MARKET CONDUCT EXAMINATION REPORT

OF

Fidelity National Insurance Company

AS OF

AUGUST 31, 2013

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

Property and Casualty Division
Market Conduct Section

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BUREAU OF INSURANCE

I, Gloria V. Warriner-Penrose, Senior Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of Fidelity Insurance Company as of August 31, 2013, conducted at the company's office in Jacksonville, Florida is a true copy of the original Report on file with the Bureau and also includes a true copy of the company's 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-2015-00094 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 17th day of July, 2015.

Gloria V. Warriner-Penrose
Examiner in Charge

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a target market conduct examination has been made of the homeowners line of business written by Fidelity National Insurance Company at its office in Jacksonville, Florida.

The examination commenced March 17, 2014 and concluded July 25, 2014. Karen S. Gerber, Ju'Coby D. Hendrick, William T. Felvey, Melody S. Morrissette, and Gloria V. Warriner-Penrose, 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 November 22, 2013 and was assigned the examination number of VA097-M12. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILE*

Anza Insurance Company was incorporated in April 1990 under the laws of California. On March 1, 2001, following California Department of Insurance approval, all of the outstanding stock was sold by Sutter Insurance Company (Anza's parent) to Fidelity National Title Insurance Company, a California domestic title insurer. In June 2001 management changed the name to Fidelity National Insurance Company. On May 1, 2012, Fidelity National Financial sold 85% of Duval Holdings Inc, Fidelity National Insurance Company's immediate parent company, to WBL Partners, Inc, - 84.3% and Mark O. Davey - 0.7%.

* Source: Best's Insurance Reports, Property & Casualty, 2013 Edition.

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

GROUP CODE: 4765	**FNIC**
NAIC Company Number	25180
LICENSED IN VIRGINIA	9/12/2002
LINES OF INSURANCE	
Accident and Sickness	
Aircraft Liability	
Aircraft Physical Damage	
Animal	
Automobile Liability	X
Automobile Physical Damage	X
Boiler and Machinery	10/29/2007
Burglary and Theft	X
Commercial Multi-Peril	10/29/2007
Credit	
Farmowners Multi-Peril	
Fidelity	
Fire	X
General Liability	X
Glass	X
Homeowners Multi-Peril	X
Inland Marine	10/29/2007
Miscellaneous Property	X
Ocean Marine	10/29/2007
Surety	10/29/2007
Water Damage	X
Workers' Compensation	

The table below shows the company's premium volume and approximate market

share of business written in Virginia during 2013 for the line of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Fidelity National Insurance Company		
Homeowners Multiple Peril	$3,552,192	.18%

* Source: The 2013 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 company's homeowners line of business written in Virginia for the period beginning September 1, 2012 and ending August 31, 2013. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance[1], 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 company's 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 company 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 company's practices that require some action by the company. This section also summarizes the violations for which the company was cited in previous examinations.

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[1] 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 company 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 company. 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	FNIC	Population TOTAL	Sample Requested FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
Homeowners						
New Business	2175 / 30	2175 / 30	30	0	30	100%
Renewal Business	4516 / 60	4516 / 60	60	0	60	100%
Co-Initiated Cancellations	188 / 25	188 / 25	16	0	16	100%
All Other Cancellations[1]	928 / 30	928 / 30	38	0	37	97%
Nonrenewals	17 / 5	17 / 5	5	0	5	100%
Claims						
Property[2]	466 / 52	466 / 52	49	0	41	84%

Footnote [1] - The company was unable to provide accurate data for the cancellation population.
Footnote [2] - Three claims were withdrawn by the insureds and were not reviewed.

PART ONE - THE EXAMINERS' OBSERVATIONS

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

RATING AND UNDERWRITING REVIEW

Homeowners New Business Policies

The examiners reviewed 30 new business policy files. As a result of this review, the examiners found overcharges totaling $25.00 and undercharges totaling $110.00. The net amount that should be refunded to insureds is $25.00 plus six percent (6%) simple interest.

(1) The examiners found 30 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 that were not applicable to the policy.

(2) 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 three 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 charge the policy fee.

Homeowners Renewal Business Policies

The examiners reviewed 60 renewal business policy files. As a result of this review, the examiners found overcharges totaling $869.00 and undercharges totaling $3.00. The net amount that should be refunded to insureds is $869.00 plus six percent (6%) simple interest.

(1) The examiners found 60 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 that were not applicable to the policy.

(2) The examiners found 12 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 eight instances, the company failed to use the correct discounts and/or surcharges.

b. In two instances, the company failed to use the correct tier eligibility criteria.

c. In two instances, the company failed to use the correct deductible factor.

(3) The examiners found four violations of § 38.2-2126 A of the Code of Virginia. The company failed to send a Credit Adverse Action notice.

TERMINATION REVIEW

Homeowners Policies

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 – Homeowners Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The examiners reviewed six homeowner cancellations that were initiated by the company where the company mailed the notice prior to the 90th day of coverage. As a result of this review, the examiners found overcharges totaling $144.06 and no undercharges. The net amount that should be refunded to insureds is $144.06 plus six percent (6%) simple interest.

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 failed to calculate the return premium correctly.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

The examiners reviewed ten 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. As a result of this review, the examiners found overcharges totaling $2,444.47 and no undercharges. The net amount that should be refunded to insureds is $2,444.47 plus six percent (6%) simple interest.

(1) The examiners found 13 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 nine instances, the company failed to calculate the return premium correctly.

b. In four instances, the company failed to send the premium refund to the insured.

(2) The examiners found nine violations of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.

(3) The examiners found ten violations of § 38.2-2114 C of the Code of Virginia. The company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

All Other Cancellations – Homeowners Policies

NONPAYMENT OF THE PREMIUM

The examiners reviewed 20 homeowner cancellations that were initiated by the company for nonpayment of the policy premium. As a result of this review, the examiners found overcharges totaling $171.19 and undercharges totaling $178.73. The net amount that should be refunded to insureds is $171.19 plus six percent (6%) simple interest.

(1) The examiners found 17 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 failed to calculate the return premium correctly.

(2) The examiners found 22 violations of § 38.2-2114 C of the Code of Virginia.

a. In 11 instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

b. In 11 instances, the company failed to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).

REQUESTED BY THE INSURED

The examiners reviewed 18 homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. As a result of

this review, the examiners found overcharges totaling $184.34 and undercharges totaling $14.25. The net amount that should be refunded to insureds is $184.34 plus six percent (6%) simple interest.

(1) The examiners found eight 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 failed to calculate the return premium correctly.

(2) The examiners found 13 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 Non-renewals – Homeowners Policies

The examiners reviewed five homeowner nonrenewals that were initiated by the company.

The examiners found five violations of § 38.2-2114 C of the Code of Virginia. The company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

CLAIMS REVIEW

Homeowner Claims

The examiners reviewed 49 homeowner claims for the period of September 1, 2012 through August 31, 2013. 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 $29,678.80 and underpayments totaling $24,625.00. The net amount that should be paid to claimants is $24,625.00 plus six percent (6%) simple interest.

(1) The examiners found 26 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 three 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. The company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.

(3) The examiners found one violation 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.

(4) 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.

(5) The examiners found ten 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 five instances, the company failed to properly pay the claim under the insured's replacement cost Dwelling coverage.

b. In one instance, 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.

d. In three instances, the company failed to properly pay the claim under the

insured's Personal Property Replacement Cost coverage.

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

(6) The examiners found one violation of 14 VAC 5-400-80 A. The company recommended that a third party claimant make a claim under his own policy to avoid paying under the policy where liability is clear.

(7) The examiners found ten violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to the coverages at issue.

a. In seven instances, the company failed to inform the insured of applicable coverage, accurate policy limits, and the insureds' duties after a loss.

b. In three instances, the company failed to properly represent the replacement cost provisions of the policy.

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

(8) The examiners found ten 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 policies.

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

(9) The examiners found three 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.

(10) The examiners found one violation 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.

(11) The examiners found 12 occurrences where the company failed to comply with the provisions of the insurance contract.

a. In one instance, the company incorrectly informed the insured that they were required to obtain a police report.

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

c. In three instances, the company included the name of the mortgagee on the payment for a personal property loss.

Other Law Violations

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

The examiners found two 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.

REVIEW OF FORMS

The examiners reviewed the company's 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 company's 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 company. In addition, the Bureau requested copies of new and renewal business policy mailings that the company was 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 company's current practices.

Homeowners Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The examiners found no violations in this area.

REVIEW OF THE POLICY ISSUANCE PROCESS

Homeowner Policies

The company provided five new business policies mailed on the following dates: December 24, 27, and 30, 2013 and January 6, 2014. In addition, the company provided five renewal business policies mailed on the following dates: December 12, 16, and 17, 2013.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

REVIEW OF STATUTORY NOTICES

The examiners reviewed the company's statutory notices used during the examination period and those that are currently used for the line of business examined. From this review, the examiners verified the company's 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 company. 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 company on all applications, on all policies, and those special notices used for property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the company but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

General Statutory Notices

The company provided copies of six of general statutory notices that were used during the examination period.

The examiners found no violations in this area.

Statutory Property Notices

The company provided copies of six statutory property notices that were used during the examination period.

The examiners found no violations in this area.

Other Notices

The company provided copies of four other notices, 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 new business homeowner policies to verify that the agent of record for those polices reviewed was licensed and appointed to write business for the company as required by Virginia insurance statutes. In addition, the agent or agency to which the 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 Review

The examiners found one violation 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 Review

The examiners found one violation of § 38.2-1812 of the Code of Virginia. The company paid commission to an agency that was not an appointed agency of the company within 30 days of the insurance transaction.

REVIEW OF THE COMPLAINT-HANDLING PROCEDURES

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

The examiners found no violations in this area.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the company's information security program that protects the privacy of policyholder information. The company submitted its security information as required by § 38.2-613.2 of the Code of Virginia.

The company provided its 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 company, 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

Fidelity National Insurance Company shall:

Provide a Corrective Action Plan (CAP) with its response to the Report.

Rating and Underwriting Review

Fidelity National 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 of 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 "Rating Overcharges Cited During the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.

(4) Specify required information in the policy accurately. Particular attention should be focused on forms shown on the declarations page.

(5) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of filed discounts and/or surcharges, base and/or final rates, tier eligibility criteria, deductible factors, and filed policy fees.

(6) Provide the Credit Adverse Action notice as required by § 38.2- 2126 A of the Code of Virginia.

Termination Review

Fidelity National 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 company acknowledges that it has refunded or credited the overcharges listed in the file.

(4) Calculate return premium according to the filed rules and policy provisions.

(5) Send the premium refund check to the insured.

(6) Cancel a policy insuring an owner-occupied dwelling when the notice is mailed after the 89th day of coverage only for those reasons permitted by § 38.2-2114 of the Code of Virginia.

(7) Send the cancellation notice to the address listed on the policy.

(8) Provide the insured with notice of the availability of insurance through the VPIA in the cancellation notice of an owner-occupied dwelling policy.

(9) Provide the insured notice of his right to have the termination of his policy reviewed by the Commissioner of Insurance.

(10) Obtain written notice when the insured requests cancellation of the policy.

Claims Review

Fidelity National 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 company acknowledges that it has 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 replacement cost benefits under Dwelling coverage, Personal Property coverage, and Additional Living Expense coverage.

(6) 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.

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

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

Licensing and Appointment Review

Fidelity National Insurance Company shall:

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

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

PART THREE – EXAMINERS' NOTES

The examiners also found violations that did not appear to rise to the level of business practices by the company. The company 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 company take the following actions:

Rating and Underwriting

- The company should update the wording on page D-4 Homeowners Program 5 of their manual. Specified Additional Amount of Insurance for Coverage A rule to show "at the policy effective date" instead of "at the time of loss".
- The company should update the FIT scorecard to include a credit score module for "Z".

Claims

- Make all claim denials in writing and keep a copy in the claim file.
- The company should provide a reasonable explanation of the basis of the denial of a claim or offer of a compromise settlement.
- The company should not settle a first party claim by transferring the responsibility for payment to another party.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

The Bureau conducted a prior market conduct examination of the private passenger automobile and homeowners line of business of Fidelity National Insurance Company (named changed to Stillwater Insurance Company) as of August 27, 2010.

During the examination, the company violated §§ 38.2-305 A, 38.2-305 B, 38.2-502, 38.2-604 B, 38.2-610 A, 38.2-1905 A, 38.2-1906 D, 38.2-2118, 38.2-2120, 38.2-2124, 38.2-2125, 38.2-2126 A, 38.2-2202 A, 38.2-2202 B, 38.2-2206 A, 38.2-2230, and 38.2-2234 A of the Code of Virginia.

ACKNOWLEDGEMENT

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

Sincerely,

Gloria Warriner-Penrose
Insurance Market Examiner

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
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COMMONWEALTH OF VIRGINIA

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July 30, 2014

VIA UPS 2nd DAY DELIVERY

Larry Mortensen
Vice President-Pricing
4905 Belfort Rd.
Stillwater Insurance Company
Jacksonville, Florida 32236-6007

RE: Fidelity National Insurance Company
Market Conduct Examination
NAIC# 25180
Examination Period: September 1, 2012 – August 31, 2013

Dear Mr. Mortensen:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the Fidelity National Insurance Company for the period of September 1, 2012, through August 31, 2013. The preliminary examination report (Report) has been drafted for the company's review.

Enclosed with this letter is a copy of the preliminary examination report. 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 Company, I would urge you to closely review the report. Please provide a written response. When the Company responds, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the company 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 Company does not need to respond to any particular item with which it agrees. If the Company disagrees 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 company provides written documentation to support its position.

Secondly, the company 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 Company has 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 Company must complete and return to the Bureau with the Company's 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 September 5, 2014.

After the Bureau has received and reviewed the company's 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 September 5, 2014.

Sincerely,

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

Gloria Warriner

From: Joy Morton
Sent: Tuesday, November 11, 2014 8:09 AM
To: 'Larry Mortensen'
Cc: Gloria Warriner
Subject: RE: Market Conduct Report Response

Larry:

We have been out of the office for an extended period of time on exams. I will coordinate a meeting when I am back in the office. We don't usually schedule meetings at this point in the review process, but as soon as I have had a chance to review your response I will coordinate dates with you Mary and Rebecca for this meeting.

