

MARKET CONDUCT EXAMINATION REPORT

OF

AUTO-OWNERS INSURANCE COMPANY

OWNERS INSURANCE COMPANY

AS OF

MARCH 31, 2012

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA

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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Andrea Baytop, Senior Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of Auto-Owners Insurance Company and Owners Insurance Company as of March 31, 2012, conducted at the companies' office in Lansing, Michigan is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' response to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case No. INS-2015-00056 finalizing the Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of the Bureau
at the City of Richmond, Virginia,
this 31st day of August, 2015.

Senior Examiner's Name
Examiner in Charge

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a comprehensive examination has been made of the private passenger automobile, homeowner, commercial automobile, and commercial property and liability lines of business written by Auto-Owners Insurance Company and Owners Insurance Company at their offices in Lansing, Michigan.

The examination commenced September 10, 2012 and concluded February 3, 2014. Brandon L. Ayers, Andrea D. Baytop, Karen S. Gerber, Ju'Coby D. Hendrick, Richard L. Howell, Melody S. Morrissette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on March 19, 2012 and was assigned the examination number of VA177-M4. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILES*

Auto-Owners Insurance Company (AOIC) was organized under the laws of Michigan on July 1, 1916 and commenced business on the same day.

Owners Insurance Company (OIC) was incorporated on May 13, 1975 under the laws of Ohio. It began business on December 31, 1975.

* Source: Best's Insurance Reports, Property & Casualty, 2012 Edition.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date that the companies were licensed in Virginia except as noted in the table.

GROUP CODE: 0280	AOIC	OIC
NAIC Company Number	18988	32700
LICENSED IN VIRGINIA	8/19/1988	12/29/1989
LINES OF INSURANCE		
Accident and Sickness	X	
Aircraft Liability		
Aircraft Physical Damage		
Animal	6/29/1989	X
Automobile Liability	X	X
Automobile Physical Damage	X	X
Boiler and Machinery	X	X
Burglary and Theft	X	X
Commercial Multi-Peril	X	X
Credit		
Farmowners Multi-Peril		
Fidelity	X	X
Fire	X	X
General Liability	X	X
Glass	X	X
Homeowner Multi-Peril	X	X
Inland Marine	X	X
Miscellaneous Property	X	X
Ocean Marine		
Surety	X	X
Water Damage	6/29/1989	X
Workers' Compensation	X	5/05/1989

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2012 for those lines of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Auto-Owners Insurance Company		
Commercial Automobile Liability	\$3,960,036	1.04%
Commercial Automobile Physical Damage	\$1,609,646	1.44%
Commercial Multiple Peril	\$6,037,463	1.35%
Homeowner	\$5,699,740	.31%
Private Passenger Automobile Liability	\$3,029,589	.12%
Private Passenger Automobile Physical Damage	\$1,927,892	.11%
Owners Insurance Company		
Commercial Automobile Liability	\$498,675	.13%
Commercial Automobile Physical Damage	\$454,248	.41%
Commercial Multiple Peril	\$4,060,390	.91%
Homeowner	\$3,723,277	.21%
Private Passenger Automobile Liability	\$4,574,210	.18%
Private Passenger Automobile Physical Damage	\$2,753,309	.15%

* Source: The 2012 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile, homeowner, commercial automobile and commercial property and liability lines of business written in Virginia for the period beginning April 1, 2011 and ending March 31, 2012. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance,* statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

* Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

**Population
Sample Requested**

AREA	AOIC	OIC	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
<u>Private Passenger Auto</u>							
New Business	<u>578</u> 10	<u>1365</u> 15	<u>1943</u> 25	25	0	23	92%
Renewal Business ¹	<u>6289</u> 20	<u>8163</u> 20	<u>14452</u> 40	38	0	35	92%
Co-Initiated Cancellations	<u>50</u> 9	<u>30</u> 11	<u>80</u> 20	20	0	3	15%
All Other Cancellations	<u>331</u> 15	<u>452</u> 15	<u>783</u> 30	30	0	29	97%
Nonrenewals	<u>154</u> 5	<u>108</u> 5	<u>262</u> 10	10	0	5	50%
Rejected Applications	<u>1</u> 1	<u>1</u> 1	<u>2</u> 2	2	0	0	0%
<u>Homeowners</u>							
New Business	<u>709</u> 15	<u>1078</u> 15	<u>1787</u> 30	30	0	30	100%
Renewal Business ¹	<u>8474</u> 20	<u>5321</u> 20	<u>13795</u> 40	39	0	39	100%
Co-Initiated Cancellations	<u>72</u> 20	<u>55</u> 15	<u>127</u> 35	34	0	28	82%
All Other Cancellations ²	<u>521</u> 15	<u>344</u> 15	<u>865</u> 30	24	0	19	79%
Nonrenewals ²	<u>178</u> 5	<u>88</u> 5	<u>266</u> 10	9	0	8	89%
<u>Commercial Auto</u>							
New Business ¹	<u>415</u> 5	<u>78</u> 5	<u>493</u> 10	8	0	4	50%
Renewal Business ¹	<u>2219</u> 10	<u>328</u> 5	<u>2547</u> 15	12	0	7	58%
All Cancellations	<u>481</u> 9	<u>89</u> 4	<u>570</u> 13	13	0	9	69%
<u>Commercial P&L</u>							
New Business ¹	<u>981</u> 10	<u>566</u> 5	<u>1547</u> 15	14	0	12	86%
Renewal Business ¹	<u>5560</u> 18	<u>2779</u> 14	<u>8339</u> 32	31	0	30	97%
All Cancellations ²	<u>856</u> 16	<u>356</u> 12	<u>1212</u> 28	27	0	13	48%
<u>Claims</u>							
Private Passenger Auto ³	<u>1001</u> 38	<u>1609</u> 42	<u>2610</u> 80	79	0	56	71%
Homeowners	<u>958</u> 29	<u>578</u> 25	<u>1536</u> 54	54	0	34	63%
Commercial Auto	<u>560</u> 14	<u>89</u> 9	<u>649</u> 23	23	0	18	78%
Commercial P&L	<u>626</u> 15	<u>488</u> 12	<u>1114</u> 27	27	0	16	59%

Footnote ¹ - The examiners did not review all the rating files because ten were not subject to the Bureau's review under the scope of the examination.

Footnote ² - The companies were unable to provide accurate cancellation population information for the examination.

Footnote ³ - One file was a mobile home and was not reviewed.

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

RATING AND UNDERWRITING REVIEW

Private Passenger Automobile New Business Policies

The Bureau reviewed 25 new business policy files. During this review, the examiners found overcharges totaling \$981.69 and undercharges totaling \$1,879.17. The net amount that should be refunded to insureds is \$981.69 plus six percent (6%) simple interest.

- (1) The examiners found 23 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy. The company listed forms on the declarations page when the coverage was not applicable to the policy.
- (2) The examiners found seven violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed the group discount on the declarations page when the discount was not applied to the policy.
- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company did not provide the entire new business application.
- (4) The examiners found 29 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In 15 instances, the company failed to use the correct discounts and/or surcharges.
- b. In one instance, the company failed to provide evidence of fault for an accident surcharge applied.
- c. In one instance, the company failed to use the correct territory.
- d. In five instances, the company failed to use the correct tier eligibility criteria.
- e. In three instances, the company failed to use the correct driver classification factor.
- f. In one instance, the company failed to use the correct base and/or final rates.
- g. In three instances, the company failed to issue a policy for the correct policy term of coverage.

Private Passenger Automobile Renewal Business Policies

The Bureau reviewed 38 renewal business policy files. During this review, the examiners found overcharges totaling \$2,370.80 and undercharges totaling \$4,763.28. The net amount that should be refunded to insureds is \$2,370.80 plus six percent (6%) simple interest.

- (1) The examiners found 35 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy.
 - a. In one instance, the company failed to include the garaging address in the policy information.
 - b. In 34 instances, the company listed forms on the declarations page when the coverage was not applicable to the policy.

- (2) The examiners found six violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed the group discount on the declarations page when the discount was not applied to the policy.
- (3) The examiners found one violation of § 38.2-1905 C of the Code of Virginia. The company failed to apply surcharge points only to the vehicle customarily driven by the operator responsible for the accident or conviction.
- (4) The examiners found 36 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In 23 instances, the company failed to use the correct discounts and/or surcharges.
 - b. In one instance, the company failed to apply the correct surcharge for an accident.
 - c. In two instances, the company failed to use the correct symbol.
 - d. In two instances, the company failed to use the correct territory.
 - e. In seven instances, the company failed to use the correct tier eligibility criteria.
 - f. In one instance, the company failed to use the correct driver classification factor.

Homeowner New Business Policies

The Bureau reviewed 30 new business policy files. During this review, the examiners found overcharges totaling \$568.75 and undercharges totaling \$189.55. The net amount that should be refunded to insureds is \$568.75 plus six percent (6%) simple interest.

- (1) The examiners found six violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company did not provide the new business application.
- (2) The examiners found 38 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In three instances, the company failed to use the correct discounts and/or surcharges.
 - b. In two instances, the company failed to follow its filed minimum premium rule.
 - c. In 30 instances, the company failed to use the correct public protection class.
 - d. In three instances, the company failed to follow its policy term rule by issuing policies for less than six months.

Homeowner Renewal Business Policies

The Bureau reviewed 39 renewal business policy files. During this review, the examiners found overcharges totaling \$1,633.75 and undercharges totaling \$6.27. The net amount that should be refunded to insureds is \$1,633.75 plus six percent (6%) simple interest.

The examiners found 44 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In two instances, the company failed to use the correct discounts and/or surcharges.
- b. In one instance, the company failed to use the correct base and/or final rates.

- c. In two instances, the company failed to use the correct construction type.
- d. In 39 instances, the company failed to use the correct public protection classification.

Commercial Automobile New Business Policies

The Bureau reviewed eight new business policy files. During this review, the examiners found overcharges totaling \$6.00 and undercharges totaling \$263.00. The net amount that should be refunded to insureds is \$6.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list the limits of liability and deductible for the Drive Other Car coverage on the declarations page.
- (2) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In one instance, the company failed to use the correct discounts and/or surcharges.
 - b. In one instance, the company failed to use the correct deductible factor.
 - c. In two instances, the company failed to document the characteristics that support the individual risk premium modification (IRPM) factor that was applied to the policy.

Commercial Automobile Renewal Business Policies

The Bureau reviewed 12 renewal business policy files. During this review, the examiners found overcharges totaling \$405.92 and no undercharges. The net amount that should be refunded to insureds is \$405.92 plus six percent (6%) simple interest.

The examiners found ten violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In one instance, the company failed to use the correct discounts and/or surcharges.
- b. In one instance, the company failed to use the correct classification factor.
- c. In one instance, the company failed to use the correct deductible factor.
- d. In one instance, the company failed to apply the IRPM factor documented in the file.
- e. In six instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.

Commercial Property and Liability New Business Policies

The Bureau reviewed 14 new business policy files. During this review, the examiners found overcharges totaling \$1,638.16 and undercharges totaling \$96.00. The net amount that should be refunded to insureds is \$1,638.16 plus six percent (6%) simple interest.

- (1) The examiners found five violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all applicable forms on the declarations page.
- (2) The examiners found 23 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In two instances, the company failed to use the correct discounts and/or surcharges.
 - b. In three instances, the company failed to use the correct base and/or final rates.

- c. In seven instances, the company failed to use the correct public protection class.
- d. In three instances, the company failed to use the correct occupancy class.
- e. In six instances, the company failed to use the correct classification code.
- f. In two instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.

Commercial Property and Liability Renewal Business Policies

The Bureau reviewed 31 renewal business policy files. During this review, the examiners found overcharges totaling \$3,687.00 and undercharges totaling \$1,598.00. The net amount that should be refunded to insureds is \$3,687.00 plus six percent (6%) simple interest.

- (1) The examiners found 18 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all applicable forms on the declarations page.
- (2) The examiners found 77 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In ten instances, the company failed to use the correct discounts and/or surcharges.
 - b. In one instance, the company failed to use the correct territory.
 - c. In ten instances, the company failed to use the correct base and/or final rates.
 - d. In three instances, the company failed to follow its filed minimum premium rule.
 - e. In one instance, the company failed to use the correct construction type.

- f. In 21 instances, the company failed to use the correct public protection class.
- g. In 12 instances, the company failed to use the correct occupancy class.
- h. In 13 instances, the company failed to use the correct classification code.
- i. In one instance, the company failed to use the filed increased limits factor.
- j. In two instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.
- k. In one instance, the company failed to use its filed rounding rule.
- l. In one instance, the company failed to use its rules filed with the Bureau.

TERMINATION REVIEW

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Private Passenger Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The Bureau reviewed 16 private passenger automobile cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$27.07 and no undercharges. The net amount that should be refunded to the insured is \$27.07 plus six percent (6%) simple interest.

The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau reviewed four private passenger automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company charged fees that were not on file with the Bureau.
- (2) The examiners found one violation of § 38.2-2212 D of the Code of Virginia. The company cancelled the insured's motor vehicle policy for a reason not permitted by the statute.
- (3) The examiners found three violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance, the company failed to mail the notice of cancellation to the insured at least 45 days before the cancellation effective date.
 - b. In one instance, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
 - c. In one instance, the company failed to advise the insured of the availability of other insurance through his agent, another insurer, or the Virginia Automobile Insurance Plan (VAIP).

All Other Cancellations – Private Passenger Automobile PoliciesNONPAYMENT OF THE PREMIUM

The Bureau reviewed 20 private passenger automobile cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$86.12 and undercharges totaling \$3,336.54. The net amount that should be refunded to insureds is \$86.12 plus six percent (6%) simple

interest.

The examiners found 34 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In 16 instances, the company failed to calculate the return premium correctly.
- b. In 18 instances, the company charged fees that were not on file with the Bureau.

REQUESTED BY THE INSURED

The Bureau reviewed ten automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found overcharges totaling \$27.52 and undercharges totaling \$75.26. The net amount that should be refunded to insureds is \$27.52 plus six percent (6%) simple interest.

- (1) The examiners found seven violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In one instance, the company failed to calculate the return premium correctly.
 - b. In six instances, the company charged fees that were not on file with the Bureau.
- (2) The examiners found three violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain a written request from the insured to cancel his policy.
- (3) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

Rejected Applications – Private Passenger Automobile Policies

The Bureau reviewed two automobile insurance applications for which the company declined to issue a policy.

The examiners found no violations in this area.

Company-Initiated Nonrenewals – Private Passenger Automobile Policies

The Bureau reviewed ten automobile nonrenewals that were initiated by the company.

- (1) The examiners found four violations of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the nonrenewal notice to the insured.
- (2) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the insured written notice of nonrenewing his motor vehicle policy.

Company-Initiated Cancellations – Homeowner Policies**NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE**

The Bureau reviewed ten homeowner cancellations that were initiated by the company where the company mailed the notices prior to the 90th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$50.00 and no undercharges. The net amount that should be refunded to insureds is \$50.00 plus six percent (6%) simple interest.

- (1) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In two instances, the company failed to calculate the return premium correctly.

- b. In two instances, the company charged fees that were not on file with the Bureau.
- (2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of the cancellation to the lienholder.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

In addition, the Bureau reviewed 24 homeowner cancellations that were initiated by the company where the company mailed the notices on or after the 90th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found overcharges totaling \$23.00 and undercharges totaling \$79.33. The net amount that should be refunded to insureds is \$23.00 plus six percent (6%) simple interest.

- (1) The examiners found six violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In two instances, the company failed to calculate the return premium correctly.
 - b. In four instances, the company charged fees that were not on file with the Bureau.
- (2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.
- (3) The examiners found 22 violations of § 38.2-2114 A of the Code of Virginia.
- a. In 19 instances, the company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.
 - b. In three instances, the company cancelled coverage on an owner-occupied dwelling because of a physical change in the property and failed to properly document the change.

All Other Cancellations – Homeowner PoliciesNONPAYMENT OF THE PREMIUM

The Bureau reviewed 15 homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$34.00 and undercharges totaling \$442.30. The net amount that should be refunded to insureds is \$34.00 plus six percent (6%) simple interest.

- (1) The examiners found 14 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In ten instances, the company failed to calculate the return premium correctly.
 - b. In four instances, the company charged fees that were not on file with the Bureau.
- (2) The examiners found one violation of § 38.2-2114 C of the Code of Virginia. The company failed to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).

REQUESTED BY THE INSURED

In addition, the Bureau reviewed nine homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found overcharges totaling \$756.41 and undercharges totaling \$33.95. The net amount that should be refunded to insureds is \$756.41 plus six percent (6%) simple interest.

- (1) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In one instance, the company failed to calculate the return premium correctly.

- b. In three instances, the company charged fees that were not on file with the Bureau.
- (2) The examiners found two violations of § 38.2-2114 E of the Code of Virginia. The company failed to obtain a written request to cancel a policy insuring an owner-occupied dwelling.

Company-Initiated Nonrenewals – Homeowner Policies

The Bureau reviewed nine homeowner nonrenewals that were initiated by the company.

- (1) The examiners found one violation of § 38.2-231 A of the Code of Virginia. The company failed to advise the insured of his right to request a review by the Commissioner of Insurance for the cancellation of a policy insuring a business entity.
- (2) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an adverse underwriting decision (AUD).
- (3) The examiners found nine violations of § 38.2-2113 C of the Code of Virginia.
 - a. In one instance, the company failed to provide proper notice of nonrenewal to the lienholder.
 - b. In seven instances, the company failed to retain proof of mailing the nonrenewal notice to the insured.
 - c. In one instance, the company failed to retain proof of mailing the nonrenewal notice to the lienholder.
- (4) The examiners found 16 violations of § 38.2-2114 C of the Code of Virginia.
 - a. In one instance, the company failed to provide the specific reason for nonrenewal of a policy insuring an owner-occupied dwelling.

- b. In seven instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
- c. In eight instances, the company failed to advise the insured of the availability of insurance through the VPIA.

Commercial Automobile Policies

The Bureau reviewed 13 commercial automobile cancellations. During this review, the examiners found overcharges totaling \$15.00 and undercharges totaling \$86.99. The net amount that should be refunded to insureds is \$15.00 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-231 A of the Code of Virginia. The company failed to send a cancellation notice to the insured.
- (2) The examiners found one violation of § 38.2-231 J of the Code of Virginia. The company failed to retain proof of mailing the notice of cancellation to the insured.
- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide the declarations page.
- (4) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file.
 - a. In one instance, the company failed to calculate the return premium correctly.
 - b. In one instance, the company charged fees that were not on file with the Bureau.
- (5) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In two instances, the company failed to obtain advance written notice of cancellation from the insured.
- b. In one instance, the company failed to maintain a copy of the insured's request for cancellation.

Commercial Property and Liability Policies

The Bureau reviewed 27 commercial property and liability cancellations. During this review, the examiners found overcharges totaling \$48.00 and undercharges totaling \$77.00. The net amount that should be refunded to insureds is \$48.00 plus six percent (6%) simple interest.

- (1) The examiners found three violations of § 38.2-231 A of the Code of Virginia.
 - a. In one instance, the company failed to send a cancellation notice to the insured.
 - b. In one instance, the company failed to send a cancellation notice to the insured at least 45 days before the cancellation effective date.
 - c. In one instance, the company failed to send a nonpayment of premium cancellation notice to the insured at least 15 days before the cancellation effective date.
- (2) The examiners found two violations of § 38.2-231 J of the Code of Virginia.
 - a. In one instance, the company failed to retain a copy of the cancellation notice sent to the insured for one year from the effective date of the cancellation.
 - b. In one instance, the company failed to retain proof of mailing the cancellation notice to the insured.
- (3) The examiners found seven violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In six instances, the company failed to calculate the return premium correctly.
 - b. In one instance, the company charged fees that were not on file with the Bureau.
- (4) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 79 automobile claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$5,245.88 and underpayments totaling \$11,520.46. The net amount that should be paid to claimants is \$11,520.46 plus six percent (6%) simple interest.

- (1) The examiners found 18 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found 29 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

- a. In ten instances, the company failed to inform an insured of his physical damage deductible when the file indicated that the coverage was applicable to the loss.
- b. In four instances, the company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
- c. In 11 instances, the company failed to accurately inform an insured of his Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
- d. In four instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM) when the file indicated the coverage was applicable to the loss.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
- (4) The examiners found five violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (5) The examiners found five violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the

written denial in the claim file.

- (6) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim.
- (7) The examiners found seven violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
 - a. In two instances, the company failed to pay the insured's UMPD claim properly when Collision and/or UMPD coverages applied to the claim.
 - b. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense coverage.
 - c. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
 - d. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision or Collision coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found 28 violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
 - a. In 24 instances, the company failed to provide a copy of the estimate to the insured.

- b. In four instances, the company failed to provide a copy of the estimate to the claimant.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found eight violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

These findings occurred with such frequency as to indicate a general business practice.

- (10) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

- (11) The examiners found two violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

- (12) The examiners found two violations of § 38.2-510 C of the Code of Virginia. The company failed to disclose the required aftermarket parts notice to the vehicle owner on the estimate of repairs or in a separate document.

- (13) The examiners found one violation of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured advising the company to make payments directly to the medical provider.

- (14) The examiners found 13 occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In three instances, the company failed to include the lienholder on the check.
- b. In eight instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.
- c. In two instances, the company overpaid the sales tax, title, and/or tag transfer fees on a total loss claim.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found 15 violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

Commercial Automobile Claims

The examiners reviewed 23 commercial automobile claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,000.00 and underpayments totaling \$410.00. The net amount that should be paid to claimants is \$410.00 plus six percent (6%) simple interest.

- (1) The examiners found 11 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found one violation of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim. The company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist coverage when the file indicated the coverage was applicable to the loss.
- (3) The examiners found seven violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

These findings occurred with such frequency as to indicate a general business practice.

- (4) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (5) The examiners found one violation of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions. The company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision or Collision coverage.
- (6) The examiners found seven violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
- a. In three instances, the company failed to provide a copy of the estimate to the insured.

- b. In four instances, the company failed to provide a copy of the estimate to the claimant.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found three violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy.
 - a. In one instance, the company failed to include the lienholder on the check.
 - b. In two instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.
 - c. In one instance, the company failed to pay the claim in accordance with the terms of the policy.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found nine violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

Homeowner Claims

The examiners reviewed 54 homeowner claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found no overpayments and underpayments totaling \$1,402.65. The net amount that should be paid to claimants is \$1,402.65 plus six percent (6%) simple interest.

- (1) The examiners found nine violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found 16 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
 - a. In four instances, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy.
 - b. In seven instances, the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.
 - c. In five instances, the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy.

These findings occurred with such frequency as to indicate a general business practice.

(3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

(4) The examiners found seven violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

These findings occurred with such frequency as to indicate a general business practice.

(5) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

These findings occurred with such frequency as to indicate a general business practice.

(6) The examiners found four violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

a. In one instance, the company failed to properly pay the claim under the insured's replacement cost Dwelling coverage.

b. In two instances, the company failed to properly pay the claim under the insured's Additional Living Expense coverage.

c. In one instance, the company failed to properly pay the claim under the insured's Additional Coverages.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found 16 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or policy provisions relating to coverages at issue. The company gave the insured 180 days from the last actual cash payment rather than six months from the date of the last actual cash value payment to assert a claim for replacement cost on the damaged property.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found two violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for prompt investigation of claims arising under insurance policies.

- (9) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of the claim in which liability was clear.

- (10) The examiners found 11 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured that was not accompanied by a statement setting forth the correct coverage(s) under which the payment was made.

These findings occurred with such frequency as to indicate a general business practice.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found 16 violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

Commercial Property and Liability Claims

The examiners reviewed 27 commercial property claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,079.50 and underpayments totaling \$2,638.97. The net amount that should be paid to claimants is \$2,638.97 plus six percent (6%) simple interest.

- (1) The examiners found 13 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found two violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant or a claimant's authorized representative that reasonably suggested a response was expected.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

- (4) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

These findings occurred with such frequency as to indicate a general business practice.

- (5) The examiners found one violation of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue. The company failed to properly convey to the insured and/or the claimant the company's obligation concerning payment of the rental or loss of use claim.

- (6) The examiners found seven violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.

- (8) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company paid an insured more than the insured was entitled to receive under the terms of his policy.

REVIEW OF FORMS

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

Private Passenger Automobile Policy Forms**POLICY FORMS USED DURING THE EXAMINATION PERIOD**

The companies provided copies of 34 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found six violations of § 38.2-2220 of the Code of Virginia.

- a. In two instances, the company used a version of a standard automobile form that was not in the precise language filed and adopted for use by the Bureau.
- b. In four instances, the company failed to have available for use standard automobile forms filed and adopted by the Bureau.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy FormsPOLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 56 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found three violations of § 38.2-317 A of the Code of Virginia.

The company used forms that had not been filed with the Bureau at least 30 days prior to use.

- (2) The examiners found two violations of § 38.2-2119 of the Code of Virginia. The company used a form that did not set forth the conditions necessary to assert a claim for replacement cost under the policy.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Commercial Automobile Policy FormsPOLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 77 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found five violations of § 38.2-2220 of the Code of Virginia. The company used a version of a standard automobile form that was not in the precise language filed and adopted by the Bureau.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Commercial Property and Liability Policy FormsPOLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 482 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found 12 violations of § 38.2-317 A of the Code of Virginia. The company used forms that had not been filed with the Bureau at least 30 days prior to use.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Private Passenger Automobile Policies

The companies provided six new business policies mailed on the following dates: May 8, June 1, 5, 8, and 25, 2012. In addition, the companies provided six renewal business policies mailed on the following dates: June 6 and 7, 2012.

NEW BUSINESS POLICIES

- (1) The examiners found six violations of 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.

- (2) The examiners found six violations of § 38.2-2210 A of the Code of Virginia. The company failed to include the 60-day cancellation warning notice on or attached to the first page of the application.

RENEWAL BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice.
- (2) The examiners found five violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information with the Bureau.
- (3) The examiners found six violations of 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company charged installment fees that were not filed with the Bureau.

Homeowner Policies

The companies provided six new business policies mailed on the following dates: May 9, June 1, 3, 5, and July 13, 2012. In addition, the companies provided six renewal business policies mailed on the following dates: June 6 and July 13, 2012.

NEW BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.
- (2) The examiners found five violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost Coverage notice as required by the Code of Virginia.

- (3) The examiners found two violations of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

RENEWAL BUSINESS POLICIES

- (1) The examiners found four violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all forms applicable to the policy on the declarations page.
- (2) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.
- (3) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost Coverage notice as required by the Code of Virginia.
- (4) The examiners found one violation of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

Commercial Automobile Policies

The companies provided six new business policies mailed on the following dates: May 23, 29 and June 1 and 12, 2012. In addition, the companies provided six renewal business policies mailed on April 25 and June 7, 9, 12, and 13, 2012.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found three violations of § 38.2-305 B of the Code of Virginia.

The company failed to provide the Important Information Regarding Your Insurance notice as required by the Code of Virginia.

Commercial Property and Liability Policies

The companies provided 16 new business policies mailed on the following dates: February 27, March 1, 4, 7, 14, 15, 20, 21, 22, April 9, and July 8, 2013. In addition, the companies provided 17 renewal business policies mailed on the following dates: February 27, 28, March 1, 4, 5, 6, 13, 20, 22, 25, and June 12, 2013.

NEW BUSINESS POLICIES

The examiners found 16 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to include the edition dates of all endorsements listed on the declarations page.

RENEWAL BUSINESS POLICIES

The examiners found 17 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to include the edition dates of all endorsements listed on the declarations page.

REVIEW OF STATUTORY NOTICES

The examiners reviewed the companies' statutory notices used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

- (1) The examiners found two violations of § 38.2-604.1 of the Code of Virginia. The company failed to include all of the information required by the statute in its Notice of Financial Information Collection and Disclosure Practices.
- (2) The examiners found 26 violations of § 38.2-610 A of the Code of Virginia. The company's AUD notice did not contain substantially similar language as that of the prototype set forth in Administrative Letter 1981-16.

Statutory Vehicle Notices

The examiners found two violations of § 38.2-2234 A 1 of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company failed to have available a notice summarizing the replacement cost provisions for owner-occupied dwellings.
- (2) The examiners found two violations of § 38.2-2120 of the Code of Virginia. The company failed to have available a notice offering the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains.
- (3) The examiners found two violations of § 38.2-2126 A of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.

Other Notices

The companies provided four copies of other notices and documents including applications that were used during the examination period.

The examiners found no violations in this area.

LICENSING AND APPOINTMENT REVIEW

A review was made of the private passenger automobile, homeowner, commercial automobile, and commercial property and liability new business policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agent

The examiners found six violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

Agency

- (1) The examiners found one violation of § 38.2-1812 of the Code of Virginia. The company paid commissions to an agency not duly appointed within 30 days of the date of application.
- (2) The examiners found two violations of § 38.2-1822 A of the Code of Virginia. The company permitted an entity to act as an agency without first obtaining a license from the Commonwealth of Virginia.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia

The examiners found four violations of § 38.2-511 of the Code of Virginia. The companies failed to maintain a complete register in compliance with the statute.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their written information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the companies, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

General

Auto-Owners Insurance Company and
Owners Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to this Report.

Rating and Underwriting Review

Auto-Owners Insurance Company and
Owners Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharges as of the date the error first occurred.
- (2) Include six percent (6%) interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.

- (4) Specify required information in the policy accurately. Particular attention should be focused on forms, endorsements, discounts, coverage limits and deductibles shown on the declarations page.
- (5) Properly represent discounts on the declarations page.
- (6) Provide convenient access to files, documents, and records relating to the examination.
- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, deductible factors, territories, symbols, tier eligibility criteria, driver classifications, base and/or final rates, construction types, occupancy classes, classification codes, public protection classifications, minimum premium rule, IRPM documentation, and policy term factors.

Termination Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge they have refunded or credited the overcharges listed in the file.
- (4) Charge fees and/or calculate return premium according to the filed rules and policy provisions.

- (5) Retain proof of mailing cancellation and nonrenewal notices sent to the insured for one year from the date of cancellation or nonrenewal.
- (6) Obtain a written notice when the insured requests to cancel his policy as required by the provisions of the insurance policy.
- (7) Retain a copy of the cancellation notice sent to the insured.
- (8) Send cancellation notices at least 45 days before the effective date of cancellation when a private passenger automobile or commercial policy is canceled midterm.
- (9) Provide proper notice of cancellation or nonrenewal to the lienholder.
- (10) Send cancellation notices at least 15 days before the effective date of cancellation when a commercial policy is cancelled for nonpayment of premium.
- (11) Cancel a private passenger automobile policy after the 59th day of coverage only for the reasons permitted by the statute
- (12) Cancel an owner-occupied dwelling policy after the 89th day of coverage only for the reasons permitted by the statute.
- (13) Send a notice of cancellation or nonrenewal to the insured.
- (14) Advise the insured of the availability of other insurance through the VPIA.
- (15) Advise the insured of his right to have the cancellation or nonrenewal of his policy reviewed by the Commissioner of Insurance.

