State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

1ST AUTO & CASUALTY INSURANCE COMPANY
2810 CITY VIEW DRIVE
MADISON WI 53718

dated September 23, 2009, and served upon the company on June 1, 2010, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 7th day of July, 2010.

Sean Dilweg
Commissioner of Insurance

STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE

MARKET CONDUCT EXAMINATION

OF

1ST AUTO & CASUALTY INSURANCE COMPANY
MADISON, WISCONSIN

SEPTEMBER 14 - 23, 2009

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Honorable Sean Dilweg
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conduct September 14 to September 23, 2009 of:

1ST AUTO & CASUALTY INSURANCE COMPANY
Madison, Wisconsin

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

1st Auto & Casualty Insurance Company (1st Auto) is a Wisconsin domiciled property and casualty insurance company. The company was organized in 1991 as 1st Auto and commenced business September 25, 1991. The company is a wholly owned subsidiary of Wisconsin Reinsurance Corporation (WRC) and has intercompany services agreements with WRC. Services preformed by WRC include accounting, data processing, marketing, receptionist, secretarial services and any other services to be agreed upon by the parties. The company was initially capitalized with $3 million from the parent company. A stock offering by the parent corporation in 1997 added an additional $2 million to 1st Auto's surplus.

The company was licensed to write insurance business in Arkansas, Illinois, Iowa, South Dakota and Wisconsin during 2007 and Arkansas, Illinois, Iowa, Missouri, South Dakota and Wisconsin in 2008.

In 2008 the company reported written premium in Arkansas, Iowa, Missouri, South Dakota and Wisconsin. In 2007 the company reported written premium in Arkansas, Iowa, South Dakota and Wisconsin. The following table summarizes the national direct premium written in 2008 and 2007 as compared to the total direct premium written in Wisconsin.

Year	National Direct Premium Written	Wisconsin Direct Premium Written
2008	$19,502,974	$12,147,027
2007	$19,917,424	$12,863,030

In 2007 and 2008, the majority of the premium earned by the company in Wisconsin was for private passenger auto. The following tables summarize premium earned and losses incurred in Wisconsin for 2007 and 2008 broken down by line of business.

2008 Data

Line of Business	Premium Earned	Losses Incurred
Private Passenger Auto	$10,799,193	$5,068,019
Commercial Auto	$627,321	$470,950
All Others	$878,090	$25,000
Total	$12,304,604	$5,563,969

2007 Data

Line of Business	Premium Earned	Losses Incurred
Private Passenger Auto	$11,611,577	$6,797,379
Commercial Auto	$522,693	$332,330
All Others	$869,940	$146,836
Total	$13,004,210	$7,276,545

The company ranked as the 36th largest writer of private passenger automobile insurance in Wisconsin in 2007. In 2008, the company ranked as the 39th writer of private passenger automobile insurance in Wisconsin.

The Office of the Commissioner of Insurance (OCI) received 13 complaints against the company between January 1, 2007 through December 14, 2009. A complaint is defined as

'a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent.'

During the year of 2008, OCI received 7 complaints against the company. All of the complaints filed in 2008 with OCI were private passenger auto coverage type. The total number of complaints received by OCI in 2008, increased by 40% from the number of complaints received in 2007 .

The company was found to be on the 2008 and 2006 Complaint Summary list for an above-average complaint-to-premium ratio for automobile insurance policies with a ranking of 13th for both years.

The following table categorizes the complaints received against the company by type of policy and complaint reason. There may be more than one type of coverage and/or reason for each complaint.

Complaints Received

2009 Complaint Data						
Coverage Type	Total	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Personal Auto	1	0	0	1	0	0
Total	1	0	0	1	0	0

2008 Complaint Data						
Coverage Type	Total	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Personal Auto	7	0	0	7	0	0
Total	7	0	0	7	0	0

2007 Complaint Data						
Coverage Type	Total	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Personal Auto	4	3	0	2	0	0
All Others	1	0	0	0	0	0
Total	5	3	0	2	0	0

II. PURPOSE AND SCOPE

A targeted examination was conducted to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from June 1, 2007 through May 31, 2009. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

The examination focused on private passenger automobile business in Wisconsin and included a review of marketing & sales, producer licensing, policyholder and complaint service, underwriting & rating, claims, policy forms & rates and company operations/ management, including privacy.

The report is prepared on an exception basis and comments on those areas of the company's operations where adverse findings were noted.

III. CURRENT EXAMINATION FINDINGS

Policy Forms & Rates

The company is using independently filed forms along with ISO forms, AAIS forms and ACORD applications. The examiners reviewed personal lines policy forms submitted by the insurance company and used during the period of review in order to verify that the provisions of the policy forms comply with Wisconsin insurance laws and regulations. Examiners also randomly selected 20 policy forms currently used by the company, from a list provided by the company, to verify that they have been approved for use in Wisconsin.