JOY

From: Larry Mortensen [mailto:larry.mortensen@stillwaterinsurance.com]
Sent: Monday, November 10, 2014 3:58 PM
To: Joy Morton
Cc: Gloria Warriner
Subject: RE: Market Conduct Report Response

Joy:

Per the voicemail that I just left you, the company response for Stillwater that was sent to the Bureau in mid-September included a request for a meeting with yourself, Rebecca Nichols and Mary Bannister to discuss the unresolved items. Please advise if any further action by the company is necessary to facilitate the next steps in this process or if direction from the Bureau is forthcoming.

Thank you,
Larry Mortensen

STILLWATER
INSURANCE GROUP
4905 Belfort Rd, Ste 110 Jacksonville FL 32256
Tel (904) 997-7340
Fax (904) 472-2415

From: Joy Morton [mailto:Joy.Morton@scc.virginia.gov]
Sent: Tuesday, September 16, 2014 10:44 AM
To: 'Larry Mortensen'
Cc: Gloria Warriner
Subject: Market Conduct Report Response

Larry:

We received your response to the report and will acknowledge the date received as Friday September 12, 2014. However; as we advised during both the introductory meeting and the exit conference "no insured's names, policy numbers or claim numbers should be included in your response." In light of this I must insist that you re-do the response and leave out the policy numbers and claim numbers you have referenced throughout the report. The

response becomes a part of the published document and we cannot publish the report with this personal identifying information included.

If you would like to discuss this please feel free to contact me.

Joy Morton, MCM
Supervisor
P & C Market Conduct Section
Phone - (804)371-9540
Fax - (804) 371-9396
email - joy.morton@scc.virginia.gov

STILLWATER
INSURANCE GROUP

STATE CORP. COMMISSION
2014 SEP 19 AM 9: 10
BUREAU OF INSURANCE

September 18, 2014

Joy Morton
Supervisor
Market Conduct Section
Property & Casualty Division
SCC Bureau of Insurance
1300 E Main St
Richmond, VA 23219

RE: Stillwater Insurance Company f.k.a Fidelity National Insurance Company
Market Conduct Examination
NAIC# 25180
Examination Period: September 1, 2012 – August 31, 2013

Dear Ms. Morton:

Stillwater Insurance Company (Company) has reviewed the information contained in the preliminary examination report (Report) that was prepared by the Bureau of Insurance (Bureau). The information provided on the following pages represents the Company's responses to the issues that were identified during the examination process. The responses have been provided using the same format of headings and numbering schemes as used in the Report. Some of the Claim responses involve providing copies of various documents used to support the Company's positions. These documents are included as exhibits in the Appendix of Exhibits section of this response.

Additionally, the Excel file reflecting details of the policy specific refunds that have been issued is enclosed. The file also contains documentation regarding any issues that are still being disputed by the Company. In an effort to resolve the outstanding issues, the Company is requesting a meeting with personnel at the Bureau. Please advise of the preferred method of scheduling and conducting a meeting with you, Rebecca Nichols and Mary Bannister.

Sincerely,

Larry Mortensen
Vice President-Pricing
Stillwater Insurance Company
(904) 997-7340
Larry.Mortensen@Stillwater.com

PART ONE – THE EXAMINER'S OBSERVATIONS

RATING AND UNDERWRITING REVIEW

Homeowners New Business Policies

Overcharges and Undercharges

(1) 30 Violations of 38.2-305 A of the Code of Virginia regarding policy information.

Company Response: - The Company respectfully disagrees with the observation of the examiner: All 30 violations pertain to the use of a single endorsement, FN1326 VA – Deductible Percentage Endorsement, that was applicable for each of the sample files. The endorsement explains the mathematic calculation of the policy deductible that would be used in the event that the declarations page reflected the deductible in the form of a percentage. The necessity of the endorsement was due to the lack of any similar explanation within the underlying ISO policy forms along with the absence of the automation needed to display the dollar amount of a percentage deductible on the declarations page.

The Company respectfully disagrees with the observation of the examiner. The provisions of the Deductible Percentage Endorsement are clearly indicated as being conditional and if applicable, the information is purely explanatory in nature regarding the calculation of the deductible with no impact on any other policy provisions. In order for the explanatory provision to be applicable, the provision needs to be considered a part of the policy. Therefore, the use of an endorsement is needed rather than the examiners recommendation to use a policyholder notice that would not be considered to be a part of the policy.

The Company subsequently incorporated the automation necessary to display percentage based deductibles on the declarations page as both a percentage and the corresponding dollar amount. Therefore, the use of the endorsement was discontinued in Virginia effective May 11, 2014 for new business and June 3, 2014 for renewal business.

This is the first of three criticisms in this part of the report where the Bureau has cited multiple violations for the use of this endorsement. The Company requests a meeting with Joy Morton, Rebecca Nichols and Mary Bannister in an effort to resolve this issue.

(2) 6 Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.

a. 3 violations related to discounts and/or surcharges

Company Response: The source of the violations pertain to two separate issues. The first issue involved the surcharge associated with tenant occupied condominium policies that impacted 2 policies. The rule on file with the Bureau incorrectly referenced a maximum rental period that included verbiage of "less than 100%" that should have been "up to 100%". For condominium units rented out on an annual basis, the literal interpretation of the rule would result in the surcharge for tenant occupied units not being applicable whereas the Company applied the surcharge.

In an effort to address this issue, a Rate/Rule filing was submitted to the Bureau in March of 2014 to correct the verbiage of the rule regarding Unit-Owners Rental to Others coverage so that it is clear that the surcharge is applicable.

There was 1 impacted policy on which the Company has refunded the amount of the surcharge plus 6% simple interest. The second impacted policy (reference number RHO007) was canceled flat therefore not subject to a refund.

The second issue was due to an entry error by the processor while performing a cancel/re-write process. The entry error caused the Newly Acquired Home discount to be incorrectly applied to the policy. The policy was initially written in 2012 with a purchase date of 10/02/07 which was correctly rated without the Newly Acquired Home discount but, when the policy was rewritten in 2013 the effective date of 2/08/13 for the policy was also incorrectly entered as the purchased date which triggered the Newly Acquired Home discount to be applied. The cancel/re-write procedure was reviewed with the processor in an effort to address the issue.

b. 1 instance of an incorrect base rate and/or final rate

Company Response: There were two issues that caused the final rate to be incorrect. The first issue pertained to the rating logic on the computer system for the portion of the premium calculation for Earthquake coverage for which the Coverage A limit exceeds the basic limit of coverage. The result of the error was an undercharge on the policy. This issue existed during the experience period of the Market Conduct Examination but, it was identified prior to the onsite portion of the Market Conduct Examination and subsequently corrected. Had the policy in question not expired, the rating of the Earthquake coverage premiums would have been corrected for policy terms subsequent to the term that fell within the experience period of the examination.

The second issue involved the rounding routine of the premium computation process on the computer system for a condominium policy that resulted in a $1 undercharge. The rounding routine was revised to address the issue subsequent to the issue being identified during the examination.

c. 2 instances of the Policy Fee not being charged

Company Response: The issue of the Policy Fee not being applied to policies only occurred when the policy was initially issued and subsequently cancelled during the same end of day processing routine. The automated processing routine previously recognized the cancellation of the policy prior to the application of fees. The automated processing routine has been revised to now apply fees prior to the cancellation of the policy.

Homeowners Renewal Business Policies

Overcharges and Undercharges

(1) Violations of 38.2-305 A of the Code of Virginia regarding policy information.

Company Response: The Company respectfully disagrees with the observation of the examiner. All 60 violations pertain to the use of a single endorsement, FN1326 VA – Deductible Percentage Endorsement, that was applicable for each of the sample files. The endorsement explains the mathematic calculation of the policy deductible that would be used in the event that the declarations page reflected the deductible in the form of a percentage. The necessity of the endorsement was due to the lack of any similar explanation within the underlying ISO policy forms along with the absence of the automation needed to display the dollar amount of a percentage deductible on the declarations page.

The Company respectfully disagrees with the observation of the examiner. The provisions of the Deductible Percentage Endorsement are clearly indicated as being conditional and if applicable, the information is purely explanatory in nature regarding the calculation of the deductible with no impact on any other policy provisions. In order for the explanatory provision to be applicable, the provision needs to be considered a part of the policy. Therefore, the use of an endorsement is needed rather than the examiners recommendation to use a policyholder notice that would not be considered to be a part of the policy.

The Company subsequently incorporated the automation necessary to display percentage based deductibles on the declarations page as both a percentage and the corresponding dollar amount. Therefore, the use of the endorsement was discontinued in Virginia effective May 11, 2014 for new business and June 3, 2014 for renewal business.

This is the second of three criticisms in this part of the report where the Bureau has cited multiple violations for the use of this endorsement. The Company requests a meeting with Joy Morton, Rebecca Nichols and Mary Bannister in an effort to resolve this issue.

(2) Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.

a. 8 instances related to discounts and/or surcharges

Company Response: The source of the violations pertain to two separate issues. The first issue relates to the surcharge associated with tenant occupied condominium policies. This is the same issue that was addressed as part of section (2)a. from the Homeowners New Business Policies section of the report. The rule on file with the Bureau incorrectly referenced a maximum rental period that included verbiage of "less than 100%" that should have been "up to 100%". For condominium units rented out on an annual basis, the literal interpretation of the rule would result in the surcharge for tenant occupied units not being applicable whereas the Company applied the surcharge.

In an effort to address this issue, a Rate/Rule filing was submitted to the Bureau in March of 2014 to correct the verbiage of the rule regarding Unit-Owners Rental to Others coverage so that it is clear that the surcharge is applicable.

The 7 impacted policies from the sample have been identified and the Company has refunded the amount of the surcharge plus 6% simple interest.

The second issue pertains to the application of the Home Alert discount on a policy that was canceled and re-written in 2005. The Home Alert discount was applied to the policy that corresponds with the presence of smoke detectors, deadbolt locks and a fire extinguisher. However, the application of the initial policy could not be located by the agency that wrote the policy so evidence of the insureds indication that these devices existed cannot be provided. The result is an apparent undercharge in premium. The Company has enhanced the data storage functions since this policy was re-written that will address this issue.

b. 4 instances of using incorrect Tier eligibility

Company Response: There are two separate issues that pertain to this item. The first issue involves 2 policies and relates to Insurance Score section of the tiering chart while the second issue involves 2 policies regarding the display of the tier assignment on the computer system.

In regard to the Insurance Score section of the tiering chart, the Company respectfully disagrees with the observation of the examiner for the two instances that have been identified. Both instances involve insureds that credit histories that fail to produce an Insurance Score under the Lexis Nexis Attract One scoring model that is being used. In the instances when a numeric score cannot be generated, alpha codes are utilized by both the Lexis Nexis model and the Company's computer system. The tiering scorecard in use during the examination period lists the ranges of the valid numeric scores that can be generated along with the corresponding weight used for tiering purposes. The chart also utilized a category for "Neutral (no hit/no score)" that is applicable in the event that a numeric score is not generated by the scoring model.

The two policies in question did not generate a numeric value for the Insurance Score which is reflected on the computer system as a "z". It is felt that it is clear that an alpha character does not correlate to any of the numeric value ranges in the scorecard and thereby qualifying for the only available option listed in the scorecard that does not pertain to numeric values which is the "Neutral (no hit/no score)" category that corresponds to the mid-point tiering weight of 50. The concept of having to reference all of the computer system codes in the rate manual does not appear to be an industry standard.

The Company has submitted a revised tiering scorecard to the Bureau that incorporates suggested clarifying aspects to multiple sections of the tiering scorecard that are intended to reflect a process improvement rather than an admission of a violation. The Company requests a meeting with Joy Morton, Rebecca Nichols and Mary Bannister in an effort to resolve this issue.

Regarding the tiering display issue, the underlying issue pertains how the tiering assignment is displayed on the computer system. The display combines the alpha character associated with the tiering assignment with the numeric sum of the weights of individual tiering attributes. For the impacted policies, the numeric value of the tiering weights did not match a manual calculation of the sum of the tiering attributes but, the alpha tier assignment was correct resulting in the premium being calculated correctly. It was determined that changes to the tiering weights that occur in subsequent policy terms were being applied retroactively to the tiering display for previous terms of the policy. For this specific policy, the correct display should have been I-100 but, due to an improvement in the insured's insurance score in a subsequent policy term that increased the numeric value of the tiering weight, the display of the tiering assignment was incorrectly shown as I-105. As the examiner noted, this issue does not have an impact on the premium calculation. The discrepancy was investigated by the IT department and the programming issue was identified and corrected.

c. 2 instances of an incorrect deductible factor being applied.
Company Response: The Company utilizes mandatory windstorm or hail deductibles for certain geographical areas of the state of Virginia. Due to an administration issue with the computer system tables that facilitate the mandatory deductible provision, some policies were issued without the mandatory windstorm or hail deductible even though the risk location was within the geographic boundary that should have required such a deductible per the rates and rules on file with the Bureau. The computer system issue was identified prior to the examination and it was decided to allow the impacted policies to maintain the lower All Peril deductible that had been afforded rather than

imposing the reduction in coverage associated with the higher windstorm or hail deductible (i.e. 2% of the Coverage A limit) on these insureds.

The impacted policies from the sample have been identified and refunded the amount of the overcharge associated with the lower deductible plus 6% simple interest. The computer programming has also been changed so that the impacted policies will have the higher windstorm or hail deductible applied to the policy during the next subsequent renewal process.

(3) 4 Violations of 38.2-2126 A of the Code of Virginia regarding Adverse Action notices.

Company Response: The Company previously generated adverse action notices based on an Insurance Score threshold of 663 or less. Prior to the introduction of the current tiering system, rating factors that corresponded to specific ranges of Insurance Scores were utilized. Scores greater than 663 utilized factors less than 1.00 (i.e. a discount was applied) and scores less than or equal to 663 utilized factors greater than 1.00 (i.e. a surcharge was applied). This logic was maintained under the current tiering system as it was felt that it isolated the impact of the Insurance Score attribute within the overall tiering process. Given that the policies in question had Insurance Scores greater than 663, an Adverse Action notice was not generated.

The Company has subsequently revised the adverse action generation process to now contemplate the tiering weight generated by the Insurance Score attribute. The new base line is the tiering weight of 50 assigned to the Neutral (no hit/no score) category. Policies that generate a tiering weight for the Insurance Score attribute that is less than 50 will generate the Adverse Action notice.

TERMINATION REVIEW

Homeowners Policies

Company-Initiated Cancellations – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

Overcharges and Undercharges

Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau and correct calculation of return premium.

