements; and

(b) fees with twelve (12) first and three (3) third party total loss settlements.

These represent twenty nine (29) violations of A.R.S. §§ 20-461(A)(6), 20-462 and A.A.C. R20-6-801(H)(1)(b).

PPA TOTAL LOSSES

Failed to correctly calculate and pay sales taxes and fees associated with total loss settlements
Violation of A.R.S. §§ 20-461(A)(6), 20-462 and A.A.C. R20-6-801(H)(1)(b)

Population	Sample	# of Exceptions	% to Sample
40	40	29	72.5%

A 72.5% 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 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 Events

During the course of the examination, the Company made restitution to all parties affected which totaled restitution of $7,850.86, which included $1,539.44 first party interest.

The following Claim Processing Standard failed:

#	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

Preliminary Finding #9 – Timely Deductible Reimbursement after Recovery – The Company failed to promptly return the proportionate amount of one (1) PPA insured's deductible after partial recovery from the at-fault party. This represents one (1) violation of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(4).

PPA SUBROGATION RECOVERY

Failed to reimburse the deductible on a timely basis after subrogation recovery
Violation of A.R.S. § 20-461(A)(6) and A.A.C. R20-6-801(H)(4)

Population	Sample	# of Exceptions	% to Sample
14	14	1	7.4%

A 7.4% 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 promptly reimburses insureds' their deductibles after successful subrogation recovery, in accordance with applicable state statutes and regulations.

Subsequent Events

The Company, before the close of the exam, paid the insured restitution of $188.62, which included $67.62 interest.

The following Claim Processing Standard failed:

#	STANDARD	Regulatory Authority
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

Preliminary Finding #3 – Late Written Claim Denial – The Company failed to provide ten (10) HO claimants a written claim denial within fifteen (15) working days after receipt of proofs of loss. These represent ten (10) violations of A.R.S. § 20-461(A)(5) and A.A.C. R20-6-801(G)(1)(a).

HO CLAIMS CLOSED WITHOUT PAYMENT

Failed to provide first party claimants claim denial in writing

Violation of A.R.S. § 20-461(A)(5) and A.A.C. R20-6-801(G)(1)(a)

Population	Sample	# of Exceptions	% to Sample
31	31	10	32.2%

A 32.2% error ratio does not meet the Standard; therefore a recommendation is warranted

Recommendation #8

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 provides all HO claimants, within fifteen (15) working days after receipt of proof of loss, a written explanation for the Company's claim denial, in accordance with applicable state statute.

SUMMARY OF FAILED STANDARDS

EXCEPTION	Rec. No.	Page No.
UNDERWRITING & RATING		
Standard #2 Disclosures to insureds concerning rates and coverage are accurate and timely.	1	12
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.	2, 3 & 4	16 & 17
CLAIM PROCESSING		
Standard #5 Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	5 & 6	20 & 21
Standard #7 Deductible reimbursement to insured upon subrogation recovery is made in a timely and accurate manner.	7	21
Standard #9 Denied and closed without payment claims are handled in accordance with policy provisions and state law.	8	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. §§ 20-341 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	Schedule rating, individual risk premium modification (IRPM) or experience rating plans, where permitted, are based on objective criteria with usage supported by appropriate documentation. (A.R.S. §§ 20-400.01)	X	
5	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, 20-1677)	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 and 20-1671 through 20-1678)		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	

#	STANDARD	PASS	FAIL
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	
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)	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	