Claims Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and

claimants.

- (3) Complete and submit to the Bureau the enclosed file titled "Claims Underpayments Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.
- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to deductibles, rental benefits under UMPD and Transportation Expenses coverages, Medical Expense coverage, replacement cost benefits under Dwelling and Personal Property coverages, and Additional Living Expense.
- (6) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days.
- (7) Notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (8) Make all claim denials in writing and keep a copy of the written denial in the claim file.
- (9) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
- (10) Provide copies of repair estimates prepared by or on behalf of the company to insureds and claimants.
- (11) Properly represent pertinent facts or insurance provisions relating to coverages at issue.

- (12) Adopt and implement reasonable standards for the prompt investigation of claims.
- (13) Include a correct statement of the coverages under which payments are made with all claim payments to insureds.

Forms Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Use the precise language of the standard automobile forms adopted by the Bureau.
- (2) Use the required standard automobile forms filed and adopted by the Bureau.
- (3) File all homeowner forms with the Bureau at least 30 days prior to use.
- (4) Include replacement cost provisions in homeowner forms as required by the Code of Virginia.

Review of Policy Issuance Process

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Provide the insured the Important Information Regarding Your Insurance notice with all new and renewal policies.
- (2) Specify accurate information in the policy by listing all applicable forms and corresponding edition dates on the declarations page.
- (3) File all rates and supplementary rate information with the Bureau.
- (4) Use the rules and rates on file with the Bureau. Particular attention should be focused on premium discounts and installment fees.
- (5) Include the 60-day cancellation warning notice on or attached to the first page of the automobile application.

- (6) Provide the Replacement Cost Coverage notice with all new and renewal policies as required by the Code of Virginia.
- (7) Offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.
- (8) Provide the Insurance Credit Score Disclosure notice as required by the Code of Virginia.

Review of Statutory Notices

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 of the Code of Virginia.
- (2) Amend the Adverse Underwriting Decision notice to comply with § 38.2-610 of the Code of Virginia.
- (3) Develop a Replacement Cost notice to comply with § 38.2-2118 of the Code of Virginia.
- (4) Develop a Water Back-Up Through Sewers and Drains notice to comply with § 38.2-2120 of the Code of Virginia.
- (5) Amend the Insurance Credit Score Disclosure notice to comply with §§ 38.2-2126 A 1 and 38.2-2234 A 1 of the Code of Virginia.

Licensing and Appointment Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Appoint agents within 30 days of the application.
- (2) Accept business only from agencies that are licensed in the Commonwealth of Virginia.
- (3) Only pay commissions to agencies that are appointed by the company.

Review of the Complaint-Handling Process

Auto-Owners Insurance Company and
Owners Insurance Company shall:

Maintain a complete complaint register that is in compliance with § 38.2-511 of
the Code of Virginia.

PART THREE – RECOMMENDATIONS

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer.

RECOMMENDATIONS

We recommend that the companies take the following actions:

Rating and Underwriting

- The companies should use the term “Medical Expense Benefits” on their declarations page instead of the term “Medical Payments.”
- The companies should use the term “Other Than Collision” on their declarations page instead of the term “Comprehensive.”
- The companies should initiate a greater degree of supervision with agents who underwrite their own personal policies.
- The companies should update their manual to include instructions for calculating the Combined Single Limits for BI/PD and UM/UMPD.
- The companies should revise their rule for the number of families to mirror the terminology used on the declarations page.
- The companies should clarify the application of the Product Deductible factor in their filed rules.
- The companies should ensure the filed manual adequately indicates the steps in the premium determination rules.
- The companies should update manual pages AOWJV914 and AOWJV915 to reflect new factors applicable to the policy.

Termination

- The companies should amend their forms on file with the Bureau to reflect their practices with insured requested cancellations.
- The companies should file all fees with the Bureau.

Claims

- The companies should provide a reasonable explanation of the basis of the denial of a claim or offer of a compromise settlement.
- The companies should include the fraud statement on all claim forms that are required by the companies as a condition of payment.
- The companies should pay license plate transfer fees only when the salvage is obtained by the company.

Forms

- The companies should correct the typographical errors on forms CAO268 12-05 Virginia Changes in Policy Cancellation and Non-Renewal, CAO302 12-93 Deductible Liability Coverage, CA2121 11-02 Uninsured Motorist Coverage and CA 3127 12-05 Virginia Split Limit Uninsured Motorist Coverage Limits.

Policy Issuance Process

- The companies should amend their application to state that Transportation Expenses coverage is optional when Collision and/or Other Than Collision coverage is purchased.

Statutory Notices

- The companies should amend their Important Information Regarding Your Insurance notice to reflect the correct zip code for the Bureau.

- The companies should amend their Accident Surcharge notice to reflect the correct zip code for the Bureau.

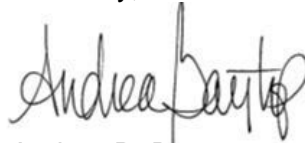
SUMMARY OF PREVIOUS EXAMINATION FINDINGS

This is the first time the Virginia Bureau of Insurance has conducted an examination of these companies.

ACKNOWLEDGEMENT

The Bureau acknowledges the officers' and employees' response to requests from the Bureau during the course of the examination.

Sincerely,

A handwritten signature in black ink that reads "Andrea D. Baytop". The signature is written in a cursive style with a large initial "A".

Andrea D. Baytop
Senior Insurance Market Examiner

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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February 24, 2014

VIA UPS 2nd DAY DELIVERY

Frank Bayless
Home Office Legal Division
Auto-Owners Companies
6101 Anacapri Boulevard
Lansing, Michigan 48917

Re: Market Conduct Examination
Auto-Owners Insurance Company (NAIC #18988)
Owners Insurance Company (NAIC #32700)
Examination Period: April 1, 2011 – March 31, 2012

Dear Mr. Bayless:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced companies for the period of April, 1, 2011 through March 31, 2012. The preliminary examination report (Report) has been drafted for the companies' review.

Enclosed with this letter is a copy of the preliminary examination report and copies of review sheets that have been withdrawn or revised since February 3, 2014. Also enclosed are several reports that will provide you with the specific file references for the violations listed in the report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the companies, I would urge you to closely review the report. Please provide a written response. When the companies responds, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the companies to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report. The companies do not need to respond to any particular item with which it agrees. If the companies disagree with an item or wishes to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the report or modify a violation unless the companies provide written documentation to support its position.

Secondly, the companies should provide a corrective action plan that addresses all of the issues identified in the examination, again using the same headings and numberings as are used in the Report.

Thirdly, if the companies have comments it wishes to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the company should outline the actions it is taking to prevent those issues from becoming a business practice.

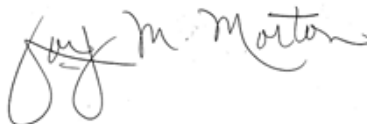
Finally, we have enclosed an Excel file that the companies must complete and return to the Bureau with the companies' response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The company's response and the spreadsheet mentioned above must be returned to the Bureau by April 1, 2014.

After the Bureau has received and reviewed the companies' response, we will make any justified revisions to the report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by April 1, 2014.

Sincerely,

A handwritten signature in cursive script that reads "Joy M. Morton". The signature is written in black ink and is positioned above the typed name.

Joy Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

AUTO-OWNERS INSURANCE COMPANY
AUTO-OWNERS LIFE INSURANCE COMPANY
HOME-OWNERS INSURANCE COMPANY
OWNERS INSURANCE COMPANY
PROPERTY-OWNERS INSURANCE COMPANY
SOUTHERN-OWNERS INSURANCE COMPANY



May 30, 2014

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FAX 517-323-8796
WWW.AUTO-OWNERS.COM

Joy Morton
Virginia Bureau of Insurance
Market Conduct Section
Property & Casualty Division
PO Box 1157
Richmond, VA 23218

RE: Auto-Owners Insurance Company
Owners Insurance Company
Market Conduct Examination - 2012

Ms. Morton:

Attached please find the response materials of both Auto-Owners Insurance Company and Owners Insurance Company (collectively referred to as the "Companies") to Bureau's Market Conduct Preliminary Report.

Please find attached the Companies' response to the Preliminary Report provided by the Bureau. I have, for the sake of clarity, followed the format set forth in your February 24, 2014, correspondence.

Additionally, the Companies agree to address the matters summarized in Part Three of the Report. As such, I have taken the liberty of simply stating that as a general response to Part Three of the Preliminary Report.

Please do not hesitate to contact me with any questions or concerns.

Very Truly Yours,

Franklin J. Bayless
Auto-Owners Insurance Company
517.323.1508

jlc
Attachments

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a comprehensive examination has been made of the private passenger automobile, homeowner, commercial automobile, and commercial property and liability lines of business written by Auto-Owners Insurance Company and Owners Insurance Company at their offices in Lansing, Michigan.

The examination commenced September 10, 2012 and concluded February 3, 2014. Brandon Ayers, Andrea D. Baytop, Karen S. Gerber, Ju'Coby Hendrick, Richard L. Howell, Melody Morrissette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on March 19, 2012 and was assigned the examination number of VA177-M4. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILES*

Auto-Owners Insurance Company (AOIC) was organized under the laws of Michigan on July 1, 1916, and commenced business on the same day.

Owners Insurance Company (OIC) was incorporated on May 13, 1975 under the laws of Ohio. It began business on December 31, 1975.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date that the companies were licensed in Virginia except as noted in the table.

GROUP CODE: 0280	AOIC	OIC
NAIC Company Number	18988	32700
LICENSED IN VIRGINIA	8/19/1988	12/29/1989
LINES OF INSURANCE		
Accident and Sickness	X	
Aircraft Liability		
Aircraft Physical Damage		
Animal	6/29/1989	X
Automobile Liability	X	X
Automobile Physical Damage	X	X
Boiler and Machinery	X	X
Burglary and Theft	X	X
Commercial Multi-Peril	X	X
Credit		
Farmowners Multi-Peril		
Fidelity	X	X
Fire	X	X
General Liability	X	X
Glass	X	X
Homeowner Multi-Peril	X	X
Inland Marine	X	X
Miscellaneous Property	X	X
Ocean Marine		
Surety	X	X
Water Damage	6/29/1989	X
Workers' Compensation	X	5/05/1989

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2012 for those lines of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Auto-Owners Insurance Company		
Commercial Automobile liability	\$3,960,036	1.04%
Commercial Automobile Physical Damage	\$1,609,646	1.44%
Commercial Multiple Peril	\$6,037,463	1.35%
Homeowner	\$5,699,740	0.31%
Private Passenger Automobile Liability	\$3,029,589	0.12%
Private Passenger Automobile Physical Damage	\$1,927,892	0.11%
Owners Insurance Company		
Commercial Automobile Liability	\$498,675	0.13%
Commercial Automobile Physical Damage	\$454,248	0.41%
Commercial Multiple Peril	\$4,060,390	0.91%
Homeowner	\$3,723,277	0.21%
Private Passenger Automobile Liability	\$4,574,210	0.18%
Private Passenger Automobile Physical Damage	\$2,753,309	0.15%

SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile, homeowner, commercial automobile, and commercial property and liability lines of business written in Virginia for the period beginning April 1, 2011 and ending March 31, 2012. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance,* statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One — The Examiners' Observations, Part Two — Corrective Action Plan, and Part Three — Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

AREA	Population			FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
	AOIC	OIC	Sample TOTAL				
Private Passenger Auto							
New Business	<u>578</u>	<u>1365</u>	<u>1943</u>				92%
	10	15	25	25	0	23	
Renewal Business ¹	<u>6289</u>	<u>8163</u>	<u>14452</u>				92%
	20	20	40	38	0	35	
Co-Initiated Cancellations	<u>50</u>	<u>30</u>	<u>80</u>				15%
	9	11	20	20	0	3	
All Other Cancellations	<u>331</u>	<u>452</u>	<u>783</u>				97%
	15	15	30	30	0	29	
Nonrenewals	<u>154</u>	<u>108</u>	<u>262</u>				50%
	5	5	10	10	0	5	
Rejected Applications	<u>1</u>	<u>1</u>	<u>2</u>				0%
	1	1	2	2	0	0	
Homeowners							
New Business	<u>709</u>	<u>1078</u>	<u>1787</u>				100%
	15	15	30	30	0	30	
Renewal Business ¹	<u>8474</u>	<u>5321</u>	<u>13795</u>				100%
	20	20	40	39	0	39	
Co-Initiated Cancellations	<u>72</u>	<u>55</u>	<u>127</u>				85%
	20	15	35	34	0	29	
All Other Cancellations ²	<u>521</u>	<u>344</u>	<u>865</u>				79%
	15	15	30	24	0	19	
Nonrenewals ²	<u>178</u>	<u>88</u>	<u>266</u>				89%
	5	5	10	9	0	8	
Commercial Auto							
New Business ¹	<u>415</u>	<u>78</u>	<u>493</u>				63%
	5	5	10	8	0	5	
Renewal Business ¹	<u>2219</u>	<u>328</u>	<u>2547</u>				75%
	10	5	15	12	0	9	
All Cancellations	<u>481</u>	<u>89</u>	<u>570</u>				69%
	9	4	13	13	0	9	
Commercial P&L							
New Business ¹	<u>981</u>	<u>566</u>	<u>1547</u>				100%
	10	5	15	14	0	14	
Renewal Business ¹	<u>5560</u>	<u>2779</u>	<u>8339</u>				97%
	18	14	32	31	0	30	
All Cancellations ²	<u>856</u>	<u>356</u>	<u>1212</u>				52%
	16	12	28	27	0	14	
Claims							
Private Passenger Auto ³	<u>1001</u>	<u>1609</u>	<u>2610</u>				73%
	38	42	80	79	0	58	
Property	<u>958</u>	<u>578</u>	<u>1536</u>				63%
	29	25	54	54	0	34	
Commercial Auto	<u>560</u>	<u>89</u>	<u>649</u>				83%
	14	9	23	23	0	19	
Commercial P&L	<u>626</u>	<u>488</u>	<u>1114</u>				59%
	15	12	27	27	0	16	

Footnote ¹-The examiners did not review all the rating files because some were not subject to the Bureau's review under the scope of the examination.

Footnote ²-The companies were unable to provide accurate cancellation population information for the examination.

Footnote ³ - One file was a mobile home and was not reviewed.

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

RATING AND UNDERWRITING REVIEW

Private Passenger Automobile New Business Policies

The Bureau reviewed 25 new business policy files. During this review, the examiners found overcharges totaling \$981.69 and undercharges totaling \$1,879.17. The net amount that should be refunded to insureds is \$981.69 plus six percent (6%) simple interest.

- (1) The examiners found 23 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy. The company listed forms on the declarations page when the coverage was not applicable to the policy.

Acknowledged.

- (2) The examiners found seven violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed the group discount on the declarations page when the discount was not applied to the policy.

Acknowledged.

- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company did not provide the entire new business application.

The Companies provided access by means of .pdf files, system access, and, where requested, provision of paper copies. The Companies did not have a copy of the second page of the application for insurance in this particular underwriting file. The Companies respectfully request removal of this violation.

- (4) The examiners found 29 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In 15 instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to provide evidence of fault for an accident surcharge applied.

Acknowledged.

- c. In one instance, the company failed to use the correct territory.

Acknowledged.

- d. In five instances, the company failed to use the correct tier eligibility criteria.

Acknowledged.

- e. In three instances, the company failed to use the correct driver classification factor.

Acknowledged. However, the Companies have instituted a fix whereby every driver modification will be reviewed by the Companies' underwriting division prior to policy issuance. The Companies believe that this change will prevent future instances.

- f. In one instance, the company failed to use the correct base and/or final rates.

At the time, the Companies allowed independent agents to quote for New Business using future dates. In this instance the agent used a present day rate to quote a policy that was not to be written for 90 days. The Companies no longer allow quotes that far in to the future, and have implemented a procedure that ensures that the rate quoted will be the rate in effect at issuance.

- g. In three instances, the company failed to issue a policy for the correct policy term of coverage.

Acknowledged in part. The Companies respectfully request that the Bureau not apply penalties in these three instances since each deals with a situation where an independent insurance agent issued a short term binder, whereupon the Companies later discovered that the bound business was unacceptable. The Companies request of the Bureau is due to the fact that Va. Code §38.2-1906 D does not specifically disallow the practice of allowing independent insurance agents to issue binders, and it is the binder period that is being found in noncompliance due to its being shorter than the filed minimum policy terms.

Private Passenger Automobile Renewal Business Policies

The Bureau reviewed 38 renewal business policy files. During this review, the examiners found overcharges totaling \$2,370.80 and undercharges totaling \$4,763.28. The net amount that should be refunded to insureds is \$2,370.80 plus six percent (6%) simple interest.

- (1) The examiners found 35 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy.

- a. In one instance, the company failed to include the garaging address in the policy information.

It is the Companies' understanding that the Bureau has withdrawn this instance, however, the Companies have instituted a procedure during the course of this Exam whereby garaging addresses will be on Declaration pages for every vehicle.

- b. In 34 instances, the company listed forms on the declarations page when the coverage was not applicable to the policy.

Acknowledged. The programming error that led to this problem has been corrected as of the following dates: New Business 4/1/13 and Renewal Business 5/22/13.

- (2) The examiners found six violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed the group discount on the declarations page when the discount was not applied to the policy.

Acknowledged.

- (3) The examiners found one violation of § 38.2-1905 C of the Code of Virginia. The company failed to apply surcharge points only to the vehicle customarily driven by the operator responsible for the accident or conviction.

Acknowledged.

- (4) The examiners found 36 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In 23 instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to apply the correct points for accidents and/or convictions.

Acknowledged.

- c. In two instances, the company failed to use the correct symbol.

Acknowledged.

- d. In two instances, the company failed to use the correct territory.

Acknowledged.

- e. In seven instances, the company failed to use the correct tier eligibility criteria.

Acknowledged.

- f. In one instance, the company failed to use the correct driver classification factor.

Acknowledged.

Homeowner New Business Policies

The Bureau reviewed 30 new business policy files. During this review, the examiners found overcharges totaling \$568.75 and undercharges totaling \$189.55. The net amount that should be refunded to insureds is \$568.75 plus six percent (6%) simple interest.

- (1) The examiners found six violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company did not provide the new business application.

The Companies provided access to files, documents, and records relating to the examination, through system access, .pdf and, upon request, paper copies. The specific applications were not properly saved within the electronic files that were cited herein by the Bureau.

- (2) The examiners found 38 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In three instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In two instances, the company failed to follow its filed minimum premium rule.

The Companies maintain that they followed their respective filed minimum premium rules, when minimum premiums for policy terms shorter than one year followed the same scale as the one year minimum premium.

- c. In 30 instances, the company failed to use the correct public protection class.

The Companies respectfully maintain that they were using ISO protection class codes as commonly understood in the industry. To the extent that the Companies' filings were not adequately defining those codes, the Companies have had ISO file the codes on behalf of the Companies. See attached Exhibit 1.

- d. In three instances, the company failed to follow its policy term rule by issuing policies for less than six months.

In these instances, initial review of new business policies led to the determination that these policies were unacceptable under the Companies' underwriting rules. A binder was issued as a result, therefore the Companies do not believe that the Policy Term Rule applies, as a policy term had yet to commence because the independent agent had only bound the policy, the policy had yet to be written.

Homeowner Renewal Business Policies

The Bureau reviewed 39 renewal business policy files. During this review, the examiners found overcharges totaling \$1,784.00 and undercharges totaling \$6.27. The net amount that should be refunded to insureds is \$1,784.00 plus six percent (6%) simple interest.

- (1) The examiners found 35 violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company misrepresented the requirements necessary to receive the "Paid in Full" discount.

The Companies respectfully disagree that the "Paid in Full" discount is ambiguous or that it was misrepresented. To obtain the "Paid in Full" discount an insured must pay

the policy premium in full, which is indicated in the discount's title. The Companies' informational statement that insureds who pay in full enjoy better loss ratios is not a stated requirement to qualify for the discount, rather it is the actuarial justification for the amount of the discount. An insured does not lose the "Paid In Full" discount if they suffer a loss, rather they lose the "Paid In Full" discount if they fail to "pay in full."

The stated basis of the discount is that the Companies' experience shows that persons who pay in full have a traditionally lower loss ratio. However, anyone who meets the requirements of our filed Paid In Full discount rule can receive the "Paid In Full" discount regardless of loss history. See *Attached Exhibit 2*.

(2) The examiners found 44 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In two instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

b. In one instance, the company failed to use the correct base and/or final rates.

Acknowledged.

c. In two instances, the company failed to use the correct construction type.

Acknowledged.

d. In 39 instances, the company failed to use the correct public protection classification.

The Companies respectfully maintain that they were using ISO protection class codes as commonly understood in the industry. To the extent that the Companies' filings were not adequately defining those codes, the Companies have had ISO file the codes on behalf of the Companies. See *attached Exhibit 1*.

Commercial Automobile New Business Policies

The Bureau reviewed eight new business policy files. During this review, the examiners found overcharges totaling \$6.00 and undercharges totaling \$263.00. The net amount that should be refunded to insureds is \$6.00 plus six percent (6%) simple interest.

(1) The examiners found one violation of § 38.2-305 of the Code of Virginia. The

company failed to specify in the policy all of the information required by the statute. The company failed to list the limits of liability and deductible for the Drive Other Car Coverage on the declarations page.

Acknowledged.

- (2) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of its insurance policy. The company misrepresented the requirements necessary to receive the "Paid In Full" discount.

The Companies respectfully disagree that the "Paid in Full" discount is ambiguous or that it was misrepresented. To obtain the "Paid in Full" discount an insured must pay the policy premium in full, which is indicated in the discount's title. The Companies' informational statement that insureds who pay in full enjoy better loss ratios is not a stated requirement to qualify for the discount, rather it is the actuarial justification for the amount of the discount. An insured does not lose the "Paid In Full" discount if they suffer a loss, rather they lose the "Paid In Full" discount if they fail to "pay in full."

The stated basis of the discount is that the Companies' experience shows that persons who pay in full have a traditionally lower loss ratio. However, anyone who meets the requirements of our filed Paid In Full discount rule can receive the "Paid In Full" discount regardless of loss history. See *Attached Exhibit 2*.

- (3) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In one instance, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to use the correct deductible factor.

The product deductible referenced in this instance is for coverage under the base policy form. The Broad form coverage that is included within the Garage Liability Plus endorsement has its own set of deductible options for the coverage provided within the endorsement. The correct deductible factor was applied based on the Garage Liability Plus rate page AOAMV004. See *attached Exhibit 3*.

- c. In two instances, the company failed to document the characteristics that

support the individual risk premium modification (IRPM) factor that was applied to the policy.

Acknowledged.

Commercial Automobile Renewal Business Policies

The Bureau reviewed 12 renewal business policy files. During this review, the examiners found overcharges totaling \$150.92 and undercharges totaling \$284.00. The net amount that should be refunded to insureds is \$150.92 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of its insurance policy. The company misrepresented the requirements necessary to receive the "Paid In Full" discount.

The Companies respectfully disagree that the "Paid in Full" discount is ambiguous or that it was misrepresented. To obtain the "Paid in Full" discount an insured must pay the policy premium in full, which is indicated in the discount's title. The Companies' informational statement that insureds who pay in full enjoy better loss ratios is not a stated requirement to qualify for the discount, rather it is the actuarial justification for the amount of the discount. An insured does not lose the "Paid In Full" discount if they suffer a loss, rather they lose the "Paid In Full" discount if they fail to "pay in full."

The stated basis of the discount is that the Companies' experience shows that persons who pay in full have a traditionally lower loss ratio. However, anyone who meets the requirements of our filed Paid In Full discount rule can receive the "Paid In Full" discount regardless of loss history. See *Attached Exhibit 2*.

- (2) The examiners found 11 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In one instance, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to use the correct territory.

The Companies respectfully disagree with this observation. To date the Companies have not received a response from the Bureau to the Companies' review sheet response provided on 12-12-13. Pursuant to the Companies' filed Rate Page AOAMV223, a factor of 1.33 applies to Territory 34. See *attached Exhibit 4*.

- c. In one instance, the company failed to use the correct classification factor.

The Companies believe they applied the proper classification factors to the vehicles in question, however, the Companies acknowledge that their naming matrix page did not reflect all steps appropriately. This has been updated under SERFF Tracking # AOIC-128622708. See also, *Part Two, Corrective Action Plan*.

- d. In one instance, the company failed to use the correct deductible factor.

The correct deductible factor was applied based on Rate Page AOAMV004. See *attached Exhibit 3*.

- e. In one instance, the company failed to apply the IRPM factor documented in the file.

Acknowledged.

- f. In six instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.

Acknowledged.

Commercial Property and Liability New Business Policies

The Bureau reviewed 14 new business policy files. During this review, the examiners found overcharges totaling \$1,653.80 and undercharges totaling \$3,500.00. The net amount that should be refunded to insureds is \$1,653.80 plus six percent (6%) simple interest.

- (1) The examiners found five violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all applicable forms on the declarations page.

Acknowledged.

- (2) The examiners found 29 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In three instances, the company failed to use the correct discounts and/or surcharges.
- a.1. Commercial Group Plan factor: The Commercial Group Plan Factor does not affect the Companies' package modification factors. The Companies used a correct package modification factor of 1.00 to rate the subject policy. See attached Exhibit 5.**
- a.2. & a.3. The policy in question is a package policy and the 5% deviation only applies to monoline policies. See attached Exhibit 6. Additionally, the Companies' most recent rate page filings clarify that the 5% deviation applies to monoline policies only.**
- b. In seven instances, the company failed to use the correct base and/or final rates.
- This issue has been addressed by both the Companies and ISO. See, Part Two, Corrective Action Plan.**
- c. In one instance, the company failed to use the correct deductible factor.
- The Companies maintain that based upon filed rules the factor of 0.967 is being appropriately applied. See attached Exhibit 7.**
- d. In seven instances, the company failed to use the correct public protection class.
- The Companies respectfully maintain that they were using ISO protection class codes as commonly understood in the industry. To the extent that the Companies' filings were not adequately defining those codes, the Companies have had ISO file the codes on behalf of the Companies. See attached Exhibit 1.**
- e. In three instances, the company failed to use the correct occupancy class.
- The classification manual in use by the Companies during the examination period had the correct Rate Group information, and the correct class code was applied in these specific instances.**
- f. In six instances, the company failed to use the correct classification code.
- Similar to (e) above, the classification manual in use by the Companies during the examination period had the correct Rate Group information, and the correct class code was applied in these specific instances.**

- g. In two instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.

Acknowledged.

Commercial Property and Liability Renewal Business Policies

The Bureau reviewed 31 renewal business policy files. During this review, the examiners found overcharges totaling \$4,121.00 and undercharges totaling \$1,610.00. The net amount that should be refunded to insureds is \$4,121.00 plus six percent (6%) simple interest.

- (1) The examiners found 18 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all applicable forms on the declarations page.

Acknowledged.

- (2) The examiners found 83 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In ten instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged. See attached Exhibit 8.

- b. In one instance, the company failed to use the correct territory.

Acknowledged.

- c. In 16 instances, the company failed to use the correct base and/or final rates.

See attached Exhibits 9-A thru 9-R

- d. In four instances, the company failed to follow its filed minimum premium rule.

It is the Companies' understanding that Va. Code § 38.2-1906 D requires that policies be issued in accordance with rate and supplementary rate information on file with the Bureau. The Companies in these instances used filed rules in conjunction with one another (for instance, RCP041 R&URBCPL-1591953580, documents attached hereto as Exhibit 10A-10E). The Companies believe this use of filed rules in conjunction with one another complies with Va. Code § 38.2-1906 D.

- e. In one instance, the company failed to use the correct construction type.

Acknowledged.

- f. In 21 instances, the company failed to use the correct public protection class.

The Companies respectfully maintain that they were using ISO protection class codes as commonly understood in the industry. To the extent that the Companies' filings were not adequately defining those codes, the Companies have had ISO file the codes on behalf of the Companies. See attached Exhibit 1.

- g. In 12 instances, the company failed to use the correct occupancy class.

The Companies respectfully maintain that the occupancy class used was the same as were on file during the Exam Period.

- h. In 13 instances, the company failed to use the correct classification code.

The Companies maintain that the classification codes used were the same as were on file during the Exam Period. The classes have been on file with associated rates, but there were no filed means of assigning risks to classifications. To the extent that belief is incorrect, the Companies have updated filings. See *Corrective Action Plan, General, No. 7*.

- i. In one instance, the company failed to use the filed increased limits factor.

Acknowledged.

- j. In two instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.

Acknowledged.

- k. In one instance, the company failed to use its filed rounding rule.

The Companies' final rates were submitted to the Bureau. The Bureau appears to take issue with the rounding because it is stated at 0.1650. To the extent that the violation is based on the addition of the zero quantity at the end of the number, the Companies acknowledge this instance. However, the Companies, in good faith, thought they were in compliance regardless of the zero quantity.

- l. In one instance, the company failed to use its rules filed with the Bureau.

Acknowledged.

TERMINATION REVIEW

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations — Private Passenger Automobile Policies**NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE**

The Bureau reviewed 16 private passenger automobile cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$27.07 and no undercharges. The net amount that should be refunded to the insured is \$27.07 plus six percent (6%) simple interest.

The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

Acknowledged.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau reviewed four private passenger automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

(1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company charged fees that were not on file with the Bureau.

Acknowledged.

- (2) The examiners found one violation of § 38.2-2212 D of the Code of Virginia. The company cancelled the insured's motor vehicle policy for a reason not permitted by the statute.

Acknowledged.

- (3) The examiners found three violations of § 38.2-2212 E of the Code of Virginia.

- a. In one instance, the company failed to mail the notice of cancellation to the insured at least 45 days before the cancellation effective date.

Acknowledged.

- b. In one instance, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

Acknowledged.

- c. In one instance, the company failed to advise the insured of the availability of other insurance through his agent, another insurer, or the Virginia Automobile Insurance Plan (VAIP).

Acknowledged.

All Other Cancellations — Private Passenger Automobile Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed 20 private passenger automobile cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$86.12 and undercharges totaling \$3,336.54. The net amount that should be refunded to insureds is \$86.12 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the declarations page and cancellation notice.

The requested files were provided and the examiners were given instructions on how to access the documents on the Companies' systems. Further, the documents were provided together with Review Sheet TPA021 TermNPPPPA-76639997. The Companies respectfully disagree with this observation.