In addition, 12 policy forms filed between 7/1/08 and 5/28/09 were reviewed in order to verify that the provisions of the policy forms conform to Wisconsin insurance laws and regulations, according to the signed Certificate of Compliance submitted with each filing. 1st Auto Wisconsin Personal and Commercial Vehicle Manual pages were also reviewed. Effective July 1, 2008, Wisconsin law changed the prior approval requirement for many insurance forms

and the 12 reviewed were filed after the change to s. 631.20, Wis. Stat. The following exceptions were noted:

The examiners found form filings submitted via System for Electronic Rate and Form Filing (SERFF), where the company failed to include a readability score. For all consumer insurance policies where a readability score is required, as defined under s. Ins 6.07 (8) (a), Wis. Adm. Code, a minimum score meeting the requirements outlined in the rule should be entered into the field designated for readability score in SERFF.

1. **Recommendation:** It is recommended that the company implement a procedure to ensure that when filing forms via SERFF all polices where a readability score is required, as defined by s. Ins 6.07 (8), Wis. Adm. Code, a minimum score meeting the requirements outlined in the rule is entered in the field designated for readability score.

The examiners found two typographical errors of material significance in the Miscellaneous Coverage section of the company's Personal Vehicle Manual which is filed with OCI. The Uninsured Motorists Coverage rule states:

> 'this coverage provides coverage for Bodily Injury to an insured under his or her own policy for which an insured motorist is legally liable.'

The rule should say,

> '... for which an uninsured motorist is legally liable.'

Furthermore, the Sound Receiving and Transmitting Equipment (coverage code 014) rule states it provides:

> 'coverage for loss of or damage to any device or instrument ... if equipment is permanently installed in the opening of the dash or console of the auto...'

The rule should say,

> '... if equipment is not permanently installed...'

The company's manual is provided to agents. Material errors in the manual may cause misrepresentations to be made by the company's agents to consumers. Section 628.34 (1) (a), Wis. Stat. provides, in part, no person who is licensed under chs. 600 to 646 and no employee

or agent of any such person may make or cause to be made any communication relating to an insurance contract, the insurance business, any insurer or any intermediary which contains false or misleading information, including information misleading because of incompleteness. Section 625.13, Wis. Stat. provides every authorized insurer shall file with the commissioner all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective.

2. **Recommendation:** It is recommended that the company correct the material typographical errors in the Miscellaneous Coverage section of the Personal Vehicle Manual to ensure compliance with s. 628.34 (1) (a), Wis. Stat. and refile the corrected rules in accordance with s. 625.13, Wis. Stat.

The examiners found that the company did not file its 2006 physical damage symbol rates until September 19, 2007 (SERFF Filing No. FRAC-125235075, OCI File No. 143021) to be effective October 1, 2007. Prior to filing the 2006 physical damage rates, the company used its 2005 physical damage symbol rates to rate physical damage coverages for 2006 vehicles. The company did not file with the commissioner within 30 days of using the 2005 physical damage symbol rates to rate physical damage coverages for 2006 vehicles. Section 625.13 (1), Wis. Stat. provides, in part, every authorized insurer shall file with the commissioner all rates and supplementary rate information for use in this state within 30 days after they become effective. Since the 2005 and 2006 physical damage symbol rates are identical, policyholders with 2006 vehicles were not overcharged or undercharged premium as a result of the company using such unfiled rates.

3. **Recommendation:** It is recommended that the company submit rate and rule filings to the commissioner within 30 days after they become effective which contain all rates and supplementary rate information, in order to comply with s. 625.13 (1), Wis. Stat.

The examiners found the company submitted incomplete rate and rule filings when filing its rating algorithm. The company's rating algorithm fails to provide all of the possible rating factors for each coverage such as: loss costs, class factors, tier factors, mutual credit factor, student out of state factor, and dollar rounding rules. Section 625.13 (1), Wis. Stat.

provides, in part, every authorized insurer shall file with the commissioner all rates and supplementary rate information for use in this state within 30 days after they become effective.

4. **Recommendation:** It is recommended that the company file its complete rating algorithm in use at this time, with all of the possible rating factors for each coverage. For future filings, it is recommended that the company submit rate and rule filings to the commissioner within 30 days after they become effective which contain all rates and supplementary rate information, including the company's complete rating algorithm with all of the possible rating factors for each coverage, in order to comply with s. 625.13 (1), Wis. Stat.