Company Response: There were 6 instances identified by the Bureau where the policy fee should not have been fully earned, and the unearned pro-rated portion should have been refunded. This was an inadvertent oversight. The Company reviewed the programming history and set-up records and found that although the instructions were given to program the calculation on a pro-rated basis, the programming was not completed. The notation on the dec pages stating that the fee is fully earned was removed, but the policy fee refund calculation programming change had not been implemented.

As soon as this was brought to the Company's attention, correction of the rate calculation was requested. The correction was completed on Wednesday, March 12, 2014. The Company has confirmed that the calculation is now correct and the policy fee is being calculated pro-rata.

The impacted policies from the sample have been identified and refunded the pro-rata unearned portion of the policy fee plus 6% simple interest.

This is one of four criticisms in this report where the Bureau has cited multiple violations for the same error: the Company's failure to have completed the intended programming to calculate the policy fee on a pro rata basis, thereby affecting refunds to insureds whose coverage was cancelled for other than non-payment of premium.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

Overcharges and Undercharges

(1) Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.

a. Company failed to calculate correct return premium.

Company Response: The Bureau indicated that there were 9 instances of this error, but the Restitution workbook lists only 8 in this section, which total to the amount of $2,512.97 indicated by the Bureau, and which amount matches the figures in the workbook.

Therefore, the Company reviewed 8 instances identified by the Bureau where the policy fee should not have been fully earned, and the unearned pro-rated portion should have been refunded. This was an inadvertent oversight. The Company reviewed the programming history and set-up records and found that although instructions were given to program the calculation on a pro-rated basis, the programming was not completed. The notation on the dec pages stating that the fee is fully earned was removed, but the policy fee refund calculation programming change had not been implemented.

As soon as this was brought to the Company's attention, correction of the rate calculation was requested. The correction was completed on Wednesday, March 12, 2014. The Company has confirmed that the calculation is now correct and the policy fee is being calculated on a pro-rata basis.

The impacted policies from the sample have been identified and refunded the pro-rata unearned portion of the policy fee plus 6% simple interest.

This is the second of four criticisms in this report where the Bureau has cited multiple violations for the same error: the Company's failure to have completed the intended programming to calculate the policy fee on a pro rata basis, thereby affecting refunds to insureds whose coverage was cancelled for other than non-payment of premium.

b. Company failed to send the refund check to the insured.

Company Response: The Company respectfully disagrees. With respect to the 4 instances identified by the Bureau, the Company sent the refund to the mortgagee/lender on the policy, as directed by the mortgagee/lender in correspondence from them.

The Company reviewed section 38.2-1906 D and does not see where there is an actual requirement under the VA Code that restricts the Company to issue a refund of unearned premium only to the insured, and therefore the Company respectfully disagrees that it has violated this regulation. This provision states:

38.2-1906 D. No insurer shall make or issue an insurance contract or policy of a class to which this chapter applies, except in accordance with the rate and supplementary rate information filings that are in effect for the insurer.

The insureds had selected a billing option for the policy to be billed to and paid by their lender. In addition, the lenders paid the initial and all subsequent payments. The Company believes this established a clear relationship between the Company and the insured's lender, as directed by, and on behalf of, and with consent from the insured. However, the Bureau pointed out that the contract of insurance is between the insured and the Company, so the Company should have refunded the premium directly to the insured. This is a matter of principle, not compliance. The Company recognizes the validity of the contract, and to that end have instituted process changes to ensure a refund to the insured unless given explicit written direction by the insured to do otherwise.

The Company has refunded the full amount, including the 6% simple interest, as indicated in the Restitution workbook, for policies associated with Ref # THO021, Ref # THO024 and Ref # THO025. These amounts include the pro-rata unearned portion of the policy fee.

However, the Company has not yet refunded the premium for the policy associated with Ref # THO020 because the amount in the Restitution workbook does not match the amount on the exam sheet. The amount on the exam sheet indicated $866.55. The amount in the Restitution workbook is $963.00. This includes the additional amount of the pro-rated unearned portion of the policy fee ($27.95). $866.55 + $27.95 = $894.50 (before interest). With the 6% interest the amount would be $948.17.

The Company respectfully requests clarification from the Bureau.

(2) Violations of 38.2-2114 A of the Code of Virginia regarding the cancellation of a policy for a reason not permitted by the statute.

Company Response: There were 9 instances identified by the Bureau. The reasons for the actions included:

1. The vacancy of the property. The Company recognizes that the vacancy of the property is not a valid reason to take adverse action on the policy. To safeguard against further instances of this the Company has implemented strict procedures that specify that no adverse action may be taken on the policy on the basis that the property is vacant.
2. The foreclosure of the property. Although foreclosure is a valid reason to take an adverse action, the Company recognizes that the additional stipulations must be followed. In attempting to honor the contract of insurance the Company believed that the foreclosure would obviate the contract and coverage, and therefore impair the insured's rights. Although that is indeed the case, the regulations stipulate that foreclosure efforts by the secured party against the subject property covered by the policy must have resulted in the sale of the property by a trustee under a deed of trust as duly recorded in the land title records of the jurisdiction in which the property is located. To prevent any further instances of this occurring, the Company has implemented strict procedures requiring confirmation of the actual transfer of ownership before adverse action may be taken on the policy due to foreclosure.
3. A change in occupancy of the property. While the Company recognizes that the change of ownership of the property is not a valid reason to take adverse action on the policy, the Company did so in an attempt to protect the insured's interests by terminating a policy that did not meet their changed circumstances and needs. However, to prevent this situation from recurring, and yet to provide the insureds with information that will enable them to secure the applicable type of policy, the Company has since implemented procedures to send an advisory notice to the insured (and the agent if applicable) to encourage them to review their options and secure a different type of policy to suit their changed needs. In that case, they may choose to cancel the policy, at which time the Company will honor their request.

(3) Violations of 38.2-2114 C of the Code of Virginia regarding failure to advise insured of right to request review by the Commissioner of Insurance.

Company Response: There were 10 identified instances of this omission. As a result of unintentional and inadvertent error, the Company did not include in the notices a statement advising the insureds of their right to request a review by the Commissioner of Insurance.

Immediately upon being notified of this omission, on 03/07/14, the Company submitted a programming request to change the notices, and on 3/10/14 the underwriting notices were updated to include the following information: "If you would like the Commissioner to review the action taken by the Company, you must submit a request in writing within 10 days of receipt of the notice of termination. This request should be mailed to the Bureau of Insurance, Tyler Building, 1300 E. Main Street, Richmond, Virginia 23219."

This is one of the three criticisms in this report where the Bureau has cited multiple violations for the same error: the Company's failure to advise insured of right to request review by the Commissioner of Insurance.

All Other Cancellations – Homeowner Policies

NONPAYMENT OF THE PREMIUM

Overcharges and Undercharges

(1) Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.
Company Response: The Bureau cited 17 instances of this violation, but the Restitution workbook lists only 10 in this section, which total to the amount of the $171.19 indicated by the Bureau, and which amount matches the figures in the workbbok.

Therefore, the Company reviewed the 10 instances where the policy fee should not have been fully earned, and the unearned pro-rated portion should have been refunded. The Company reviewed the programming history and set-up records and found that although the instructions were given to program the calculation on a pro-rated basis, the programming was not completed. The notation on the dec pages stating that the fee is fully earned was removed, but the policy fee refund calculation programming change had not been implemented.

As soon as this was brought to the Company's attention, correction of the rate calculation was requested. The correction was completed on Wednesday, March 12, 2014. The Company has have confirmed that the calculation is now correct and the policy fee is being calculated pro-rata.

The impacted policies from the sample have been identified and refunded the pro-rata unearned portion of the policy fee plus 6% simple interest.

This is the third of the four criticisms in this report where the Bureau has cited multiple violations for the same error: the Company's failure to have completed the intended programming to calculate the policy fee on a pro rata basis, thereby affecting refunds to insureds whose coverage was cancelled for other than non-payment of premium.

(2) Violations of 38.2-2114 C of the Code of Virginia
   a. Regarding failure to advise insured of right to request review by the Commissioner of Insurance.

Company Response: There were 11 identified instances of this omission. As a result of unintentional and inadvertent error, the Company did not include in the notices a statement advising the insureds of their right to request a review by the Commissioner of Insurance.

Immediately upon being notified of this omission, on 03/07/14, the Company submitted a programming request to change the notices, and on 3/10/14 the underwriting notices were updated to include the following information: "If you would like the Commissioner to review the action taken by the Company, you must submit a request in writing within 10 days of receipt of the notice of termination. This request should be mailed to the Bureau of Insurance, Tyler Building, 1300 E. Main Street, Richmond, Virginia 23219."

This is the second of the three criticisms in this report where the Bureau has cited multiple violations for the same error: the Company's failure to advise insured of right to request review by the Commissioner of Insurance.

b. Regarding failure to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).

Company Response: There were 11 instances of this omission. As a result of unintentional and inadvertent error, the Company did not include in the notices a statement advising the insureds of the availability of insurance through the Virginia Property Insurance Association (VPIA).

The company underwriting cancellation notice included the required information, but the non-payment notice did not. Upon being notified of this omission on 3/20/14, the Company submitted a programming request to immediately add the required language to the non-payment notice, and on 4/7/14 the corrected notice went into production.

REQUESTED BY THE INSURED

Overcharges and Undercharges

(1) Violations of 38.2-1906 D of the Code of Virginia regarding failure to calculate correct return premium.

Company Response: The Bureau indicated that there were 8 instances of this, but the Restitution workbook lists only 7 in this section, which total to the amount of $184.34 indicated by the Bureau, and which amount matches the figures in the workbbok.

Therefore, the Company reviewed the 7 instances and these pertained to instances the policy fee should not have been fully earned, and the unearned pro-rated portion should have been refunded. The Company reviewed the programming history and set-up records and found that although the instructions were given to program the calculation on a pro-rated basis, the programming was not completed. The notation on the declarations pages stating that the fee is fully earned was removed, but the policy fee refund calculation programming change had not been implemented.

As soon as this was brought to the Company's attention, correction of the rate calculation was requested. The correction was completed on Wednesday, March 12, 2014. The Company has confirmed that the calculation is now correct and the policy fee is being calculated pro-rata.

The impacted policies from the sample have been identified and refunded the pro-rata unearned portion of the policy fee plus 6% simple interest.

This is the fourth of the four criticisms in this report where the Bureau has cited multiple violations for the same error: the Company's failure to have completed the intended programming to calculate the policy fee on a pro rata basis, thereby affecting refunds to insureds whose coverage was cancelled for other than non-payment of premium.

(2) Violations of 38.2-2114 E of the Code of Virginia regarding failure to obtain written request to cancel a policy.
Company Response: There were 13 instances where the Company failed to obtain a written request to cancel a policy insuring an owner-occupied dwelling.

There were two categories: 1) the change in the escrow/closing date of a purchase or re-financing transaction; and 2) the actions taken by the Company's independent agents on the agent self-service portion of the Company's website.

There were 9 instances of the first category. The Company's website has a feature that enables the agent to correct the effective date of a policy, when dictated by the closing/escrow company due to a change in their transaction closing date, by cancelling the first policy and replacing it with a new policy, with exactly the same underwriting and data, except for the effective date. So even though the internal system may reflect this as a "cancel", it is, in fact, merely an edit of the effective date of the policy.

In these cases it is almost always the case that the insured, at the request of the escrow/closing company, calls their independent agent to request the change in the effective date. The agent uses the special feature on the company's website to change the effective date and send the evidence of insurance to the insured and the escrow/closing company. The company's system automatically processes this as a "flat cancel" of the policy and transfers the unchanged data to the issuance of new policy with the changed effective date.

The statute requires the request to cancel be made in writing "if the insurer requires such notification to be in writing". The company's policy has a condition (Sections I and II Conditions subsection 5. a.) that a request to cancel must be made in writing. To avoid any impropriety that might be argued between a changed effective date of an initial policy and a change to the effective date that might be construed as a cancel and re-issue merely because that is how the company's internal system processes the effective date change, the Company has now created an endorsement to amend the condition in Sections I and II Conditions subsection 5. a. to include a verbal request to cancel. In addition, the Company added a very clear directive that must be acknowledged by the independent agent before using this feature: the agent attests that they do indeed have the required verbal or written request to cancel from the insured. The Company believes that this two-pronged approach will eliminate recurrences of this issue.

There were 4 instances where the independent agent used a feature on the Company's website to cancel the policy at the insured's request. This presupposed that the agent had indeed received a written request from the insured to cancel the policy, but in these cases the agent had relied upon a verbal request.

The statute requires the cancel request to be made in writing "if the insurer requires such notification to be in writing". The company's policy has a condition (Sections I and II Conditions subsection 5. a.) that the request to cancel must be made in writing.

To remedy the noncompliance with the policy requirement that the request be made in writing (which the Company has waived in the past), the Company has created an endorsement to amend the condition in Sections I and II Conditions subsection 5. a. to include a verbal request to cancel so that there is no

appearance of inconsistency between internal procedure and policy language. In addition, the Company added a very clear directive that must be acknowledged by the independent agent before using this feature: the agent attests that they do indeed have the required verbal or written request to cancel from the insured. The Company believes that this two-pronged approach will eliminate recurrences of this issue.

Company-Initiated Non-renewals – Homeowner Policies

(1) Violation of 38.2-2114 A of the Code of Virginia regarding failure to send the cancellation notice to the name and/or address listed on the policy.

Company Response: The Company respectfully disagrees. There was one instance where it was asserted that the Company failed to send the cancellation notice to the name and/or address listed on the policy. The Company believes that this was the policy associated with Ref # THO057. The policy has 2 addresses: the insured property address and the insured's mailing address. In this case, the insured property address did not change but during the policy term the mailing address was updated by the insured. Therefore, when the non-renewal notice was sent it was sent to the insured's updated mailing address. On that basis, the Company believes it complied with the code.

It is pertinent to note that the Company has recently modified procedures so that every time there is any change in any name and/or address on a policy, the Company will issue a revised declarations page with the changed information, and thereafter any correspondence or notices sent will reflect the consistency in the files between the mailing address used and the mailing address shown on the most recent declarations page.

Please note that the Company believes that the applicable section of the Virginia Code is 38.2-2114 B. and not 38.2-2114 A, as cited. Section A refers to cancellations, whereas section B refers to non-renewals.