(2) The examiners found 34 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In 16 instances, the company failed to calculate the return premium correctly.

Acknowledged.

b. In 18 instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

REQUESTED BY THE INSURED

The Bureau reviewed ten automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found overcharges totaling \$27.52 and undercharges totaling \$75.26. The net amount that should be refunded to insureds is \$27.52 plus six percent (6%) simple interest.

(1) The examiners found 11 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In one instance, the company failed to calculate the return premium correctly.

Acknowledged.

b. In ten instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

- (2) The examiners found three violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain a written request from the insured to cancel his policy.

Acknowledged.

- (3) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

Acknowledged.

Rejected Applications — Private Passenger Automobile Policies

The Bureau reviewed two automobile insurance applications for which the company declined to issue a policy.

The examiners found no violations in this area.

Company-Initiated Nonrenewals — Private Passenger Automobile Policies

The Bureau reviewed ten automobile nonrenewals that were initiated by the company.

- (1) The examiners found four violations of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the insured.

Acknowledged.

- (2) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the insured written notice of nonrenewing his motor vehicle policy.

Acknowledged.

Company-Initiated Cancellations — Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The Bureau reviewed ten homeowner cancellations that were initiated by the company where the company mailed the notices prior to the 90th day of coverage in the initial policy period. During this

review, the examiners found overcharges totaling \$50.00 and no undercharges. The net amount that should be refunded to insureds is \$50.00 plus six percent (6%) simple interest.

(1) The examiners found five violations of § 38.2-1906 D of the Code of Virginia.

The company failed to use the rules and/or rates on file with the Bureau.

a. In three instances, the company failed to calculate the return premium correctly.

Acknowledged in part. One of the three referenced instances contains additional facts which the Companies request the Bureau consider. Where a policy is cancelled for underwriting reasons and an insured's agent later informs the Company, together with proof, that the insured had procured a different policy at a date prior to the cancellation – the Companies do not believe it is wrong to refund back the unearned premium. The Companies acknowledge that this is not a complete defense to this instance, however, the Companies respectfully request that the Bureau reconsider this under the circumstances because the Companies' contend that their conduct was reasonable and in the best interest of consumers.

b. In two instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

(2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of the cancellation to the lienholder.

Acknowledged.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

In addition, the Bureau reviewed 24 homeowner cancellations that were initiated by the company where the company mailed the notices on or after the 90th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review,

the examiners found overcharges totaling \$88.28 and undercharges totaling \$79.33. The net amount that should be refunded to insureds is \$88.28 plus six percent (6%) simple interest.

(1) The examiners found six violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In two instances, the company failed to calculate the return premium correctly.

Acknowledged.

b. In four instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

(2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.

Acknowledged.

(3) The examiners found 23 violations of § 38.2-2114 A of the Code of Virginia.

a. In 19 instances, the company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.

Acknowledged.

b. In four instances, the company cancelled coverage on an owner-occupied dwelling because of a physical change in the property and failed to properly document the change.

The Companies respectfully maintain that reports based upon physical inspection are a sufficient basis upon which to base determinations of physical characteristics of insured locations. However, the Companies appreciate the

Bureau's commentary to date on the need for photographic documentation, and as such require documentation of same when photographs are obtained.

All Other Cancellations — Homeowner Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed 15 homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$34.00 and undercharges totaling \$442.30. The net amount that should be refunded to insureds is \$34.00 plus six percent (6%) simple interest.

(1) The examiners found 14 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In ten instances, the company failed to calculate the return premium correctly.

Acknowledged.

b. In four instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

(2) The examiners found one violation of § 38.2-2114 C of the Code of Virginia. The company failed to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).

Acknowledged.

REQUESTED BY THE INSURED

In addition, the Bureau reviewed nine homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the

examiners found overcharges totaling \$756.41 and undercharges totaling \$33.95. The net amount that should be refunded to insureds is \$756.41 plus six percent (6%) simple interest.

(1) The examiners found four violations of § 38.2-1906 D of the Code of Virginia.

The company failed to use the rules and/or rates on file with the Bureau.

a. In one instance, the company failed to calculate the return premium correctly.

Acknowledged.

b. In three instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

(3) The examiners found two violations of § 38.2-2114 E of the Code of Virginia.

The company failed to obtain a written request to cancel a policy insuring an owner-occupied dwelling.

Acknowledged.

Company-Initiated Nonrenewals — Homeowner Policies

The Bureau reviewed nine homeowner nonrenewals that were initiated by the company.

(1) The examiners found one violation of § 38.2-231 A of the Code of Virginia. The company failed to advise the insured of his right to request a review by the Commissioner of Insurance for the cancellation of a policy insuring a business entity.

The Companies respectfully question whether or not the Bureau intended to cite to § 38.2-2114 C, in this instance. If so, the Companies acknowledge this instance.

- (2) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an adverse underwriting decision (AUD).

Acknowledged.

- (3) The examiners found nine violations of § 38.2-2113 C of the Code of Virginia.

- a. In one instance, the company failed to provide proper notice of non renewal to the lienholder.

Acknowledged.

- b. In seven instances, the company failed to retain proof of mailing the nonrenewal notice to the insured.

Acknowledged.

- c. In one instance, the company failed to retain proof of mailing the nonrenewal notice to the lienholder.

Acknowledged.

- (4) The examiners found 16 violations of § 38.2-2114 C of the Code of Virginia.

- a. In one instance, the company failed to provide the specific reason for nonrenewal of a policy insuring an owner-occupied dwelling.

Acknowledged.

- b. In seven instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

Acknowledged.

- c. In eight instances, the company failed to advise the insured of the availability of insurance through the VPIA.

Acknowledged.

Commercial Automobile Policies

The Bureau reviewed thirteen commercial automobile cancellations. During this review, the examiners found overcharges totaling \$15.00 and undercharges totaling \$86.99. The net amount that should be refunded to insureds is \$15.00 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-231 A of the Code of Virginia. The company failed to send a cancellation notice to the insured.

While the Companies acknowledge the violations, the Companies would request the Bureau consider the circumstances of each violation and respectfully request waiver of the violations, as more fully explained in the attached Exhibit 11.

- (2) The examiners found one violation of § 38.2-231 J of the Code of Virginia. The company failed to retain proof of mailing the notice of cancellation to the insured.

Acknowledged.

- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide the declarations page.

The particular declaration pages in question were not immediately available on the Companies' system. When the Companies were made aware of this fact by the Examiners, the Companies ultimately provided the Examiners with both paper and .pdf scanned copies taken from warehoused files. Because of this unusual circumstance during the course of the review, and the Companies' response of going to its warehouse, obtaining scanning and copying the original was reasonable under the circumstances. The Companies respectfully request that the Bureau reconsider this violation given the circumstances, and the efforts of the Companies.

- (4) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file.

- a. In one instance, the company failed to calculate the return premium correctly.

Acknowledged.

- b. In one instance, the company charged fees that were not on file with the Bureau.

Acknowledged.

- (5) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In two instances, the company failed to obtain advance written notice of cancellation from the insured.

Acknowledged.

- b. In one instance, the company failed to maintain a copy of the insured's request for cancellation.

Acknowledged.**Commercial Property and Liability Policies**

The Bureau reviewed 27 commercial property and liability cancellations. During this review, the examiners found overcharges totaling \$48.00 and undercharges totaling \$77.00. The net amount that should be refunded to insureds is \$48.00 plus six percent (6%) simple interest.

- (1) The examiners found three violations of § 38.2-231 A of the Code of Virginia.

- a. In one instance, the company failed to send a cancellation notice to the insured.

Acknowledged.

- b. In one instance, the company failed to send a cancellation notice to the insured at least 45 days before the cancellation effective date.

Acknowledged.

- c. In one instance, the company failed to send a nonpayment of premium cancellation notice to the insured at least 15 days before the cancellation effective date.

Acknowledged.

- (2) The examiners found two violations of § 38.2-231 J of the Code of Virginia.

- a. In one instance, the company failed to retain a copy of the cancellation notice sent to the insured for one year from the effective date of the cancellation.

Acknowledged.

- b. In one instance, the company failed to retain proof of mailing the cancellation notice to the insured.

Acknowledged.

- (3) The examiners found seven violations of § 38.2-1906 D of the Code of Virginia.

The company failed to use the rules and/or rates on file with the Bureau.

- a. In six instances, the company failed to calculate the return premium correctly.

Acknowledged.

- b. In one instance, the company charged fees that were not on file with the Bureau.

Acknowledged.

- (4) The examiners found one violation of 14 VAC 5-390-40 D. The company failed to send an affirmation of cancellation to the insured and premium finance company.

In this instance, the Companies received notice of the cancellation from the premium

finance company, so the premium finance company had notice (through the independent agency), or else the premium finance company would not have been able to acknowledge the notice through its mailing to the Companies' and the independent agency. Under the circumstances, the Companies' decision to not return a notice or modify it as an acknowledgement of the premium finance company's acknowledgement of notice, since it was apparent that the premium finance company had received notice, appears reasonable under the circumstances, and the Companies respectfully request withdrawal of this violation.

- (5) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

Acknowledged.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 79 automobile claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$5,245.88 and underpayments totaling \$21,753.42. The net amount that should be paid to claimants is \$21,753.42 plus six percent (6%) simple interest.

- (1) The examiners found 18 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Acknowledged.

- (2) The examiners found 31 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

- a. In 12 instances, the company failed to inform an insured of his physical damage deductible when the file indicated that the coverage was applicable to the loss.

Acknowledged in part. The Companies acknowledge that documentation in these 12 instances could be improved, and the Companies are actively engaged in corrective action regarding file structure and documentation. However, the Companies respectfully request that the Bureau consider waiving these instances as the payment of a coverage or application of a deductible together with file notes memorializing conversations with insureds wherein verbal notice was given constitutes evidence that the notice was given. The Companies respectfully submit that, in these 12 instances, the Companies informed the insureds of their physical damage deductible. The Companies request this waiver with the understanding that the Companies do need to improve documentation.

- b. In four instances, the company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.

While the Companies recognize a need for improvement of documentation and are actively engaged in corrective action, the Companies believe that the claim notes, letters about coverage, and payments of the coverage, indicate that the Companies accurately informed the insured of his Medical Expense Benefits coverage.

- c. In 11 instances, the company failed to accurately inform an insured of his Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.

Please see attached Exhibit 12.

- d. In four instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM) when the file indicated the coverage was applicable to the loss.

Please see attached Exhibit 13.

- (3) The examiners found one violation of 14 VAC 5-400-40 D. The company requested the insured to sign a release that extended beyond the subject matter that gave rise to the claim payment.

This matter was paid and release obtained while both the insured parties and the Companies were under advice of counsel. The Companies believe that specific claims handled and negotiated through counsel exceed the scope of the regulation, as both parties were represented and negotiated the terms of the settlement through counsel. The specific nuances to the litigation are reflected in the terms of the compromise settlement agreement. The Companies believe that both insurers and insureds are permitted to negotiate the terms of settlements through their respective legal representatives in this fashion. On this basis, the Companies respectfully request that the Bureau reconsider this violation.

- (4) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative that reasonably suggested a response was expected.

Acknowledged.

- (5) The examiners found five violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

Acknowledged.

- (6) The examiners found five violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

Acknowledged.

- (7) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim.

Acknowledged.

- (8) The examiners found eight violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

- a. In three instances, the company failed to pay the insured's UMPD claim properly when Collision and/or UMPD coverages applied to the claim.

Acknowledged.

- b. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense coverage.

The Companies paid providers in full under the Medical Expense Coverage. The Companies admit that some of these providers were not paid pursuant to an assignment of benefits. The Companies recognize a need to have an appropriate assignment of benefits completed. However going forward, the claims were paid and the Companies deny that payments should also be made to an insured, as this would provide unjust enrichment to the insured by paying the insured as well as the insured's providers.

- c. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.

Acknowledged.

- d. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision or Collision coverage.

Acknowledged in part. The denied portion involves a claim wherein the insured hit an orange construction barrel. The loss was paid as a non-chargeable collision loss. The facts reported that a large SUV had passed close to the barrel causing it to shift, leading to the insured's collision with the barrel. To this, the Bureau claims that the cause "could have been" a "windstorm or missile." The Companies respectfully disagree. The Bureau's response would require the Companies to consider facts exceeding the scope of both the objective facts and

the subjective facts actually given by the involved parties. See *attached Exhibit 14*. The Companies provide the foregoing to illustrate their position and respectfully request that the violation be removed. However, the Companies also wish to point out that they have paid the restitution per the Bureau's recommendation. See *attached Exhibit 30*.

(9) The examiners found 28 violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.

a. In 24 instances, the company failed to provide a copy of the estimate to the insured.

See attached Exhibit 15.

b. In four instances, the company failed to provide a copy of the estimate to the claimant.

Where the Companies' files expressly memorialize that estimates are discussed with claimants, and where the exact amount of the estimate is paid to the claimant as a result of these discussions the Companies respectfully request that the Bureau consider removing these violations. See also, attached Exhibit 15.

(10) The examiners found eight violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

It is the Companies' position that notice to the insured/claimant's lawyer pursuant to a Letter of Representation constitutes notice to an insured/claimant. In fact, failure on the part of the Companies to respect the insured's lawyer's demand that the Companies cease direct communication with the lawyer's client could lead to legal liability. It is upon this basis that the Companies respectfully request that the Bureau reconsider its position on those files where the Company dealt directly with an insured/claimant's attorney after receipt of a Letter of Representation.

(11) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia.

The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

Acknowledged.

- (12) The examiners found two violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

The Companies, at the time, utilized a system that had character limitations such that coverages were abbreviated on check stubs. The Companies have updated their systems as of April 28, 2014, and going forward this issue should not be a problem as the check stubs reflect the full name of the coverages paid.

- (13) The examiners found two violations of § 38.2-510 C of the Code of Virginia. The company failed to disclose the required aftermarket parts notice to the vehicle owner on the estimate of repairs or in a separate document.

Acknowledged.

- (14) The examiners found one violation of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured advising the company to make payments directly to the medical provider.

Acknowledged.

- (15) The examiners found 13 occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In three instances, the company failed to include the lienholder on the check.

To the extent that these instances are based solely upon policy language, it is the Companies' position that the policy language allowed for such action in limited circumstances. See attached Exhibit 16. However, the Companies have engaged in education and training with associates regarding the inclusion of lienholders and/or mechanic's lienholders on checks, pursuant to the Bureau's commentary.

- b. In eight instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.

Acknowledged.

- c. In two instances, the company overpaid the sales tax, title, and/or tag transfer fees on a total loss claim.

Acknowledged.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found 15 violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

In these cases the required language appeared on the form. The Companies acknowledge that the Virginia fraud statement appeared on a page with multiple other states' fraud statements and that the "box" next to Virginia was not checked. The Companies would like to note that the "box" was intended to serve as a bullet point, and the Companies' forms never indicated that any of the boxes would be checked, rather insureds were believed to be capable of reading the fraud statement pertaining to their state, since each fraud statement included the state name in the heading. It is on this basis that the Companies respectfully request that the Bureau reconsider its position. The Companies also wish to point out that they have amended the forms, and have removed the bullet points from its Settlement Worksheet and Proof of Loss forms, and added the fraud statement to the Automobile Bill of Sale & Power of Attorney as of the edition dates of the attached forms (December 2012, 2013, and October 2012 respectively). See attached Exhibit 17.

Commercial Automobile Claims

The examiners reviewed 23 commercial automobile claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,000.00 and underpayments totaling \$410.00. The net amount that should be paid to claimants is \$410.00 plus six percent (6%) simple interest.

- (1) The examiners found 14 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Acknowledged in part. The Companies agree that they need to improve file structure and file documentation. However the Bureau has included instances where the Companies' files included information required by the Bureau, just not in the form in which the Bureau has stated a preference. The Companies maintain that documentation from its attorneys or correspondence from claimant's attorneys constitutes "documentation" that the events referenced therein actually took place. Similarly, records of file transfer from Agents, or terminations from Underwriting is similarly sufficient. The Companies respectfully maintain that in these instances the claim file contained sufficient notes and work papers so that pertinent events and dates can be reconstructed.

The Companies also recognize the need for improvement in this area and are actively engaged in corrective action. See *Part Two, Corrective Action Plan, Claims Review*.

- (2) The examiners found one violation of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim. The company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist coverage when the file indicated the coverage was applicable to the loss.

Acknowledged.

- (3) The examiners found one violation of 14 VAC 5-400-50 A. The company failed, upon receiving notification of a claim, to acknowledge within ten working days the receipt of such notice where no payment was made within such period of time.

The Companies respectfully request that the Bureau reconsider this violation. The Companies believe that this regulation was complied with. In this instance, same-day contact was achieved and documented in the file. Such documentation was provided to the Bureau who held that same-day verbal contact was insufficient. The Companies are actively engaged in corrective action, and are currently considering sending a proof of loss form where applicable.

- (4) The examiners found seven violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

Acknowledged.

- (5) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

In this instance the response was sent to the insured's attorney pursuant to a letter of representation. The Companies respectfully submit that this was appropriate under the circumstances, complied with the above cited regulation, and the Companies respectfully request that the Bureau remove this violation.

- (6) The examiners found one violation of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions. The company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision or Collision coverage.

Acknowledged.

- (7) The examiners found seven violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
- a. In three instances, the company failed to provide a copy of the estimate to the insured.
Acknowledged.
- b. In four instances, the company failed to provide a copy of the estimate to the claimant.
Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found four violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

The Companies respectfully submit that their standards and investigation complied with the statute. The claims representative appropriately relied upon police reports and insured admissions. The Companies respectfully request that the Bureau work with the Companies to determine what additional measures must be taken that would constitute reasonable standards under the statute. With regard to these four instances, the Companies respectfully request that the Bureau remove these violations.

- (9) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In one instance, the company failed to include the lienholder on the check.
Acknowledged.
- b. In two instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.

Acknowledged.

- c. In one instance, the company failed to pay the claim in accordance with the terms of the policy.

Acknowledged.**Other Law Violations**

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found nine violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

Acknowledged in part. The Companies' medical forms contained the required language, as did the releases. However, those remaining forms with deficiencies have been updated to include the required language, in the Affidavit of Salvage in September of 2012, and in the medical and release forms in March of 2013. See *Part Two, Corrective Action Plan, Claims Review.*

Homeowner Claims

The examiners reviewed 54 homeowner claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found no overpayments and underpayments totaling \$11,554.00. The net amount that should be paid to claimants is \$11,554.00 plus six percent (6%) simple interest.

- (1) The examiners found nine violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Acknowledged.

(2) The examiners found 16 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

a. In four instances, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy.

The Companies request additional guidance from the Bureau in instances such as these. The Companies' files included record of discussions with insureds about Additional Living Expense coverage, and as such the Companies respectfully request removal of these instances. To the extent that the Bureau holds that documentation of verbal discussions are insufficient the Companies hope to dialogue further with the Bureau regarding what types of more specific/explicit notice would be acceptable.

b. In seven instances, the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.

The above referenced issues were discussed with insureds, however the Bureau appears to require a more specific notice for each potentially available coverage. The Companies hope to maintain dialogue with the bureau so as to come up with an acceptable form of notice to be sent in instances such as this in the future. The Companies respectfully request that the Bureau reconsider these violations.

c. In five instances, the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy.

Acknowledged in part. The Companies submit that the files were not silent as to replacement cost coverage. The Companies sent an entire form to the insureds explaining the coverage. The Companies respectfully request that the Bureau reconsider these violations. The Companies, however, acknowledge the need to improve the notice as relates to statement of time limitations under the replacement cost coverage.

(3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a

claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

Acknowledged.

- (4) The examiners found seven violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

Acknowledged in part. The Companies believe that letters from the Companies' attorneys that were provided during the exam should count as an update in satisfaction of the 45 day requirement. The Companies respectfully request that the Bureau reconsider these violations, and consider removing them.

- (5) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

Acknowledged.

- (6) The examiners found two violations of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim.

The Companies realize the need for improvement in both communication and documentation, as is evident in the Corrective Action Plan. The Companies respectfully request, however, that the Bureau reconsider the subject violations as the Companies submit that their communications indicate that they complied with the regulation. See attached Exhibit 18.

- (7) The examiners found five violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
- a. In one instance, the company failed to properly pay the claim under the insured's replacement cost Dwelling coverage.

Acknowledged.

- b. In one instance, the company failed to pay the entire claim under the insured's actual cash value Personal Property coverage.

The Companies respectfully request that the Bureau remove this violation. The Companies maintain that sending an inventory form to an insured and awaiting the return of same, all the while remaining at the ready to consider updated inventory information and sending advance payments as appropriate, culminating in claim payment as soon as the insured's final inventory was finalized does not constitute a violation of this regulation.

- c. In two instances, the company failed to pay the entire claim under the insured's Additional Living Expense coverage.

Acknowledged.

- d. In one instance, the company failed to pay the entire claim under the insured's Additional Coverages.

Acknowledged.

- (8) The examiners found 16 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or policy provisions relating to coverages at issue. The company gave the insured 180 days from the last actual cash payment rather than six months from the date of the last actual cash value payment to assert a claim for replacement cost on the damaged property.

Acknowledged.

- (9) The examiners found three violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for prompt investigation of claims arising under insurance policies.

The Companies respectfully disagree with these findings. Of the three claims in question, one was paid within one month of claim submission; one involved a claim for uncovered damages that was denied; and the final claim involved circumstances which called for an Examination Under Oath of the insured. Naturally, the claim involving the

EUO took longer, however, the Companies maintain that these claims were handled reasonably, and their handling did not violate §38.2-510 A3 of the Code of Virginia.

- (10) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of the claim in which liability was clear.

The Companies submit their original response to this instance. The loss occurred on 4/27/11 and payment was made on 5/10/11. Later that year, on 11/3/11, another water damage claim was submitted, whereupon the roof was replaced. The Companies believe that paying a loss in less than two weeks after its occurrence complies with Va. Code §38.2-510 A(6). As such, the Companies seek reconsideration of this violation.

- (11) The examiners found 11 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured that was not accompanied by a statement setting forth the correct coverage(s) under which the payment was made.

Acknowledged. As discussed with the Bureau, the Companies' systems were limited to abbreviations. In these instances, the Companies understand that the Bureau takes issue with the abbreviation of "HO" for "homeowners" and "DW" for "dwelling" essentially stating that those abbreviations in conjunction with the other correspondence and dealings taking place during the claim under those coverages could be confusing. The Companies' new electronic claims system is designed to remedy this issue. See *Part Two, Corrective Action Plan, Claims Review*.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found 16 violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

In these cases the required language appeared on the form. The Companies acknowledge that the Virginia fraud statement appeared on a page with multiple other states' fraud statements and that the "box" next to Virginia was not checked. The Companies would like to note that the "box" was intended to serve as a bullet point, and the Companies' forms never indicated that any of the boxes would be checked, rather insureds were believed to be capable of reading the fraud statement pertaining to their state, since each fraud statement included the state name in the

heading. It is on this basis that the Companies respectfully request that the Bureau reconsider its position. The Companies also wish to point out that they have amended the forms, and have removed the bullet points from its Settlement Worksheet and Proof of Loss forms, and added the fraud statement to the Automobile Bill of Sale & Power of Attorney as of the edition dates of the attached forms (December 2012, 2013, and October 2012 respectively). See *attached Exhibit 17*.

Commercial Property and Liability Claims

The examiners reviewed 27 commercial property claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,079.50 and underpayments totaling \$2,638.97. The net amount that should be paid to claimants is \$2,638.97 plus six percent (6%) simple interest.

- (1) The examiners found 13 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found two violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant or a claimant's authorized representative that reasonably suggested a response was expected.

Acknowledged. The Companies had a practice of only responding to correspondence that required a response. The Bureau has pointed out the need to respond to all correspondence, even that which on its face requires no response. The Companies are actively engaged in corrective action on this issue by encouraging claims personnel to respond to all correspondence regardless of whether or not the correspondence specifically calls for a response. Given this corrective action, the Companies respectfully request removal of these violations.

- (3) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

Acknowledged.

- (4) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

Acknowledged.

- (5) The examiners found one violation of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue. The company failed to properly convey to the insured and/or the claimant the company's obligation concerning payment of the rental or loss of use claim.

Acknowledged.

- (6) The examiners found eight violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

Acknowledged in part. While the Companies acknowledge some shortcomings in the subject instances, the Companies are actively engaged in corrective action. However, regarding the Bureau's commentary in the review sheets, and to the extent that the violations found herein, relate to subrogation the Companies believe that their actions complied with the law. The Companies did reach out to law enforcement for assistance on files to seek avenues of restitution when the claims involved a crime. Otherwise, to the extent that the Companies did not pursue subrogation against the manufacturer of a 25 year old chair that broke (giving rise to a claim) it would seem that such decisions are within the business discretion of the Companies and would not constitute a "failure to adopt and implement reasonable standards." The fact that the Companies' standards allow for such reasonable judgment calls appears to comply with the "reasonable standards" provision of §38.2-510 A 3, and the Companies respectfully request the Bureau reconsider these violations.

- (7) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.

Acknowledged.

- (8) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company paid an insured more than the insured was entitled to receive under the terms of his policy.

Acknowledged.

REVIEW OF FORMS

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

Private Passenger Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 34 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found six violations of § 38.2-2220 of the Code of Virginia.

- a. In two instances, the company used a version of a standard automobile form that was not in the precise language filed and adopted for use by the Bureau.

Acknowledged.

- b. In four instances, the company failed to have available for use standard automobile forms filed and adopted by the Bureau.

Acknowledged.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 56 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found three violations of § 38.2-317 A of the Code of Virginia.

The company used forms that had not been filed with the Bureau at least 30 days prior to use.

Acknowledged.

- (2) The examiners found two violations of § 38.2-2119 of the Code of Virginia. The company used a form that did not set forth the conditions necessary to assert a claim for replacement cost under the policy.

The Companies provided the subject forms during the onsite exam, and pointed out the language therein pertaining to replacement cost. For that reason, the Companies respectfully request that the Bureau reconsider these violations. The Companies would like to also note, however, that the Companies' replacement cost claim form has been updated since the onsite exam to reflect the Bureau's specific concerns. See *attached Exhibit 19*.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Commercial Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 77 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found five violations of § 38.2-2220 of the Code of Virginia. The company used a version of a standard automobile form that was not in the precise language filed and adopted by the Bureau.

Acknowledged.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Commercial Property and Liability Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 482 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found 12 violations of § 38.2-317 A of the Code of Virginia. The company used forms that had not been filed with the Bureau at least 30 days prior to use.

Acknowledged.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies *were* instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Private Passenger Automobile Policies

The companies provided six new business policies mailed on the following dates: May 8, 2012 and June 1, 5, 8, and 25, 2012. In addition, the companies provided six renewal business policies mailed on the following dates: June 6 and 7, 2012.

NEW BUSINESS POLICIES

- (1) The examiners found six violations of 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.

Acknowledged.

- (2) The examiners found six violations of § 38.2-2210 A of the Code of Virginia. The company failed to include the 60-day cancellation warning notice on or attached to the first page of the application.

Acknowledged.

RENEWAL BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice.

Acknowledged. See attached Exhibit 20 (Form 59197 (9-13))

- (2) The examiners found five violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information with the Bureau.

Acknowledged.

- (3) The examiners found six violations of 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company charged installment fees that were not filed with the Bureau.

Acknowledged.

Homeowner Policies

The companies provided six new business policies mailed on the following dates: May 9, 2012, June 1, 3, and 5, 2012, and July 13, 2012. In addition, the companies provided six renewal business policies mailed on the following dates: June 6, 2012 and July 13, 2012.

NEW BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.

Acknowledged.

- (2) The examiners found five violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost Coverage notice as required by the Code of Virginia.

Acknowledged. See attached Exhibit 21. (Form 57510 (3-13)).

- (3) The examiners found two violations of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

Acknowledged. See attached Exhibit 22 (Form 57509) (3-13)).

- (4) The examiners found six violations of § 38.2-2126 A of the Code of Virginia. The company failed to provide the Insurance Credit Score Disclosure notice as required by the Code of Virginia.

Regarding New Business, the subject Notices are not sent because they are provided by the Companies at the time of quoting, prior to actual policy issuance. In fact, as the Companies showed the Examiners on site, the Companies' quoting system provides a prompt and cannot advance to actual quoting without applicant acceptance of the subject Notice forms. The Bureau stated clearly on the conference calls and in written correspondence leading up to the exam that Policy Issuance materials were to be provided *exactly* as it is sent to insureds. The Companies' insureds are in possession of the subject Notices prior to policy issuance, and as such the Notices are not sent to the insureds a second time.

Regarding Renewal Business, the Companies believe that they are complying with §38.2-2126 A of the Code of Virginia, which provides, in part, that "the insurer need not

provide the disclosure required under this subsection to any insured on a renewal policy if such insured has previously been provided a disclosure.” See *attached Exhibit 23*. (See Form 59518 (3-13)).

RENEWAL BUSINESS POLICIES

- (1) The examiners found four violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all forms applicable to the policy on the declarations page.

Acknowledged.

- (2) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.

Acknowledged.

- (3) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost Coverage notice as required by the Code of Virginia.

Acknowledged.

- (4) The examiners found one violation of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

Acknowledged.

Commercial Automobile Policies

The companies provided six new business policies mailed on the following dates: May 23, 29 and June 1 and 12, 2012. In addition, the companies provided six renewal business policies mailed on April 25 and June 7, 9, 12, and 13, 2012.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found three violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice as required by the Code of Virginia.

Acknowledged.

Commercial Property and Liability Policies

The companies provided 16 new business policies mailed on the following dates: February 27, March 1, 4, 7, 14, 15, 20, 21, 22, April 9 and July 8, 2013. In addition, the companies provided 17 renewal business policies mailed on the following dates:

February 27, 28, March 1, 4, 5, 6, 13, 20, 22, 25 and June 12, 2013.

NEW BUSINESS POLICIES

The examiners found 16 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to include the edition dates of all endorsements listed on the declaration page.

Acknowledged.

RENEWAL BUSINESS POLICIES

The examiners found 17 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to include the edition dates of all endorsements listed on the declaration page.

Acknowledged.

REVIEW OF STATUTORY NOTICES

To obtain sample policies to review the content of the statutory notices that the companies are required to provide to insureds and used by the companies for the lines examined, the examiners used the same new business policy and renewal business policy mailings that were previously described. The details of these policies have been set forth previously under the Review of the Policy Issuance Process section of the Report. The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

The examiners reviewed the companies' statutory notices used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

- (1) The examiners found two violations of § 38.2-604.1 of the Code of Virginia. The company failed to include all of the information required by the statute in its Notice of Financial Information Collection and Disclosure Practices.

Acknowledged.