The examiners found 39 new business applications that were not refiled with OCI for approval. The applications did not reveal a form identification number and Acord identification is also missing. It is recognized the company utilized an Acord document; however, the document should have been submitted to OCI for approval before being issued to consumers with changes. The company verified that the application in question is Acord 90 WI (2001/03) and when policies were uploaded for its internal, electronic MI Rating System, the form number did not print. The company advised it would discuss this issue with the rating company. However, the examiners were not able to locate a form filing in OCI records indicating the company will be using the 2001/03 edition of the Acord 90 form. The company acknowledged they may not have notified OCI of the edition change. Prior to and during a portion of the period under review, s. 631.20, Wis. Stat. provided that policy forms, including applications and/or electronic applications, were to be filed with and approved by the Commissioner prior to use in Wisconsin. On or after August 1, 2008, s. 631.20, Wis. Stat. was amended to provide that, unless specifically excepted, a policy form first used on or after the effective date of the change that had not already been filed by that date, may be used without approval by the Commissioner provided the policy form had been filed with the Commissioner at least 30 days before use and the insurer certified that the policy form complied with the statutes related to insurance and any rules promulgated under those statutes. Section Ins 6.05 (4) (a) 5, Wis. Adm. Code, requires that each submission of forms shall include one copy of each form in final printed format or

typed facsimile exactly as it will be offered for issuance or delivery in the state of Wisconsin except for hypothetical data and other appropriate variable material.

5. **Recommendation:** It is recommended that, prior to making forms available for use in Wisconsin, the company refile all previously approved forms including electronic forms, when changes to the form number, format, non-hypothetical data and/or other appropriate non-variable material on the form are made, to ensure compliance with s. 631.20, Wis. Stat., and s. Ins 6.05 (4) (a) 5., Wis. Adm. Code.

In addition, the examiners found the company revised the form number, format, non-hypothetical text and/or non-variable text of its declaration page at least twice since the form was originally filed in 1991. The company acknowledged that it failed to refile its declaration page when the format was changed and the form number was removed in 1999. The company also failed to refile its declaration page when it revised its transportation coverage limits which are hard coded, non-variable text on the form, in 2009. Prior to and during a portion of the period under review, s. 631.20, Wis. Stat. provided that policy forms, including declaration pages, were to be filed with and approved by the Commissioner prior to use in Wisconsin. On or after August 1, 2008, s. 631.20, Wis. Stat. was amended to provide that, unless specifically excepted, a policy form first used on or after the effective date of the change that had not already been filed by that date, may be used without approval by the Commissioner provided the policy form had been filed with the Commissioner at least 30 days before use and the insurer certified that the policy form complied with the statutes related to insurance and any rules promulgated under those statutes. Section Ins 6.05 (4) (a) 5, Wis. Adm. Code, requires that each submission of forms shall include one copy of each form in final printed format or typed facsimile exactly as it will be offered for issuance or delivery in the state of Wisconsin except for hypothetical data and other appropriate variable material.

6. **Recommendation:** It is recommended that, prior to making forms available for use in Wisconsin, the company refile all previously approved forms when changes to the form number, format, non-hypothetical data and/or other appropriate non-variable material on the form are made, to ensure compliance with s. 631.20, Wis. Stat., and s. Ins 6.05 (4) (a) 5., Wis. Adm. Code.

Producer Licensing

The company uses independent agencies to market insurance products and agents must be affiliated with a mutual that the parent company, WRC, reinsures in order to represent 1st Auto. To review the company's obligation to notify the Commissioner of producers that are appointed or terminated, the examiners requested that the company provide a list consisting of all producers appointed to represent the company as of the end of the period of review. The company's list was then compared to the Commissioners database of producers appointed to represent the company as of that date. Internal producer licensing procedures of the company were also reviewed by examiners. In addition, the examiners reviewed 100 files where the agent was appointed to represent the company and/or the relationship with the company was terminated during the examination period of review. The following exceptions were noted:

The examiners found 16 agents did not have an active property and casualty appointment with the company according to OCI records. It was found that 14 of the 16 agents were appointed after the period of review, but the company failed to provide those dates in the data submitted. OCI requested the company provide a record of agents that represented the company as of the end of the examination period which was 5/31/09. The company acknowledged that 14 of the agents identified should not have been included in the data sample list provided. Agents with licenses in multiple states were also inadvertently provided in the data sample. However, it was identified that two agents were canceled with OCI, but not removed from the company database. The examiners also found that 13 license numbers in the company provided list of producers did not match an agent license number in our records. The company agreed that 8 of the 13 agents did have incorrect agent numbers in the company database. The company indicates the current agent listing procedures are to require a copy of the current agent license using a company developed request to be licensed form and then they submit the information to OCI. Each underwriter is responsible for verifying that the agent is licensed and information is verified in the company database. In accordance with s. Ins 6.57 (5), Wis. Adm.

Code, no insurer shall accept business directly from any intermediary or enter into an agency contract with an intermediary unless that intermediary is a licensed agent appointed with that insurer. It can be concluded that the accuracy of the company records cannot be relied upon to ensure that only business is accepted from licensed and listed agents.