> *38.2-2114 B. No policy or contract written to insure owner-occupied dwellings shall be terminated by an insurer by refusal to renew except at the expiration of the stated policy period or term and unless the insurer or its agent acting on behalf of the insurer mails or delivers to the named insured, at the address stated in the policy, or delivers electronically to the address provided by the named insured, written notice of the insurer's refusal to renew the policy or contract.*

(2) Violations of 38.2-2114 C of the Code of Virginia regarding failure to advise insured of right to request review by the Commissioner of Insurance.

Company Response: There were 5 instances of this omission.. As a result of unintentional and inadvertent error, the Company did not include in the notices a statement advising the insureds of their right to request a review by the Commissioner of Insurance.

Immediately upon being notified of this omission, on 03/07/14, the Company submitted a programming request to change the notices, and on 3/10/14 the underwriting notices were updated to include the following information: "If you would like the Commissioner to review the action taken by the Company, you must submit a request in writing within 10 days of receipt of the notice of termination. This request should be mailed to the Bureau of Insurance, Tyler Building, 1300 E. Main Street, Richmond, Virginia 23219."

This is the third of the three criticisms in this report where the Bureau has cited multiple violations for the same error: the Company's failure to advise insured of right to request review by the Commissioner of Insurance.

CLAIMS REVIEW

Homeowner Claims

Overpayments and Underpayments

(1) The examiners found 28 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.

Company general response: The Company respectfully disagrees, as set forth in detail below with respect to each claim. The Company will, however use the concerns raised by the Bureau on this exam as an opportunity to provide additional training throughout the claims organization as to how to improve claims file documentation and the overall adjusting process. The Company's detailed corrective action plan is set forth further in this response.

Company response: On the claim associated with CHO008, the Company respectfully disagrees. The Bureau stated that Item 1) The notes from Rhino Claim Services dated 12/10/12 stated that "items being replaced are depreciated based on an age of 12 years." The file is silent as to how this time frame was chosen.

Company Response: The Company was able to reconstruct events and dates that were pertinent to the claim by reviewing the documentation in the claim file. The Company acknowledges that depreciation was miscalculated on this claim. Review of the declarations page in the file reveals that the declarations page states the structure was built in 2003. The correct amount of years for depreciation should have been 9.

For Item 2) The Bureau stated, "$526.25 was taken for general demolition. The file is silent as to how demolition depreciates."

Company Response: Depreciation is applied to debris removal because debris removal costs, like other costs (materials, supplies, labor, overhead, profit, architect's fees, permits and sales tax) lose value over the life span of the property as they will have to be expended again when the property is replaced. Unless the Bureau does not agree that due to wear, tear and aging the components will have to be replaced, and that when replaced with new components the insured would incur the cost to remove worn out components, debris removal is depreciable.

The Company's coverage for the damage in this claim arises under Coverage A and/or Coverage B. Any payment under Coverage A or B is subject to the Limit of Liability and a reduction for depreciation as stated in the Loss Settlement clause.

*3. **Loss Settlement.** Covered property losses are settled as follows:*

(4) We will pay no more than the actual cash value of the damage until actual repair or replacement is complete.

Therefore, when the coverage for debris removal arises under this coverage it is subject to the contractual reduction for depreciation. The Company has researched this issue and understands that some carriers who would not pay for debris removal under this coverage may alternatively cover debris removal under other coverages which do not contain depreciation language in their policy or endorsement, which can lead to different consumer impact when comparing some carriers to others. None-the-less, our contractual provision

with respect to all payments under Coverage A and/or Coverage B being subject to a reduction for depreciation is unambiguous and not otherwise prohibited under Virginia law.

On the claim associated with CHO009, the Company respectfully disagrees. The Bureau stated that "For an unexplained reason, the IA depreciated the debris removal. It is not possible for debris removal to depreciate. The company should advise their IA not to apply depreciation to debris removal."

Company Response: As described directly above, depreciation is applied to debris removal because debris removal costs, like other costs (materials, supplies, labor, overhead, profit, architect's fees, permits and sales tax) lose value over the life span of the property as they will have to be expended again when the property is replaced. Because of wear, tear and aging components that will have to be replaced, and that when replaced with new components the insured would incur the cost to remove worn out components, debris removal is depreciable.

The Company's coverage for the damage in this claim arises under Coverage A and/or Coverage B. Any payment under Coverage A or B is subject to the Limit of Liability and a reduction for depreciation as stated in the Loss Settlement clause.

> ***3. Loss Settlement.*** *Covered property losses are settled as follows:*
>
> ***(4)*** *We will pay no more than the actual cash value of the damage until actual repair or replacement is complete.*

Therefore, when the coverage for debris removal arises under this coverage it is subject to the contractual reduction for depreciation. The Company has researched this issue and understands that some carriers who would not pay for debris removal under this coverage may alternatively cover debris removal under other coverages which do not contain depreciation language in their policy or endorsement, which can lead to different consumer impact when comparing some carriers to others. None-the-less, our contractual provision with respect to all payments under Coverage A and/or Coverage B being subject to a reduction for depreciation is unambiguous and not otherwise prohibited under Virginia law.

On the claim associated with CHO010, the Company respectfully disagrees. The Bureau stated, "According to the IA, the life expectancy for the dry wall is 100 years. The same IA showed the life expectancy on Claim [redacted] as 150 years. A greater depreciation was applied to Claim [redacted] without an explanation as to what the difference is from one dry wall to another. "

Company Response: These claims were inspected by different IA firms ([redacted] – Rhino Claims & [redacted] – Eagle Adjusting). While gypsum board, otherwise known as drywall is expected to last a lifetime as noted in reports by National Association of Home Builders, such reports do not express what a "lifetime" is. The standard for a lifetime item was 100 years in earlier versions of estimating programs. Today, that factor has been raised to 150 years in some estimating programs. Since the estimates were written by two different adjusters probably using different estimating programs (or different editions of the same) and reviewed by two different reviewers, this could account for the difference.

On the claim associated with CHO012, the Company respectfully disagrees. The Bureau stated, "The insured was told that her deductible was $1549.78 by the IA. The company sent the insured a letter and advised her that her deductible was $2,000. There is no explanation in the file for this discrepancy.

Company Response: Upon reviewing the file the Company does not find where the IA informed the insured that their deductible was $1549.78. The following is taken straight from the Adjusters report as to what was discussed with the insured:

> "I contacted [Insured(s) Name] on 11/29/2012 and identified myself as the adjuster assigned to handle this loss. I provided my contact information and scheduled an inspection for 12/13/2012. The inspection was completed as scheduled on 12/13/2012 with [Insured(s) Name] present. The scope of the loss was agreed to with [Insured(s) Name] on site on 12/13/2012. I advised that I would prepare an estimate for the damages, and work with the contractor of their choice to arrive at an agreed price for the repairs, and submit my findings to Fidelity National Insurance Company as all settlement offers are subject to Fidelity's final review and approval."

The adjuster had a copy of the dec page at the time of inspection which reflects the actual deductible. In this case, the dec page clearly states the deductible is $2000. If the deductible was discussed with the insured, then they would have been informed of the amount listed on the dec page.

The IA made reference to the deductible in his report to the company, a report that is not sent to the insured. The adjuster inadvertently put in the amount which would be applied to the deductible instead of the actual deductible. The Company directs your attention to **Exhibit 1** included with this response, which is the estimate that was sent to the insured. The estimate sent to the insured shows the full deductible amount of $2000, and that a portion of that deductible was applied to the ACV amount as the ACV was less than the deductible. The estimate then shows the amount of "Full Residual Deductible" remaining. The Company respectfully disagrees with the examiner and believes that the Bureau is in error in concluding that the insured was told that the deductible was $1549.78.

On the claim associated with CHO013, the Company respectfully disagrees. The Bureau stated "The company sent the insured a copy of her policy in two different formats. This is not providing her with the requirements for collecting RC. The information given to the insured applies to many different coverages and policy requirements of which do not provide the detail regarding this claim."

Company Response: "Page (4) of our December 28, 2012 letter to the insured specifically includes the "Loss Settlement" language which states:

> "You may disregard the replacement cost loss settlement provisions and make an initial claim under this policy for loss or damage to buildings on an actual cash value basis. You may then make claim, in accordance with the provisions of this Condition 3 Loss Settlement, for the difference between the actual cash value and the full replacement cost of the buildings within six months of:
>
> (a) The last date you received a payment for actual cash value; or
>
> (b) The date of entry of final order of a court of competent jurisdiction declaring your right to replacement cost.

Included with this response, shown as **Exhibit 2**, was our form "INSURED'S STATEMENT AS TO FULL COST OF REPAIR OR REPLACEMENT UNDER THE REPLACEMENT COST COVERAGE SUBJECT TO THE TERMS AND CONDITIONS OF THIS POLICY." This form includes the following language, boxed and in bold type for emphasis, which advises the insured the form must be signed and returned with receipts and that the work must be completed before the additional payment can be issued:

> "**IMPORTANT NOTE:**
>
> **This form MUST be signed and returned with receipts and other documentation before payment can be issued. Work must be completed before submitting request."**

It is the Company's position that this IMPORTANT NOTE does effectively and unambiguously provide the insured with the requirements for collecting Replacement Cost. For the foregoing reason, the Company respectfully disagrees with the examiner.

On the claim associated with CHO014, the Company respectfully disagrees. The Bureau stated "1) The company researched the dining room table value and found the "exact" table for $692.93. It appears that the company paid $374 without any explanation for the difference."

Company Response: The adjuster's log note of 3/17/13, as seen **in Exhibit 3** to this Response, states: "The insured also has stated that his dining room table was damaged by the incident. I have found an exact replacement of the insured's table based on the link he has provided me. http://www.bellacor.com/productdetail/coaster-101038wln-pines-walnut-counter-height-dining-leg-table-with-leaf-754854.htm." This web-link, which was *provided by the Insured,* showed the adjuster the exact table for $374. The adjuster did not mention a price. The document in the claim file **[Exhibit 4]** showing a photo of the table with a detailed description (and the $692.93 price) is from a different website (amazon.com).
Item 2) The Bureau stated "The IA wrote an estimate which depreciated the debris removal at 100%, $249.14. There is no explanation in the file as to how debris removal depreciates.

Company Response: In regard to depreciation being applied to debris removal (as discussed more fully above in this Response), debris removal costs, like other costs (materials, supplies, labor, overhead, profit, architect's fees, permits and sales tax) lose value over the life span of the property as they will have to be expended again when the property is replaced. Therefore, debris removal is depreciable.

On the claim associated with CHO016, the Company respectfully disagrees. The Bureau stated "The company referred this loss to subrogation in 2013. The amount of the subrogation was a partial amount as the claim had not yet settled. There are no notes or documentation to update what is the outcome of the subrogation and the amount that was subrogated."

Company Response: Subrogation efforts continue. That portion of the claim has been outsourced to a third-party vendor, National Subrogation. The Company has not yet received an update on status from National Subrogation.

The Bureau stated "The company's notes state that the insured asked for ALE at $50 a day. The IA report stated the insured ALE expenses were $40 a day. This discrepancy is not addressed in the file.

Company Response: Regarding the ALE of $50 vs. $40, the claim examiner discussed with the insured that the expenses were $50 per day as opposed to what the adjuster had in his report. The benefit was given to the insured. The log note reads in pertinent part:

> "ALE expenses were also incurred by the insured for the initial few days she stayed with friends at a daily rate of $ 50.00. Please note that due to the nature of the damage occurring at about the same time it was not possible to separate the damage amount for the separate losses and as such the total RCV amount for damage to the unit will be split under both claims, and all other payments such as ale and content and mitigation will be paid under this claim".

As this discrepancy was acknowledged and understood by the claim examiner at that time, and insured was given the more favorable treatment, and it was specifically discussed with the insured and agreed upon, the Company respectfully disagrees with the Bureau's objection.

On the claim associated with CHO023, the Company respectfully disagrees. The Bureau stated: 1. There is a letter in the file dated 3/22/2013 addressed to the insured's attorney outlining the attorney's coverage. The

attorney is not the insured. 2. It is not possible to determine why the company paid $60,200 on coverage A with $27,360 in coverage. 3. It is not possible to determine why the company did not pay anything under coverage C. 4. It is not possible to determine why the company applied limits to coverage D when limits were not applied to coverage A.

Company Response: The Company respectfully disagrees with the contention that it was improper to communicate to the insured's attorney after the Company received the attorney representation letter; and the Company further disagrees with the Bureau's statement that it was not possible to make the relevant determinations. Our response will be provided in the order of the observations above.
1. The 3/22 letter was outlining the coverage that Stillwater (Formerly Fidelity) provided under the HO6 policy that the GEICO agent wrote for the insured. It also outlined the damages estimated and the payment being made for damages under the HOA coverage, which was policy limits. The letter was addressed to the insured attorney due to the fact the company received a letter of representation from the attorney putting the company on notice that he was representing the insured. Upon receipt of an attorney letter of representation, the Company does not contact the insured directly without the consent of the insured's attorney; and in the absence of such consent all communication to the insured is directed to the Insured's attorney.
2. The company paid its policy limits as written by the agent under coverage HOA. The agent is a GEICO agent. GEICO admitted that their agent erred in writing the policy as a HO6 and accepted responsibility given the fact the insured's prior policy was an HO3 with Travelers and had significantly greater limits. Stillwater agreed to continue adjusting the claim within its policy limits and GEICO agreed to resolve the excess as an extra-contractual matter. GEICO's payments were issued directly to the insured from GEICO through the insured's attorney. Note the examiner log entry of April 15, 2013. Stillwater agreed to continue adjusting the claim within its limits and GEICO providing excess for Coverage A. (Please *see* **Exhibit 4**)
3. The company did issue payment under coverage C. It is outlined in the log note of April 24, 2013 and payment was made on April 25th for contents and debris removal/cleaning to Service Master. (Please *see* **Exhibit 4**)
4. Limits were issued under Coverage D due to the insured residence being unfit to live in after the reported fire. Limits were applied under coverage A.

In light of the foregoing, explaining each point raised, the Company respectfully disagrees with the Bureau's objection.

On the claim associated with CHO031, the Company respectfully disagrees. The Bureau stated "The initial estimate included taxes and permits. This was a total loss fire. The company instructed the IA to depreciate the taxes and permits 100%. Taxes and permits do not depreciate. The file is silent as to how the company can justify depreciating taxes and permits."