- (2) The examiners found 26 violations of § 38.2-610 A of the Code of Virginia. The company's AUD notice did not contain substantially similar language as that of the prototype set forth in Administrative Letter 1981-16.

Acknowledged.

Statutory Vehicle Notices

The examiners found two violations of § 38.2-2234 A 1 of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.

Acknowledged.

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company failed to have available a notice summarizing the replacement cost provisions for owner-occupied dwellings.

Acknowledged.

- (2) The examiners found two violations of § 38.2-2120 of the Code of Virginia. The company failed to have available a notice offering the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains.

Acknowledged.

- (3) The examiners found two violations of § 38.2-2126 A 1 of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.

Regarding New Business, the subject Notices are not sent because they are provided by the Companies at the time of quoting, prior to actual policy issuance. In fact, as the Companies showed the Examiners on site, the Companies' quoting system provides a prompt and cannot advance to actual quoting without applicant acceptance of the subject Notice forms. The Bureau stated clearly on the conference calls and in written correspondence leading up to the exam that Policy Issuance materials were to be provided *exactly* as it is sent to insureds. The Companies' insureds are in possession of the subject Notices prior to policy issuance, and as such the Notices are not sent to the insureds a second time.

Regarding Renewal Business, the Companies believe that they are complying with §38.2-2126 A of the code of Virginia, which provides, in part, that "the insurer need not provide the disclosure required under this subsection to any insured on a renewal policy if such insured has previously been provided a disclosure." See *attached Exhibit 23* (See Form 59518 (3-13)).

Other Notices

The companies provided four copies of other notices and documents including applications that were used during the examination period.

The examiners found no violations in this area.

LICENSING AND APPOINTMENT REVIEW

A review was made of the private passenger automobile, homeowner, commercial automobile, and commercial property and liability new business policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agent

The examiners found six violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

Acknowledged.

Agency

The examiners found one violation of § 38.2-1812 of the Code of Virginia. The company paid commissions to an agency not duly appointed within 30 days of the date of application.

Acknowledged.

(2) The examiners found two violations of § 38.2-1822 A of the Code of Virginia. The company permitted an entity to act as an agency without first obtaining a license from the Commonwealth of Virginia.

Acknowledged.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia

The examiners found four violations of § 38.2-511 of the Code of Virginia. The companies failed to maintain a complete register in compliance with the statute.

Acknowledged, however, the materials were provided during the onsite exam. On this issue, the Companies would like to point out the Bureau's great assistance. Pursuant to conversations with the Bureau, the Companies have completed a complaint register format that is based on the NAIC standard complaint register. The Companies believe that this development will assist greatly with compliance going forward. See *attached Exhibit 24.*

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their written information security procedures.

PART TWO — CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the companies, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

General

Auto-Owners Insurance Company and Owners Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to this Report.

Rating and Underwriting Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharges as of the date the error first occurred.

The Companies filed the Green Discount (SERFF Tracking #AOIC-128876597), and the installment fees were withdrawn (SERFF Tracking #AOIC-129366218). The other billing and service fees noted by the Bureau are no longer being charged by the Companies. Otherwise, the Companies have corrected the errors that caused the overcharges and undercharges and sent refunds to the insureds (or credited the insureds' accounts) in the amount of the overcharges pursuant to the attached Restitution Spreadsheet.

- (2) Include six percent (6%) interest in the amount refunded and/or credited to the insureds' accounts.

The Companies have paid the six percent (6%) interest pursuant to the Bureau's calculations as shown in the attached Restitution Spreadsheet. See *attached Exhibit 30*.

- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.

The Companies have completed the Rating Overcharges Cited During the Examination document pursuant to the attached Restitution Spreadsheet (Exhibit 30). See also, Exhibit 28 A-C.

- (4) Specify required information in the policy accurately. Particular attention should be focused on forms, endorsements, discounts, coverage limits and deductibles shown on the declarations page.

Regarding the "Paid In Full" discount the Companies respectfully maintain that the information provided insureds is accurate information. Otherwise, the Companies were made aware of the fact that certain forms (Form CP 01 30, Form 79772, and Form 55159) were attaching to policies accidentally, and the Companies have remedied these issues. Additionally, the Companies believe that the corrective action taken with regard to billing and service fees serves to remedy the other concerns. The Companies have either filed the fees or discontinued the use of fees that have not been filed following the onsite exam since 10-13-13.

Further, the Companies will continue to engage in education and training of branch and home office associates to prevent future issues.

- (5) Properly represent discounts on the declarations page.

The Companies maintain that the information provided insureds is accurate regarding discounts. However, the Companies are looking into alternatives pursuant to the Bureau's observations.

- (6) Provide convenient access to files, documents and records relating to the examination.

This issue has been resolved.

- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, deductible factors, territories, symbols, tier eligibility criteria, driver classifications, base and/or final rates, construction types, occupancy classes, classification codes, public protection classifications, minimum premium rule, IRPM documentation, and policy term factors.

These issues have been remedied through system updates, education and training. More specifically, training has been conducted on the application of deductible factors, territory assignment, symbols, tier eligibility, and driver classes, construction types and classification criteria. Regarding IRPM documentation, the Companies provided the Bureau with screen prints showing the updated prompting mechanism in the Companies' systems that require IRPM documentation to be made prior to proceeding to policy issuance. Regarding the public protection classifications, the attached *Exhibit 1* is the information received from ISO who has filed on the Companies' behalf. Otherwise, the Companies have filed discounts, factors, and surcharges commensurate with the Bureau's recommendations throughout the exam. While the Companies have made these filings, the Companies are still working with the Rates & Forms Division to ensure that the filings are organized in a manner most useful to the Bureau, and those efforts are currently ongoing.

Termination Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as the date the error first occurred.

The errors that caused overcharges and undercharges have been corrected and refunds have been sent to the insureds (or credit to the insured's accounts in the amount of the overcharge) pursuant to the attached Restitution Spreadsheet. See *attached Exhibit 30*.

- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.

The Companies have paid the six percent (6%) interest as calculated by the Bureau in the attached Restitution Spreadsheet. See attached Exhibit 30.

- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge they have refunded or credited the overcharges listed in the file.

The Companies' completion of the Termination Overcharges Cited during the Examination are reflected in the attached Restitution Spreadsheet. See attached Exhibit 30.

- (4) Charge fees and/or calculate return premium according to the filed rules and policy provisions.

The Companies' billing fees were filed and approved by the Bureau (SERFF Tracking #AOIC-128876597).

- (5) Retain proof of mailing cancellation and nonrenewal notices sent to the insured for one year from the date of cancellation or nonrenewal.

The Companies agree and have resolved this issue, and will continue to retain these items.

- (6) Obtain a written notice when the insured requests to cancel his policy as required by the provisions of the insurance policy.

The Companies have resolved this issue and have implemented this practice.

- (7) Retain a copy of the cancellation notice sent to the insured.

The Companies are actively engaged in education and training of associates, stressing the importance of file documentation.

- (8) Send cancellation notices at least 45 days before the effective date of cancellation when a private passenger automobile or commercial policy is canceled midterm.

While the Companies have not received a response to their review sheet response on the specific instance that arose during the examination, the Companies agree to this corrective action and have resolved this issue.

- (9) Provide proper notice of cancellation or nonrenewal to the lienholder.

This issue was initially resolved through Company communication with the branch office in Virginia, however, the issue is part of ongoing monthly training sessions that are being conducted by Branch personnel. While the initial communications took place during the onsite examinations (upon answering review sheets), inclusion of lienholders on checks is an area of renewed focus.

- (10) Send cancellation notices at least 15 days before the effective date of cancellation when a commercial policy is cancelled for nonpayment of premium.

This issue has been resolved.

- (11) Cancel a private passenger automobile policy after the 59th day of coverage only for the reasons permitted by the statute

This issue has been resolved.

- (12) Cancel an owner-occupied dwelling policy after the 89th day of coverage only for the reasons permitted by the statute.

This issue has been resolved.

- (13) Send a notice of cancellation or nonrenewal to the insured.

The Companies agree with this, and the instance giving rise to this statement of corrective action has been resolved.

- (14) Advise the insured of the availability of other insurance through the VPIA.

This issue has been corrected.

- (15) Advise the insured of his right to have the cancellation or nonrenewal of his policy reviewed by the Commissioner of Insurance.

This issue has been corrected.

Claims Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.

The errors that caused the underpayments and overpayments have been corrected and the amount of the underpayment to insureds and claimants have been paid in conjunction with the attached Restitution Spreadsheet. See attached Exhibit 30.

- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.

The interest of six percent (6%) has been paid pursuant to the Bureau's calculations as shown in the attached Restitution Spreadsheet. See attached Exhibit 30.

- (3) Complete and submit to the Bureau the enclosed file titled "Claims Underpayments Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.

The Claims Underpayments Cited During the Examination document have been addressed pursuant to the attached Restitution Spreadsheet (Exhibit 30). See also, Exhibit 29 A-F.

Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.

This matter is being addressed through continued education and training. The education and training is being carried out by both the branch claims manager, as well as associates from the Companies' home office in Lansing. Continued involvement of both branch associates and home office associates over time should show a marked increase in both file structure and documentation. Additionally, the Companies have launched a new electronic file management system that should serve to improve both the file structure and documentation in individual claim files. The system is currently

active for property claims, with projected dates for other lines of business set at future intervals with a target completion of 2018.

- (4) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to deductibles, rental benefits under UMPD and Transportation Expenses coverages, Medical Expense coverage, replacement cost benefits under Dwelling and Personal Property coverages, and Additional Living Expense.

The Companies have invested in additional training of associates both at the branch level and at the Companies' home office to ensure that file structure and documentation improve.

- (5) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days.

The Companies have met with branch associates and plan to send out our CL28 (Proof of Loss) form on first party property losses where applicable. Additionally, the Companies' home office associates are training and requiring branch level associates to send written acknowledgements of receipts of all third-party claims so as to comply with the subject regulation. See attached Exhibit 25.

- (6) Notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

This issue has been specifically addressed in training seminar(s) given to branch management as well as branch associates over the course of a series of seminars in the summer of 2013, as well as a branch meeting held in February of 2014.

- (7) Make all claim denials in writing and keep a copy of the written denial in the claim file.

Again, the Companies agree with the Bureau that file structure and documentation need to improve. With the addition of a new electronic claims system as well as the Companies' recent training efforts in the branch (and continued education and support) the Companies hope to improve in this area and remedy all issues relating to file structure and file documentation.

- (8) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.

While the Companies specifically disagree with certain instances where this issue came up in the exam, as evidenced by some of the responses in Part One, above, the Companies agree that prompt and thorough investigation of claims is an important goal. The Companies also believe that this issue is incorporated in the file structure/documentation corrective actions. The Companies have increased and will continue to focus training on not only performing prompt and thorough investigations, but also upon documenting same.

- (9) Provide copies of repair estimates prepared by or on behalf of the company to insureds and claimants.

Changes in protocol have addressed and remedied this issue. The Companies have, since the onsite exam, been requiring associates to mail repair estimates even when procured by insureds.

- (10) Properly represent pertinent facts or insurance provisions relating to coverages at issue.

The Companies, in the past, required associates to document discussions with insureds. The Companies now stress more detailed notes about coverage discussions.

- (12) Adopt and implement reasonable standards for the prompt investigation of claims.

The Companies are focused on both prompt thorough investigations as well as the documentation of same. The Companies continue to stress their protocols, such as but not limited to same day contact requirements, the provision of a proof of loss form on first party property claims, written acknowledgments of receipt of claims (satisfied through the proof of loss on first party property), and adherence to the 45 day letter requirements.

- (13) Include a correct statement of the coverages under which payments are made with all claim payments to insureds.

During the onsite examinations, the Companies' systems were updated to print out the full name of the coverages on the check stub. Files that currently exist in the legacy system are still being handled pursuant to the fix that took place during the onsite examination. New and future files, created in the Companies' new electronic filing system, that require checks will not have this issue at all as the new system prints all of

the coverages under which payment is made in full. The new system is currently implemented in the personal property lines, with future target dates for other lines, with a current goal of complete implementation by 2018.

Forms Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Use the precise language of the standard automobile forms adopted by the Bureau.

This issue results from the Bureau's observation regarding a Loss Payable Form. The Form language that attaches to policies is now compliant. See attached Exhibit 26.

- (2) Use the required standard automobile forms filed and adopted by the Bureau.

This issue has been resolved. See Exhibit 26.

- (3) File all homeowner forms with the Bureau at least 30 days prior to use.

This issue has been resolved. The Companies had previously understood the "at least 30 days" provision to mean that as long as the forms were filed at least 30 days prior to use it was compliant, such that use any time after 30 days of filing satisfied the requirement. However, it is now clear that a target date certain is read in to these provisions, and the Companies will continue to be diligent in complying with these requirements.

- (4) Include replacement cost provisions in homeowner forms as required by the Code of Virginia.

This issue has been resolved, replacement cost provisions are included as required.

Review of Policy Issuance Process

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Provide the insured the Important Information Regarding Your Insurance notice with all new and renewal policies.

This issue is resolved. The Companies now provide the required form on all new business and renewal policies.

- (2) Specify accurate information in the policy by listing all applicable forms and corresponding edition dates on the declarations page.

The Companies have resolved this issue and the edition dates are now included on the declarations page in Virginia.

- (3) File all rates and supplementary rate information with the Bureau.

This issue is currently being resolved through cooperative efforts between the Companies and the Rates & Forms Division.

- (4) Use the rules and rates on file with the Bureau. Particular attention should be focused on premium discounts and installment fees.

As stated in above sections, the notices included with the policy issuance materials referencing certain discounts should no longer be an issue as the referenced discounts are now filed with the Bureau.

- (5) Include the 60-day cancellation warning notice on or attached to the first page of the automobile application.

The Companies have corrected their application to include the required language in all cases. See Attached Exhibit 27.

- (6) Provide the Replacement Cost Coverage notice with all new and renewal policies as required by the Code of Virginia.

This issue has been resolved and the notice is currently being sent to insureds.

- (7) Offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

This issue has been resolved and the notice is currently being sent to insureds. New Business 4-23-13 and Renewal Business 5-29-13.

- (8) Provide the Insurance Credit Score Disclosure notice as required by the Code of Virginia.

As stated in Part One, above, the Companies do provide the Credit Score Disclosure at the time of application. This information was omitted from the policy issuance materials

on the basis of a mistake in communication – the Bureau requested all materials that are sent together with the policy to insureds. The Credit Score Disclosure is provided to insureds prior to their agreement to even purchase Company products.

Review of Statutory Notices

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 of the Code of Virginia.

This amendment has been completed and is currently in production.

- (2) Amend the Adverse Underwriting Decision notice to comply with § 38.2-610 of the Code of Virginia.

The Companies are actively engaged in Corrective Action on this issue, our lines have completed a draft and are awaiting the results of program testing prior to implementation.

- (3) Develop a Replacement Cost notice to comply with § 38.2-2118 of the Code of Virginia.

The Companies have developed this notice and the notice is currently sent to insureds. New Business 4-23-13 and Renewal Business 5-29-13.

- (4) Develop a Water Back-Up Through Sewers and Drains notice to comply with § 38.2-2120 of the Code of Virginia.

The Companies have developed this notice and the notice is currently sent to insureds. New Business 4-23-13 and Renewal Business 5-29-13.

- (5) Amend the Insurance Credit Score Disclosure notice to comply with §§ 38.22126 A 1 and 38.2-2234 A 1 of the Code of Virginia.

This amendment has been completed as of 11-25-13, and is currently in production.

Licensing and Appointment Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Appoint agents within 30 days of the application.

The Companies will continue to remain diligent on this point. The Companies never intended to fail to appoint agents outside of the stated 30 day time frame.

- (2) Accept business only from agencies that are licensed in the Commonwealth of Virginia.

The Companies will continue to educate and train branch associates to only accept for business in the Commonwealth, that business which is written by agents and agencies that are licensed in the Commonwealth.

- (3) Only pay commissions to agencies that are appointed by the company.

The Companies do not intend to pay commissions to agencies that are not appointed by the Company to conduct Company business. To the extent that this has happened in limited circumstances, the Companies will continue to educate and train associates, and additionally, the Companies are actively working on an automation project that will help prevent such occurrences in the future.

Review of the Complaint-Handling Process

Auto-Owners Insurance Company and Owners Insurance Company shall:

Maintain a complete complaint register that is in compliance with § 38.2-511 of the Code of Virginia.

The Companies have updated their Complaint Register in a manner consistent with the NAIC guidelines provided to insurance examiners. The Companies believe that this change should eliminate future issues dealing with the Complaint Registry. See attached Exhibit 24.

PART III - RECOMMENDATIONS

The Companies have read the Bureau's Recommendations and agree that these issues should be monitored closely as to not become violations in the future.

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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RICHMOND, VIRGINIA 23218
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<http://www.scc.virginia.gov/division/boi>

September 10, 2014

VIA UPS 2nd DAY DELIVERY

Frank Bayless
Home Office Legal Division
Auto-Owners Companies
6101 Anacapri Boulevard
Lansing, Michigan 48917

Re: Market Conduct Examination
Auto-Owners Insurance Company (NAIC #18988)
Owners Insurance Company (NAIC #32700)
Examination Period: April 1, 2011 – March 31, 2012

Dear Mr. Bayless:

The Bureau of Insurance (Bureau) has reviewed the Companies' (Companies) May 30, 2014, response to the Preliminary Market Conduct Report (Report) of the above referenced Companies. The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

Private Passenger Automobile New Business Rating

- (3) The violation for RPA001 remains in the Report. The Company was unable to provide the complete new business application for this policy.
- (4g) The violations for RPA006, RPA010 and RPA011 remain in the Report. This violation was as a result of the issued policy declarations page showing a policy period that was less than six months. The Company should issue policies for the policy period requested. The Bureau considers the binder to be a part of the application, upon which the agent provides bound coverage. The application/binder correctly showed a policy term of 6 months. The

Company should issue policies showing the entire policy period, mail cancellation notices in accordance with the cancellation provisions outlined in the statute, and properly prorate the premium based upon the total policy premium.

Private Passenger Automobile Renewal Business Rating

- (1a) The violation for RPA034 is an active review sheet that has not been withdrawn.

Homeowner New Business Rating

- (1) The violations in this section remain in the Report. The Company was unable to provide the complete new business application for these policies.
- (2b) The violations in this section remain in the Report. The Company is not applying its minimum premium rule as filed. The Company's location minimum premium rule does not provide an adjustment for six month policies. The rule on file with the Bureau states that the location premium applies for each policy term.
- (2c) The violations in this section remain in the Report. During the audit period the Companies failed to file authorization for ISO to file public protection class information on their behalf; as such, the Companies did not have public protection class information on file during the audit period. The Bureau acknowledges that the Companies have filed authorization effective January 1, 2013, as documented in Exhibit 1.
- (2d) The violations in this section remain in the Report. These violations resulted from the companies issuing policies and showing an incorrect policy term on the declarations page. The Companies' rules on file with the Bureau state policies are issued for either annual or semi-annual terms.

Homeowner Renewal Business Rating

- (1) After further review, the violations in this section for the paid in full discount have been withdrawn. The Report has been renumbered accordingly.
- (2d) The violations in this section remain in the Report. During the audit period the Companies failed to file authorization for ISO to file public protection class information on their behalf; as such, the Companies did not have public protection class information on file during the audit period. The Bureau acknowledges that the Companies have filed authorization effective January 1, 2013, as documented in Exhibit 1.

Commercial Automobile New Business Rating

- (2) After further review, the violation in this section has been withdrawn from the Report. The Report has been renumbered accordingly.
- (3b) This violation remains in the Report. The Company applied an incorrect Garage Liability Plus endorsement factor. The Company used the \$250 factor when the applicable deductible was \$500. In addition, the Company also applied the Product deductible. The manual did not indicate that both of these deductible factors would apply. The Company should make the restitution as indicated in the Restitution Spreadsheet enclosed with this response.

Commercial Automobile Renewal Business Rating

- (1) After further review, the violations in this section have been withdrawn from the Report. The Report has been renumbered accordingly.
- (2b) After further review the violation in this section has been withdrawn. The Company provided documentation showing that the correct territory was used. The Report has been renumbered accordingly.
- (2c) The violation for RCA019 remains in the Report. The Company responded that it applied the proper classification factors to the 05 Subaru and 07 Chevrolet in question but it acknowledges that the naming matrix page did not reflect all premium calculation steps appropriately. The Bureau acknowledges the filing recently made by the Company to address this issue.
- (2d) This violation remains in the Report. The Company applied an incorrect Garage Liability Plus endorsement factor. The Company used the \$250 factor when the applicable deductible was \$500. In addition, the Company also applied the Product deductible. The manual did not indicate that both of these deductible factors would apply.

Commercial Property and Liability New Business Rating

- (2a) The violation for RCP001 remains in the Report. This violation is NOT for a package modification factor since this was a monoline General Liability (GL) policy. The declarations page shows: "Discount Applies For Affiliation With: ROANOKE VALLEY ASIAN AMERICAN BUSINESS OWN," which indicates the Commercial Group Plan factor was applied. Per the January 19, 2012 underwriting note, the insured was not eligible for the Chamber of Commerce Group Plan factor. The Company incorrectly applied the discount of .88 to the policy premium. The Commercial Group Plan rule on manual page AOUEV571 did not indicate the discount did not apply to monoline GL policies. For reconsideration, the Company must provide documentation that the insured was a member of the Chamber of Commerce group during the policy term when the discount was applied.

After further review, the violation for RCP011 has been withdrawn. The Report has been renumbered accordingly.

The violation for RCP013 remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. This policy is a monoline policy and a 5% downward deviation should have been applied to the rates.

(2b) After further review, violations for RCP010 and RCP011 have been removed from the Report.

(2c) After further review, the violation for RCP015 has been withdrawn from the Report. The Report has been renumbered accordingly.

(2d) The violations in this section remain in the Report. During the audit period the Companies failed to file authorization for ISO to file public protection class information on their behalf; as such, the Companies did not have public protection class information on file during the audit period. The Bureau acknowledges that the Companies have filed authorization effective January 1, 2013, as documented in Exhibit 1.

(2e) The violation for RCP001 remains in the Report. The Companies used a classification manual during the examination period that was not filed with the Bureau prior to use. Therefore, the Rate Group and Class Limit used by the Company were incorrect.

The violation for RCP002 remains in the Report. The Company incorrectly used classification code 0196 that was not filed with the Bureau instead of the filed classification code 0199. The Company used a classification manual that was not filed with the Bureau prior to use.

The violation for RCP008 remains in the Report. The Company incorrectly used classification code 0196 that was not filed with the Bureau instead of the filed classification code 0199 for Building 1. The Company used a classification manual that was not filed with the Bureau prior to use.

(2f) These violations remain in the Report. The Companies used a classification manual during the examination period that was not filed with the Bureau prior to use. The filed classification manual did not charge premium for the Products and Completed Operations coverage in addition to the Premises and Operation premiums for the classifications cited.

Commercial Property and Liability Renewal Business Rating

(2a) These violations remain in the Report. The SERFF filing number provided in Exhibit 8 pertains to a Commercial Auto filing instead of a Commercial Property and Liability filing. The Company should verify and provide the

correct SERFF filing number and confirm that the Building Age factor is the discount being revised.

- (2c) The violation for RCP025 has been withdrawn from the Report. The Company provided a copy of the ISO Loss Cost Quote in Exhibit J that supports the Company specifically rating this policy.

The violation for RCP026 remains in the Report. This policy is NOT being cited for the public protection pages. For reconsideration, the Company must provide the documentation of this policy being specifically rated. The spreadsheet provided in Exhibit P did not appear to be an ISO Loss Cost Quote and its origin is unknown. A copy of the insured location's report created by ISO for the Company should be sufficient to complete our review.

The violation for RCP030 involving the Special Personal Property Theft coverage has been withdrawn.

The violation for RCP30 relating to the current loss cost factor remains in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. The ISO filing provided with the Company's response is effective January 1, 2013 which is after the policy effective date of February 2, 2012 and pertains to public protection classifications. For reconsideration, the Company must provide the specific rate report. The violation count for this review item has been reduced from 3 to 1.

The violations for RCP016, RCP018, RCP031 and RCP039 remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its original findings. The page provided by the Company is from its own A-O e-Library and is not a filing recognized by the Bureau.

The three violations for RCP034 remain in the Report. This policy is NOT being cited for applying the Dispersion credit. The Company should address its failure to apply the five percent Owners deviation factor to the GL portion of the package policy. Additionally, the examiner has rated the Business Income with Extra Expense in the same manner as the Company. However, the examiner used the 0.075 rate provided in Rule 72 E 4.b. This was rated this way because the CP 10 33 Theft Exclusion form was not applicable and it appears that the Company failed to implement the rate for the General Liability Plus endorsement in accordance with its filing. The Company continues to provide the filing effective dates it stored in its system. However, those dates do not match the effective dates filed with the Bureau. For reconsideration, the Company must provide documentation from its SERFF filing that it implemented the General Liability Plus rate change as of the filed effective dates.

After further review, the violation for RCP041 has been withdrawn from the Report.

The violation for RCP043 remains in the Report. This policy is NOT being cited for the public protection pages. For reconsideration, the Company must provide the documentation of this policy being specifically rated. The spreadsheet provided in Exhibit K did not appear to be an ISO Loss Cost Quote and its origin is unknown. A copy of the insured location's report created by ISO for the Company should be sufficient to complete our review.

The Company provided information pertaining to new business files in Exhibits 9L and 9R. The examiners' comments to these items have been addressed in the Commercial Property and Liability New Business Rating section.

- (2d) The violation for RCP023 remains in the Report. The Company increased the Commercial Property (CP) premium to an amount greater than the filed CP minimum premium. The Company correctly added an adjustment of \$31 for the Equipment Breakdown coverage minimum premium of \$35. The total CP part premium was then increased from \$52 to \$83. The filed CP minimum premium was \$135. Therefore, the Company should have increased the CP premium with a \$52 minimum premium adjustment. However, the Company increased the premium by \$87 this resulted in a minimum premium of \$170. The filed manual did not state the Equipment Breakdown minimum premium should increase the policy minimum premium or that the Equipment Breakdown premium was not included in the CP part minimum premium.

The violation for RCP037 remains in the Report. The Company increased the CP premium to an amount greater than the filed CP minimum premium. The Company correctly added an adjustment of \$23 for the Equipment Breakdown coverage minimum premium of \$25. The total CP premium was then increased from \$111 to \$134. The filed CP minimum premium was \$125. Therefore, the Company should not have increased the CP premium with a minimum premium adjustment. The Company increased the premium by \$17.00 resulted in a minimum premium of \$151.00.

After further review the violation for RCP041 has been withdrawn.

The violation for RCP046 remains in the Report. The Company increased the CP premium to an amount greater than the filed CP minimum premium. The Company correctly added an adjustment of \$34 for the Equipment Breakdown coverage minimum premium of \$35. The total CP part premium was then increased from \$62 to \$96. The filed CP minimum premium was \$135. Therefore, the Company should have increased the CP premium with a \$39 minimum premium adjustment. However, the Company increased the premium by \$75 resulted in a minimum premium of \$171.

- (2f) The violations in this section remain in the Report. During the audit period the Companies failed to file authorization for ISO to file public protection class

information on their behalf; as such, the Companies did not have public protection class information on file during the audit period. The Bureau acknowledges that the Companies have filed authorization effective January 1, 2013, as documented in Exhibit 1.

- (2g) The violations in this section remain in the Report. The Companies were using a classification manual that was not filed with the Bureau for the Commercial Property and Liability lines of business under review. The classification manual determines the correct Class Code, Rate Group, and/or Class Limit. For reconsideration, the Company must provide documentation of the SERFF filing(s) the Bureau received as evidence that the Companies filed the classification manual used during the examination period.

The violation for RCP036 remains in the Report. The insured property appeared to be apartments with seven units based upon the policy file information. However, the Company rated the risk as a warehouse. For reconsideration, the Company must provide documentation that the insured building was appropriately classed as a warehouse and has a mercantile exposure.

- (2h) These violations remain in the Report. The Companies were using a classification manual that was not filed with the Bureau for the Commercial Property and Liability lines of business under review. For reconsideration, the Company must provide documentation of the SERFF filing(s) the Bureau received as evidence that the Companies filed the classification manual used during the examination period.

- (2k) The violation for RCP047 remains in the Report. This violation is not a result of a zero quantity at the end of a number. The calculated final rate is .1655625. However, the company used .165 instead of .166. The company truncated the calculated result instead of rounding the calculated result to the third decimal as filed with the Bureau.

Terminations

Automobile Nonpayment of Premium Cancellations

- (1) The violation for TPA021 remains in the Report. The Company did not provide the declarations pages for all of the endorsements applicable during the policy period.

Insured Requested Cancellations

- (1b) The violation for TPA050 has been amended to show one violation instead of five. The Report has been amended accordingly.

Homeowner Cancellation Notice Mailed Prior to the 90th Day of Coverage

- (1a) The violations for THO001 and THO002 remain in the Report. The policy was cancelled as a company initiated cancellation, as such, the Company cannot backdate the date of cancellation. If the cancellation effective date was requested by the insured and the insured provided evidence of duplicate coverage through another carrier, the policy should have been cancelled as an insured requested cancellation.

Homeowner Cancellation Notice Mailed After the 89th Day of Coverage

- (3b) The violation for THO018 has been withdrawn from the Report, as the file information included two inspections of the property.

The violations for THO023, THO024 and THO025 remain in the Report. It is the Bureau's position that the underwriting files must be documented to indicate two physical inspections of the property to use material change in the property as a reason for cancellation after the 90th day of coverage.

Homeowner Company Initiated Nonrenewal

- (1) The violation for THO069 remains in the Report as a violation of § 38.2-231 of the Code of Virginia. This section of the Code applies because the insured operated a business from her home and the policy included incidental business liability.

Commercial Automobile Policies

- (1) The violation for TCA009 remains in the Report. The Company did not provide documentation of the insured's request for cancellation or the declarations page of the duplicate coverage for reconsideration.

The violation for TCA012 remains in the Report. The Company did not provide a copy of the Garage policy nonpay cancellation notice or a copy of the package policy cancellation notices for reconsideration.

- (3) The violation for TCA006 remains in the Report. The Company only provided the declarations cover page during the examination. The Company failed to include a complete copy of the policy's declarations pages with the Company's response.

Commercial Property and Liability Cancellations

- (4) The violation for TCP025 remains in the Report. The Regulation requires the insurance company to send affirmation to the insured, the agent, and the premium finance company that it cancelled the policies as requested by the

premium finance Company. The premium finance Company has only requested cancellation of the policy, as an insured, via a power of attorney. However, it is the insurer that completes the transaction to cancel the insured's policy. As such, the insurer is then required to inform all three parties when the policy cancellation was actually effected.