7. **Recommendation:** It is recommended that the company implement written procedures that include verification of recorded agent information in the company databases and verification that the data accurately reflect the status of the agent licensing and appointment information in order to ensure that only business is accepted from licensed and appointed agents as required by s. Ins 6.57 (5), Wis. Adm. Code.

8. **Recommendation:** It is recommended that the company develop and implement written procedures to include verification that the recorded agent information in company databases accurately reflects appointment and termination dates, in order to ensure that only business is accepted from licensed and appointed agents as required by s. Ins 6.57(5), Wis. Adm. Code.

The examiners found 21 agency files which did not contain a written notice, addressed to the agent, requesting the return of all indicia of agency and advising the individual that he or she may not act as the company's representative. The examiners also found 4 files where the notice of termination mailed to the agent did not include a formal demand for the return of all indicia of agency. The company advised that it requests materials from an Agency/Agent that is terminated. The company also reports they do not provide paper copies of materials, all materials are provided on the website and once an agent is canceled they may no longer access the website. They have a form letter that is to be used when processing the cancellation of an agent; however, they also responded to our office that the form letter has not been used lately and they will verify that this is being done going forward. Section Ins 6.57 (2), Wis. Adm. Code, requires an insurer to provide written notice of termination of appointment of individual intermediary to the agent advising the agent that the agent is no longer to be appointed as a representative of the company and that he or she may not act as its representative. In addition, s. Ins 6.57 (2), Wis. Adm. Code, provides that this notice shall include a formal demand for the return of all indicia of agency.

9. **Recommendation:** It is recommended that the company implement a more thorough and accurate procedure to verify a formal written demand for the return of all indicia of agency at the time of the termination of the individuals appointment is provide to the agent representing the company and that said notice advise the individual that he or she may not act as the company's representative in order to comply with s. Ins 6.57 (2), Wis. Adm. Code

The examiners found that in two terminated agent files reviewed, an incorrect reason for termination was reported to the Commissioner. The reason reported to OCI for the appointment termination of each agent was cancellation; however, notes in the files indicated the reason was due to sales volume. The company acknowledged to our office that the termination code reported for each agent should have been inadequate production. Section 628.34 (1) (a), Wis. Stat, provides that no person who is or should be licensed under chs. 600 to 646, no employee or agent of any such person, no person whose primary interest is as a competitor of a person licensed under chs. 600 to 646, and no person on behalf of any of the foregoing persons may make or cause to be made any communication relating to an insurance contract, the insurance business, any insurer or any intermediary which contains false or misleading information, including information misleading because of incompleteness. Filing a report and, with intent to deceive a person examining it, making a false entry in a record or willfully refraining from making a proper entry, are 'Communications' within the meaning of this paragraph.

10. **Recommendation:** It is recommended that the company develop and implement a procedure to ensure that the correct reason for an agent termination is reported to the Commissioner in order to avoid an unfair marketing practice as defined by s. 628.34 (1), (a), Wis. Stat.

Underwriting & Rating

The examiners reviewed 50 new business private passenger auto files and 50 private passenger auto termination files. In addition, the examiners reviewed the company's underwriting procedures and manuals. The examiners also reviewed 25 new business private passenger automobile policies to verify that the company is issuing policies using rates and rate-related rules that have been filed for use in Wisconsin. The company uses ISO Loss Cost

and suggested rates/pricing for Personal Auto. Territories and rating classifications may be modified for competitive reasons. The following exceptions were noted.

The examiners found that the company's underwriting eligibility guidelines regarding driver experience, as stated in the company's Cheat Sheet and Personal Vehicle Manual for all of the tier programs, require youthful applicants to have supporting coverage of an adult resident relative or adult resident. The underwriting guidelines state that the adult is required to be at least 30 years old. The examiners also found that the company's underwriting eligibility guidelines regarding driver experience, as stated in the company's Cheat Sheet and Personal Vehicle Manual for the Optimal and Shield tier programs, require all drivers to be at least 18 years old with two years of driving experience. Section 632.35, Wis. Stat. provides that no insurer may cancel or refuse to issue or renew an automobile insurance policy wholly or partially because of one or more of the following characteristics of any person: age, sex, residence, race, color, creed, religion, national origin, ancestry, martial status or occupation. Section Ins 6.54 (3) (a) 4, Wis. Adm. Code, provides that no insurance company shall refuse, cancel or deny insurance coverage to a class of risks solely on the basis of the applicant's or insured's age.

11. **Recommendation:** It is recommended that the company revise its underwriting guidelines, including the Cheat Sheet, to remove age requirements in order to ensure compliance with s. Ins 6.54 (3), Wis. Adm. Code and to avoid unfair discrimination under s. 632.35, Wis. Stat.