Company Response: The company did not depreciate taxes and permits, but the Company did, in fact, properly hold back taxes, insurance, permits & fees per Manassas website at 1.4% which is a line item in the estimate. These expenses are held back at 100% and payment later issued as they are incurred by the insured, as the amounts are not specifically known until they are incurred.

On the claim associated with CHO034, the Company respectfully disagrees. The Bureau stated "There is a note in the file stating that coverage may exist on a pipe breaking. There is no further explanation of this. The loss was a result of a collapsed underground pipe which caused sewage to back up into the insured's basement. There is no coverage for this loss but the company alluded to coverage based on a pipe breaking without further comment."

Company Response: The Bureau indicates there is no further explanation but the Bureau has overlooked the further explanation that was included by the adjuster who handled the file in a lengthy and detailed coverage analysis in her June 17, 2013 note (*see* **Exhibit 5**) which provides as follows:

TXENGLIS Mon Jun 17 11:11:14 EDT 2013
Received engineer report from Donan and it was determined that:
•The deterioration of the furring and paneling is the result of long-term water intrusion caused by inadequate ground slopes and downspout discharge locations, as well as insect damage.
•The cause of the delaminated wood paneling and fungal growth on furniture surfaces is the reported sewer backup and subsequent ponded water.

Received IA report and it was determined that:
determined that the cast iron drain line leading from the home has collapsed from age, causing waste water from the home to back up through the drains in the basement bathroom and through the exterior drain in the stairwell causing damage to your home. The adjuster also noticed extensive damage from rot and termites along the base of the walls in the finished basement. Mold damage was found on some items in storage in the basement that is not loss related. Excessive moisture has been allowed to build-up in the basement, resulting in mold damage and buckled paneling.

Based on policy there is coverage for the ensuing water damage from the collapsed pipe, there's no coverage for any repairs to the pipe, long-term water intrusion caused by inadequate ground slopes or termites as they are excluded from coverage under the policy. The policy reads in part:
Homeowners Policy HO 00 03 04 1991
SECTION I - PERILS INSURED AGAINST

COVERAGE A – DWELLING and COVERAGE B – OTHER STRUCTURES
We insure against risk of direct loss to property described in Coverages A and B only if that loss is a physical loss to property. We do not insure, however, for loss:
2. Caused by:
e. Any of the following:
(1) Wear and tear, marring, deterioration;
(2) Inherent vice, latent defect, mechanical breakdown;
(3) Smog, rust or other corrosion, mold, wet or dry rot;
(7) Birds, vermin, rodents, or insects; or

If any of these cause water damage not otherwise excluded, from a plumbing, heating, air conditioning or automatic fire protective sprinkler system or household appliance, we cover loss caused by the water including the cost of tearing out and replacing any part of a building necessary to repair the system or appliance. We do not cover loss to the system or appliance from which this water escaped.

SECTION I - EXCLUSIONS
1.We do not insure for loss caused directly or indirectly by any of the following. Such loss is excluded regardless of any other cause or event contributing concurrently or in any sequence to the loss.
c. Water Damage, meaning:
(1) Flood, surface water, waves, tidal water, overflow of a body of water, or spray from any of these, whether or not driven by wind;

Endorsement HO 01 45 11 12

The following exclusions are added to Forms HO 00 02, HO 00 04 and HO 00 06. In Form HO 00 03, the first paragraph below replaces the first paragraph of Paragraph 2. under Section I – Exclusions:
We do not insure for loss caused by any of the following. However, any ensuing loss which is not

excluded or excepted in this policy is covered.
Faulty, Inadequate Or Defective:
(2) Design, specifications, workmanship, repair, construction, renovation, remodeling, grading, compaction;
(3) Materials used in repair, construction, renovation or remodeling; or
(4) Maintenance; of part or all of any property whether on or off the "residence premises

In light of the foregoing detailed explanation provided in the file by the adjuster, the Company respectfully disagrees with the objection, and specifically disagrees with the Bureau's conclusion that there is no further explanation. Further, the Company respectfully disagrees with the Bureau's suggestion that the Company alluded to something other than what is stated above.

On the claim associated with CHO040, the Company respectfully disagrees. The Bureau stated "The company sent the insured a Reservation of Rights advising her that there may not be coverage for her theft claim. There is nothing in the file to indicate that the insured did not have coverage for personal property stolen from her car. The Reservation of Rights was not specific as to what issues the company had with the coverage."

Company Response: The reservation of rights letter is specific as to what issue the company had with coverage and what the company required from the insured to make a determination of coverage. The letter states on page 2: "Our present information suggests that the homeowner's policy may not provide coverage for the loss, as you have not met the policy requirements by not returning the proof of loss and inventory sheets sent to you on July 16, 2013, within 60 days after our request as required by the policy. This requirement is located in Section 1 – Conditions" (*see* Exhibit 6, page 2, setting forth this notice to the insured, along with the referenced policy language on Conditions). Further, on Page 3 of the letter, the Company specifically advise the insured that the Company needs a "Sworn State of Proof of Loss, Authorization and Inventory Worksheets with Supporting Documentation" and assure the Insured that "As soon as the above incformation is received and the Company has a reasonable opportunity to review and consider everything, the Company will provide you with our coverage decision or the current status of your claim." The Company maintains that the letter speaks for itself; that the Reservation of Rights was specific as to the Company's issue, and that this objection is unfounded.

(2) The examiners found five 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 provisions of an insurance policy that were pertinent to the claim.

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

a. In 4 instances the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.

Company Response: The Company respectfully disagrees that any of the four referenced instances failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy where such notice was required; and further, the Company respectfully disagrees that there exists violations of 14 VAC 5-400-40 A with such frequency to constitute a general business practice.

On the claim associated with CHO013, the Company respectfully disagrees. The Bureau stated "The company sent the insured a copy of her policy in two different formats. This is not providing her with the requirements for collecting RC. The information given to the insured applies to

many different coverages and policy requirements of which do not provide the detail regarding this claim."

Company Response: "Page (4) of our December 28, 2012 letter to the insured specifically includes the notice with the pertinent "Loss Settlement" language which states:

> "You may disregard the replacement cost loss settlement provisions and make an initial claim under this policy for loss or damage to buildings on an actual cash value basis. You may then make claim, in accordance with the provisions of this Condition 3. Loss Settlement, for the difference between the actual cash value and the full replacement cost of the buildings within six months of:
> (a) The last date you received a payment for actual cash value; or
> (b) The date of entry of final order of a court of competent jurisdiction declaring your right to replacement cost.

The insured was also provided our form titled "INSURED'S STATEMENT AS TO FULL COST OF REPAIR OR REPLACEMENT UNDER THE REPLACEMENT COST COVERAGE SUBJECT TO THE TERMS AND CONDITIONS OF THIS POLICY" (*See* **Exhibit 7**). This form includes the following language, which advises the insured the form must be signed and returned with receipts once the work is completed before the additional payment can be issued:

> "**IMPORTANT NOTE**:
> This form must be signed and returned with receipts and other documentation before payment can be issued. Work must be completed before submitting request."

On the claim associated with CHO049, the Company respectfully disagrees. The Bureau stated "The Insured was not informed how to collect RC"

Company Response: This policy was determined to be secondary to the condo association's master policy. However, coverage could be provided for the master policy's deductible of $10,000 reduced by the insured's deductible. As the insured had already paid her deductible on another portion of this claim, our payment of the master policy deductible of $10,000 was issued to the insured. There would not have been a need for replacement cost explanations to the insured as our policy applied only to pay the insured for the HOA master policy deductible, which the Company paid in full. The remainder of any loss incurred by the insured was paid under the HOA master policy issued by another insurer. The Bureau responded stating this would be considered if the Company could provide supporting documentation for their response. The Company provided the Bureau a copy of the Declaration page from the HOA master policy showing the deductible of $10,000. (*See* **Exhibit 8**)

b. In one instance the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy

On the claim associated with CHO022, the Company respectfully disagrees. The Bureau stated "The company's log notes are silent as to whether the company informed the insured of the replacement cost benefits under the personal property coverages.

Company Response: The log note of May 2, 2013 (*see* **Exhibit 9**) stated that as the items were less than one year old, *no depreciation was taken*. It also broke out the payment information showing that RCV was $2,866.91 less $500 Deductible with a net payment of $2,366.91. The Bureau responded that the "violation stayed in because the personal property payment of $2,366.91 included depreciation of $806.31, therefore replacement cost was not made and the

insured was not informed of the replacement cost benefits under the personal property coverages." *The insured indicated the replacement cost* of the items on his Proof of Loss he submitted (*See* **Exhibit 10**). The Company's Payment was based on the amount submitted by the Insured as replacement cost, that being $2,866.91. The only amount deducted from this was the insured's $500 deductible. There was no depreciation taken and the insured received the full replacement cost benefits that could be paid under the policy. As such, notice describing RC benefits was not applicable.

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

Company Response: The Company respectfully disagrees that either of the two claims referenced violate 14 VAC 5-400-70 A.

On the claim associated with CHO023, the Company respectfully disagrees. The Bureau stated "The company did not make any payments under coverage C even though coverage limits were $61,200 and this was a major fire loss. There is nothing in the file to explain why this coverage was apparently denied.

Company Response: This coverage was not denied. Thus far, the company has made payment in the amount of $32,841. The claim log states on 4/24/13 that the ACV which was received from the assigned vendor (Enservio) was being paid in the amount of $25,519.48 and cleaning & debris removal for contents was being issued in the amount of $3,012.02. Both payments were issued on 4/25/13. (*See* **Exhibit 11**)

The claim log addresses a supplemental payment for contents on November 19, 2013 and payment was issued on November 20th

The Company has attached screen shots of the AS400 payment screen showing payments were issued. (*See* **Exhibit 12**)

(4) 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.

Company Response: The Company respectfully disagrees that either of the two claims referenced violate 14 VAC 5-400-70 A.

On the claim associated with CHO021, the Company respectfully disagrees. The Insured reported a claim for mysterious disappearance of a ring. The examiner's Review Sheet stated that "the claim was properly denied but for the wrong reason. The Company advised the insured that the claim was under the deductible. There was $1500 in coverage on this claim with a $1,000 deductible. The remaining coverage would have been $500 not $0.00. However the deductible and coverage limits were not applicable to this loss as this was a mysterious disappearance which is not covered under this policy. The coverage denial should have stated that the policy did not cover mysterious disappearance, not that the claim was under the deductible."

Company response: The adjuster's activity note in the file dated 2/13/2013 states: "I explained there is nothing the policy can do for this loss for two reasons: 1. The policy covers loss resulting from specifically named perils and lost articles is not one; 2) Policy deductible is $1,000 and the ring was purchased for $675. Claim handled appropriately." On further review the Company notes that the letter sent to the insured on 2/13/13 stated a reason no payment was due under the policy, but that the letter did not state all reasons as to why no payment was due under the policy; and that neither the noted conversation nor the letter addressed the coverage available as referenced by the Bureau's examiner's comments. The letter sent to the insured stated: "Per our telephone conversation earlier today, you confirmed the total value of your loss is

less than your $1,000 deductible. At this time your file has been closed." This letter confirmed what the insured told the adjuster about the value of the ring; and it directly inferred that the value being less than the deductible was the reason for the denial of any payment under the policy. The Company admits that the letter did not fully document all of reasons the adjuster told the insured supported the determination that no payment was due under the policy, that the letter only referenced only one of the reasons.

On the claim associated with CHO001– The insured's hot water tank leaked causing damage to two other condo units. In the Review Sheet, the Bureau's examiner stated that "There is a note in the file that there was a bill for water damage to the insured's apartment and this bill was not allowed. There is no explanation as to why there is no coverage and the insured was not advised that this bill was "not allowed."

Company response: This claim was opened for liability consideration for damage to two neighboring condominium units, Units A & B, that occurred when insured's hot water heater leaked. The note in the casualty file addressed the fact that the insured's damages (insureds condo unit F) would not be allowed under the liability coverage of the policy. The log note dated 11/27/12 states "Insured lives in Apartment F and some bills in the file for Apartment F and not allowed" (referring to the claim under Liability).
There are no bills found in the file for damage to insureds Unit F, though there is a copy of the insured's bank transaction history showing she issued a payment to ServPro for remediation. The file also reflects that as a result of this leaking hot water tank, a total of $4,368.84 was paid under the policy:

- $1,195.00 for Apartment A payment.
- $1,574.32 for Apartment B payment.
- $1,599.32 for Apartment F payment (damage to property of insured's tenant).

The policyholder was invited to submit a first-party claim for damage with respect to the wet carpet but has failed to provide the Company with any information on any expense that may have been incurred.

(5) The examiners found one violation of 14 VAC 5-400-70 C. The company failed to settle a first party claim by transferring the responsibility for payment to another party.

Company Response: **On the claim associated with CHO027, the Company respectfully disagrees.** The Bureau cited 14 VAC 5-400-70-C, which provides in pertinent part: Insurers shall not fail to settle first party claims on the basis that responsibility for payment should be assumed by others. This is not a first party claim. It is a third party claim. Therefore, 14 VAC 5-400-70-C does not apply and no violation can be found.

(6) The examiners found 12 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.

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

Company response: **The Company respectfully disagrees.** While the Company has acceded to the Bureau's position with respect to 4 of the mold claims, the Company believes that the Bureau should reconsider its position as to the other cited violations. The Company respectfully disagrees with the Bureau's conclusion that 14 VAC 5-400-70 D has occurred with such frequency as to indicate a general business practice.

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

Company response: The following 4 claims involved the Company denial of coverage due to the exclusion of mold damage. Without agreeing with the Bureau's analysis, and the Bureau's conclusion that the mold exclusion did not apply, once the Virginia Bureau determined that the policy must cover

the mold damage in these claims, the Company contacted each insured and advised that the Company is reconsidering our position as to covering damages from the mold that the Company did not already pay.

On the claim associated with CHO028 (hot water tank failure): Initiated follow-up with insured and insured responded that they were not aware of any specific remediation expenses incurred. The Company spoke with the insured on 9/4/14. The insured advised there were no additional charges for mold remediation that were not considered in our estimate/payment and that our payment was based on an agreed cost our field adjuster reached with the remediation company for the cost of remediation and repairs. As such we advised the insured that we would close the file.

On the claim associated with CHO031 (toilet leak): Initiated follow-up with insured and insured responded that they were not aware of any specific remediation expenses incurred.