Private Passenger Automobile Claims

- (2a) The violations for CPA023 and CPA030 have been withdrawn from the Report. The Company provided information showing that the deductible was disclosed to the insured. The remaining 10 violations in this section remain in the Report. The Company has not provided additional information that would cause the Bureau to reconsider its initial findings.
- (2b) The violations in this section remain in the Report. The Rules Governing Unfair Claim Settlement Practices require that an insurer advise first party claimants of coverages pertinent to a claim. The payments reflected in the claim file did not indicate the Company informed the insured of the total limits of Medical Expense coverage when stacked on a multiple vehicle policy.
- (2c) The violations in this section remain in the Report. The Rules Governing Unfair Claim Settlement Practices require that an insurer advise first party claimants of coverages pertinent to a claim. Providing generic coverage information in a loss notice does not satisfy the requirement for providing coverage information that is pertinent to the claim.
- (2d) The violations in this section remain in the Report. The Rules Governing Unfair Claim Settlement Practices require that an insurer advise first party claimants of coverages pertinent to a claim. Providing generic coverage information in a loss notice does not satisfy the requirement for providing coverage information that is pertinent to the claim.
- (3) After further review, the violation for CPA012 has been withdrawn from the Report. The Report has been renumbered accordingly.
- (8b) The violations for CPA027 and CPA035 remain in the Report. The Company did not obtain an Assignment of Benefits directing the Company to pay the provider. The policy provisions require that the Company pay the insured unless instructed by the insured by way of an Assignment of Benefits to pay the provider directly.
- (8d) The violation for CPA067 remains in the Report. The initial loss report cites wind as the cause of loss. The claim file is not documented to support the conclusion of a loss by collision.

- (9a) The violations in this section remain in the Report. The Company's claims files do not include sufficient evidence that the estimates were provided to the vehicle owners.
- (9b) The violations in this section remain in the Report. The Company's claims files do not include sufficient evidence that the estimates were provided to the vehicle owners.
- (10) The violations in this section remain in the Report. Of the eight violations, two involved attorney representation. Attorney representation does not preclude the Company from investigating the loss, including speaking with the represented party while the attorney is present.
- (15a) The violations in this section remain in the Report. The Company must consistently follow its policy provisions for making payments when the policy has a lienholder.

Other Law Violations

The violations in this section remain in the Report. The Company's process is inconsistent. In some notices the "box", as referenced in the Company's response, was checked. In the instances cited in Report, the box was not checked.

Commercial Automobile Claims

- (1) The violations in this section remain in the Report. The Company has not provided the Bureau with the specific violations in dispute.
- (3) The violation for CCA021 remains in the Report. The Company cannot document that the insured was contacted within ten days of the report of the claim, verbally or otherwise. The Company's file provides two conflicting dates of contact, 26 days after the claim or 65 days after the claim. Neither of these was within the ten day requirement of verbal confirmation.
- (5) The violation for CCA008 remains in the Report. The Company disputed Medical Expense Benefits coverage and did not respond or update the insured's attorney regarding the Company's ongoing coverage investigation for 91 days.
- (8) The violations in this section remain in the Report. In response to the Company's request for clarification, the Bureau suggests that the Company recognize and investigate subrogation, understand the traffic laws in Virginia and verify damages before making payment.

- (2a) The violations in this section remain in the Report. The Company's files do not include documentation of a discussion applicable to Additional Living Expenses (ALE) in the files where ALE was pertinent in the claim. The Company did not provide any documentation to support its response.
- (2b) The violations in this section remain in the Report. The Company's files do not include a discussion of the coverage applicable to the claim and/or a discussion of how the insured could recover the holdback for depreciation under the Dwelling Replacement Cost Coverage under his policy. The Company did not provide any documentation to support its response.
- (2c) The violations in this section remain in the Report. The Company's files do not include a discussion of the coverage applicable to the claim and/or a discussion of how the insured could recover the holdback of depreciation under the Personal Property replacement cost coverage under his policy.
- (4) The violations for CHO006 remain in the Report. The Company's attorney failed to advise the insured the reason additional time was needed for the investigation until the 210th day.

The violations for CHO038 remain in the Report. The Company did not provide any documentation that it ever advised the insured that additional time was needed for an investigation into a loss occurring August 18, 2011.

- (6) The violations for CHO032 and CHO034 remain in the Report. The Company denied coverage without sufficient investigation or documentation of the reason for the denial.
- (7b) After further review, the violation for CHO038 has been withdrawn from the Report. The Report has been renumbered accordingly.
- (9) The violation for CHO006 remains in the Report. The Company failed to investigate the parties believed to be responsible for the fire.

The violation for CHO032 remains in the Report. The Company failed to investigate the cause of the loss.

The violation for CHO044 remains in the Report. The Company delayed obtaining the estimate and paying the damages.

- (10) The violation for CHO030 remains in the Report. The loss was reported on April 27, 2011. As of July 19, 2011, the Company had not determined the amount of damage as is documented through the independent adjuster's report. The Company made a partial payment on May 10, 2011. Had the

Company obtained a timely Appraisal of the roof damage the claim may have closed before February 2012.

- (11) The violations in this section remain in the Report. The Company is required to provide a statement that advises an insured of the coverage under which the payment is made. For example, the Company's reference "HOForm6" could be a payment under Dwelling, Contents or Additional Living Expense. The insured would not know the coverage under which the payment was made.

Other Law Violations

The violations in this section remain in the Report. The Company's process is inconsistent. In some notices the "box", as referenced by the Company, is checked. In the instances cited in the Report, the box is not checked.

Commercial Property and Liability

- (2) The violations for CCP010 and CCP012 remain in the Report. The Company must respond to written communications within ten working days when it is evident that a response is reasonably expected. The Company should carefully review 14 VAC 5-400-50 C for a clear understanding of this regulation.
- (6) The violations in this section remain in the Report. These violations pertain to the Company's standards for prompt investigations. The Company repeatedly failed to initiate basic investigative efforts.

After further review, the violation for CCP012 has been withdrawn.

Homeowner Forms

- (2) The violation for FHO021 remains in the Report. The form used by the Company during the examination did not comply with the replacement cost requirements in Virginia. Further, the Amendatory endorsement used to amend the provisions did not properly track the changes in the form. For reconsideration, the Company should indicate in writing how the language in the form used complied with the statute.

Homeowner New Business Policy Issuance

- (4) After further review of the Company's application, the violations cited in this section have been withdrawn. The application included a notice but the notice was not compliant. The verbiage on the application and the notice in the verbal script have been cited in the notices section of the Report.

The Bureau did not cite the Companies for this notice on renewal policies.

Statutory Property Notices

- (3) The violations in this section remain in the Report. This violation does not concern if and when the Company provides the Credit Score Disclosure notice. This violation pertains to whether the notice includes all of the information required by § 38.2-2126 A 1 of the Code of Virginia. The notice on the application and the script submitted to the Bureau do not include all of the information necessary for this notice to be compliant.

PART TWO - CORRECTIVE ACTION PLAN

Rating and Underwriting

- (1) Due to revisions in the review sheets applicable to RCA024 an overcharge has been added to the Restitution Spreadsheet. Please see the revised review sheets enclosed.
- (2) The overcharge for RHO040 has been removed from the overcharge spreadsheet.
- (3) The Companies' response (Exhibits 28A-C) includes rebuttals to the restitution for RPA009 and RHO065. However, the restitution spreadsheet indicates the Companies made restitution for the full amount requested.

The overcharge for RPA016 remains in the Report as the Company did not provide any explanation as to why the restitution was not made.
- (4) The violations in the Report for the Paid in Full discount have been withdrawn; therefore, the corrective action has been removed from the Report.

Terminations

- (3) The overcharge for THO014 has been withdrawn as the Company provided evidence that the insured did not make any payments on this policy.

The overcharge for THO036 remains in the Report as the Company has not provided any explanation as to why the restitution was not made.
- (8) The Bureau has provided a copy of its response to the Company dated October 11, 2012 for TPA020. However, the Company did provide any additional information on this violation for the Bureau to consider.

Claims

- (3) The restitution for CPA027 should be made as cited in the Report. The medical expense benefits payment should be made to the insured unless the Company has been instructed by the insured (by way of a completed Assignment of Benefits document) to pay the provider directly. The Company was not authorized to pay the provider directly and should make the restitution as cited.

The restitution for CPA028 should be made as cited in the Report. The information in the Companies' response addresses the insured's rental expense but does not address the reimbursement of the \$500 deductible.

The restitution for CPA029 should be made as cited in the Report. The insured's decision to handle the claim out of pocket was not made based upon accurate information.

The restitution for CPA035 appears to have been made after the Company received the Bureau's review sheet, as such, the Company should pay the 6% interest.

The restitution for CPA040 has been amended in the spreadsheet to reflect the amount agreed to by the Bureau.

The restitution for CHO041 has been amended in the spreadsheet to reflect the amount agreed to by the Bureau.

The restitution for CHO042 should be made as cited in the Report. The Company has not proposed an alternate settlement for this claim and should make the restitution as cited.

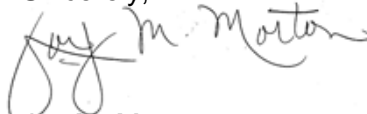
The restitution for CCP026 should be made as cited in the Report. The Company should send a corrected release to the claimant for the property damages reflected on the appraisal. The release in the claim file incorrectly included bodily injury and personal injuries.

Forms

- (1) The Companies must also make the necessary changes to forms CA 9938, CA 9927 and CA0001.
- (2) Exhibit 26 only provided the Loss Payable form; however, these violations pertained to the Companies not using the Suspension of Insurance and Reinstatement of Insurance standard automobile forms.
- (3) Please provide the SERFF filing number(s) under which the Companies submitted the form revisions.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, any review sheets withdrawn, changed or added as a result of this response, technical reports and Restitution spreadsheet. The Companies' response to this letter is due in the Bureau's office by October 15, 2014.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, stylized "J" and "M".

Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

Enclosures

AUTO-OWNERS INSURANCE COMPANY
AUTO-OWNERS LIFE INSURANCE COMPANY
HOME-OWNERS INSURANCE COMPANY
OWNERS INSURANCE COMPANY
PROPERTY-OWNERS INSURANCE COMPANY
SOUTHERN-OWNERS INSURANCE COMPANY



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WWW.AUTO-OWNERS.COM

October 14, 2014

Commonwealth of Virginia
Bureau of Insurance
Market Conduct Section
Attn: Joy M. Morton, Supervisor
1300 East Main Street
Richmond VA 23219

RE: Market Conduct Examination
Auto-Owners Insurance Company (NAIC #18988)
Owners Insurance Company (NAIC #32700)
Examination Period: April 1, 2011 – March 31, 2012

Dear Ms. Morton:

Attached please find our response to the Observations noted in your correspondence dated September 10, 2014. This response is sent on behalf of both Auto-Owners and Owners Insurance Companies. The Companies' response has been tailored to the revised Report, however, the Companies' adopt all prior responses as if fully stated therein.

As always, if you have any questions or concerns, please do not hesitate to contact.

Sincerely,

AUTO-OWNERS INSURANCE COMPANY

Frank J. Bayless
(517) 323-1508

MARKET CONDUCT EXAMINATION REPORT

OF

AUTO-OWNERS INSURANCE COMPANY

OWNERS INSURANCE COMPANY

AS OF

MARCH 31, 2012

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a comprehensive examination has been made of the private passenger automobile, homeowner, commercial automobile, and commercial property and liability lines of business written by Auto-Owners Insurance Company and Owners Insurance Company at their offices in Lansing, Michigan.

The examination commenced September 10, 2012 and concluded February 3, 2014. Brandon Ayers, Andrea D. Baytop, Karen S. Gerber, Ju'Coby Hendrick, Richard L. Howell, Melody Morrisette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on March 19, 2012 and was assigned the examination number of VA177-M4. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILES*

Auto-Owners Insurance Company (AOIC) was organized under the laws of Michigan on July 1, 1916, and commenced business on the same day.

Owners Insurance Company (OIC) was incorporated on May 13, 1975 under the laws of Ohio. It began business on December 31, 1975.

* Source: Best's Insurance Reports, Property & Casualty, 2012 Edition.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date that the companies were licensed in Virginia except as noted in the table.

GROUP CODE: 0280	AOIC	OIC
NAIC Company Number	18988	32700
LICENSED IN VIRGINIA	8/19/1988	12/29/1989
LINES OF INSURANCE		
Accident and Sickness	X	
Aircraft Liability		
Aircraft Physical Damage		
Animal	6/29/1989	X
Automobile Liability	X	X
Automobile Physical Damage	X	X
Boiler and Machinery	X	X
Burglary and Theft	X	X
Commercial Multi-Peril	X	X
Credit		
Farmowners Multi-Peril		
Fidelity	X	X
Fire	X	X
General Liability	X	X
Glass	X	X
Homeowner Multi-Peril	X	X
Inland Marine	X	X
Miscellaneous Property	X	X
Ocean Marine		
Surety	X	X
Water Damage	6/29/1989	X
Workers' Compensation	X	5/05/1989

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2012 for those lines of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Auto-Owners Insurance Company		
Commercial Automobile Liability	\$3,960,036	1.04%
Commercial Automobile Physical Damage	\$1,609,646	1.44%
Commercial Multiple Peril	\$6,037,463	1.35%
Homeowner	\$5,699,740	.31%
Private Passenger Automobile Liability	\$3,029,589	.12%
Private Passenger Automobile Physical Damage	\$1,927,892	.11%
Owners Insurance Company		
Commercial Automobile Liability	\$498,675	.13%
Commercial Automobile Physical Damage	\$454,248	.41%
Commercial Multiple Peril	\$4,060,390	.91%
Homeowner	\$3,723,277	.21%
Private Passenger Automobile Liability	\$4,574,210	.18%
Private Passenger Automobile Physical Damage	\$2,753,309	.15%

* Source: The 2012 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile, homeowner, commercial automobile and commercial property and liability lines of business written in Virginia for the period beginning April 1, 2011 and ending March 31, 2012. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance,* statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

* Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

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* Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

**Population
Sample Requested**

AREA	AOIC	OIC	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
<u>Private Passenger Auto</u>							
New Business	<u>578</u> 10	<u>1365</u> 15	<u>1943</u> 25	25	0	23	92%
Renewal Business ¹	<u>6289</u> 20	<u>8163</u> 20	<u>14452</u> 40	38	0	35	92%
Co-Initiated Cancellations	<u>50</u> 9	<u>30</u> 11	<u>80</u> 20	20	0	3	15%
All Other Cancellations	<u>331</u> 15	<u>452</u> 15	<u>783</u> 30	30	0	29	97%
Nonrenewals	<u>154</u> 5	<u>108</u> 5	<u>262</u> 10	10	0	5	50%
Rejected Applications	<u>1</u> 1	<u>1</u> 1	<u>2</u> 2	2	0	0	0%
<u>Homeowners</u>							
New Business	<u>709</u> 15	<u>1078</u> 15	<u>1787</u> 30	30	0	30	100%
Renewal Business ¹	<u>8474</u> 20	<u>5321</u> 20	<u>13795</u> 40	39	0	39	100%
Co-Initiated Cancellations	<u>72</u> 20	<u>55</u> 15	<u>127</u> 35	34	0	29	85%
All Other Cancellations ²	<u>521</u> 15	<u>344</u> 15	<u>865</u> 30	24	0	19	79%
Nonrenewals ²	<u>178</u> 5	<u>88</u> 5	<u>266</u> 10	9	0	8	89%
<u>Commercial Auto</u>							
New Business ¹	<u>415</u> 5	<u>78</u> 5	<u>493</u> 10	8	0	4	50%
Renewal Business ¹	<u>2219</u> 10	<u>328</u> 5	<u>2547</u> 15	12	0	7	58%
All Cancellations	<u>481</u> 9	<u>89</u> 4	<u>570</u> 13	13	0	9	69%
<u>Commercial P&L</u>							
New Business ¹	<u>981</u> 10	<u>566</u> 5	<u>1547</u> 15	14	0	12	86%
Renewal Business ¹	<u>5560</u> 18	<u>2779</u> 14	<u>8339</u> 32	31	0	30	97%
All Cancellations ²	<u>856</u> 16	<u>356</u> 12	<u>1212</u> 28	27	0	14	52%
<u>Claims</u>							
Private Passenger Auto ³	<u>1001</u> 38	<u>1609</u> 42	<u>2610</u> 80	79	0	56	71%
Homeowners	<u>958</u> 29	<u>578</u> 25	<u>1536</u> 54	54	0	34	63%
Commercial Auto	<u>560</u> 14	<u>89</u> 9	<u>649</u> 23	23	0	19	83%
Commercial P&L	<u>626</u> 15	<u>488</u> 12	<u>1114</u> 27	27	0	16	59%

Footnote ¹-The examiners did not review all the rating files because ten were not subject to the Bureau's review under the scope of the examination.

Footnote ²-The companies were unable to provide accurate cancellation population information for the examination.

Footnote ³ - One file was a mobile home and was not reviewed.

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

RATING AND UNDERWRITING REVIEW

Private Passenger Automobile New Business Policies

The Bureau reviewed 25 new business policy files. During this review, the examiners found overcharges totaling \$981.69 and undercharges totaling \$1,879.17. The net amount that should be refunded to insureds is \$981.69 plus six percent (6%) simple interest.

- (1) The examiners found 23 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy. The company listed forms on the declarations page when the coverage was not applicable to the policy.

Acknowledged.

- (2) The examiners found seven violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed the group discount on the declarations page when the discount was not applied to the policy.

Acknowledged.

- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company did not provide the entire new business application.

Acknowledged.

- (4) The examiners found 29 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In 15 instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to provide evidence of fault for an accident surcharge applied.

Acknowledged.

- c. In one instance, the company failed to use the correct territory.

Acknowledged.

- d. In five instances, the company failed to use the correct tier eligibility criteria.

Acknowledged.

- e. In three instances, the company failed to use the correct driver classification factor.

Acknowledged.

- f. In one instance, the company failed to use the correct base and/or final rates.

Acknowledged.

- g. In three instances, the company failed to issue a policy for the correct policy term of coverage.

See Exhibit A.

Private Passenger Automobile Renewal Business Policies

The Bureau reviewed 38 renewal business policy files. During this review, the examiners found overcharges totaling \$2,370.80 and undercharges totaling \$4,763.28. The net amount that should be refunded to insureds is \$2,370.80 plus six percent (6%) simple interest.

- (1) The examiners found 35 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy.

- a. In one instance, the company failed to include the garaging address in the policy information.

The Companies maintain that the Examiner response dated 2/14/13 speaks for itself and remains a correct assessment. See attached Exhibit B (wherein the Bureau withdrew the subject instance).

- b. In 34 instances, the company listed forms on the declarations page when the coverage was not applicable to the policy.

Acknowledged.

- (2) The examiners found six violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed the group discount on the declarations page when the discount was not applied to the policy.

Acknowledged.

- (3) The examiners found one violation of § 38.2-1905 C of the Code of Virginia. The company failed to apply surcharge points only to the vehicle customarily driven by the operator responsible for the accident or conviction.

Acknowledged.

- (4) The examiners found 36 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In 23 instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to apply the correct surcharge for an accident.

Acknowledged.

- c. In two instances, the company failed to use the correct symbol.

Acknowledged.

- d. In two instances, the company failed to use the correct territory.

Acknowledged.

- e. In seven instances, the company failed to use the correct tier eligibility criteria.

Acknowledged.

- f. In one instance, the company failed to use the correct driver classification factor.

Acknowledged.

Homeowner New Business Policies

The Bureau reviewed 30 new business policy files. During this review, the examiners found overcharges totaling \$568.75 and undercharges totaling \$189.55. The net amount that should be refunded to insureds is \$568.75 plus six percent (6%) simple interest.

- (1) The examiners found six violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company did not provide the new business application.

Acknowledged.

- (2) The examiners found 38 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In three instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In two instances, the company failed to follow its filed minimum premium rule.

Acknowledged.

- c. In 30 instances, the company failed to use the correct public protection class.

Acknowledged.

- d. In three instances, the company failed to follow its policy term rule by issuing policies for less than six months.

The Companies maintain that a “policy” was not issued in these instances, as only a short-term binder had issued. As such, there not being a “policy” the policy term rules are inapplicable and the binder is controlled by its own terms.

Homeowner Renewal Business Policies

The Bureau reviewed 39 renewal business policy files. During this review, the examiners found overcharges totaling \$1,633.75 and undercharges totaling \$6.27. The net amount that should be refunded to insureds is \$1,633.75 plus six percent (6%) simple interest.

The examiners found 44 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In two instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to use the correct base and/or final rates.

Acknowledged.

- c. In two instances, the company failed to use the correct construction type.

Acknowledged.

- d. In 39 instances, the company failed to use the correct public protection classification.

Acknowledged.

Commercial Automobile New Business Policies

The Bureau reviewed eight new business policy files. During this review, the examiners found overcharges totaling \$6.00 and undercharges totaling \$263.00. The net amount that should be refunded to insureds is \$6.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list the limits of liability and deductible for the Drive Other Car coverage on the declarations page.

Acknowledged.

- (2) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In one instance, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to use the correct deductible factor.

See Exhibit C.

- c. In two instances, the company failed to document the characteristics that support the individual risk premium modification (IRPM) factor that was applied to the policy.

Acknowledged.

Commercial Automobile Renewal Business Policies

The Bureau reviewed 12 renewal business policy files. During this review, the examiners found overcharges totaling \$405.92 and no undercharges. The net amount that should be refunded to insureds is \$405.92 plus six percent (6%) simple interest.

The examiners found ten violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In one instance, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to use the correct classification factor.

Acknowledged.

- c. In one instance, the company failed to use the correct deductible factor.

See Exhibit D.

- d. In one instance, the company failed to apply the IRPM factor documented in the file.

Acknowledged.

- e. In six instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.

Acknowledged.

Commercial Property and Liability New Business Policies

The Bureau reviewed 14 new business policy files. During this review, the examiners found overcharges totaling \$1,638.16 and undercharges totaling \$96.00. The net amount that should be refunded to insureds is \$1,638.16 plus six percent (6%) simple interest.

- (1) The examiners found five violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all applicable forms on the declarations page.

Acknowledged.

- (2) The examiners found 23 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In two instances, the company failed to use the correct discounts and/or surcharges.

See Exhibit E.

- b. In three instances, the company failed to use the correct base and/or final rates.

Pursuant to the Companies' prior response, this issue has been addressed by both the Companies and ISO. See Section II, *infra*, Corrective Action Plan.

- c. In seven instances, the company failed to use the correct public protection class.

The Companies maintain that based upon filed rules the factor of 0.967 is being appropriately applied (Exhibit F).

- d. In three instances, the company failed to use the correct occupancy class.

The Companies acknowledge these instances and would respectfully request that the Bureau note that the Companies' recently filed classification manual, filed under AOIC-129601841.

- e. In six instances, the company failed to use the correct classification code.

The Companies acknowledge these instances and would respectfully request that the Bureau note that the Companies' recently filed classification manual, filed under AOIC-129601841.

- f. In two instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.

The Companies acknowledge these instances and would respectfully request that the Bureau note that the Companies' recently filed classification manual, filed under AOIC-129601841.

Commercial Property and Liability Renewal Business Policies

The Bureau reviewed 31 renewal business policy files. During this review, the examiners found overcharges totaling \$3,687.00 and undercharges totaling \$1,610.00. The net amount that should be refunded to insureds is \$3,687.00 plus six percent (6%) simple interest.

- (1) The examiners found 18 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all applicable forms on the declarations page.

Acknowledged.

(2) The examiners found 77 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In ten instances, the company failed to use the correct discounts and/or surcharges.

The Companies' response to this observation remains unchanged as the Companies acknowledge the instances. However, the Companies submit the attached Exhibit G. providing the appropriate SERFF filing numbers.

- b. In one instance, the company failed to use the correct territory.

Acknowledged.

- c. In 11 instances, the company failed to use the correct base and/or final rates.

Please see the attached Exhibit H. together with attachments.

- d. In three instances, the company failed to follow its filed minimum premium rule.

Acknowledged. See Exhibit I.

- e. In one instance, the company failed to use the correct construction type.

Acknowledged.

- f. In 21 instances, the company failed to use the correct public protection class.

Acknowledged.

- g. In 12 instances, the company failed to use the correct occupancy class.

Acknowledged.

- h. In 13 instances, the company failed to use the correct classification code.
The Companies acknowledge the Bureau's findings and would respectfully request that the Bureau note that the Companies' recently filed classification manual under AOIC-129601841
- i. In one instance, the company failed to use the filed increased limits factor.
Acknowledged.
- j. In two instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.
Acknowledged.
- k. In one instance, the company failed to use its filed rounding rule.
The Companies maintain that the calculation result was properly truncated in the Companies systems.
- l. In one instance, the company failed to use its rules filed with the Bureau.
Acknowledged.

TERMINATION REVIEW

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Private Passenger Automobile Policies**NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE**

The Bureau reviewed 16 private passenger automobile cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$27.07 and no undercharges. The net amount that should be refunded to the insured is \$27.07 plus six percent (6%) simple interest.

The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

Acknowledged.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau reviewed four private passenger automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company charged fees that were not on file with the Bureau.

Acknowledged.

- (2) The examiners found one violation of § 38.2-2212 D of the Code of Virginia. The company cancelled the insured's motor vehicle policy for a reason not permitted by the statute.

Acknowledged.

- (3) The examiners found three violations of § 38.2-2212 E of the Code of Virginia.
- a. In one instance, the company failed to mail the notice of cancellation to the insured at least 45 days before the cancellation effective date.

Acknowledged.

- b. In one instance, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

Acknowledged.

- c. In one instance, the company failed to advise the insured of the availability of other insurance through his agent, another insurer, or the Virginia Automobile Insurance Plan (VAIP).

Acknowledged.

All Other Cancellations – Private Passenger Automobile Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed 20 private passenger automobile cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$86.12 and undercharges totaling \$3,336.54. The net amount that should be refunded to insureds is \$86.12 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the

declarations page and cancellation notice.

The requested files were provided and the examiners were given instructions on how to access the documents on the Companies' systems. Further, the documents were provided together with Review Sheet TPA021 Term NPPPPA-76639997. The documents have been attached here for reference. See attached Exhibit J. The Companies respectfully disagree with this observation.

(2) The examiners found 34 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In 16 instances, the company failed to calculate the return premium correctly.

Acknowledged.

b. In 18 instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

REQUESTED BY THE INSURED

The Bureau reviewed ten automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found overcharges totaling \$27.52 and undercharges totaling \$75.26. The net amount that should be refunded to insureds is \$27.52 plus six percent (6%) simple interest.

(1) The examiners found seven violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In one instance, the company failed to calculate the return premium correctly.

Acknowledged.

- b. In six instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

- (2) The examiners found three violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain a written request from the insured to cancel his policy.

Acknowledged.

- (3) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

Acknowledged.

Rejected Applications – Private Passenger Automobile Policies

The Bureau reviewed two automobile insurance applications for which the company declined to issue a policy.

The examiners found no violations in this area.

Company-Initiated Nonrenewals – Private Passenger Automobile Policies

The Bureau reviewed ten automobile nonrenewals that were initiated by the company.

- (1) The examiners found four violations of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the nonrenewal notice to the insured.

Acknowledged.

- (2) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the insured written notice of nonrenewing his motor vehicle policy.

Acknowledged.

Company-Initiated Cancellations – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The Bureau reviewed ten homeowner cancellations that were initiated by the company where the company mailed the notices prior to the 90th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$50.00 and no undercharges. The net amount that should be refunded to insureds is \$50.00 plus six percent (6%) simple interest.

- (1) The examiners found five violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In three instances, the company failed to calculate the return premium correctly.

Regarding THO001 – Please see attached Exhibit K.

Regarding THO002 - Acknowledged.

- b. In two instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

- (2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of the cancellation to the lienholder.

Acknowledged.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

In addition, the Bureau reviewed 24 homeowner cancellations that were initiated by the company where the company mailed the notices on or after the 90th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found overcharges totaling \$23.00 and undercharges totaling \$79.33. The net amount that should be refunded to insureds is \$23.00 plus six percent (6%) simple interest.

(1) The examiners found six violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In two instances, the company failed to calculate the return premium correctly.

Acknowledged.

b. In four instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

(2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.

Acknowledged.

(3) The examiners found 22 violations of § 38.2-2114 A of the Code of Virginia.

a. In 19 instances, the company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.

Acknowledged.

- b. In three instances, the company cancelled coverage on an owner-occupied dwelling because of a physical change in the property and failed to properly document the change.

Acknowledged.

All Other Cancellations – Homeowner Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed 15 homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$34.00 and undercharges totaling \$442.30. The net amount that should be refunded to insureds is \$34.00 plus six percent (6%) simple interest.

- (1) The examiners found 14 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In ten instances, the company failed to calculate the return premium correctly.

Acknowledged.

- b. In four instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

- (2) The examiners found one violation of § 38.2-2114 C of the Code of Virginia. The company failed to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).

Acknowledged.

REQUESTED BY THE INSURED

In addition, the Bureau reviewed nine homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found overcharges totaling \$756.41 and undercharges totaling \$33.95. The net amount that should be refunded to insureds is \$756.41 plus six percent (6%) simple interest.

(1) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In one instance, the company failed to calculate the return premium correctly.

Acknowledged.

b. In three instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

(2) The examiners found two violations of § 38.2-2114 E of the Code of Virginia. The company failed to obtain a written request to cancel a policy insuring an owner-occupied dwelling.

Acknowledged.

Company-Initiated Nonrenewals – Homeowner Policies

The Bureau reviewed nine homeowner nonrenewals that were initiated by the company.

- (1) The examiners found one violation of § 38.2-231 A of the Code of Virginia. The company failed to advise the insured of his right to request a review by the Commissioner of Insurance for the cancellation of a policy insuring a business entity.

The Companies respectfully disagree that Va. Code Ann. § 38.2-231 applies in this instance. The Companies again respectfully request that the Bureau reconsider its position. The fact that the subject homeowners policy contained an incidental business exposure does not convert the policy to a commercial policy within the scope of § 38.2-231.

- (2) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an adverse underwriting decision (AUD).

Acknowledged.

- (3) The examiners found nine violations of § 38.2-2113 C of the Code of Virginia.
 - a. In one instance, the company failed to provide proper notice of nonrenewal to the lienholder.

Acknowledged.

- b. In seven instances, the company failed to retain proof of mailing the nonrenewal notice to the insured.

Acknowledged.

- c. In one instance, the company failed to retain proof of mailing the nonrenewal notice to the lienholder.

Acknowledged.