The examiners found that the company's underwriting eligibility guidelines state that unacceptable persons include 'unemployed except homemaker, retired, or verification of regular income' which appears to be based on occupation. Section 632.35, Wis. Stat. provides that no insurer may cancel or refuse to issue or renew an automobile insurance policy wholly or partially because of one or more of the following characteristics of any person: age, sex, residence, race, color, creed, religion, national origin, ancestry, martial status or occupation. However, the company clarified that the eligibility guideline is based on the requirement of income.

12. **Recommendation:** It is recommended that the company revise its underwriting guideline for unemployed persons and verification of regular income to reflect the company's actual intent, in order to ensure compliance with s. 632.35, Wis. Stat.

The examiners found that the company's underwriting eligibility guidelines state that unacceptable persons include a person whose:

> 'drivers license was revoked or suspended in the last five years except for suspension due to failure to pay fine'.

The Cancellation section of the company's Personal Vehicle Manual also states that the company considers:

> 'any license suspension due to the driving records of an individual in the household'

to be a substantial change in risk and may cancel a policy for this reason. The company responded that it reviews additional information to determine whether the suspension or revocation is related to a motor vehicle violation. Section Ins 6.54 (3) (a) 1, Wis. Adm. Code provides that no insurance company shall refuse, cancel or deny insurance coverage to a class of risks solely on the basis of the applicant's or insured's past criminal records. Section Ins 6.54 (3) (b), Wis. Adm. Code provides an insurer may deny, cancel or nonrenew automobile insurance of a person convicted of an offense if the offense which resulted in the conviction is directly related to the risk to be insured.

13. **Recommendation:** It is recommended that the company revise its underwriting guidelines and the cancellation section of its manual to clarify that the company will not deny, cancel or nonrenew an automobile policy based on the applicant's or insured's suspended or revoked license unless the suspension or revocation is directly related to a motor vehicle violation, in order to ensure compliance with ss. Ins 6.54 (3) (a) 1, Wis. Adm. Code.

The company provided a sample of its 'Moved out of state letter' which is a mid-term cancellation notice that is sent to policyholders who move out of Wisconsin. The notice does not contain adequate instructions to the policyholder for applying for insurance through the Wisconsin Automobile Insurance Plan. Section 631.36 (7) (a) 2., Wis. Stat. provides that a notice of cancellation is not effective unless the notice contains adequate instructions to the

policyholder for applying for insurance through a risk-sharing plan under ch. 619. The law does not provide an exception for cancellations issued to risks that are no longer eligible for a risk-sharing plan under ch. 619 due to moving out of Wisconsin.

14. **Recommendation:** It is recommended that the company revise its Moved out of state letter' to provide adequate instructions to the policyholder for applying for insurance through the Wisconsin Automobile Insurance Plan, in order to comply with s. 631.36 (7) (a) 2., Wis. Stat.

The examiners found that the company uses abbreviations when stating reasons for cancellations/nonrenewals instead of spelling out the detail that caused a concern. Six termination files reviewed contained cancellation or nonrenewal notices to the insured where the reason for cancellation or nonrenewal contained an abbreviation. One file was found in which the company failed to provide the exact MVR data reason. Section 631.36 (6), Wis. Stat. states, a notice of cancellation or nonrenewal under sub. (2) (b) or (4) shall state with reasonable precision the facts on which the insurer's decision is based and no such notice is effective unless it so states the facts.

15. **Recommendation:** It is recommended the company implement a system to eliminate the use of abbreviations on cancellation/nonrenewal notices when explaining the 'reason' for an action. It is further recommended that reference to a Motor Vehicle Report (MVR) shall state the actual driving violation a termination is based on to ensure compliance with s. 631.36 (6), Wis. Stat..

The examiners found two termination files where the company could not produce original termination/cancellation notices when requested by OCI. The company indicated they could have misfiled their copy; however, they did have proof of mailing. A request was made for the company to provide a copy of the document(s) that sets forth the company's underwriting file record retention and destruction procedures. In response to the request, the company indicated copies were kept per state requirements. Sections Ins 6.80 (4) (b) and (c) 1, Wis. Adm. Code, require that a domestic insurer maintain and make available to the Commissioner records reasonably related to its operations for the preceding three years, including termination/cancellation notices mailed to the policyholder.

16. **Recommendation:** It is recommended that the company implement a written procedure to retain copies of any cancellation/nonrenewal notice in the company's file for three years in order to comply with s. Ins 6.80 (4) (b), Wis. Adm. Code.

The examiners found five automobile policies that were nonrenewed or canceled by the company where the notice of nonrenewal or cancellation did not provide instructions to the correct address for the Wisconsin Automobile Insurance Plan (WAIP). Section 631.36 (7) (a) 2, Wis. Stat., provides that no notice of cancellation or nonrenewal required under ss. 632.36 (2) (b) or (4), Wis. Stat., is effective unless the notice contains adequate instructions to the policyholder for applying for insurance through a risk-sharing plan under ch. 619, Wis. Stat., for the kind of coverage being canceled or nonrenewed. WAIP is the risk-sharing plan established under ch. 619, Wis. Stat., for automobile insurance.