On the claim associated with CHO047 (external subsurface rain water seeping through walls): The Company initially advised the insured there was no coverage for the mold. During their review the Bureau felt our coverage determination was incorrect indicating that coverage would be afforded if the mold developed as the result of a covered loss. After receiving the Bureau's findings we contacted the insured and learned that the surface/subsurface water seeped through the basement walls into the home which is excluded by the policy. Thus, no coverage would be provided for the mold remediation. The insured has been advised of our coverage determination by telephone and email.

On the claim associated with CHO049 (water damage from air conditioner):
The Homeowners Association Master policy was primary per the Bylaws submitted. Our policy did provide coverage for the Master policy deductible of $10,000. Insured was paid the sum of $10,000 by the Company, representing the deductible on the primary HOA insurance policy that paid the remainder of the claim.

On the claim associated with CHO045, the Company respectfully disagrees. In this claim, a crack in the main drain line allowed water to enter the home and cause damage. As the crack was on the insured property and the water did not reach the municipal sewer lines, the Company considered this an "overflow" rather than a "back up" and provided coverage through the policy subject to the $1,000 deductible. This coverage interpretation is recognized by the industry and the Property Loss Research Bureau or PLRB. In spite of the fact that the crack was on the insured property and the water did not reach the municipal sewer lines, the Examiner took the position that as water backed up, coverage should be provided by the Water Back up and Sump Discharge or Overflow endorsement which has a $250 deductible. The examiner appears to have been influenced by the careless reference use of the word "backup" by the IA in documentation, but this reference was not intended by the IA to offer any opinion as to the distinction between overflow and backup as pertains to the coverage determination. The Bureau felt that the claim should have been paid under Water Back up coverage which per the auditor would result in an additional payment of $301.12. The claim was paid under Coverage A and the Company feels no additional monies are owed.

On **Claim 466098 (CHO050) The Company respectfully disagrees.** The Bureau determined that the Company should have included "overhead and profit" in our payment stating: "there is no indication in the file that the insured intended to serve as the general contractor. Therefore the company would owe overhead and profit. The company should determine this expense and reimburse the insured for this charge."

The Company does not agree. The Company paid in full for the completed repair reduced only by the applicable deductible. The repair estimates submitted by the insured from the two trades involved do not indicate that the Insured was charged overhead and profit for the two contractors to complete the repair for the wind damage to the roof and shingles. Payment also included the cost to remove a satellite dish and reset eleven fence panels.

On the claim associated with CHO008 – The Company agrees with this finding relative to the error on this claim but disagrees that this constitutes a recurring business practice. This claim involved an instance where the adjuster issued payment for $2,425.88 instead of the $2,615.52 owed as the adjuster did not include the Home Depot receipt of $189.64 in the calculation. This has been corrected.

b. In one instance the company failed to pay the entire claim under the insured's Additional Living Expense coverage.

On the claim associated with CHO033 the Bureau determined the Company owed the insured for mileage to drive to the cleaners and back. The Company paid the insured the agreed $3.39 for mileage on 3/20/14, and will issue a check for $0.20 for interest.

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

On the claim associated with CHO031, the Company respectfully disagrees with the Bureau that an additional payment of $1,868.05 is owed. The issues are:
The FN1253 states if there is a loss to the building insured under Cov A that exceeds the Cov A limit of liablity shown in the Declarations for the purpose of settling that loss only: The Company will provide an additional amount of insurance, up to 50% of the Cov A limit shown in the Declarations. It does not state that the Cov A limit itself is changing. Therefore, the additional coverage afforded is based on the percentage of the Cov A limit. It would not be based on the Cov A limit plus any additional coverage afforded by the endorsement. Because the limit itself does not change, all calculations for debris removal would be based on the original Cov A limit + inflation guard. (*See* **Exhibit 13**)

d. In three instances the company failed to pay the entire claim under the insured's Personal Property Replacement Cost coverage.

On the claim associated with CHO005, the Company respectfully disagrees with the Bureau.
The pertinent facts are:
The DOI states, "The policy does not require the insured to replace the items with the exact item as this is clearly not possible in all situations."

Company Response: The Company clearly acknowledges that some stolen items are no longer available or are available at a price different than the original cost. That is why our ACV payment letter to the insured specifically advises the insured in writing to contact us if replacement cost of the personal property is not consistent with the replacement cost values listed, due to price increase or change in product, prior to the replacement being completed so that changes can be discussed and approved if in order. Our letter to the insured states the following:

> "We are paying this claim based on the information provided to us at this time. If you disagree with the assessment of the Replacement Cost Value of your personal property that has been allocated, please send in documentation supporting the requested Replacement Cost Value of the stolen items for consideration. If the Replacement Cost of the personal property is not consistent with the Replacement Cost Values listed, due to price increase, or change in product, please contact me prior to the replacement being completed so that these proposed changes can be discussed and approved in order."

In the absence of such contact from the Insured prior to purchase of the replacement item, the Company will pay the claim based on the Replacement Cost Values listed on the policy. Purchase of a dissimilar item for a similar purpose of the stolen item, at a higher cost, without our prior consent, does not qualify the cost of the more expensive item as the replacement cost value covered by the policy.

On the claim associated with CHO014 – The Company has no disagreement about an additional payment being due (an additional payment has already been made), but the Company disagrees as to the amount the Examiner said due. The Bureau stated:

> "the dining room table cost $692.92 (excluding shipping). The company paid $374 without explanation for the reduction. The Company should pay the difference of $318.93 & determine shipping costs."

Company Response: The Company spoke to the insured who advised he purchased a new table at an auction for $600 total with no other costs. The Company has issued a payment of $239.56 to the insured for the difference between the $600 the insured paid and what the Company initially paid ($374), plus 6% interest (*see* copy of the check and letter sent to the insured).

On the claim associated with CHO045 (this is listed in report erroneously as CHO040) The insured used towels to clean up water. The towels cost $140. The Bureau stated in the Review Sheet this amount was owed to the insured. The adjuster issued payment on 3/12/14 for the $140 (Check [redacted]. The Company has issued another check to the insured for the $8.40 in interest.

(7) The examiners found 10 violations of 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to the coverages at issue.

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

Company Response: The Company respectfully disagrees with the examiners' position that all of these claims have violations of 38.2-510 A 1 of the Code of Virginia, though admittedly most of these identified files required corrective action on further review. However, the Company respectfully disagrees that these unintended and inadvertent errors constitute a general business practice.

a. In seven instances, the company failed to inform the insured of applicable coverage, accurate policy limits, and the insureds' duties after a loss.

Company Response: The Company does not dispute the inadvertant error in some of these of these claim files and has taken corrective action. However:

On the claims associated with CHO003, CHO016, CHO020 and CHO024: While two of the claims had letters to the insureds reciting incorrect policy language, an inadvertent error but an error none-the-less, the other two claims involved letters requiring that the insured provide Proof of Loss, which is required by the terms of the policy (though admittedly it is not required under Virginia law and to state that it was required by law was a misstatement).

On the claims associated with CHO028 and CHO031 the Company respectfully disagrees. While the Company has acceded to the Bureau's position with respect to these the mold claims and proceeded to accept the claims in spite of the mold exclusion, the Company believes that the mold exclusion 2.E.(3) should apply and would welcome reconsideration by the Bureau of its position.

On the claim associated with CHO031, the Company respectfully disagrees. The Bureau stated that due to FN1253 which adds 50% to the dwelling coverage under the conditions of this particular loss, Coverage

A limits are then $248,100 and since the limits on Coverage A are increased, the debris removal limits are correspondingly increased to $12,405. The Company advised the insured that his debris removal limits were $8,270.

Company Response: The FN1253 states if there is a loss to the building insured under Cov A that exceeds the Cov A limit of liablity shown in the Declarations for the purpose of settling that loss only: The Company will provide an additional amount of insurance, up to 50% of the Cov A limit shown in the Declarations. It does not state that the Cov A limit itself is changing. Therefore, the additional coverage afforded is based on the percentage of the Cov A limit. It would not be based on the Cov A limit plus any additional coverage afforded by the endorsement. Because the limit itself does not change, all calculations for debris removal would be based on the original Cov A limit + inflation guard. (*See* **Exhibit 14**)

b. In three instances, the company failed to properly represent the replacement cost provisions of the policy.

Company Response: The Company does not dispute that inadvertant errors occurred in the handling of these 3 claim files and the *Company has taken corrective action.*

The errors were specifically that:
In the claim associated with **CHO005** the company advised the insured there was 12 months (instead of 6 months) from the last ACV payment to file for the holdback.
In the claim associated with **CHO031** the company advised the insured that there was 6 months from the ACV payment to file for the holdback instead of 6 months from the last ACV payment .
In the claim associated with **CHO048** the company letter to the insured referenced multiple time periods for the insured to file for the holdback.

(8) The examiners found ten 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 policies.

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

Company Response: The Company respectfully disagrees with the examiner's position that all of these claim files have violations of 38.2-510 A 3 of the Code of Virginia, though admittedly most of these identified files required corrective action or further review. However, the Company respectfully disagrees that these unintended and inadvertent errors constitute a general business practice as the company maintains reasonable standards for the prompt investigation of claims and has taken additional action to ensure the adherence to these reasonable standards for the prompt investigation of claims.

On the claim associated with CHO023, the Company respectfully disagrees. The Bureau stated "The loss involved a fire with damages far in excess of policy limits. There was some discussion in the file that the agent did not write the policy properly, however, there was never any contact with the agent and no investigation was completed regarding the policy limits or the possible E&O coverage for the agent. It appears that the company assumed agent error and paid the loss"

Company Response: The agent is employed by GEICO who was also the agent for the insured with his previous homeowner policy. The previous policy was a HO3 and had significantly greater HOA limits. The agent wrote the risk under a HO6 policy. Geico acknowledged that their agent erred and is providing coverage in excess of the HO6 policy. Stillwater agreed to continue handling the claim for all the applicable coverages under its policy and also handle the excess under coverage A for GEICO. There is no E&O carrier that is handling this for GEICO, they are handling the excess for dwelling damages on an extra-contractual

basis. The HO6 policy limits were issued within 10 days of receipt of the claim. The claims log on 3/24 (Sunday) states that GEICO will be handling the excess of our policy limits. The claim was reported on 3/11. Under the given facts there appears no violation of 38.2-510 A 3 of the Code of Virginia.

(9) The examiners found three 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.

Company Response: The company does not dispute that inadvertant errors occurred in the handling of these 3 claim files and has taken corrective action.

(10) The examiners found one violation 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.

On the claim associated with CHO013, the Bureau stated the file did not include a copy of the payment to the insured.
Company's Response: While this is technically correct, in mitigation the Company would like to point out that the insured never presented the check to the bank, so the Company was unable to provide a copy of the check to the examiners. Attached to this report is a copy of the AS400 screen print (**Exhibit 15**) showing the check was issued to the insured January 24, 2013.

(11) The examiners found 11 occurrences where the company failed to comply with the provisions of the insurance contract.

a. In one instance the company incorrectly informed the insured that they were required to obtain a police report.
Company Response: The Company does not dispute this.

b. In eight instances the company paid an insured more than he/she was entitled to receive under the terms of his/her policy and the company issued payments under the incorrect coverages.

Company Response: The Company does not dispute this except as follows.

On the claim associated with CHO034, the Company respectfully disagrees. The Bureau stated "this loss was a result of back up of sewage through the sewer line. The expert stated this was the cause of the loss. The insured stated that the cause of the loss was back up of sewage because of a collapsed line. There is no coverage for back up of sewer and water on this policy. There is no endorsement for sewer and drains. The company overpaid this loss in the amount of $21,955.39."

Company Response: The company issued payment as its investigation determined that the interior water damage was caused by the drain line being clogged. The drain line clogged as a result of its collapse which in turn caused the water to back up through the dwelling's plumbing system not through a sewer or external drain line.
The company's position is based on a clog which took place on the insured premises, not a backup of sewer or drain off of the premises.

c. In one instance, the company issued a payment under an incorrect coverage

On the claim associated with CHO024, the Company respectfully disagrees. The Bureau stated in Item 2 that the company issued a check to the insured mortgagee for the insured's personal property.

Company Response: The Company reviewed the payments made on the claim file and noted that the Payment of $1172.73 was issued under HOA & had the mortgagee listed. Unfortunately the payment reason the adjuster selected was 91 when it should have been 61. Payment Reason code 91 is for HOC coverage and was erroneously noted on the check. The payment was in fact issued under the correct coverage as shown on the AS400 payment screen, and the check issued under HOA coverage but noted Coverage C in the payment reason field. (*See* **Exhibit 16**, page 1)

d. In one instance the company included the name of the mortgagee on the payment for a personal property loss.

On the claim associated with CHO024, the Company respectfully disagrees.

The Bureau stated in Item 2 that the company issued a check to the insured mortgagee for the insured's personal property.

Company Response: The Company reviewed the payments made on the claim file and noted that the Payment of $1,172.73 was issued to the insured under HOA Coverage and therefore also had the mortgagee listed. (*See* **Exhibit 16**, page 2)

Other Law Violations

The examiners found two 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.

Company Response: Corrective action has been taken.

REVIEW OF FORMS

Homeowner Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

No violations

REVIEW OF THE POLICY ISSUANCE PROCESS

Homeowner Policies

NEW BUSINESS POLICIES

No violations

RENEWAL BUSINESS POLICIES

No violations

REVIEW OF STATUTORY NOTICES

General Statutory Notices

No violations

Statutory Property Notices

No violations

Other Notices

No violations

LICENSING AND APPOINTMENT REVIEW

Agent Review

Violation of 38.2-1833 of the Code of Virginia regarding the failure to appoint an agent within 30 days of the application.

Company Response: The Company believes that the applicable exam sheet is AG028, related to Agent #1, a licensed and appointed agent, and Agent #2, who was licensed but did not have an appointment from the Company at the time the policy was issued. Both are employed by the same agency. On inquiry, the Company learned that Agent #1 was the agent who orginally discussed the quote and coverages with the insured, but as she wasn't available when the application had to be submitted, Agent #2 signed the application and submitted the policy. The agency realizes that they should have had an appointed agent handle the transaction, or they should have told the Company about the nature of this transaction so Agent #2 could be appointed. Though confident that a licensed and appointed agent, Agent #1, discussed the recommendations, coverages and quote with the Insured, the Company acknowledges that the licensed agent who submitted the Application was not appointed. This point of compliance has since been reiterated with the Company's independent agents, and a cross-check system has been implemented to identify any issues and correct them to ensure agents are appointed within the required 30 days. On 4/10/14, the Company apppointed Agent #2.