- (4) The examiners found 16 violations of § 38.2-2114 C of the Code of Virginia.
- a. In one instance, the company failed to provide the specific reason for nonrenewal of a policy insuring an owner-occupied dwelling.
- Acknowledged.**
- b. In seven instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
- Acknowledged.**
- c. In eight instances, the company failed to advise the insured of the availability of insurance through the VPIA.
- Acknowledged.**

Commercial Automobile Policies

The Bureau reviewed 13 commercial automobile cancellations. During this review, the examiners found overcharges totaling \$15.00 and undercharges totaling \$86.99. The net amount that should be refunded to insureds is \$15.00 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-231 A of the Code of Virginia. The company failed to send a cancellation notice to the insured.
- Acknowledged.**
- (2) The examiners found one violation of § 38.2-231 J of the Code of Virginia. The company failed to retain proof of mailing the notice of cancellation to the insured.
- Acknowledged.**
- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide the declarations page.

Acknowledged.

(4) The examiners found two violations of § 38.2-1906 D of the Code of Virginia.

The company failed to use the rules and/or rates on file.

a. In one instance, the company failed to calculate the return premium correctly.

Acknowledged.

b. In one instance, the company charged fees that were not on file with the Bureau.

Acknowledged.

(5) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy.

a. In two instances, the company failed to obtain advance written notice of cancellation from the insured.

Acknowledged.

b. In one instance, the company failed to maintain a copy of the insured's request for cancellation.

Acknowledged.

Commercial Property and Liability Policies

The Bureau reviewed 27 commercial property and liability cancellations. During this review, the examiners found overcharges totaling \$48.00 and undercharges totaling \$77.00. The net amount that should be refunded to insureds is \$48.00 plus six percent (6%) simple interest.

- (1) The examiners found three violations of § 38.2-231 A of the Code of Virginia.
 - a. In one instance, the company failed to send a cancellation notice to the insured.
Acknowledged.
 - b. In one instance, the company failed to send a cancellation notice to the insured at least 45 days before the cancellation effective date.
Acknowledged.
 - c. In one instance, the company failed to send a nonpayment of premium cancellation notice to the insured at least 15 days before the cancellation effective date.
Acknowledged.
- (2) The examiners found two violations of § 38.2-231 J of the Code of Virginia.
 - a. In one instance, the company failed to retain a copy of the cancellation notice sent to the insured for one year from the effective date of the cancellation.
Acknowledged.
 - b. In one instance, the company failed to retain proof of mailing the cancellation notice to the insured.
Acknowledged.

(3) The examiners found seven violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In six instances, the company failed to calculate the return premium correctly.

Acknowledged.

b. In one instance, the company charged fees that were not on file with the Bureau.

Acknowledged.

(4) The examiners found one violation of 14 VAC 5-390-40 D. The company failed to send an affirmation of cancellation to the insured and premium finance company.

Please find attached Exhibit L.

(5) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

Acknowledged.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 79 automobile claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$5,245.88 and underpayments totaling \$12,320.46. The net amount that should be paid to claimants is \$12,320.46 plus six percent (6%) simple interest.

- (1) The examiners found 18 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found 29 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

- a. In ten instances, the company failed to inform an insured of his physical damage deductible when the file indicated that the coverage was applicable to the loss.

The Companies respectfully maintain that the practice of maintaining file notes memorializing verbal conversations with insureds constitutes evidence that notice was given. The Companies respectfully maintain that they have not “knowingly obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim” in violation of the subject regulation.

- b. In four instances, the company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.

The Companies respectfully maintain that the claim notes, letters about coverage, and payments of the coverage in question, indicate that the Companies accurately informed the insured of Medical Expense Benefits coverage. The Companies respectfully maintain that they have not “knowingly obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim” in violation of the subject regulation.

- c. In 11 instances, the company failed to accurately inform an insured of his Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.

These instances relate to the Companies’ having included statements of coverage on loss notices. Issues that the Bureau may have with the level of detail contained in such a loss notices are the subject of ongoing Corrective Action on the part of the Companies, but the Companies respectfully maintain that they have not “knowingly obscured or concealed” the coverages in question within the meaning of 14 VAC 5-400-40 A, when the Companies included the coverages on a loss notice.

- d. In four instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM) when the file indicated the coverage was applicable to the loss.

These instances relate to the Companies' having included statements of coverage on loss notices. Issues that the Bureau may have with the level of detail contained in such a loss notices are the subject of ongoing Corrective Action on the part of the Companies, but the Companies respectfully maintain that they have not "knowingly obscured or concealed" the coverages in question within the meaning of 14 VAC 5-400-40 A, when the Companies included the coverages on a loss notice.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

Acknowledged.

- (4) The examiners found five violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

Acknowledged.

- (5) The examiners found five violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

Acknowledged.

- (6) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim.

Acknowledged.

- (7) The examiners found eight violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

- a. In three instances, the company failed to pay the insured's UMPD claim properly when Collision and/or UMPD coverages applied to the claim.

Acknowledged.

- b. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense coverage.

The Companies acknowledge that they paid medical providers in full under the Medical Expense Coverage. The Companies admit that some of these providers were not paid pursuant to an assignment of benefits form. The Companies recognize the need to have an appropriate Assignment of Benefits form completed. However, the claims were paid and the Companies deny that payments should also be made to an insured.

- c. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.

Acknowledged.

- d. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision or Collision coverage.

While the Companies acknowledge that the word "wind" did appear on the initial loss report – the rest of the file clearly indicates that the "wind" referenced was the "wind" created by the SUV that passed too close to the orange barrel in question. Accordingly, the Companies respectfully request reconsideration of this violation, and further the Companies respectfully maintain that, with regard to this instance, they did not violate 14 VAC 5-400-70 B.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found 28 violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.

- a. In 24 instances, the company failed to provide a copy of the estimate to the insured.

While the Companies maintain that the estimates were sent, the Companies acknowledge that the Bureau takes issue with the Companies' means of documenting same. This matter is the subject of Corrective Action, and claims are no longer documented using

the color coding system that gave rise to these instances.

- b. In four instances, the company failed to provide a copy of the estimate to the claimant.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found eight violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

The Companies respectfully maintain that respecting attorney-client privilege is appropriate and does not constitute a violation of § 38.2-510 A 3.

These findings occurred with such frequency as to indicate a general business practice.

- (10) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

Acknowledged.

- (11) The examiners found two violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

Acknowledged.

- (12) The examiners found two violations of § 38.2-510 C of the Code of Virginia. The company failed to disclose the required aftermarket parts notice to the vehicle owner on the estimate of repairs or in a separate document.

Acknowledged.

- (13) The examiners found one violation of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured advising the company to make payments directly to the medical provider.

Acknowledged.

- (14) The examiners found 13 occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In three instances, the company failed to include the lienholder on the check.

Acknowledged.

- b. In eight instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.

Acknowledged.

- c. In two instances, the company overpaid the sales tax, title, and/or tag transfer fees on a total loss claim.

Acknowledged.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found 15 violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

The Companies maintain that the required language appeared on the form, and that the language was therefore “included” on the form within the scope of § 52-40 of the Code of Virginia.

Commercial Automobile Claims

The examiners reviewed 23 commercial automobile claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,000.00 and underpayments totaling \$410.00. The net amount that should be paid to claimants is \$410.00 plus six percent (6%) simple interest.

- (1) The examiners found 14 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Please see attached Exhibit M.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found one violation of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim. The company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist coverage when the file indicated the coverage was applicable to the loss.

Acknowledged.

- (3) The examiners found one violation of 14 VAC 5-400-50 A. The company failed, upon receiving notification of a claim, to acknowledge within ten working days the receipt of such notice where no payment was made within such period of time.

The Companies respectfully maintain that when an insured withdraws their claim, and does not want to make a claim against their policy, that an insured (1) has the freedom to make such a decision, and; (2) that the Companies, upon an insured's withdrawal of a claim, need not continue adhering to deadlines going forward because there is no longer a "live" claim.

Additionally, the Companies provided the Bureau with claim notes evidencing that a phone call was made to the insured on the same day that the insured presented the claim.

- (4) The examiners found seven violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (5) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

The Companies respectfully maintain that their actions were reasonable under the circumstances, and rely upon previous responses, file notes and attorney correspondence made available during the Exam.

- (6) The examiners found one violation of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions. The company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision or Collision coverage.

Acknowledged.

- (7) The examiners found seven violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.

- a. In three instances, the company failed to provide a copy of the estimate to the insured.

Acknowledged.

- b. In four instances, the company failed to provide a copy of the estimate to the claimant.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found four violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

Please see Exhibit N.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In one instance, the company failed to include the lienholder on the check.

Acknowledged.

- b. In two instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.

Acknowledged.

- c. In one instance, the company failed to pay the claim in accordance with the terms of the policy.

Acknowledged.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found nine violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

The Companies maintain that the required language appeared on the form, and that the language was therefore “included” on the form within the scope of § 52-40 of the Code of Virginia.

Homeowner Claims

The examiners reviewed 54 homeowner claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found no overpayments and underpayments totaling \$1,902.65. The net amount that should be paid to claimants is \$1,902.65 plus six percent (6%) simple interest.

- (1) The examiners found nine violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

(2) The examiners found 16 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

- a. In four instances, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy.

While the Companies maintain that the facts in these instances do not constitute a knowing obscuring or concealment of information, the Companies have instituted Corrective Action on these issues pursuant to the Restitution Schedule.

- b. In seven instances, the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.

The Companies respectfully maintain that claim notation memorializing verbal discussions indicates that they did not knowingly obscure or conceal coverage or benefits under a policy, within the meaning of 14 VAC 5-400-40 A.

- c. In five instances, the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy.

The Companies respectfully maintain that they sent forms adequately explaining replacement costs benefits coverage. Insofar as the Bureau is referencing other aspects that were not properly evidenced in the files, the Companies acknowledge in part and have engaged in Corrective Action through education and training of associates.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

Acknowledged.

- (4) The examiners found seven violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (5) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found two violations of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim.

The Companies continue to respectfully maintain that these instances comply with 14 VAC 5-400-70 B.

- (7) The examiners found four violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

- a. In one instance, the company failed to properly pay the claim under the insured's replacement cost Dwelling coverage.

Acknowledged.

- b. In two instances, the company failed to pay the entire claim under the insured's Additional Living Expense coverage.

Acknowledged.

- c. In one instance, the company failed to pay the entire claim under the insured's Additional Coverages.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found 16 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or policy provisions relating to coverages at issue. The company gave the insured 180 days from the last actual cash payment rather than six months from the date of the last actual cash value payment to assert a claim for replacement cost on the damaged property.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found three violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for prompt investigation of claims arising under insurance policies.

It appears that the Bureau's concerns are directed at the scope of the investigation, however, it is the Companies' position that the investigations were prompt, and that reasonable standards for the prompt investigation claims have been adopted by the Companies pursuant to §38.2-510 A 3 of the Code of Virginia.

- (10) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of the claim in which liability was clear.

Acknowledged.

- (11) The examiners found 11 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured that was not accompanied by a statement setting forth the correct coverage(s) under which the payment was made.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found 16 violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

The Companies maintain that the required language appeared on the form, and that the language was therefore “included” on the form within the scope of § 52-40 of the Code of Virginia.

Commercial Property and Liability Claims

The examiners reviewed 27 commercial property claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,079.50 and underpayments totaling \$2,638.97. The net amount that should be paid to claimants is \$2,638.97 plus six percent (6%) simple interest.

- (1) The examiners found 13 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found two violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant or a claimant's authorized representative that reasonably suggested a response was expected.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

Acknowledged.

- (4) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

These findings occurred with such frequency as to indicate a general business practice.

Acknowledged.

- (5) The examiners found one violation of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue. The company failed to properly convey to the insured and/or the claimant the company's obligation concerning payment of the rental or loss of use claim.

Acknowledged.

- (6) The examiners found seven violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

The Companies maintain that the actions referenced in these violations comply with § 38.2-510 A 3 of the Code of Virginia.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.

Acknowledged.

- (8) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company paid an insured more than the insured was entitled to receive under the terms of his policy.

Acknowledged.

REVIEW OF FORMS

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the

Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

Private Passenger Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 34 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found six violations of § 38.2-2220 of the Code of Virginia.

- a. In two instances, the company used a version of a standard automobile form that was not in the precise language filed and adopted for use by the Bureau.

Acknowledged.

- b. In four instances, the company failed to have available for use standard automobile forms filed and adopted by the Bureau.

Acknowledged.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 56 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found three violations of § 38.2-317 A of the Code of Virginia.

The company used forms that had not been filed with the Bureau at least 30 days prior to use.

Acknowledged.

- (2) The examiners found two violations of § 38.2-2119 of the Code of Virginia. The company used a form that did not set forth the conditions necessary to assert a claim for replacement cost under the policy.

The Bureau has requested that the Companies explain in writing how the Companies forms are compliant. As there have been different versions of the forms submitted during the course of the Exam, the Companies respectfully request clarification as to which forms the Bureau would like explained.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Commercial Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 77 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found five violations of § 38.2-2220 of the Code of Virginia. The company used a version of a standard automobile form that was not in the precise language filed and adopted by the Bureau.

Acknowledged.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Commercial Property and Liability Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 482 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found 12 violations of § 38.2-317 A of the Code of Virginia. The

company used forms that had not been filed with the Bureau at least 30 days prior to use.

Acknowledged.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Private Passenger Automobile Policies

The companies provided six new business policies mailed on the following dates: May 8, June 1, 5, 8, and 25, 2012. In addition, the companies provided six renewal business policies mailed on the following dates: June 6 and 7, 2012.

NEW BUSINESS POLICIES

- (1) The examiners found six violations of 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.

Acknowledged.

- (2) The examiners found six violations of § 38.2-2210 A of the Code of Virginia. The company failed to include the 60-day cancellation warning notice on or attached to the first page of the application.

Acknowledged.

RENEWAL BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice.

Acknowledged.

- (2) The examiners found five violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information with the Bureau.

Acknowledged.

- (3) The examiners found six violations of 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company charged installment fees that were not filed with the Bureau.

Acknowledged.

Homeowner Policies

The companies provided six new business policies mailed on the following dates: May 9, June 1, 3, 5 and July 13, 2012. In addition, the companies provided six renewal business policies mailed on the following dates: June 6, 2012 and July 13, 2012.

NEW BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.

Acknowledged.

- (2) The examiners found five violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost Coverage notice as required by the Code of Virginia.

Acknowledged.

- (3) The examiners found two violations of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

Acknowledged.

RENEWAL BUSINESS POLICIES

- (1) The examiners found four violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all forms applicable to the policy on the declarations page.

Acknowledged.

- (2) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.

Acknowledged.

- (3) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost Coverage notice as required by the Code of Virginia.

Acknowledged.

- (4) The examiners found one violation of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

Acknowledged.

Commercial Automobile Policies

The companies provided six new business policies mailed on the following dates: May 23, 29 and June 1 and 12, 2012. In addition, the companies provided six renewal business policies mailed on April 25 and June 7, 9, 12, and 13, 2012.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found three violations of § 38.2-305 B of the Code of Virginia.

The company failed to provide the Important Information Regarding Your Insurance notice as required by the Code of Virginia.

Acknowledged.

Commercial Property and Liability Policies

The companies provided 16 new business policies mailed on the following dates: February 27, March 1, 4, 7, 14, 15, 20, 21, 22, April 9 and July 8, 2013. In addition, the companies provided 17 renewal business policies mailed on the following dates: February 27, 28, March 1, 4, 5, 6, 13, 20, 22, 25 and June 12, 2013.

NEW BUSINESS POLICIES

The examiners found 16 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to include the edition dates of all endorsements listed on the declarations page.

Acknowledged.

RENEWAL BUSINESS POLICIES

The examiners found 17 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to include the edition dates of all endorsements listed on the declarations page.

Acknowledged.REVIEW OF STATUTORY NOTICES

To obtain sample policies to review the content of the statutory notices that the companies are required to provide to insureds and used by the companies for the lines examined, the examiners used the same new business policy and renewal business policy mailings that were previously described. The details of these policies have been set forth previously under the Review of the Policy Issuance Process section of the Report. The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

The examiners reviewed the companies' statutory notices used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all

applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

- (1) The examiners found two violations of § 38.2-604.1 of the Code of Virginia. The company failed to include all of the information required by the statute in its Notice of Financial Information Collection and Disclosure Practices.

Acknowledged.

- (2) The examiners found 26 violations of § 38.2-610 A of the Code of Virginia. The company's AUD notice did not contain substantially similar language as that of the prototype set forth in Administrative Letter 1981-16.

Acknowledged.

Statutory Vehicle Notices

The examiners found two violations of § 38.2-2234 A 1 of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.

Acknowledged.

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company failed to have available a notice summarizing the replacement cost provisions for owner-occupied dwellings.

Acknowledged.

- (2) The examiners found two violations of § 38.2-2120 of the Code of Virginia. The company failed to have available a notice offering the insured the option of purchasing coverage for damage caused by water that backs up through sewers

and drains.

Acknowledged.

- (3) The examiners found two violations of § 38.2-2126 A 1 of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.

Acknowledged.

Other Notices

The companies provided four copies of other notices and documents including applications that were used during the examination period.

The examiners found no violations in this area.

LICENSING AND APPOINTMENT REVIEW

A review was made of the private passenger automobile, homeowner, commercial automobile, and commercial property and liability new business policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agent

The examiners found six violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

Acknowledged.

Agency

- (1) The examiners found one violation of § 38.2-1812 of the Code of Virginia. The company paid commissions to an agency not duly appointed within 30 days of the date of application.

Acknowledged.

- (2) The examiners found two violations of § 38.2-1822 A of the Code of Virginia. The company permitted an entity to act as an agency without first obtaining a license from the Commonwealth of Virginia.

Acknowledged.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia

The examiners found four violations of § 38.2-511 of the Code of Virginia. The companies failed to maintain a complete register in compliance with the statute.

Acknowledged.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their written information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the companies, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

The Companies wish to adopt herein all prior submissions regarding Corrective Action. The below portions containing responses from the Companies only relate to those matters still being discussed with the Bureau.

General

Auto-Owners Insurance Company and
Owners Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to this Report.

Rating and Underwriting Review

Auto-Owners Insurance Company and
Owners Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharges as of the date the error first occurred.

Please see attached Exhibit O.

- (2) Include six percent (6%) interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) Specify required information in the policy accurately. Particular attention should be focused on forms, endorsements, discounts, coverage limits and deductibles shown on the declarations page.
- (5) Properly represent discounts on the declarations page.
- (6) Provide convenient access to files, documents and records relating to the examination.
- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, deductible factors, territories, symbols, tier eligibility criteria, driver classifications, base and/or final rates, construction types, occupancy classes, classification codes, public protection classifications, minimum premium rule, IRPM documentation, and policy term factors.

Termination Review

Auto-Owners Insurance Company and
Owners Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.

- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge they have refunded or credited the overcharges listed in the file.
- (4) Charge fees and/or calculate return premium according to the filed rules and policy provisions.
- (5) Retain proof of mailing cancellation and nonrenewal notices sent to the insured for one year from the date of cancellation or nonrenewal.
- (6) Obtain a written notice when the insured requests to cancel his policy as required by the provisions of the insurance policy.
- (7) Retain a copy of the cancellation notice sent to the insured.
- (8) Send cancellation notices at least 45 days before the effective date of cancellation when a private passenger automobile or commercial policy is canceled midterm.
- (9) Provide proper notice of cancellation or nonrenewal to the lienholder.
- (10) Send cancellation notices at least 15 days before the effective date of cancellation when a commercial policy is cancelled for nonpayment of premium.
- (11) Cancel a private passenger automobile policy after the 59th day of coverage only for the reasons permitted by the statute
- (12) Cancel an owner-occupied dwelling policy after the 89th day of coverage only for the reasons permitted by the statute.
- (13) Send a notice of cancellation or nonrenewal to the insured.
- (14) Advise the insured of the availability of other insurance through the VPIA.
- (15) Advise the insured of his right to have the cancellation or nonrenewal of his policy reviewed by the Commissioner of Insurance.

Claims Review

Auto-Owners Insurance Company and
Owners Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
See attached Exhibit P.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau the enclosed file titled "Claims Underpayments Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.
- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to deductibles, rental benefits under UMPD and Transportation Expenses coverages, Medical Expense coverage, replacement cost benefits under Dwelling and Personal Property coverages, and Additional Living Expense.
- (6) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days.
- (7) Notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (8) Make all claim denials in writing and keep a copy of the written denial in the claim file.
- (9) Offer the insured an amount that is fair and reasonable as shown by the

investigation of the claim and pay the claim in accordance with the insured's policy provisions.

- (10) Provide copies of repair estimates prepared by or on behalf of the company to insureds and claimants.
- (11) Properly represent pertinent facts or insurance provisions relating to coverages at issue.
- (12) Adopt and implement reasonable standards for the prompt investigation of claims.
- (13) Include a correct statement of the coverages under which payments are made with all claim payments to insureds.

Forms Review

Auto-Owners Insurance Company and
Owners Insurance Company shall:

- (1) Use the precise language of the standard automobile forms adopted by the Bureau.

Please see Exhibit Q.

- (2) Use the required standard automobile forms filed and adopted by the Bureau.

The Companies filed a Suspension of Coverage rule in SERFF filing AOIC-129036434, approved on 10/23/2013. It references the Suspension of Insurance (PP-01-99-07-05) and Reinstatement of Insurance (PP-02-02-08-86) forms, which have also been implemented. Please find attached the Forms requested by the Bureau in Exhibit R.

- (3) File all homeowner forms with the Bureau at least 30 days prior to use.

The Companies agree and have implemented standards to file homeowners forms with the Bureau at least 30 days prior to use.

- (4) Include replacement cost provisions in homeowner forms as required by the Code of Virginia.

Review of Policy Issuance Process

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Provide the insured the Important Information Regarding Your Insurance notice with all new and renewal policies.
- (2) Specify accurate information in the policy by listing all applicable forms and corresponding edition dates on the declarations page.
- (3) File all rates and supplementary rate information with the Bureau.
- (4) Use the rules and rates on file with the Bureau. Particular attention should be focused on premium discounts and installment fees.
- (5) Include the 60-day cancellation warning notice on or attached to the first page of the automobile application.
- (6) Provide the Replacement Cost Coverage notice with all new and renewal policies as required by the Code of Virginia.
- (7) Offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.
- (8) Provide the Insurance Credit Score Disclosure notice as required by the Code of Virginia.

Review of Statutory Notices

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 of the Code of Virginia.
- (2) Amend the Adverse Underwriting Decision notice to comply with § 38.2-610 of

the Code of Virginia.

- (3) Develop a Replacement Cost notice to comply with § 38.2-2118 of the Code of Virginia.
- (4) Develop a Water Back-Up Through Sewers and Drains notice to comply with § 38.2-2120 of the Code of Virginia.
- (5) Amend the Insurance Credit Score Disclosure notice to comply with §§ 38.2-2126 A 1 and 38.2-2234 A 1 of the Code of Virginia.

Licensing and Appointment Review

Auto-Owners Insurance Company and
Owners Insurance Company shall:

- (1) Appoint agents within 30 days of the application.
- (2) Accept business only from agencies that are licensed in the Commonwealth of Virginia.
- (3) Only pay commissions to agencies that are appointed by the company.

Review of the Complaint-Handling Process

Auto-Owners Insurance Company and
Owners Insurance Company shall:

Maintain a complete complaint register that is in compliance with § 38.2-511 of the Code of Virginia.

PART THREE – RECOMMENDATIONS

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer.

RECOMMENDATIONS

We recommend that the companies take the following actions:

Rating and Underwriting

- The companies should use the term “Medical Expense Benefits” on their declarations page instead of the term “Medical Payments.”
- The companies should use the term “Other Than Collision” on their declarations page instead of the term “Comprehensive.”
- The companies should initiate a greater degree of supervision with agents who underwrite their own personal policies.
- The companies should update their manual to include instructions for calculating the Combined Single Limits for BI/PD and UM/UMPD.
- The companies should revise their rule for the number of families to mirror the terminology used on the declarations page.
- The companies should clarify the application of the Product Deductible factor in their filed rules.
- The companies should ensure the filed manual adequately indicates the steps in the premium determination rules.
- The companies should update manual pages AOWJV914 and AOWJV915 to reflect new factors applicable to the policy.

Termination

- The companies should amend their forms on file with the Bureau to reflect their practices with insured requested cancellations.
- The companies should file all fees with the Bureau.

Claims

- The companies should provide a reasonable explanation of the basis of the denial of a claim or offer of a compromise settlement.
- The companies should include the fraud statement on all claim forms that are required by the companies as a condition of payment.
- The companies should pay license plate transfer fees only when the salvage is obtained by the company.

Forms

- The companies should correct the typographical errors on forms CAO268 12-05 Virginia Changes in Policy Cancellation and Non-Renewal, CAO302 12-93 Deductible Liability Coverage, CA2121 11-02 Uninsured Motorist Coverage and CA 3127 12-05 Virginia Split Limit Uninsured Motorist Coverage Limits.

Policy Issuance Process

- The companies should amend their application to state that Transportation Expenses coverage is optional when Collision and/or Other Than Collision coverage is purchased.

Statutory Notices

- The companies should amend their Important Information Regarding Your Insurance notice to reflect the correct zip code for the Bureau.

- The companies should amend their Accident Surcharge notice to reflect the correct zip code for the Bureau.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

This is the first time the Virginia Bureau of Insurance has conducted an examination of these companies.

ACKNOWLEDGEMENT

The Bureau acknowledges the officers and employees' response to requests from the Bureau during the course of the examination.

Sincerely,

Andrea Baytop
Senior Insurance Market Examiner

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
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January 9, 2015

VIA UPS 2nd DAY DELIVERY

Frank Bayless
Home Office Legal Division
Auto-Owners Companies
6101 Anacapri Boulevard
Lansing, Michigan 48917

Re: Market Conduct Examination
Auto-Owners Insurance Company (NAIC #18988)
Owners Insurance Company (NAIC #32700)
Examination Period: April 1, 2011 – March 31, 2012

Dear Mr. Bayless:

The Bureau of Insurance (Bureau) has reviewed the October 14, 2014 response to the Revised Market Conduct Report (Report) submitted by Auto-Owners Insurance Company and Owners Insurance Company (Companies). The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

Private Passenger Automobile New Business Rating

(4g) The Company acknowledged these violations in Exhibit A.

Private Passenger Automobile Renewal Business Rating

(1a) The violation for RPA034 remains in the Report. This item is for a violation of § 38.2-305 A of the Code of Virginia, which was cited under Review Sheet 329478418 that is still active and was not withdrawn. The declarations page did not display the garaging address of the insured vehicle. Review sheet 980272528 referenced by the Company was withdrawn for a violation of § 38.2-1906 D of the Code of Virginia and has not been cited in this Report. A copy of the active review sheet has been provided for the Company's review.

Homeowner New Business Rating

- (2d) The violations for RHO009, RHO014 and RHO070 remain in the Report. The Company provided coverage to the insured, accepted premium from the insured, and sent a document titled "Homeowners Policy Declarations" to the insured. The Company refers to this document as a binder; however, it is identical to the declarations pages for other policies issued by the Company. Therefore, the Company issued coverage for a fewer number of days than it was filed to issue. The Company should have relied upon the cancellation notice to cease coverage on these policies.

Commercial Automobile New Business Rating

- (2b) The violation for RCA002 remains in the Report. The Company did not have deductible factors filed to apply to the Products or Completed Operations coverage. The Company's Garage Liability Plus endorsement rule was filed as three base rates that assumed three deductible options. However, it was not filed as a deductible factor to adjust the Products or Completed Operations exposure or other coverages. The Company should file the appropriate base rate and deductible factor options for the Products or Completed Operations coverage on the same manual page to avoid confusion.

Commercial Automobile Renewal Business Rating

- c. The violation for RCA018 remains in the Report. The Company did not have deductible factors filed to apply to the Products or Completed Operations coverage. The Company's Garage Liability Plus endorsement rule was filed as three base rates that assumed three deductible options. However, it was not filed as a deductible factor to adjust the Products or Completed Operations exposure or other coverages. The Company should file the appropriate base rate and deductible factor options for the Products or Completed Operations coverage on the same manual page to avoid confusion.

Commercial Property and Liability New Business Rating

- (2a) The violation for RCP001 remains in the Report. The Company's filed rules required the agent to verify that the insured was eligible for the discount. The policy file indicated this rule was not followed and the Group discount was incorrectly applied to the policy. The Bureau acknowledges that the Company corrected this issue when the policy renewed.

The violation for RCP013 remains in the Report. The Bureau acknowledges the Company's resolution to update the Company's Deviation rate pages to clarify its intent.

- (2b) The Company acknowledged these violations.

- (2c) These violations remain in the Report. The examiners are not sure to which of the seven policies the Company indicated it applied the correct PPC factor of .967. Neither Exhibit F, nor the referenced Exhibit H, included any information for the examiners to reconsider the new business violations. Exhibit F only indicated the Company was currently verifying the correct factor was used, but the Exhibit did not include any documentation. Exhibit H only contained information pertaining to renewal policies.
- (2d) The Bureau acknowledges that the Companies filed a revised classification manual.
- (2e) The Bureau acknowledges that the Companies filed a revised classification manual.
- (2f) The Bureau acknowledges that the Companies filed revised IRPM Schedule Modification rules.

Commercial Property and Liability Renewal Business Rating

- (2a) The Bureau acknowledges the filings submitted for rule and rate revisions.
- (2c) The violation for RCP026 remains in the Report. The Company provided an ISO Location report that only indicates the PPC assigned by ISO. The Verisk document provided in Exhibit H is not acceptable documentation of a specific rate determined by ISO.

After further review, the violation for RCP030 has been withdrawn from the Report.

The Company acknowledged the violation for RCP034.

The violation for RCP043 remains in the Report. The Company provided an ISO Location report that only indicates the PPC assigned by ISO. The Verisk document provided in Exhibit H is not acceptable documentation of a specific rate determined by ISO.

The Company acknowledged the violations for RCP016, RCP018, RCP031 and RCP039. The filings referenced in the Company's response only pertain to the Commercial Property manual instead of Commercial General Liability for which these violations were cited. The Company should verify that it is applying the filed charge of 7.5% for the Commercial General Liability Plus Endorsement per Rule 74 or file a revision to this rate page.

- (2d) Please provide a date when the Companies expect to submit a filing to add a separate Equipment Breakdown minimum policy premium rule.

- (2h) The Bureau acknowledges that the Companies filed a new classification manual.
- (2k) The violation for RCP047 remains in the Report. The Company incorrectly truncated the coinsurance calculation result because the Company's filed rule stated to round calculations to the third decimal. If the Company intends to truncate the coinsurance result instead of rounding, the Company should file to revise its rounding rule for Building premiums in the Commercial Property manual.