17. **Recommendation:** It is recommended that when cancelling or nonrenewing a policy under ss. 631.36 (2) (b) or (4), Wis. Stat., the company include in the notice adequate instructions to the policyholder, for applying for insurance through a risk-sharing plan under ch. 619, WI stat., if a risk-sharing plan exists under ch. 619 for the kind of coverage being canceled or nonrenewed, in order to ensure compliance with s. 631.36 (7), Wis. Stat. The information provided shall also include the correct address for the risk-sharing plan.

The examiners found that the company filed its base rates with OCI whereby the base rates already had the loss cost factor applied and rounded to the nearest dollar. However, the company's Diamond policy issuance computer system did not round the calculation after applying the loss cost factor. As a result of the different rounding, the examiner found 16 of 25 policies reviewed were issued with higher premiums than the company's filed rates. The examiners found that the rounding issue typically affected more than one coverage or vehicle per policy. The company responded that its new SIS policy issuance computer system eliminates the loss cost rounding difference. Section 625.13, Wis. Stat. provides every authorized insurer shall file with the commissioner all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective.

18. **Recommendation:** It is recommended that the company issue policies using only rates that have been filed with the commissioner within 30 days after they become effective, in order to comply with s. 625.13 (1), Wis. Stat.

The examiners found that the company applies a .90 tier rate factor to the filed Premier rates for Premier Plus policies, a .85 tier rate factor to the filed Optimal rates for Optimal Plus policies and a 1.10 tier rate factor to the field Optimal rates for Shield policies. When the company submitted revised rate and rule filings for its Premier and Optimal programs, it failed to file the Premier Plus, Optimal Plus and Shield tier rate factors. Section 625.13, Wis. Stat. provides every authorized insurer shall file with the commissioner all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective.

19. **Recommendation:** It is recommended that the company file the company's Premier Plus, Optimal Plus and Shield tier rate factors in use at this time. For future filings, it is recommended that the company submit rate and rule filings to the commissioner within 30 days after they become effective which contain all rates and supplementary rate information, including the company's Premier Plus, Optimal Plus and Shield tier rate factors, in order to comply with s. 625.13 (1), Wis. Stat.

Company Operations & Management

The examiners reviewed the company's operations/management plans by reviewing responses to interrogatories and information provided by the company through the examination process. The examiners also reviewed the company's privacy policy and procedures regarding treatment of consumer financial and health information. The following exceptions were noted.

The examiners found that the company does not conduct formal privacy training for the entire staff beyond requiring a signed acknowledgement that the staff has read and understands the policies laid out in the Policy and Procedures Manual. Chapter 25 of the Wisconsin Administrative Code governs the treatment of nonpublic personal health and financial information, and set out requirements for compliance.

20. **Recommendation:** It is recommended that the company develop and conduct privacy policy training for all staff to ensure compliance with the requirements of ch. Ins 25, Wis. Adm. Code.

The examiners found that the company does not conduct formal privacy training for agents beyond requiring a signed acknowledgement that the agent has read and understands the policies laid out in the Producer Agreement. Chapter 25 of the Wisconsin Administrative Code governs the treatment of nonpublic personal health and financial information, and set out requirements for compliance.

21. **Recommendation:** It is recommended that the company develop and conduct privacy policy training for all agents appointed with the company to ensure compliance with the requirements of ch. Ins 25, Wis. Adm. Code.

The examiners found that the company has not conducted an audit, internal or external, of its privacy policy to date. Also, the company has no schedule in place to conduct an audit at this time. Chapter 25 of the Wisconsin Administrative Code governs the treatment of nonpublic personal health and financial information.

22. **Recommendation:** It is recommended that the company conduct an audit of the company privacy policy to ensure compliance with Chapter 25 of the Wis. Adm. Code, and implement an audit schedule to ensure continued compliance with the code.

Section S. Privacy Policy of the Employee Manual states that persons or organizations acting on the company's behalf are required to protect confidentiality. The steps the company takes to verify/enforce the confidentiality requirement include making persons or organizations aware of the company privacy policy and requesting to see their policy. If there is a contract involved, the company will reference that contract. Chapter 25 of the Wisconsin Administrative Code governs the treatment of nonpublic personal health and financial information, and set out requirements for compliance.

23. **Recommendation:** It is recommended that the company develop a system to verify and enforce company privacy requirements as they apply to persons/organizations acting on the company's behalf to ensure compliance with the requirements of ch. Ins 25, Wis. Adm. Code.

The WRC Acknowledgement signed by company employees confirming that they have read the Employee Manual does not specifically mention the company's privacy policy nor does it address the consequences of non-compliance with the privacy policy or procedures.