Agency Review

Violation of 38.2-1812 of the Code of Virginia regarding the payment of commission to an agency that was not an appointed agency within 30 days of the insurance transaction.

Company Response: The Company believes that the applicable exam sheet is AY024, related to Iroquois Services Corp. On 3/26/14, it was reported to the Company that, although the Company reported for purposes of the original data call that Iroquois Services Corp was the agency of record for this policy, a review of the executed application indicated that J&S Yang Inc DBA Insurance Plus (▇▇▇▇) was in fact the agency of record. J&S Yang Inc DBA Insurance Plus (▇▇▇▇) was not appointed by the Company to place this business at the time it was written.

The Company has since modified the appointment process to ensure it is consistently appointing sub-producers like J&S Yang Inc, to ensure compliance with the regulations.

On 4/10/14, the Company appointed J&S Yang Inc DBA Insurance Plus (▇▇▇▇.

REVIEW OF THE COMPLAINT-HANDLING PROCEDURES

No violations

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

No violations

PART TWO – CORRECTIVE ACTION PLAN

General

Provide Corrective Action Plan (CAP)

Rating and Underwriting Review

(1) Correct errors that caused overcharges and undercharges and refund premiums.

Company Response: There were nine issues that were identified as resulting in overcharges and undercharges. The Company has taken action to resolve each of the issues as detailed below.

The first issue involved the surcharge associated with tenant occupied condominium policies that impacted both new and renewal business policies. The rule on file with the Bureau incorrectly referenced a maximum rental period that included verbiage of "less than 100%" that should have been "up to 100%". For condominium units rented out on an annual basis, the literal interpretation of the rule would result in the surcharge for tenant occupied units not being applicable whereas the Company applied the surcharge.

In an effort to address this issue, a Rate/Rule filing was submitted to the Bureau in March of 2014 to correct the verbiage of the rule regarding Unit-Owners Rental to Others coverage so that it is clear that the surcharge is applicable.

The impacted policies from the sample have been identified and refunded the amount of the surcharge plus 6% simple interest.

The second issue was due to an entry error by the processor while performing a cancel/re-write process. The entry error caused the Newly Acquired Home discount to be incorrectly applied to the policy. The policy was initially written in 2012 with a purchase date of 10/02/07 which was correctly rated without the Newly Acquired Home discount but, when the policy was rewritten in 2013 the effective date of 2/08/13 for the policy was also incorrectly entered as the purchased date which triggered the Newly Acquired Home discount to be applied. The cancel/re-write procedure was reviewed with the processor in an effort to address the issue.

The third issue pertained to an undercharge due to the rating logic on the computer system for the portion of the premium calculation for Earthquake coverage for which the Coverage A limit exceeds the basic limit of coverage. The result of the error was an undercharge on one policy. This issue existed during the experience

period of the Market Conduct Examination but, it was identified prior to the onsite portion of the Market Conduct Examination and subsequently corrected. Had the policy in question not expired, the rating of the Earthquake coverage premiums would have been corrected for policy terms subsequent to the term that fell within the experience period of the examination.

The fourth issue involved an undercharge due to the rounding routine of the premium computation process on the computer system for a condominium policy that resulted in a $1 undercharge on one policy. The rounding routine was revised to address the issue subsequent to the issue being identified during the examination.

The fifth issue related to undercharges due to the Policy Fee not being applied to some policies only occurred when the policy was initially issued and subsequently cancelled during the same end of day processing routine. The automated processing routine previously recognized the cancellation of the policy prior to the application of fees. The automated processing routine has been revised to now apply fees prior to the cancellation of the policy.

The sixth issue pertains to the application of the Home Alert discount on a policy that was canceled and re-written in 2005. The Home Alert discount was applied to the policy that corresponds with the presence of smoke detectors, deadbolt locks and a fire extinguisher. However, the application of the initial policy could not be located by the agency that wrote the policy so evidence of the insureds indication that these devices existed cannot be provided. The result is an apparent undercharge in premium. The Company has enhanced the data storage functions since this policy was re-written that will address this issue.

The seventh issue pertains to tiering eligibility. The Company respectfully disagrees with the observation of the examiner for the instances that have been identified. The instances involve insureds that credit histories that fail to produce an Insurance Score under the Lexis Nexis Attract One scoring model that is being used. In the instances when a numeric score cannot be generated, alpha codes are utilized by both the Lexis Nexis model and the Company's computer system. The tiering scorecard in use during the examination period lists the ranges of the valid numeric scores that can be generated along with the corresponding weight used for tiering purposes. The chart also utilized a category for "Neutral (no hit/no score)" that is applicable in the event that a numeric score is not generated by the scoring model.

The policies in question did not generate a numeric value for the Insurance Score which is reflected on the computer system as a "z". It is felt that it is clear that an alpha character does not correlate to any of the numeric value ranges in the scorecard and thereby qualifying for the only available option listed in the scorecard that does not pertain to numeric values which is the "Neutral (no hit/no score)" category that corresponds to the mid-point tiering weight of 50. The concept of having to reference all of the computer system codes in the rate manual does not appear to be an industry standard.

The Company has submitted a revised tiering scorecard to the Bureau that incorporates suggested clarifying aspects to multiple sections of the tiering scorecard that are intended to reflect a process improvement rather than an admission of a violation.

The Company requests a meeting with Joy Morton, Rebecca Nichols and Mary Bannister in an effort to resolve this issue.

The eighth issue relates to the tiering display on the computer system. The underlying issue pertains how the tiering assignment is displayed on the computer system. The display combines the alpha character associated with the tiering assignment with the numeric sum of the weights of individual tiering attributes. For the impacted policies, the numeric value of the tiering weights did not match a manual calculation of the sum of the tiering attributes but, the alpha tier assignment was correct resulting in the premium being calculated correctly. It was determined that changes to the tiering weights that occur in subsequent policy terms were being applied retroactively to the tiering display for previous terms of the policy. For this specific policy, the correct display should have been I-100 but, due to an improvement in the insured's insurance score in a subsequent policy term that increased the numeric value of the tiering weight, the display of the tiering assignment was incorrectly shown as I-105 for the prior term of the policy. As the examiner noted, this issue does not have an impact on the premium calculation. The discrepancy was investigated by the IT department and the programming issue was identified and corrected.

The ninth issue involves the mandatory windstorm or hail deductible requirements. The Company utilizes mandatory windstorm or hail deductibles for certain geographical areas of the state of Virginia. Due to an administration issue with the computer system tables that facilitate the mandatory deductible provision, some policies were issued without the mandatory windstorm or hail deductible even though the risk location was within the geographic boundary that should have required such a deductible per the rates and rules on file with the Bureau. The computer system issue was identified prior to the examination and it was decided to allow the impacted policies to maintain the lower All Peril deductible that had been afforded rather than imposing the reduction in coverage associated with the higher windstorm or hail deductible (i.e. 2% of the Coverage A limit) on these insureds.

The impacted policies from the sample have been identified and refunded the amount of the overcharge associated with the lower deductible plus 6% simple interest. The computer system has also been changed so that the impacted policies will have the higher windstorm or hail deductible applied to the policy during the next subsequent renewal process.

(2) Add 6% interest to the refund amount.

Company Response: The file provided by the Bureau that was titled "Fidelity National Restitution Revised" has been completed and submitted as part of the response to the Report. The details regarding the refunds have been entered in the worksheet titled "Rating" for all items other than those that are still being disputed. The items that involve an unresolved issue have been noted accordingly.

(3) Complete and submit the file titled "Rating Overcharges Cited During the Examination."

Company Response: The file provided by the Bureau that was titled "Fidelity National Restitution Revised" has been completed and submitted as part of the response to the report. The details regarding the refunds have been entered in the worksheet titled "Rating" for all items other than those that are still being disputed. The items that involve an unresolved issue have been noted accordingly.

(4) Specify accurate information on the declarations page with particular attention to the forms that are listed.

Company response: The Company respectfully disagrees with the observation of the examiner. All violations related to this matter pertain to the use of a single endorsement, FN1326 VA – Deductible Percentage Endorsement, that was applicable for each of the sample files. The endorsement explains the

mathematic calculation of the policy deductible that would be used in the event that the declarations page reflected the deductible in the form of a percentage. The necessity of the endorsement was due to the lack of any similar explanation within the underlying ISO policy forms along with the absence of the automation needed to display the dollar amount of a percentage deductible on the declarations page.

The Company respectfully disagrees with the observation of the examiner. The provisions of the Deductible Percentage Endorsement are clearly indicated as being conditional and if applicable, the information is purely explanatory in nature regarding the calculation of the deductible with no impact on any other policy provisions. In order for the explanatory provision to be applicable, the provision needs to be considered a part of the policy. Therefore, the use of an endorsement is needed rather than the examiners recommendation to use a policyholder notice that would not be considered to be a part of the policy.

The Company has incorporated the automation necessary to display percentage based deductibles on the declarations page as both a percentage and the corresponding dollar amount. Therefore, the use of the endorsement was discontinued in Virginia effective May 11, 2014 for new business and June 3, 2014 for renewal business.

This is the third of three criticisms in this part of the report where the Bureau has cited multiple violations for the use of this endorsement. The Company requests a meeting with Joy Morton, Rebecca Nichols and Mary Bannister in an effort to resolve this issue.

(5) Use rules and rates on file with the Bureau with particular attention given to filed discounts and/or surcharges, base and/or final rates, tier eligibility criteria, deductible factors and filed policy fees.

Company Response: There were nine issues that were identified as resulting in overcharges and undercharges. The Company has taken action to resolve each of the issues as detailed below.

The first issue involved the surcharge associated with tenant occupied condominium policies that impacted both new and renewal business policies. The rule on file with the Bureau incorrectly referenced a maximum rental period that included verbiage of "less than 100%" that should have been "up to 100%". For condominium units rented out on an annual basis, the literal interpretation of the rule would result in the surcharge for tenant occupied units not being applicable whereas the Company applied the surcharge.

In an effort to address this issue, a Rate/Rule filing was submitted to the Bureau in March of 2014 to correct the verbiage of the rule regarding Unit-Owners Rental to Others coverage so that it is clear that the surcharge is applicable.

The impacted policies from the sample have been identified and refunded the amount of the surcharge plus 6% simple interest.

The second issue was due to an entry error by the processor while performing a cancel/re-write process. The entry error caused the Newly Acquired Home discount to be incorrectly applied to the policy. The policy was initially written in 2012 with a purchase date of 10/02/07 which was correctly rated without the Newly Acquired Home discount but, when the policy was rewritten in 2013 the effective date of 2/08/13 for the policy was also incorrectly entered as the purchased date which triggered the Newly Acquired Home discount to be applied. The cancel/re-write procedure was reviewed with the processor in an effort to address the issue.

The third issue pertained to an undercharge due to the rating logic on the computer system for the portion of the premium calculation for Earthquake coverage for which the Coverage A limit exceeds the basic limit of coverage. The result of the error was an undercharge on one policy. This issue existed during the experience period of the Market Conduct Examination but, it was identified prior to the onsite portion of the Market Conduct Examination and subsequently corrected. Had the policy in question not expired, the rating of the Earthquake coverage premiums would have been corrected for policy terms subsequent to the term that fell within the experience period of the examination.

The fourth issue involved an undercharge due to the rounding routine of the premium computation process on the computer system for a condominium policy that resulted in a $1 undercharge on one policy. The rounding routine was revised to address the issue subsequent to the issue being identified during the examination.

The fifth issue related to undercharges due to the Policy Fee not being applied to some policies only occurred when the policy was initially issued and subsequently cancelled during the same end of day processing routine. The automated processing routine previously recognized the cancellation of the policy prior to the application of fees. The processing routine has been revised to now apply fees prior to the cancellation of the policy.

The sixth issue pertains to the application of the Home Alert discount on a policy that was canceled and re-written in 2005. The Home Alert discount was applied to the policy that corresponds with the presence of smoke detectors, deadbolt locks and a fire extinguisher. However, the application of the initial policy could not be located by the agency that wrote the policy so evidence of the insureds indication that these devices existed cannot be provided. The result is an undercharge in premium. The Company has enhanced the data storage functions since this policy was re-written that will address this issue.

The seventh issue pertains to tiering eligibility. The Company respectfully disagrees with the observation of the examiner for the instances that have been identified. The instances involve insureds that credit histories that fail to produce an Insurance Score under the Lexis Nexis Attract One scoring model that is being used. In the instances when a numeric score cannot be generated, alpha codes are utilized by both the Lexis Nexis model and the Company's computer system. The tiering scorecard in use during the examination period lists the ranges of the valid numeric scores that can be generated along with the corresponding weight used for tiering purposes. The chart also utilized a category for "Neutral (no hit/no score)" that is applicable in the event that a numeric score is not generated by the scoring model.

The policies in question did not generate a numeric value for the Insurance Score which is reflected on the computer system as a "z". It is felt that it is clear that an alpha character does not correlate to any of the numeric value ranges in the scorecard and thereby qualifying for the only available option listed in the scorecard that does not pertain to numeric values which is the "Neutral (no hit/no score)" category that corresponds to the mid-point tiering weight of 50. The concept of having to reference all of the computer system codes in the rate manual does not appear to be an industry standard.

The Company has submitted a revised tiering scorecard to the Bureau that incorporates suggested clarifying aspects to multiple sections of the tiering scorecard that are intended to reflect a process improvement rather than an admission of a violation.

The Company requests a meeting with Joy Morton, Rebecca Nichols and Mary Bannister to further the effort to resolve this disagreement.

The eighth issue relates to the tiering display on the computer system. The underlying issue pertains how the tiering assignment is displayed on the computer system. The display combines the alpha character associated with the tiering assignment with the numeric sum of the weights of individual tiering attributes. For the impacted policies, the numeric value of the tiering weights did not match a manual calculation of the sum of the tiering attributes but, the alpha tier assignment was correct resulting in the premium being calculated correctly. It was determined that changes to the tiering weights that occur in subsequent policy terms were being applied retroactively to the tiering display for previous terms of the policy. For this specific policy, the correct display should have been I-100 but, due to an improvement in the insured's insurance score in a subsequent policy term that increased the numeric value of the tiering weight, the display of the tiering assignment was incorrectly shown as I-105 for the prior term of the policy. As the examiner noted, this issue does not have an impact on the premium calculation. The discrepancy was investigated by the IT department and the programming issue was identified and corrected.