Private Passenger Automobile Nonpayment of Premium Cancellations

- (1) After further review, the violation for TPA021 has been withdrawn from the Report. The Company provided the requested information. The Report has been renumbered to reflect this change.

Homeowner Notice Mailed Prior to the 90th Day of Coverage Cancellations

- (1a) After further review, the violation for THO001 has been withdrawn from the Report.

Homeowner Company-Initiated Nonrenewals

- (1) The violation for THO069 remains in the Report. The Company was required to include the Right to Review by Commissioner language in its cancellation notice pursuant to §§ 38.2-231 A and 38.2-2114 C of the Code of Virginia. The insured had a daycare business operated within the insured premises. Section 38.2-231 includes an individual as a business entity. Regardless of the size of the insured's business, the Company was required to comply with § 38.2-231 of the Code of Virginia.

Commercial Property and Liability Cancellations

- (4) After further review, the violation for TCP025 has been withdrawn from the Report. The Company provided a copy of the affirmation sent to the premium finance company. The Report has been renumbered to reflect this change.

Private Passenger Automobile Claims Review

- (2a) The violations in this section remain in the Report. For compliance, the claim file must document that the Company informed the insured of the specific coverages, limits and deductibles pertinent to the insured's claim. The Company's response indicated that the loss report taken by the agent was evidence that the insured was informed of the coverage applicable to the loss. The loss report was an internal document and it did not indicate that the insured was informed of coverage. The examiners were unable to

substantiate that the insured was appropriately informed of the coverages and/or deductibles applicable to the claim.

- (2b) The violations in this section remain in the Report. The Bureau acknowledges that the Company paid medical bills. However, this action alone did not document that the insured was accurately informed of all coverage available under the Medical Expense Benefits coverage. The insured should be informed of the coverage limits, including those situations where a multi-vehicle policy would result in the stacking of available medical limits up to four vehicles.
- (2c) The violations in this section remain in the Report. For compliance, the claim file must document that the Company informed the insured of the specific coverages, limits and deductibles pertinent to the insured's claim. The Company's response indicated that the loss report taken by the agent was evidence that the insured was informed of the coverage applicable to the loss. The loss report was an internal document and it did not indicate that the insured was informed of coverage. The examiners were unable to substantiate that the insured was appropriately informed of the coverages and/or deductibles applicable to the claim.
- (2d) The violations in this section remain in the Report. For compliance, the claim file must document that the Company informed the insured of the specific coverages, limits and deductibles pertinent to the insured's claim. The Company's response indicated that the loss report taken by the agent was evidence that the insured was informed of the coverage applicable to the loss. The loss report was an internal document and it did not indicate that the insured was informed of coverage. The examiners were unable to substantiate that the insured was appropriately informed of the coverages and/or deductibles applicable to the claim.
- (7a) After further review, the violation for CPA029 has been withdrawn from the Report.
- (7b) The violations in this section remain in the Report. Although the Company paid the providers, the providers are not insureds under the policy. The Company did not have an assignment of benefits from the insured directing the Company to pay the providers. The Company should reimburse the insureds for the medical expenses per the policy.
- (7d) The violation for CPA067 remains in the Report. The facts as presented in the claim state that the construction barrel was blown into the insured as the insured was passing by it. These facts support a loss under the Other than Collision (OTC) coverage for missiles and flying objects. The insured did not strike the barrel before the wind blew it into his car. Had the insured struck the barrel, this would have been a Collision loss. However, the facts do not support that the insured struck the barrel. On the contrary, the barrel, driven by wind, struck the insured.

- (9) The violations in this section remain in the Report. At no time has the Bureau indicated or inferred that attorney-client privilege should be disregarded. On the contrary, the Bureau stated that the Company should have contacted the insured's attorney to arrange to speak with the insured and obtain the facts of the loss.

Other Law Violations

The violations in this section remain in the Report. The Company's Power of Attorney, Release and Salvage Affidavit are all documents required by the Company before payment can be made. These forms did not include any fraud language or had fraud language check boxes for various states that were not selected. When a form has multiple check boxes to indicate the pertinent information, the Company must check the appropriate box to provide the required information in compliance with the statute.

Commercial Automobile Claims Review

- (1) The violation for CCA001 remains in the Report. The Company's response does not apply to this violation. The Company has responded that past maintenance records were not received from the vehicle owner. However, this violation relates to the absence of a tow bill and the Company's payment without documentation of the expense.

The Company incorrectly provided a response for CCA002. The Report does not reflect a violation under 14 VAC 5-400-30 for this claim.

The violation for CCA004 remains in the Report. The Company's response does not apply to this violation. The Company's response refers to attorney communications. However, this violation relates to the absence of documentation of damages to the vehicle, missing claimant names and undocumented limits of the primary carrier.

The violation for CCA005 remains in the Report. The Company is unable to document the year of the vehicle involved in this claim. The vehicle reported as involved in the loss was removed from the policy three months prior to the accident.

The Company acknowledged the violation for CCA006 in Exhibit M.

After further review, the violation for CCA007 has been withdrawn from the Report.

The violation for CCA008 remains in the Report. The Company's response does not apply to this violation. The violation involves the failure to properly document the payment, not an attorney's opinion of coverage.

The violation for CCA009 remains in the Report. The Company has responded that the insured reported the loss, the policy was a single vehicle policy, and although the vehicle make and year were not known, payment was reasonable. It is the Bureau's position that the vehicle involved in an accident should be identified as listed on the policy prior to the payment of a claim.

The Company acknowledged the violation for CCA010 in Exhibit M.

The violation for CCA011 remains in the Report. The facts of the loss necessitated a police report. The insured hit the claimant in the rear but was not cited. A police report could have determined contributory negligence on the part of the claimant. For example, no brake lights, changing lanes and then stopping suddenly would have barred recovery.

The Company acknowledged the violations for CCA012 and CCA015 in Exhibit M.

The violation for CCA016 remains in the Report; review sheet -1394044173 has not been withdrawn. The review sheet withdrawn for CCA016 on May 29, 2013 was 159677536.

After further review, the violation for CCA021 has been withdrawn from the Report.

After further review, the violation for CCA023 has been withdrawn from the Report.

- (3) After further review, the violation for CCA021 has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (5) The violation for CCA008 remains in the Report. The insured's attorney disputed the Company's coverage decision on 11/10/2011. The Company did not advise the insured, through his attorney, that they needed additional time to further investigate coverage. It was not until 2/9/2012, that the Company provided the insured with their coverage decision. In the interim, there was no communication.
- (8) After further review, the violation for CCA011 has been withdrawn from the Report.

Other Law Violations

These items remain in the Report. The Company's Power of Attorney, Release and Salvage Affidavit are all documents required by the Company before payment can be made. These forms did not include any fraud language or had fraud language check boxes for various states that were not selected. When a form has multiple check boxes to indicate the pertinent

information, the Company must check the appropriate box to provide the required information in compliance with the statute.

Homeowner Claims Review

- (2a) The violations in this section remain in the Report. The Company's files did not contain evidence that the insured was informed of his Additional Living Expense coverage or that the insured was informed of the complete benefits under this coverage.
- (2b) The violations in this section remain in the Report. The Company's files are not documented that the insureds were informed of the required policy provisions for recovery of building replacement cost.
- (2c) The violations in this section remain in the Report. The Company's files are not documented that the insureds were informed of the required policy provisions for recovery of personal property replacement cost.
- (6) After further review, the violations for CHO032 and CHO034 have been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (9) The violation for CHO006 remains in the Report. There were several fraud indicators in this loss that were not investigated in a timely manner. The fire loss occurred on May 8, 2011. An examination under oath was not conducted until November 2011 and it was not reviewed by the Company until February 29, 2012.

The violation for CHO032 remains in the Report. The loss was reported as wind damage. The statement later in the claim regarding flood damage was not investigated as it related to wind damage separate from the rain/flood. The Company denied this loss based on flood without sufficient proof of the cause of the loss.

After further review, the violation for CHO044 has been withdrawn from the Report.

Other Law Violations

These items remain in the Report. The Company's Power of Attorney, Release and Salvage Affidavit are all documents required by the Company before payment can be made. These forms did not include any fraud language or had fraud language check boxes for various states that were not selected. When a form has multiple check boxes to indicate the pertinent information, the Company must check the appropriate box to provide the required information in compliance with the statute.

Commercial Property and Liability Claims Review

- (6) These violations remain in the Report. The Company did not initiate prompt investigations into these claims.

Homeowner Forms Used During the Examination Period

- (2) The violation for FHO021 was cited for the Homeowner Condo Policy Form 6 (17606 9-85), which did not include the necessary replacement cost provisions. The Amendatory endorsement referenced in the Bureau's response was for the FHO002 Condominium Unit-Owners Amendatory Endorsement (17017 7-87), which amends FHO021. However, the forms did not appear to correspond to provide the required replacement cost coverage provisions.

CORRECTIVE ACTION PLAN

Rating and Underwriting

- (1) The Company has not made the required restitution for RPA016 of \$197.02, including interest.

The Company has not made the required restitution for RCA002 of \$6.36, including interest.

The Restitution spreadsheet correctly reflects an overcharge of \$255 for RCA024 review sheet 1386362123 regarding an IRPM credit violation. The Company has not made the required restitution of \$270.30, including interest

- (2) The undercharge for RCP030 has been removed from the Restitution Spreadsheet.

Termination Review

- (1) The Company has not made the required restitution for THO036 of \$36.04, including interest.

Claims Review

- (1) The underpayment for CPA027 remains in the Report. The Company did not ensure that the insured's interests were protected when the payment was made directly to the medical provider without the insured's assignment of benefits. As such, the Company is required to issue the payment to the insured.

After further review, the underpayment of \$500 for CPA028 has been removed from the Restitution spreadsheet.

After further review, the underpayment of \$300 for CPA029 has been removed from the Restitution spreadsheet.

The Company did not submit evidence that the six percent (6%) interest was paid for CPA035 in the Restitution spreadsheet.

After further review, the \$500 portion of the net \$1,355 underpayment for CHO042 has been removed. The Company did not submit evidence that \$855 plus six percent interest was paid in the Restitution spreadsheet.

The underpayment for CCP026 remains in the Report. The Company cannot require a release of "all claims" as a condition of payment. In order to make an appropriate payment, the Company must tailor the release to specifically address the items subject to the release of the claim, receive the signed release and make restitution to the claimant.

Commercial Automobile Forms Review

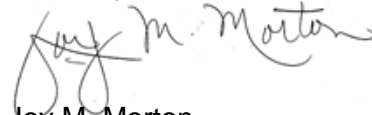
- (1) The Business Auto Coverage form provided by the Company in Exhibit Q is not in the precise language of the standard form.

The Split Liability Limits-Virginia form provided by the Company in Exhibit Q is not in the precise language of the standard form.

The Split Liability Limits-Garages-Virginia form provided by the Company in Exhibit Q is not in the precise language of the standard form.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports and Restitution spreadsheet. The Companies' response to this letter is due in the Bureau's office by February 6, 2015.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, stylized "J" and "M".

Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

Enclosures

Auto-Owners Insurance Company
Auto-Owners Life Insurance Company
Home-Owners Insurance Company
Owners Insurance Company
Property-Owners Insurance Company
Southern-Owners Insurance Company



PO BOX 30660, LANSING, MICHIGAN 48909-8160
PH 517-323-1200 • FAX 517-323-8796 • WWW.AUTO-OWNERS.COM

March 5, 2015

Commonwealth of Virginia
Bureau of Insurance
Market Conduct Section
Attn: Joy M. Morton, Supervisor
1300 East Main Street
Richmond VA 23219

RE: Market Conduct Examination
Auto-Owners Insurance Company (NAIC #18988)
Owners Insurance Company (NAIC #32700)
Examination Period: April 1, 2011 – March 31, 2012

Dear Ms. Morton:

Attached please find our response to the Observations noted in your correspondence dated January 9, 2015. This response is sent on behalf of both Auto-Owners and Owners Insurance Companies. The Companies' response has been tailored to the revised Report, however, the Companies' adopt all prior responses as if fully stated therein.

As always, if you have any questions or concerns, please do not hesitate to contact.

Sincerely,

AUTO-OWNERS INSURANCE COMPANY

A handwritten signature in black ink, appearing to read 'Frank J. Bayless', is written over a horizontal line.

Frank J. Bayless
(517) 323-1508

MARKET CONDUCT EXAMINATION REPORT

OF

AUTO-OWNERS INSURANCE COMPANY

OWNERS INSURANCE COMPANY

AS OF

MARCH 31, 2012

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a comprehensive examination has been made of the private passenger automobile, homeowner, commercial automobile, and commercial property and liability lines of business written by Auto-Owners Insurance Company and Owners Insurance Company at their offices in Lansing, Michigan.

The examination commenced September 10, 2012 and concluded February 3, 2014. Brandon L. Ayers, Andrea D. Baytop, Karen S. Gerber, Ju'Coby D. Hendrick, Richard L. Howell, Melody S. Morrissette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on March 19, 2012 and was assigned the examination number of VA177-M4. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILES*

Auto-Owners Insurance Company (AOIC) was organized under the laws of Michigan on July 1, 1916 and commenced business on the same day.

Owners Insurance Company (OIC) was incorporated on May 13, 1975 under the laws of Ohio. It began business on December 31, 1975.

* Source: Best's Insurance Reports, Property & Casualty, 2012 Edition.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date that the companies were licensed in Virginia except as noted in the table.

GROUP CODE: 0280	AOIC	OIC
NAIC Company Number	18988	32700
LICENSED IN VIRGINIA	8/19/1988	12/29/1989
LINES OF INSURANCE		
Accident and Sickness	X	
Aircraft Liability		
Aircraft Physical Damage		
Animal	6/29/1989	X
Automobile Liability	X	X
Automobile Physical Damage	X	X
Boiler and Machinery	X	X
Burglary and Theft	X	X
Commercial Multi-Peril	X	X
Credit		
Farmowners Multi-Peril		
Fidelity	X	X
Fire	X	X
General Liability	X	X
Glass	X	X
Homeowner Multi-Peril	X	X
Inland Marine	X	X
Miscellaneous Property	X	X
Ocean Marine		
Surety	X	X
Water Damage	6/29/1989	X
Workers' Compensation	X	5/05/1989

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2012 for those lines of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Auto-Owners Insurance Company		
Commercial Automobile Liability	\$3,960,036	1.04%
Commercial Automobile Physical Damage	\$1,609,646	1.44%
Commercial Multiple Peril	\$6,037,463	1.35%
Homeowner	\$5,699,740	.31%
Private Passenger Automobile Liability	\$3,029,589	.12%
Private Passenger Automobile Physical Damage	\$1,927,892	.11%
Owners Insurance Company		
Commercial Automobile Liability	\$498,675	.13%
Commercial Automobile Physical Damage	\$454,248	.41%
Commercial Multiple Peril	\$4,060,390	.91%
Homeowner	\$3,723,277	.21%
Private Passenger Automobile Liability	\$4,574,210	.18%
Private Passenger Automobile Physical Damage	\$2,753,309	.15%

* Source: The 2012 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile, homeowner, commercial automobile and commercial property and liability lines of business written in Virginia for the period beginning April 1, 2011 and ending March 31, 2012. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance,* statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

* Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

**Population
Sample Requested**

AREA	AOIC	OIC	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
<u>Private Passenger Auto</u>							
New Business	<u>578</u> 10	<u>1365</u> 15	<u>1943</u> 25	25	0	23	92%
Renewal Business ¹	<u>6289</u> 20	<u>8163</u> 20	<u>14452</u> 40	38	0	35	92%
Co-Initiated Cancellations	<u>50</u> 9	<u>30</u> 11	<u>80</u> 20	20	0	3	15%
All Other Cancellations	<u>331</u> 15	<u>452</u> 15	<u>783</u> 30	30	0	29	97%
Nonrenewals	<u>154</u> 5	<u>108</u> 5	<u>262</u> 10	10	0	5	50%
Rejected Applications	<u>1</u> 1	<u>1</u> 1	<u>2</u> 2	2	0	0	0%
<u>Homeowners</u>							
New Business	<u>709</u> 15	<u>1078</u> 15	<u>1787</u> 30	30	0	30	100%
Renewal Business ¹	<u>8474</u> 20	<u>5321</u> 20	<u>13795</u> 40	39	0	39	100%
Co-Initiated Cancellations	<u>72</u> 20	<u>55</u> 15	<u>127</u> 35	34	0	28	82%
All Other Cancellations ²	<u>521</u> 15	<u>344</u> 15	<u>865</u> 30	24	0	19	79%
Nonrenewals ²	<u>178</u> 5	<u>88</u> 5	<u>266</u> 10	9	0	8	89%
<u>Commercial Auto</u>							
New Business ¹	<u>415</u> 5	<u>78</u> 5	<u>493</u> 10	8	0	4	50%
Renewal Business ¹	<u>2219</u> 10	<u>328</u> 5	<u>2547</u> 15	12	0	7	58%
All Cancellations	<u>481</u> 9	<u>89</u> 4	<u>570</u> 13	13	0	9	69%
<u>Commercial P&L</u>							
New Business ¹	<u>981</u> 10	<u>566</u> 5	<u>1547</u> 15	14	0	12	86%
Renewal Business ¹	<u>5560</u> 18	<u>2779</u> 14	<u>8339</u> 32	31	0	30	97%
All Cancellations ²	<u>856</u> 16	<u>356</u> 12	<u>1212</u> 28	27	0	13	48%
<u>Claims</u>							
Private Passenger Auto ³	<u>1001</u> 38	<u>1609</u> 42	<u>2610</u> 80	79	0	56	71%
Homeowners	<u>958</u> 29	<u>578</u> 25	<u>1536</u> 54	54	0	34	63%
Commercial Auto	<u>560</u> 14	<u>89</u> 9	<u>649</u> 23	23	0	18	78%
Commercial P&L	<u>626</u> 15	<u>488</u> 12	<u>1114</u> 27	27	0	16	59%

Footnote ¹ - The examiners did not review all the rating files because ten were not subject to the Bureau's review under the scope of the examination.

Footnote ² - The companies were unable to provide accurate cancellation population information for the examination.

Footnote ³ - One file was a mobile home and was not reviewed.

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

Please note that the Companies, in responding to this Report, are not admitting any violations alleged by the Bureau and specifically disclaim any admissions of violation, wrongdoing or fault on the party of the Companies. The Companies are not waiving any defenses of any claims, defenses, or privileges pertaining to the information herein or the Bureau's report. Notwithstanding the aforesaid, the Company submits this response in an effort to finalize the Bureau's examination of the Companies and to maintain a positive relationship with the Bureau going forward.

RATING AND UNDERWRITING REVIEW

Private Passenger Automobile New Business Policies

The Bureau reviewed 25 new business policy files. During this review, the examiners found overcharges totaling \$981.69 and undercharges totaling \$1,879.17. The net amount that should be refunded to insureds is \$981.69 plus six percent (6%) simple interest.

- (1) The examiners found 23 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy. The company listed forms on the declarations page when the coverage was not applicable to the policy.

Acknowledged.

- (2) The examiners found seven violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the

insurance policy. The company listed the group discount on the declarations page when the discount was not applied to the policy.

Acknowledged.

- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company did not provide the entire new business application.

Acknowledged.

- (4) The examiners found 29 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In 15 instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to provide evidence of fault for an accident surcharge applied.

Acknowledged.

- c. In one instance, the company failed to use the correct territory.

Acknowledged.

- d. In five instances, the company failed to use the correct tier eligibility criteria.

Acknowledged.

- e. In three instances, the company failed to use the correct driver classification factor.

Acknowledged.

- f. In one instance, the company failed to use the correct base and/or final rates.

Acknowledged.

- g. In three instances, the company failed to issue a policy for the correct policy term of coverage.

See Exhibit 1.

Private Passenger Automobile Renewal Business Policies

The Bureau reviewed 38 renewal business policy files. During this review, the examiners found overcharges totaling \$2,370.80 and undercharges totaling \$4,763.28. The net amount that should be refunded to insureds is \$2,370.80 plus six percent (6%) simple interest.

- (1) The examiners found 35 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy.

- a. In one instance, the company failed to include the garaging address in the policy information.

See Exhibit 2.

- b. In 34 instances, the company listed forms on the declarations page when the coverage was not applicable to the policy.

Acknowledged.

- (2) The examiners found six violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed the group discount on the declarations page when the discount was not applied to the policy.

Acknowledged.

- (3) The examiners found one violation of § 38.2-1905 C of the Code of Virginia. The company failed to apply surcharge points only to the vehicle customarily driven by the operator responsible for the accident or conviction.

Acknowledged.

- (4) The examiners found 36 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In 23 instances, the company failed to use the correct discounts and/or surcharges.
Acknowledged.
 - b. In one instance, the company failed to apply the correct surcharge for an accident.
Acknowledged.
 - c. In two instances, the company failed to use the correct symbol.
Acknowledged.
 - d. In two instances, the company failed to use the correct territory.
Acknowledged.
 - e. In seven instances, the company failed to use the correct tier eligibility criteria.
Acknowledged.
 - f. In one instance, the company failed to use the correct driver classification factor.
Acknowledged.

Homeowner New Business Policies

The Bureau reviewed 30 new business policy files. During this review, the examiners found overcharges totaling \$568.75 and undercharges totaling \$189.55. The net amount that should be refunded to insureds is \$568.75 plus six percent (6%) simple interest.

- (1) The examiners found six violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records

relating to the examination. The company did not provide the new business application.

Acknowledged.

(2) The examiners found 38 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In three instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

b. In two instances, the company failed to follow its filed minimum premium rule.

Acknowledged.

c. In 30 instances, the company failed to use the correct public protection class.

Acknowledged.

d. In three instances, the company failed to follow its policy term rule by issuing policies for less than six months.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

Homeowner Renewal Business Policies

The Bureau reviewed 39 renewal business policy files. During this review, the examiners found overcharges totaling \$1,633.75 and undercharges totaling \$6.27. The net amount that should be refunded to insureds is \$1,633.75 plus six percent (6%) simple interest.

The examiners found 44 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In two instances, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

- b. In one instance, the company failed to use the correct base and/or final rates.

Acknowledged.

- c. In two instances, the company failed to use the correct construction type.

Acknowledged.

- d. In 39 instances, the company failed to use the correct public protection classification.

Acknowledged.

Commercial Automobile New Business Policies

The Bureau reviewed eight new business policy files. During this review, the examiners found overcharges totaling \$6.00 and undercharges totaling \$263.00. The net amount that should be refunded to insureds is \$6.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list the limits of liability and deductible for the Drive Other

Car coverage on the declarations page.

Acknowledged.

(2) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In one instance, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

b. In one instance, the company failed to use the correct deductible factor.

See Exhibit 3

c. In two instances, the company failed to document the characteristics that support the individual risk premium modification (IRPM) factor that was applied to the policy.

Acknowledged.

Commercial Automobile Renewal Business Policies

The Bureau reviewed 12 renewal business policy files. During this review, the examiners found overcharges totaling \$405.92 and no undercharges. The net amount that should be refunded to insureds is \$405.92 plus six percent (6%) simple interest.

The examiners found ten violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In one instance, the company failed to use the correct discounts and/or surcharges.

Acknowledged.

b. In one instance, the company failed to use the correct classification factor.

Acknowledged.

- c. In one instance, the company failed to use the correct deductible factor.

See Exhibit 4

- d. In one instance, the company failed to apply the IRPM factor documented in the file.

Acknowledged.

- e. In six instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.

Acknowledged.

Commercial Property and Liability New Business Policies

The Bureau reviewed 14 new business policy files. During this review, the examiners found overcharges totaling \$1,638.16 and undercharges totaling \$96.00. The net amount that should be refunded to insureds is \$1,638.16 plus six percent (6%) simple interest.

- (1) The examiners found five violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all applicable forms on the declarations page.

Acknowledged.

- (2) The examiners found 23 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In two instances, the company failed to use the correct discounts and/or surcharges.

The Companies appreciate the Bureau's acknowledgement that the Companies have corrected this issue upon policy renewal.

- b. In three instances, the company failed to use the correct base and/or final rates.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- c. In seven instances, the company failed to use the correct public protection class.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- d. In three instances, the company failed to use the correct occupancy class.

The Companies acknowledge these instances and would respectfully request that the Bureau continue to reference the Companies' filed classification manual (filed under AOIC-129601841).

- e. In six instances, the company failed to use the correct classification code.

The Companies acknowledge these instances and would respectfully request that the Bureau continue to reference the Companies' filed classification manual (filed under AOIC-129601841).

- f. In two instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.

The Companies acknowledge these instances and would respectfully request that the Bureau continue to reference the Companies' filed classification manual (filed under AOIC-129601841).

Commercial Property and Liability Renewal Business Policies

The Bureau reviewed 31 renewal business policy files. During this review, the examiners found overcharges totaling \$3,687.00 and undercharges totaling \$1,598.00. The net amount that should be refunded to insureds is \$3,687.00 plus six percent (6%) simple interest.

- (1) The examiners found 18 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all applicable forms on the declarations page.

Acknowledged.

- (2) The examiners found 77 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In ten instances, the company failed to use the correct discounts and/or surcharges.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- b. In one instance, the company failed to use the correct territory.

Acknowledged.

- c. In ten instances, the company failed to use the correct base and/or final rates.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

Additionally, the Companies respectfully request that the Bureau take

note of the Companies' filing AOIC-126910861, effective 6/1/2011.

- d. In three instances, the company failed to follow its filed minimum premium rule.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

Additionally, the Companies respectfully request that the Bureau take note of the Companies' filing AOIC-129749626, effective 10/13/14, and acknowledged 11/7/14.

- e. In one instance, the company failed to use the correct construction type.

Acknowledged.

- f. In 21 instances, the company failed to use the correct public protection class.

Acknowledged.

- g. In 12 instances, the company failed to use the correct occupancy class.

Acknowledged.

- h. In 13 instances, the company failed to use the correct classification code.

The Companies acknowledge these instances and would respectfully request that the Bureau continue to reference the Companies' filed classification manual (filed under AOIC-129601841).

- i. In one instance, the company failed to use the filed increased limits factor.

Acknowledged.

- j. In two instances, the company failed to document the characteristics that support the IRPM factor that was applied to the policy.

Acknowledged.

- k. In one instance, the company failed to use its filed rounding rule.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- l. In one instance, the company failed to use its rules filed with the Bureau.

Acknowledged.

TERMINATION REVIEW

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Private Passenger Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The Bureau reviewed 16 private passenger automobile cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$27.07 and no undercharges. The net amount that should be refunded to the insured is \$27.07 plus six percent (6%) simple interest.

The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

Acknowledged.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau reviewed four private passenger automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company charged fees that were not on file with the Bureau.

Acknowledged.

- (2) The examiners found one violation of § 38.2-2212 D of the Code of Virginia. The company cancelled the insured's motor vehicle policy for a reason not permitted by the statute.

Acknowledged.

- (3) The examiners found three violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance, the company failed to mail the notice of cancellation to the insured at least 45 days before the cancellation effective date.

Acknowledged.

- b. In one instance, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

Acknowledged.

- c. In one instance, the company failed to advise the insured of the availability of other insurance through his agent, another insurer, or the Virginia Automobile Insurance Plan (VAIP).

Acknowledged.

All Other Cancellations – Private Passenger Automobile PoliciesNONPAYMENT OF THE PREMIUM

The Bureau reviewed 20 private passenger automobile cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$86.12 and undercharges totaling \$3,336.54. The net amount that should be refunded to insureds is \$86.12 plus six percent (6%) simple interest.

The examiners found 34 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In 16 instances, the company failed to calculate the return premium correctly.

Acknowledged.

- b. In 18 instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

REQUESTED BY THE INSURED

The Bureau reviewed ten automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found overcharges totaling \$27.52 and undercharges totaling \$75.26. The net amount that should be refunded to insureds is \$27.52 plus six percent (6%) simple interest.

- (1) The examiners found seven violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In one instance, the company failed to calculate the return premium correctly.

Acknowledged.

- b. In six instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

- (2) The examiners found three violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain a written request from the insured to cancel his policy.

Acknowledged.

- (3) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

Acknowledged.

Rejected Applications – Private Passenger Automobile Policies

The Bureau reviewed two automobile insurance applications for which the company declined to issue a policy.

The examiners found no violations in this area.

Company-Initiated Nonrenewals – Private Passenger Automobile Policies

The Bureau reviewed ten automobile nonrenewals that were initiated by the company.

- (1) The examiners found four violations of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the nonrenewal notice to the insured.

Acknowledged.

- (2) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the insured written notice of nonrenewing his motor vehicle policy.

Acknowledged.

Company-Initiated Cancellations – Homeowner Policies**NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE**

The Bureau reviewed ten homeowner cancellations that were initiated by the company where the company mailed the notices prior to the 90th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$50.00 and no undercharges. The net amount that should be refunded to insureds is \$50.00 plus six percent (6%) simple interest.

(1) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In two instances, the company failed to calculate the return premium correctly.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- b. In two instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

(2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of the cancellation to the lienholder.

Acknowledged.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

In addition, the Bureau reviewed 24 homeowner cancellations that were initiated by the company where the company mailed the notices on or after the 90th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found overcharges totaling \$23.00 and undercharges totaling \$79.33. The net amount that should be refunded to insureds is \$23.00 plus six percent (6%) simple interest.

- (1) The examiners found six violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In two instances, the company failed to calculate the return premium correctly.
Acknowledged.
 - b. In four instances, the company charged fees that were not on file with the Bureau.
Acknowledged.
- (2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.
Acknowledged.
- (3) The examiners found 22 violations of § 38.2-2114 A of the Code of Virginia.
 - a. In 19 instances, the company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.
Acknowledged.

- b. In three instances, the company cancelled coverage on an owner-occupied dwelling because of a physical change in the property and failed to properly document the change.

Acknowledged.

All Other Cancellations – Homeowner Policies

NONPAYMENT OF THE PREMIUM

The Bureau reviewed 15 homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$34.00 and undercharges totaling \$442.30. The net amount that should be refunded to insureds is \$34.00 plus six percent (6%) simple interest.

- (1) The examiners found 14 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In ten instances, the company failed to calculate the return premium correctly.

Acknowledged.

- b. In four instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

- (2) The examiners found one violation of § 38.2-2114 C of the Code of Virginia. The company failed to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).

Acknowledged.

REQUESTED BY THE INSURED

In addition, the Bureau reviewed nine homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found overcharges totaling \$756.41 and undercharges totaling \$33.95. The net amount that should be refunded to insureds is \$756.41 plus six percent (6%) simple interest.

(1) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

a. In one instance, the company failed to calculate the return premium correctly.

Acknowledged.

b. In three instances, the company charged fees that were not on file with the Bureau.