Chapter 25 of the Wisconsin Administrative Code governs the treatment of nonpublic personal health and financial information, and set out requirements for compliance.

24. **Recommendation:** It is recommended that the company include specific language in their WRC Acknowledgement form addressing the company's privacy policy and outlining the consequences of non-compliance with that policy in order to ensure compliance with the requirements of ch. Ins 25, Wis. Adm. Code.

The company does not have a procedure in place to proactively verify and ensure that agents are taking reasonable and appropriate measures to keep personal information confidential as is required in the company's Producer Agreement. Chapter 25 of the Wisconsin Administrative Code governs the treatment of nonpublic personal health and financial information, and set out requirements for compliance.

25. **Recommendation:** It is recommended that the company implement a system to review and verify the safeguards that listed agents have in place to keep personal information confidential in order to ensure compliance with the requirements of ch. Ins 25, Wis. Adm. Code.

Claims

The examiners reviewed 88 private passenger automobile claims. Of these claims, 50 were paid private passenger automobile claims and 38 were private passenger automobile claims not paid. The company's claim handling practices and procedures were also reviewed. All claims were processed in a timely manner and no claims paid problems were noted. Any claim delays were caused by the insured and/or adjustment negotiations. No exceptions were noted within the files reviewed.

Policyholder Service & Complaints

The examiners reviewed the procedures used by the company for handling policyholder and consumer complaints. No exceptions were noted.

IV. CONCLUSION

A total of 25 recommendations were made as a result of this targeted examination relating to the company's need to write and/or modify underwriting, producer licensing, privacy and policy form and rate filing procedures.

There were nine recommendations in relation to underwriting & rating. The company needs to revise and update certain underwriting guidelines. The company also needs to ensure the correct contact information is used on all notices listing the established risk-sharing plan contact.

There were six recommendations in relation to company operations and management. The company must implement a plan to ensure compliance with applicable requirements of Chapter 25 of the Wisconsin Administrative code, which governs the treatment of nonpublic personal health and financial information.

In addition, there were six recommendations in relation to policy forms and rates. The company needs to revise its policy form filing process to ensure compliance with the filing requirements in s. 631.20, Wis. Stat. Further, the company also needs to ensure rate and rule filings are submitted in compliance with s. 625.13 (1) Wis. Stat.

Finally, there were four recommendations in relation to producer licensing. The company should develop and implement consistent internal procedures for appointments and terminations of intermediaries.

V. SUMMARY OF RECOMMENDATIONS

Policy Forms & Rates

Page 5 1. It is recommended that the company implement a procedure to ensure that when filing forms via SERFF all polices where a readability score is required, as defined by s. Ins 6.07 (8), Wis. Adm. Code, a minimum score meeting the requirements outlined in the rule is entered in the field designated for readability score.

Page 6 2. It is recommended that the company correct the material typographical errors in the Miscellaneous Coverage section of the Personal Vehicle Manual to ensure compliance with s. 628.34 (1) (a), Wis. Stat. and refile the corrected rules in accordance with s. 625.13, Wis. Stat.

Page 6 3. It is recommended that the company submit rate and rule filings to the commissioner within 30 days after they become effective which contain all rates and supplementary rate information, in order to comply with s. 625.13 (1), Wis. Stat.

Page 7 4. It is recommended that the company file its complete rating algorithm in use at this time, with all of the possible rating factors for each coverage. For future filings, it is recommended that the company submit rate and rule filings to the commissioner within 30 days after they become effective which contain all rates and supplementary rate information, including the company's complete rating algorithm with all of the possible rating factors for each coverage, in order to comply with s. 625.13 (1), Wis. Stat.

Page 8 5. It is recommended that, prior to making forms available for use in Wisconsin, the company refile all previously approved forms including electronic forms, when changes to the form number, format, non-hypothetical data and/or other appropriate non-variable material on the form are made, to ensure compliance with s. 631.20, Wis. Stat., and s. Ins 6.05 (4) (a) 5., Wis. Adm. Code.

Page 8 6. It is recommended that, prior to making forms available for use in Wisconsin, the company refile all previously approved forms when changes to the form number, format, non-hypothetical data and/or other appropriate non-variable material on the form are made, to ensure compliance with s. 631.20, Wis. Stat., and s. Ins 6.05 (4) (a) 5., Wis. Adm. Code.

Producer Licensing

Page10 7. It is recommended that the company implement written procedures that include verification of recorded agent information in the company databases and verification that the data accurately reflect the status of the agent licensing and appointment information in order to ensure that only business is accepted from licensed and appointed agents as required by s. Ins 6.57(5), Wis. Adm. Code.

Page 10 8. It is recommended that the company develop and implement written procedures to include verification that the recorded agent information in company databases accurately reflects the status of the agent licensing and appointment

information as reported to OCI, in order to ensure that only business is accepted from licensed and appointed agents as required by s. Ins 6.57(5), Wis. Adm. Code.