Acknowledged.

(2) The examiners found two violations of § 38.2-2114 E of the Code of Virginia. The company failed to obtain a written request to cancel a policy insuring an owner-occupied dwelling.

Acknowledged.

Company-Initiated Nonrenewals – Homeowner Policies

The Bureau reviewed nine homeowner nonrenewals that were initiated by the company.

- (1) The examiners found one violation of § 38.2-231 A of the Code of Virginia. The company failed to advise the insured of his right to request a review by the Commissioner of Insurance for the cancellation of a policy insuring a business entity.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- (2) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an adverse underwriting decision (AUD).

Acknowledged.

- (3) The examiners found nine violations of § 38.2-2113 C of the Code of Virginia.

- a. In one instance, the company failed to provide proper notice of nonrenewal to the lienholder.

Acknowledged.

- b. In seven instances, the company failed to retain proof of mailing the nonrenewal notice to the insured.

Acknowledged.

- c. In one instance, the company failed to retain proof of mailing the nonrenewal notice to the lienholder.

Acknowledged.

- (4) The examiners found 16 violations of § 38.2-2114 C of the Code of Virginia.
- a. In one instance, the company failed to provide the specific reason for nonrenewal of a policy insuring an owner-occupied dwelling.
Acknowledged.
 - b. In seven instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
Acknowledged.
 - c. In eight instances, the company failed to advise the insured of the availability of insurance through the VPIA.
Acknowledged.

Commercial Automobile Policies

The Bureau reviewed 13 commercial automobile cancellations. During this review, the examiners found overcharges totaling \$15.00 and undercharges totaling \$86.99. The net amount that should be refunded to insureds is \$15.00 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-231 A of the Code of Virginia. The company failed to send a cancellation notice to the insured.
Acknowledged.
- (2) The examiners found one violation of § 38.2-231 J of the Code of Virginia. The company failed to retain proof of mailing the notice of cancellation to the insured.
Acknowledged.
- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide the declarations page.
Acknowledged.

- (4) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file.
- a. In one instance, the company failed to calculate the return premium correctly.
- Acknowledged.**
- b. In one instance, the company charged fees that were not on file with the Bureau.
- Acknowledged.**
- (5) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In two instances, the company failed to obtain advance written notice of cancellation from the insured.
- Acknowledged.**
- b. In one instance, the company failed to maintain a copy of the insured's request for cancellation.
- Acknowledged.**

Commercial Property and Liability Policies

The Bureau reviewed 27 commercial property and liability cancellations. During this review, the examiners found overcharges totaling \$48.00 and undercharges totaling \$77.00. The net amount that should be refunded to insureds is \$48.00 plus six percent (6%) simple interest.

- (1) The examiners found three violations of § 38.2-231 A of the Code of Virginia.
- a. In one instance, the company failed to send a cancellation notice to the insured.
- Acknowledged.**

- b. In one instance, the company failed to send a cancellation notice to the insured at least 45 days before the cancellation effective date.

Acknowledged.

- c. In one instance, the company failed to send a nonpayment of premium cancellation notice to the insured at least 15 days before the cancellation effective date.

Acknowledged.

(2) The examiners found two violations of § 38.2-231 J of the Code of Virginia.

- a. In one instance, the company failed to retain a copy of the cancellation notice sent to the insured for one year from the effective date of the cancellation.

Acknowledged.

- b. In one instance, the company failed to retain proof of mailing the cancellation notice to the insured.

Acknowledged.

(3) The examiners found seven violations of § 38.2-1906 D of the Code of Virginia.

The company failed to use the rules and/or rates on file with the Bureau.

- a. In six instances, the company failed to calculate the return premium correctly.

Acknowledged.

- b. In one instance, the company charged fees that were not on file with the Bureau.

Acknowledged.

- (4) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

Acknowledged.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 79 automobile claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$5,245.88 and underpayments totaling \$11,520.46. The net amount that should be paid to claimants is \$11,520.46 plus six percent (6%) simple interest.

- (1) The examiners found 18 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found 29 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
- a. In ten instances, the company failed to inform an insured of his physical damage deductible when the file indicated that the coverage was

applicable to the loss.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- b. In four instances, the company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- c. In 11 instances, the company failed to accurately inform an insured of his Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- d. In four instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM) when the file indicated the coverage was applicable to the

loss.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

Acknowledged.

- (4) The examiners found five violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

Acknowledged.

- (5) The examiners found five violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

Acknowledged.

- (6) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim.

Acknowledged.

(7) The examiners found seven violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

- a. In two instances, the company failed to pay the insured's UMPD claim properly when Collision and/or UMPD coverages applied to the claim.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- b. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense coverage.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- c. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.

Acknowledged.

- d. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision or Collision coverage.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

These findings occurred with such frequency as to indicate a general business practice.

(8) The examiners found 28 violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.

a. In 24 instances, the company failed to provide a copy of the estimate to the insured.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

b. In four instances, the company failed to provide a copy of the estimate to the claimant.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

(9) The examiners found eight violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

These findings occurred with such frequency as to indicate a general business practice.

- (10) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

Acknowledged.

- (11) The examiners found two violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

Acknowledged.

- (12) The examiners found two violations of § 38.2-510 C of the Code of Virginia. The company failed to disclose the required aftermarket parts notice to the vehicle owner on the estimate of repairs or in a separate document.

Acknowledged.

- (13) The examiners found one violation of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured advising the company to make payments directly to the medical provider.

Acknowledged.

- (14) The examiners found 13 occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In three instances, the company failed to include the lienholder on the check.

Acknowledged.

- b. In eight instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.

Acknowledged.

- c. In two instances, the company overpaid the sales tax, title, and/or tag transfer fees on a total loss claim.

Acknowledged.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found 15 violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

Commercial Automobile Claims

The examiners reviewed 23 commercial automobile claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,000.00 and underpayments totaling \$410.00. The net amount that should be paid to claimants is \$410.00 plus six percent (6%) simple interest.

- (1) The examiners found 11 violations of 14 VAC 5-400-30. The company failed to

document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found one violation of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim. The company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist coverage when the file indicated the coverage was applicable to the loss.

Acknowledged.

- (3) The examiners found seven violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (4) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- (5) The examiners found one violation of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions. The company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision or Collision coverage.

Acknowledged.

- (6) The examiners found seven violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.

- a. In three instances, the company failed to provide a copy of the estimate to the insured.

Acknowledged.

- b. In four instances, the company failed to provide a copy of the estimate to the claimant.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found three violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found four occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In one instance, the company failed to include the lienholder on the check.
Acknowledged.
 - b. In two instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.
Acknowledged.
 - c. In one instance, the company failed to pay the claim in accordance with the terms of the policy.
Acknowledged.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found nine violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

Homeowner Claims

The examiners reviewed 54 homeowner claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found no overpayments and underpayments totaling \$1,402.65. The net amount that should be paid to claimants is \$1,402.65 plus six percent (6%) simple interest.

- (1) The examiners found nine violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found 16 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
 - a. In four instances, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- b. In seven instances, the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- c. In five instances, the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

Acknowledged.

- (4) The examiners found seven violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (5) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found four violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

- a. In one instance, the company failed to properly pay the claim under the insured's replacement cost Dwelling coverage.

Acknowledged.

- b. In two instances, the company failed to properly pay the claim under the insured's Additional Living Expense coverage.

Acknowledged.

- c. In one instance, the company failed to properly pay the claim under the insured's Additional Coverages.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found 16 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or policy provisions relating to coverages at issue. The company gave the insured 180 days from the last actual cash payment rather than six months from the date of the last actual cash value payment to assert a claim for replacement cost on the damaged property.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found two violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for prompt investigation of claims arising under insurance policies.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

- (9) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of the claim in which liability was clear.

Acknowledged.

- (10) The examiners found 11 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured that was not accompanied by a statement setting forth the correct coverage(s) under which the payment was made.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found 16 violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

Commercial Property and Liability Claims

The examiners reviewed 27 commercial property claims for the period of April 1, 2011 through March 31, 2012. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,079.50 and underpayments totaling \$2,638.97. The net amount that should be paid to claimants is \$2,638.97 plus six percent (6%) simple interest.

- (1) The examiners found 13 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found two violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant or a claimant's authorized representative that reasonably suggested a response was expected.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

Acknowledged.

- (4) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

Acknowledged.

These findings occurred with such frequency as to indicate a general business practice.

- (5) The examiners found one violation of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue. The company failed to properly convey to the insured and/or the claimant the company's obligation concerning payment of the rental or loss of use claim.

Acknowledged.

- (6) The examiners found seven violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

The Companies do not waive their prior positions or legal arguments that have been raised and asserted to the Bureau. Notwithstanding the Companies' continuing belief in the correctness of their position, the Companies respect the Bureau's position with regard to this issue.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.

Acknowledged.

- (8) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company paid an insured more than the insured was entitled to receive under the terms of his policy.

Acknowledged.

REVIEW OF FORMS

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

Private Passenger Automobile Policy Forms**POLICY FORMS USED DURING THE EXAMINATION PERIOD**

The companies provided copies of 34 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found six violations of § 38.2-2220 of the Code of Virginia.

- a. In two instances, the company used a version of a standard automobile form that was not in the precise language filed and adopted for use by the Bureau.

Acknowledged.

- b. In four instances, the company failed to have available for use standard automobile forms filed and adopted by the Bureau.

Acknowledged.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 56 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found three violations of § 38.2-317 A of the Code of Virginia. The company used forms that had not been filed with the Bureau at least 30 days prior to use.

Acknowledged.

- (2) The examiners found two violations of § 38.2-2119 of the Code of Virginia. The company used a form that did not set forth the conditions necessary to assert a claim for replacement cost under the policy.

See Exhibit 5

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Commercial Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 77 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found five violations of § 38.2-2220 of the Code of Virginia. The company used a version of a standard automobile form that was not in the precise language filed and adopted by the Bureau.

Acknowledged.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Commercial Property and Liability Policy FormsPOLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 482 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found 12 violations of § 38.2-317 A of the Code of Virginia. The company used forms that had not been filed with the Bureau at least 30 days prior to use.

Acknowledged.POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Private Passenger Automobile Policies

The companies provided six new business policies mailed on the following dates: May 8, June 1, 5, 8, and 25, 2012. In addition, the companies provided six renewal business policies mailed on the following dates: June 6 and 7, 2012.

NEW BUSINESS POLICIES

(1) The examiners found six violations of 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.

Acknowledged.

(2) The examiners found six violations of § 38.2-2210 A of the Code of Virginia. The company failed to include the 60-day cancellation warning notice on or attached to the first page of the application.

Acknowledged.

RENEWAL BUSINESS POLICIES

(1) The examiners found six violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice.

Acknowledged.

(2) The examiners found five violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information with the Bureau.

Acknowledged.

(3) The examiners found six violations of 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company charged installment fees that were not filed with the Bureau.

Acknowledged.

Homeowner Policies

The companies provided six new business policies mailed on the following dates: May 9, June 1, 3, 5, and July 13, 2012. In addition, the companies provided six renewal business policies mailed on the following dates: June 6 and July 13, 2012.

NEW BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.

Acknowledged.

- (2) The examiners found five violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost Coverage notice as required by the Code of Virginia.

Acknowledged.

- (3) The examiners found two violations of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

Acknowledged.

RENEWAL BUSINESS POLICIES

- (1) The examiners found four violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute. The company failed to list all forms applicable to the policy on the declarations page.

Acknowledged.

- (2) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company included a flyer in the policy packet offering a premium discount that was not filed with the Bureau.

Acknowledged.

- (3) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost Coverage notice as required by the Code of Virginia.

Acknowledged.

- (4) The examiners found one violation of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

Acknowledged.

Commercial Automobile Policies

The companies provided six new business policies mailed on the following dates: May 23, 29 and June 1 and 12, 2012. In addition, the companies provided six renewal business policies mailed on April 25 and June 7, 9, 12, and 13, 2012.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found three violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice as required by the Code of Virginia.

Acknowledged.

Commercial Property and Liability Policies

The companies provided 16 new business policies mailed on the following dates: February 27, March 1, 4, 7, 14, 15, 20, 21, 22, April 9, and July 8, 2013. In addition, the companies provided 17 renewal business policies mailed on the following dates: February 27, 28, March 1, 4, 5, 6, 13, 20, 22, 25, and June 12, 2013.

NEW BUSINESS POLICIES

The examiners found 16 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to include the edition dates of all endorsements listed on the declarations page.

Acknowledged.

RENEWAL BUSINESS POLICIES

The examiners found 17 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to include the edition dates of all endorsements listed on the declarations page.

Acknowledged.

REVIEW OF STATUTORY NOTICES

The examiners reviewed the companies' statutory notices used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

- (1) The examiners found two violations of § 38.2-604.1 of the Code of Virginia. The company failed to include all of the information required by the statute in its Notice of Financial Information Collection and Disclosure Practices.

Acknowledged.

- (2) The examiners found 26 violations of § 38.2-610 A of the Code of Virginia. The company's AUD notice did not contain substantially similar language as that of the prototype set forth in Administrative Letter 1981-16.

Acknowledged.

Statutory Vehicle Notices

The examiners found two violations of § 38.2-2234 A 1 of the Code of Virginia.

The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.

Acknowledged.

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company failed to have available a notice summarizing the replacement cost provisions for owner-occupied dwellings.

Acknowledged.

- (2) The examiners found two violations of § 38.2-2120 of the Code of Virginia. The company failed to have available a notice offering the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains.

Acknowledged.

- (3) The examiners found two violations of § 38.2-2126 A of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.

Acknowledged.

Other Notices

The companies provided four copies of other notices and documents including applications that were used during the examination period.

The examiners found no violations in this area.

LICENSING AND APPOINTMENT REVIEW

A review was made of the private passenger automobile, homeowner, commercial automobile, and commercial property and liability new business policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agent

The examiners found six violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

Acknowledged.

Agency

(1) The examiners found one violation of § 38.2-1812 of the Code of Virginia. The company paid commissions to an agency not duly appointed within 30 days of the date of application.

Acknowledged.

(2) The examiners found two violations of § 38.2-1822 A of the Code of Virginia. The company permitted an entity to act as an agency without first obtaining a license from the Commonwealth of Virginia.

Acknowledged.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia

The examiners found four violations of § 38.2-511 of the Code of Virginia. The companies failed to maintain a complete register in compliance with the statute.

Acknowledged.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their written information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the companies, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

The Companies adopt herein all prior submissions regarding Corrective Action. The below portions containing responses from the Companies only relate to those matters that are still the subject of discussion with the Bureau.

General

Auto-Owners Insurance Company and
Owners Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to this Report.

Rating and Underwriting Review

Auto-Owners Insurance Company and
Owners Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharges as of the date the error first occurred.
- (2) Include six percent (6%) interest in the amount refunded and/or credited to the insureds' accounts.

- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) Specify required information in the policy accurately. Particular attention should be focused on forms, endorsements, discounts, coverage limits and deductibles shown on the declarations page.
- (5) Properly represent discounts on the declarations page.
- (6) Provide convenient access to files, documents, and records relating to the examination.
- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, deductible factors, territories, symbols, tier eligibility criteria, driver classifications, base and/or final rates, construction types, occupancy classes, classification codes, public protection classifications, minimum premium rule, IRPM documentation, and policy term factors.

Termination Review

Auto-Owners Insurance Company and
Owners Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.

- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge they have refunded or credited the overcharges listed in the file.
- (4) Charge fees and/or calculate return premium according to the filed rules and policy provisions.
- (5) Retain proof of mailing cancellation and nonrenewal notices sent to the insured for one year from the date of cancellation or nonrenewal.
- (6) Obtain a written notice when the insured requests to cancel his policy as required by the provisions of the insurance policy.
- (7) Retain a copy of the cancellation notice sent to the insured.
- (8) Send cancellation notices at least 45 days before the effective date of cancellation when a private passenger automobile or commercial policy is canceled midterm.
- (9) Provide proper notice of cancellation or nonrenewal to the lienholder.
- (10) Send cancellation notices at least 15 days before the effective date of cancellation when a commercial policy is cancelled for nonpayment of premium.
- (11) Cancel a private passenger automobile policy after the 59th day of coverage only for the reasons permitted by the statute
- (12) Cancel an owner-occupied dwelling policy after the 89th day of coverage only for the reasons permitted by the statute.
- (13) Send a notice of cancellation or nonrenewal to the insured.
- (14) Advise the insured of the availability of other insurance through the VPIA.
- (15) Advise the insured of his right to have the cancellation or nonrenewal of his policy reviewed by the Commissioner of Insurance.

Claims Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.

See Exhibit 6

- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau the enclosed file titled "Claims Underpayments Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.
- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to deductibles, rental benefits under UMPD and Transportation Expenses coverages, Medical Expense coverage, replacement cost benefits under Dwelling and Personal Property coverages, and Additional Living Expense.
- (6) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days.
- (7) Notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (8) Make all claim denials in writing and keep a copy of the written denial in the claim file.

- (9) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
- (10) Provide copies of repair estimates prepared by or on behalf of the company to insureds and claimants.
- (11) Properly represent pertinent facts or insurance provisions relating to coverages at issue.
- (12) Adopt and implement reasonable standards for the prompt investigation of claims.
- (13) Include a correct statement of the coverages under which payments are made with all claim payments to insureds.

Forms Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Use the precise language of the standard automobile forms adopted by the Bureau.
- (2) Use the required standard automobile forms filed and adopted by the Bureau.
- (3) File all homeowner forms with the Bureau at least 30 days prior to use.
- (4) Include replacement cost provisions in homeowner forms as required by the Code of Virginia.

Review of Policy Issuance Process

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Provide the insured the Important Information Regarding Your Insurance notice with all new and renewal policies.
- (2) Specify accurate information in the policy by listing all applicable forms and

corresponding edition dates on the declarations page.

- (3) File all rates and supplementary rate information with the Bureau.
- (4) Use the rules and rates on file with the Bureau. Particular attention should be focused on premium discounts and installment fees.
- (5) Include the 60-day cancellation warning notice on or attached to the first page of the automobile application.
- (6) Provide the Replacement Cost Coverage notice with all new and renewal policies as required by the Code of Virginia.
- (7) Offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.
- (8) Provide the Insurance Credit Score Disclosure notice as required by the Code of Virginia.

Review of Statutory Notices

Auto-Owners Insurance Company and
Owners Insurance Company shall:

- (1) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 of the Code of Virginia.
- (2) Amend the Adverse Underwriting Decision notice to comply with § 38.2-610 of the Code of Virginia.
- (3) Develop a Replacement Cost notice to comply with § 38.2-2118 of the Code of Virginia.
- (4) Develop a Water Back-Up Through Sewers and Drains notice to comply with § 38.2-2120 of the Code of Virginia.
- (5) Amend the Insurance Credit Score Disclosure notice to comply with §§ 38.2-2126 A 1 and 38.2-2234 A 1 of the Code of Virginia.

Licensing and Appointment Review

Auto-Owners Insurance Company and Owners Insurance Company shall:

- (1) Appoint agents within 30 days of the application.
- (2) Accept business only from agencies that are licensed in the Commonwealth of Virginia.
- (3) Only pay commissions to agencies that are appointed by the company.

Review of the Complaint-Handling Process

Auto-Owners Insurance Company and Owners Insurance Company shall:

Maintain a complete complaint register that is in compliance with § 38.2-511 of the Code of Virginia.

PART THREE – RECOMMENDATIONS

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer.

The Companies adopt herein all prior submissions regarding Recommendations. The below portions containing responses from the Companies only relate to those matters that are still the subject of discussion with the Bureau.

RECOMMENDATIONS

We recommend that the companies take the following actions:

Rating and Underwriting

- The companies should use the term “Medical Expense Benefits” on their declarations page instead of the term “Medical Payments.”
- The companies should use the term “Other Than Collision” on their declarations page instead of the term “Comprehensive.”
- The companies should initiate a greater degree of supervision with agents who underwrite their own personal policies.
- The companies should update their manual to include instructions for calculating the Combined Single Limits for BI/PD and UM/UMPD.
- The companies should revise their rule for the number of families to mirror the terminology used on the declarations page.
- The companies should clarify the application of the Product Deductible factor in their filed rules.

- The companies should ensure the filed manual adequately indicates the steps in the premium determination rules.
- The companies should update manual pages AOWJV914 and AOWJV915 to reflect new factors applicable to the policy.

Termination

- The companies should amend their forms on file with the Bureau to reflect their practices with insured requested cancellations.
- The companies should file all fees with the Bureau.

Claims

- The companies should provide a reasonable explanation of the basis of the denial of a claim or offer of a compromise settlement.
- The companies should include the fraud statement on all claim forms that are required by the companies as a condition of payment.
- The companies should pay license plate transfer fees only when the salvage is obtained by the company.

Forms

- The companies should correct the typographical errors on forms CAO268 12-05 Virginia Changes in Policy Cancellation and Non-Renewal, CAO302 12-93 Deductible Liability Coverage, CA2121 11-02 Uninsured Motorist Coverage and CA 3127 12-05 Virginia Split Limit Uninsured Motorist Coverage Limits.

See Exhibit 7

Policy Issuance Process

- The companies should amend their application to state that Transportation Expenses coverage is optional when Collision and/or Other Than Collision coverage is purchased.

Statutory Notices

- The companies should amend their Important Information Regarding Your Insurance notice to reflect the correct zip code for the Bureau.
- The companies should amend their Accident Surcharge notice to reflect the correct zip code for the Bureau.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

This is the first time the Virginia Bureau of Insurance has conducted an examination of these companies.

ACKNOWLEDGEMENT

The Bureau acknowledges the officers' and employees' response to requests from the Bureau during the course of the examination.

Sincerely,

Andrea D. Baytop
Senior Insurance Market Examiner

Andrea Baytop

From: Andrea Baytop
Sent: Monday, March 16, 2015 5:53 PM
To: Cannarile, Jennifer; Bayless, Frank; Carlson, Melinda
Cc: Joy Morton
Subject: Auto-Owners Revised Report Follow-up 3/16/15
Attachments: CA 02 68 12 05_superseded.pdf; CA 03 02 12 93.pdf

Good Afternoon,

We received the companies' March 5, 2015 response to the Revised Report. We only have the following items for the companies to address before we can conclude the examination process.

1. For Commercial Auto Renewal Business Rating, the company must provide evidence that it provided restitution to the insured for RCA024 in the amount of \$270.30. This item was listed in the September 10th Restitution spreadsheet and Revised Report.
2. For Homeowner Forms, the examiner incorrectly referenced Form 17017 (FHO002) in the Bureau's cover letter. Form 17568 (FHO018) amends Form 17606 (FHO021). This violation remains because Form 17568 incorrectly referenced item 1(6) to amend the replacement cost provisions. The replacement cost provisions Form 17568 attempted to replace were in item **1b** of the How Losses Are Settled provisions of the Conditions section of Form 17606. The companies have since corrected this issue with filing AOIC-129096346 effective in 2014.
3. For Commercial Auto Forms, the following forms are not in the precise language of the standard forms: CA 02 68 01 13 (new standard form issued during this exam process) and CA 03 02 12 93. The examiner has attached a copy of the marked up forms for the items still requiring correction.

Please let me know if you have any questions or concerns with the items above. If so, we can have a conference call to discuss any particular item(s) in further detail.

Thank you,

Andrea Baytop, MCM
Senior Insurance Market Examiner
P&C Market Conduct Section
Virginia Bureau of Insurance
804.371.9547
andrea.baytop@scc.virginia.gov

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

April 30, 2015

VIA UPS 2nd DAY DELIVERY

Frank Bayless
Home Office Legal Division
Auto-Owners Companies
6101 Anacapri Boulevard
Lansing, MI 48917

RE: Market Conduct Examination
Auto-Owners Insurance Company (NAIC #18988)
Owners Insurance Company (NAIC #32700)

Dear Mr. Bayless:

The Bureau of Insurance (Bureau) has concluded its review of the companies' March 5, 2015 letter and e-mail of March 16, 2015. Based upon the Bureau's review of the companies' responses, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Auto-Owners Insurance Company and Owners Insurance Company (Report).

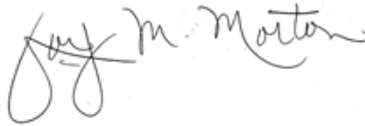
Based on the Bureau's review of the Report and the companies' responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-231, 38.2-231 J, 38.2-305 A, 38.2-305 B, 38.2-317 A, 38.2-502, 38.2-510 A 1, 38.2-510 A 3, 38.2-510 A 10, 38.2-511, 38.2-604.1, 38.2-610 A, 38.2-1318, 38.2-1812, 38.2-1822, 38.2-1833, 38.2-1905 C, 38.2-1906 A, 38.2-1906 D, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2114 E, 38.2-2118, 38.2-2119, 38.2-2120, 38.2-2126 A, 38.2-2208 B, 38.2-2210 A, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F, 38.2-2220, and 38.2-2234 of the Code of Virginia as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, 14 VAC 5-400-60 B, 14 VAC 5-400-70 A, 14 VAC 5-400-70 D, 14 VAC 5-400-80 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, stylized initial "J" and "M".

Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

JMM/pgh

Auto-Owners Insurance Company
Auto-Owners Life Insurance Company
Home-Owners Insurance Company
Owners Insurance Company
Property-Owners Insurance Company
Southern-Owners Insurance Company



PO BOX 30660, LANSING, MICHIGAN 48909-8160
PH 517-323-1200 • FAX 517-323-8796 • WWW.AUTO-OWNERS.COM

June 11, 2015

Mary Bannister, Deputy Commissioner
Property and Casualty
SCC Bureau of Insurance
1300 E. Main St.
Richmond, Virginia 23219

RE: Market Conduct Examination
Auto-Owners Insurance Company (NAIC#18988)
Owners Insurance Company (NAIC#32700)

400112

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated May 4, 2015 concerning the above-referenced matter.

We wish to make a settlement offer on behalf of the insurance companies listed below for the alleged violations of §§38.2-231, 38.2-231 J, 38.2-305 A, 38.2-305 B, 38.2-317 A, 38.2-502, 38.2-510 A 1, 38.2-510 A 3, 38.2-510 A 10, 38.2-511, 38.2-604.1, 38.2-610 A, 38.2-1318, 38.2-1812, 38.2-1822, 38.2-1833, 38.2-1905 C, 38.2-1906 A, 38.2-1906 D, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2114 E, 38.2-2118, 38.2-2119, 38.2-2120, 38.2-2126 A, 38.2-2208 B, 38.2-2210 A, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F, 38.2-2220, and 38.2-2234 of the Code of Virginia as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, 14 VAC 5-400-60 B, 14 VAC 5-400-70 A, 14 VAC 5-400-70 D, 14 VAC 5-400-80 D of the Virginia Administrative Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$84,000.00.
2. We agree to comply with the corrective action plan set forth in the companies' letter of March 5, 2015, and the email of March 16, 2015.
3. We confirm that restitution was made to 106 consumers for \$30,217.07 in accordance with the companies' letter of March 5, 2015.

Mary Bannister

Page 2

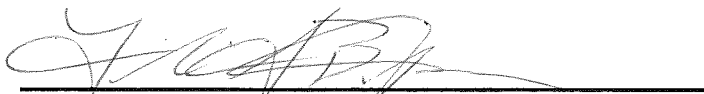
June 11, 2015

4. We further acknowledge the companies' right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

Auto-Owners Insurance Company (NAIC #18988)
Owners Insurance Company (NAIC #32700)



(Signed)

Franklin J. Bayless

(Type or Print Name)

Senior Attorney

(Title)

June 11, 2015

(Date)

COMMONWEALTH OF VIRGINIA

**JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**



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www.scc.virginia.gov/boi**

Auto-Owners Insurance Company has tendered to the Bureau of Insurance the settlement amount of \$84,000 by its check numbered 161225225 and dated June 11, 2015, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JULY 2, 2015

SCC-CLERKING OFFICE
DOCUMENT CONTROL CENTER
2015 JUL -2 P 2:18

15071 0088

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2015-00056

AUTO-OWNERS INSURANCE COMPANY
and
OWNERS INSURANCE COMPANY,
Defendants

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Auto-Owners Insurance Company and Owners Insurance Company (collectively, "Defendants"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Commonwealth"), violated: §§ 38.2-231 A, 38.2-231 J, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2114 E, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, and 38.2-2212 F of the Code of Virginia ("Code") by failing to properly terminate insurance policies; § 38.2-305 A of the Code by failing to provide the information required by statute in the insurance policy; §§ 38.2-305 B, 38.2-604.1, 38.2-2118, 38.2-2120, 38.2-2126 A, 38.2-2210 A, and 38.2-2234 A of the Code by failing to accurately provide the required notices to insureds; § 38.2-317 A of the Code by issuing insurance policies or endorsements without having filed such policies or endorsements with the Commission at least 30 days prior to their effective date; § 38.2-502 of the Code by misrepresenting the benefits, advantages, conditions or terms of insurance policies; §§ 38.2-510 A (1), 38.2-510 A (3), and 38.2-510 A (10) of the Code, as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, 14 VAC 5-400-60 B,

14 VAC 5-400-70 A, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to properly handle claims with such frequency as to indicate a general business practice; § 38.2-511 of the Code by failing to maintain a complete complaint register; § 38.2-610 A of the Code by failing to provide adverse underwriting decision notices as required; § 38.2-1318 of the Code by failing to provide convenient access to files, documents and records; §§ 38.2-1812 and 38.2-1833 of the Code by paying commissions to agencies/agents not appointed by the Defendants; § 38.2-1822 of the Code by knowingly permitting persons to act as agents without first obtaining a license in the manner and form prescribed by the Commission; § 38.2-1905 C of the Code by assigning points under safe-driver insurance policies to a vehicle other than the vehicle customarily driven by the operator responsible for incurring points; §§ 38.2-1906 A and 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants; § 38.2-2119 of the Code by failing to include the proper conditions for replacement cost in its forms; and § 38.2-2220 of the Code by failing to use forms in the precise language of standard forms previously filed and adopted by the Commission.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendants have been advised of their right to a hearing in this matter whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have tendered to the Commonwealth the sum of

Eighty-four Thousand Dollars (\$84,000), waived their right to a hearing, agreed to comply with the corrective action plan set forth in their correspondence to the Bureau dated March 5, 2015, and March 16, 2015, and confirmed that restitution was made to 106 consumers in the amount of Thirty Thousand Two Hundred Seventeen Dollars and Seven Cents (\$30,217.07).

The Bureau has recommended that the Commission accept the offer of settlement of the Defendants pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Bureau, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted.

(2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Frank Bayless, Esquire, Home Office Legal Division, Auto-Owners Companies, 6101 Anacapi Boulevard, Lansing, Michigan 48917; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Mary M. Bannister.