Page 11 9. It is recommended that the company implement a more thorough and accurate procedure to verify a formal written demand for the return of all indicia of agency at the time of the termination of the individuals appointment is provide to the agent representing the company and that said notice advise the individual that he or she may not act as the company's representative in order to comply with s. Ins 6.57 (2), Wis. Adm. Code

Page 11 10. It is recommended that the company develop and implement a procedure to ensure that the correct reason for an agent termination is reported to the Commissioner in order to avoid an unfair marketing practice as defined by s. 628.34 (1), (a), Wis. Stat.

Underwriting & Rating

Page 12 11. It is recommended that the company revise its underwriting guidelines, including the Cheat Sheet, to remove age requirements in order to ensure compliance with s. Ins 6.54 (3), Wis. Adm. Code and to avoid unfair discrimination under s. 632.35, Wis. Stat.

Page 13 12. It is recommended that the company revise its underwriting guideline for unemployed persons and verification of regular income to reflect the company's actual intent, in order to ensure compliance with s. 632.35, Wis. Stat.

Page 13 13. It is recommended that the company revise its underwriting guidelines and the cancellation section of its manual to clarify that the company will not deny, cancel or nonrenew an automobile policy based on the applicant's or insured's suspended or revoked license unless the suspension or revocation is directly related to a motor vehicle violation, in order to ensure compliance with ss. Ins 6.54 (3) (a) 1, Wis. Adm. Code.

Page 14 14. It is recommended that the company revise its 'Moved out of state letter' to provide adequate instructions to the policyholder for applying for insurance through the Wisconsin Automobile Insurance Plan, in order to comply with s. 631.36 (7) (a) 2., Wis. Stat.

Page 14 15. It is recommended the company implement a system to eliminate the use of abbreviations on cancellation/nonrenewal notices when explaining the 'reason' for an action. It is further recommended that reference to a Motor Vehicle Report (MVR) shall state the actual driving violation a termination is based on to ensure compliance with s. 631.36 (6), Wis. Stat.

Page 15 16. It is recommended that the company implement a written procedure to retain copies of any cancellation/nonrenewal notice in the company's file for three years in order to comply with s. Ins 6.80 (4) (b), Wis. Adm. Code.

Page 15 17. It is recommended that when cancelling or nonrenewing a policy under ss. 631.36 (2) (b) or (4), Wis. Stat., the company include in the notice adequate

instructions to the policyholder, for applying for insurance through a risk-sharing plan under ch. 619, WI stat., if a risk-sharing plan exists under ch. 619 for the kind of coverage being canceled or nonrenewed, in order to ensure compliance with s. 631.36 (7), Wis. Stat. The information provided shall also include the correct address for the risk-sharing plan.

Page 16 18. It is recommended that the company issue policies using only rates that have been filed with the commissioner within 30 days after they become effective, in order to comply with s. 625.13 (1), Wis. Stat.

Page16 19. It is recommended that the company file the company's Premier Plus, Optimal Plus and Shield tier rate factors in use at this time. For future filings, it is recommended that the company submit rate and rule filings to the commissioner within 30 days after they become effective which contain all rates and supplementary rate information, including the company's Premier Plus, Optimal Plus and Shield tier rate factors, in order to comply with s. 625.13 (1), Wis. Stat.

Company Operations & Management

Page 16 20. It is recommended that the company develop and conduct privacy policy training for all staff to ensure compliance with the requirements of ch. Ins 25, Wis. Adm. Code.

Page 17 21. It is recommended that the company develop and conduct privacy policy training for all agents appointed with the company to ensure compliance with the requirements of ch. Ins 25, Wis. Adm. Code.

Page 17 22. It is recommended that the company conduct an audit of the company privacy policy to ensure compliance with Chapter 25 of the Wis. Adm. Code, and that the company implement an audit schedule to ensure continued compliance with ch. Ins 25.

Page 17 23. It is recommended that the company develop a system to verify and enforce company privacy requirements as they apply to persons/organizations acting on the company's behalf to ensure compliance with the requirements of ch. Ins 25, Wis. Adm. Code.

Page 18 24. It is recommended that the company include specific language in their WRC Acknowledgement form addressing the company's privacy policy and outlining the consequences of non-compliance with that policy in order to ensure compliance with the requirements of ch. Ins 25, Wis. Adm. Code.

Page 18 25. It is recommended that the company implement a system to review and verify the safeguards that listed agents have in place to keep personal information confidential in order to ensure compliance with the requirements of ch. Ins 25, Wis. Adm. Code.

VI. ACKNOWLEDGEMENT

The courtesy and cooperation extended to the examiners during the course of the examination by the officers and employees of the company is acknowledged.

In addition, to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination.

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Respectfully submitted,

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