The ninth issue involves the mandatory windstorm or hail deductible requirements. The Company utilizes mandatory windstorm or hail deductibles for certain geographical areas of the state of Virginia. Due to an administration issue with the computer system tables that facilitate the mandatory deductible provision, some policies were issued without the mandatory windstorm or hail deductible even though the risk location was within the geographic boundary that should have required such a deductible per the rates and rules on file with the Bureau. The computer system issue was identified prior to the examination and it was decided to allow the impacted policies to maintain the lower All Peril deductible that had been afforded rather than imposing the reduction in coverage associated with the higher windstorm or hail deductible (i.e. 2% of the Coverage A limit) on these insureds.

The impacted policies from the sample have been identified and refunded the amount of the overcharge associated with the lower deductible plus 6% simple interest. The computer programming has also been changed so that the impacted policies will have the higher windstorm or hail deductible applied to the policy during the next subsequent renewal process.

(6) Provide Credit Adverse Action notice as required.

Company Response: The Company previously generated adverse action notices based on an Insurance Score threshold of 663 or less. Prior to the introduction of the current tiering system, rating factors that corresponded to specific ranges of Insurance Scores were utilized. Scores greater than 663 utilized factors less than 1.00 (i.e. a discount was applied) and scores less than or equal to 663 utilized factors greater than 1.00 (i.e. a surcharge was applied). This logic was maintained under the current tiering system as it was felt that it isolated the impact of the Insurance Score attribute within the overall tiering process. Given that the policies in question had Insurance Scores greater than 663, an Adverse Action notice was not generated.

The Company has subsequently revised the adverse action generation process to now contemplate the tiering weight generated by the Insurance Score attribute. The new base line is the tiering weight of 50 assigned to the Neutral (no hit/no score) category. Policies that generate a tiering weight for the Insurance Score attribute that is less than 50 will generate the Adverse Action notice.

Termination Review

(1) Correct errors and refund premiums.

Company Response: There were 35 issues that were identified as resulting in overcharges. The company has taken action to resolve each of the issues, as follows.

31 of the issues were due to the Company fully earning the policy fee instead of retaining only the pro-rated portion of the policy fee on cancellation. The impacted policies from the sample have been identified and the Company has refunded the unearned portion of the policy fee plus 6% simple interest. The programming error has been fixed.

4 of the issues were due to the Company refunding return premium to the insured's lender as opposed to directly to the insured, for reasons that have been more fully explained in this Company response, along with corrective action taken. The impacted policies from the sample have been identified and the Company has refunded the unearned premium and the pro-rata unearned portion of the policy fee, plus 6% simple interest, to 3 of the insureds. The Company has queried the 4th because there appears to be a discrepancy between the figures on the exam sheets and the file provided by the Bureau was titled "Fidelity National Restitution Revised". The amount on the exam sheet indicated $866.55. The amount on the Restitution workbook is $963. This includes the additional amount of the pro-rated unearned portion of the policy fee ($27.95). $866.55 + $27.95 = $894.50 (before interest). With the 6% simple interest the amount would be $948.17.

The Company respectfully requests clarification from the Bureau regarding policy # [redacted], Ref # THO020.

(2) Add 6% interest to the refund amount.

Company Response: The file provided by the Bureau that was titled "Fidelity National Restitution Revised" has been completed and submitted as part of the response to the Report. The details regarding the refunds have been entered in the worksheet titled "Terminations" for all items other than those that are still being disputed. The items that involve an unresolved issue have been noted accordingly.

(3) Complete and submit the file titled "Termination Overcharges Cited During the Examination."

Company Response: The file provided by the Bureau titled "Fidelity National Restitution Revised" has been completed and submitted as part of the response to the report. The details regarding the refunds have been entered for all items other than those that are still being disputed. The items that involve an unresolved issue have been noted accordingly.

(4) Calculate return premiums according to filed rules and policy provisions.

Company Response: There were 31 issues that were identified in relation to the calculation of return premiums according to filed rules and policy provisions. The Company has taken action to resolve each of the issues as detailed below.

These were all instances were the policy fee should not have been fully earned, and the unearned pro-rated portion should have been refunded. This was an inadvertent oversight. The Company reviewed the programming history and set-up records and found that although the instructions were given to program the

calculation on a pro-rated basis, the programming was not completed. The notation on the dec pages stating that the fee is fully earned was removed, but the policy fee refund calculation programming change had not been implemented.

As soon as this was brought to the Company's attention, correction of the rate calculation was requested. The correction was completed on Wednesday, March 12, 2014. The Company has confirmed that the calculation is now correct and the policy fee is being calculated pro-rata.

The impacted policies from the sample have been identified and refunded the pro-rata unearned portion of the policy fee plus 6% simple interest.

(5) Send refund check to the insured.

Company Response: The Company has sent the refund checks to the insured, with 6% simple interest, but with respect to the refunds sent to mortgagee/lendee the company has sent such refunds under protest as **the Company respectfully disagrees**. The company has taken steps to ensure compliance with this requirement. However, there were 4 instances where the company sent the refund to the mortgagee/lender on the policy, at their direction, pursuant to correspondence from them.

The Company has reviewed section 38.2-1906 D and does not see where there is an actual requirement under the code restricting the refund of unearned premium solely to the insured, and therefore the Company respectfully disagrees that there is a violation of this regulation. The mortgagee/lender was acting on behalf of the insured, with the written consent of the insured, and the Compnay reasonably relied on such instructions.

> *38.2-1906 D. No insurer shall make or issue an insurance contract or policy of a class to which this chapter applies, except in accordance with the rate and supplementary rate information filings that are in effect for the insurer.*

The insureds had selected a billing option for the policy to be billed to and paid by their lender. In addition, the lenders paid the initial and all subsequent payments. This established a clear relationship between the Company and the insured's lender, on behalf of and with approval from the insured. However, the Bureau has taken the position that the contract of insurance is between the insured and the company, so the Company should have refunded the premium directly to the insured. This position does not appear to adequately consider that the lenders were acting on behalf of the insured, as representative of the insured, pursuant to written authority given by the insured to the lender. The Company recognizes the Bureau's position, and to that end have instituted process changes to ensure the refund is always sent to the insured unless given explicit written direction by the insured to do otherwise (as opposed to written direction given by the insured's designated representative).

As directed by the Bureau, the Company has refunded to the insureds the full amount, including the 6% simple interest, as indicated in the Restitution workbook, for the policies policies associated with Ref # THO021, Ref # THO024, and Ref # THO025. These amounts include the pro-rata unearned portion of the policy fee.

However, the Company has not yet refunded the premium for the policy associated with Ref # THO020 because the amount in the Restitution workbook does not match the amount on the exam sheet. The amount on the exam sheet indicated $866.55. The amount in the Restitution workbook is $963.00. This

includes the additional amount of the pro-rated unearned portion of the policy fee ($27.95). $866.55 + $27.95 = $894.50 (before interest). With the 6% interest the amount would be $948.17.

The Company respectfully requests clarification from the Bureau.

(6) Cancel policies for permitted reasons when notice is mailed after the 89th day of coverage.

Company Response: The Company has taken steps to ensure compliance with Section 38.2-2114 A and all related requirements.

There were 9 instances where the Company did not comply with Section 38.2-2114 A and all related requirements. The reasons for the actions included:

1. The vacancy of the property. The Company recognizes that the vacancy of the property is not a valid reason to take adverse action on the policy. To safeguard against further instances of this, the Company has implemented strict procedures that specify that no adverse action may be taken on the on the basis that the property is vacant.
2. The foreclosure of the property. Although foreclosure is a valid reason to take an adverse action, the Company recognizes that the additional stipulations must be followed. In attempting to honor the contract of insurance the Company believed that the foreclosure would obviate the contract and coverage, and therefore impair the insured's rights. Although that is indeed the case, the regulations stipulate that foreclosure efforts by the secured party against the subject property covered by the policy must have resulted in the sale of the property by a trustee under a deed of trust as duly recorded in the land title records of the jurisdiction in which the property is located. To prevent any further instances of this occurring, the Company has implemented strict procedures requiring confirmation of the actual transfer of ownership before adverse action may be taken on the policy due to foreclosure.
3. A change in occupancy of the property. While the Company recognizes that the change of ownership of the property is not a valid reason to take adverse action on the policy, the Company did so in an attempt to protect the insured's interests by terminating a policy that did not meet their changed circumstances and needs. However, to prevent this situation from recurring, and yet to provide the insureds with information that will enable them to secure the applicable type of policy, procedures have been implemented to send an advisory notice to the insured (and the agent if applicable) to encourage them to review their options and secure a different type of policy to suit their changed needs. In that case, they may choose to cancel the policy, at which time the Company will honor their request.

(7) Send cancellation notice to the address listed on the policy.

Company Response: The Company has taken steps to ensure compliance with this requirement.

There was one instance where it was asserted that the Company failed to send the cancellation notice to the name and/or address listed on the policy. The Company believes that this was the policy associated with THO057. The policy has 2 addresses: the insured property address and the insured's mailing address. In this case, the insured property address did not change but during the policy term the mailing address was updated by the insured. Therefore, when the non-renewal notice was sent, it was sent to the insured's updated mailing address. On that basis, there is Company compliance with the code.

It is pertinent to note that the Company has recently modified procedures so that every time there is any change in any name and/or address, it will issue a revised declarations page with the changed information, and thereafter any correspondence or notices sent will reflect the consistency in our files between the mailing address used and the mailing address shown on the most recent declarations page.

Please note that the Company believes that the applicable section of the Virginia Code is 38.2-2114 B. and not 38.2-2114 A, as cited. Section A refers to cancellations, whereas section B refers to non-renewals.

> *38.2-2114 B. No policy or contract written to insure owner-occupied dwellings shall be terminated by an insurer by refusal to renew except at the expiration of the stated policy period or term and unless the insurer or its agent acting on behalf of the insurer mails or delivers to the named insured, at the address stated in the policy, or delivers electronically to the address provided by the named insured, written notice of the insurer's refusal to renew the policy or contract.*

(8) Notify insured of availability of insurance through the VPIA in the cancellation notice.

Company Response: The Company has taken steps to ensure compliance with this requirement. The company has modified the non-payment, cancellation and non-renewal notices to comply with Section 38.2-2114 C of the Code of Virginia. To that end, a statement is added that insurance may be available through the Virginia Property Insurance Association (VPIA).

(9) Notify insured of the right to have the termination of the policy reviewed by the Commissioner of Insurance.

Company Response: The Company has taken steps to ensure compliance with this requirement. The Company has modified the non-payment, cancellation and non-renewal notices to comply with Section 38.2-2114 C of the Code of Virginia. To that end, a statement is added that the insured has the right to request a review by the Commissioner of Insurance.

(10) Obtain written notice when the insured requests cancellation of the policy.
Company Response: The issue with this was that the statute requires the cancellation request to be made by the insured in writing "if the insurer requires such notification to be in writing". The Company's policy has a condition (Sections I and II Conditions subsection 5. a.) that the request must be made in writing.

The Company has created an endorsement to amend the condition in Sections I and II Conditions subsection 5. a. to include a verbal request to cancel. In addition, the Company added a very clear directive that must be acknowledged by the independent agent before using the features on its website: the agent attests that they do indeed have the required verbal or written request to cancel from the insured. The Company believes that this two-pronged approach will eliminate recurrences of this issue.

Claims Review

(1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to the insureds and claimants.
Company Response: This has been done, including with interest, with the exception of those claims files identified by the Bureau where the Company disagrees with the Bureau's position (as discussed in the Company response in Part One); or the Company has reopened the claim file and are attempting to secure the necessary information to determine the payment that will be made.

(2) add 6% interest to the refund amount.

Company Response: The file provided by the Bureau that was titled "Fidelity National Restitution Revised" has been completed and submitted as part of the response to the Report. The details regarding the refunds have been entered in the worksheet titled "Claims" for all items other than those that are still being disputed. The items that involve an unresolved issue have been noted accordingly.

(3) complete and submit the file titled "Claims Underpayments Cited During the Examination."
Company Response: This has been done.

(4) Properly document claim files so events and dates can be reconstructed.
Company Response: This is required by the Company's claims procedures. All employees who handle Virginia claims are being scheduled to take the "Adjuster File Notes" course on PLRB.

(5) Document claim file that all applicable coverages have been discussed with the insured with particular attention to replacement cost benefits under Dwelling coverage, Personal Property coverage and Additional Living Expense coverage.
Company Response: This is required by the Company's claims procedures. All employees who handle Virginia claims are being scheduled to take the "Adjuster File Notes" course on PLRB.

(6) Offer the insured a fair and reasonable amount that is in accordance with the policy provisions.
Company Response: It is the Company's policy to offer fair and reasonable settlement amounts in accordance to the insured's policy provisions. The Company is scheduling refresher training for employees who handle Virginia claims to review this policy. This is required by the Company's claims procedures. A significant number of the instances cited by the Bureau related to the Bureau's position with regard to the unenforceability of the mold exclusion; and though the Company has now paid these claims, the Company respectfully disagrees with the position taken by the Bureau.

(7) Properly represent pertinent facts and policy provisions.
Company Response: This is required by the Company's claims procedures. Templates for claim letter have been created to provide the correct policy language. Supplemental Employee training has been completed.

(8) Adopt and implement reasonable standards for the prompt investigation of claims.
Company Response: The Company maintains standards for the investigation of claims, and all employees have been trained. Refresher training is being scheduled to reinforce the Company prompt investigation standards.

Licensing and Appointment Review

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

Company Response: There was one instance of non-compliance, and the company has taken steps to ensure compliance with this requirement.

The Company has reiterated the requirement that all agents must be licensed and appointed with the agencies and agents with whom the Compnay does business, as well as the implementation of an internal cross-check system to identify any issues and correct them to ensure agents are appointed within the required 30 days.

The Company believes this relates to an issue on exam sheet AG028, involving Agent #1 a licensed and appointed agent, and Agent #2 who was licensed but did not have an appointment from us at the time the policy was issued. On inquiry, the Company learned that Agent #1 was the agent who orginally discussed the quote and coverages with the insured, but as she wasn't available when the application had to be submitted, Agent #2 signed the application and submitted the policy. The agency realizes that they should have had an appointed agent handle the transaction, or they should have told us about the nature of this transaction so Agent #2 could be appointed. Though confident that a licensed and appointed agent, Agent #1, discussed the recommendations, coverages and quote with the Insured, the Company acknowledges that the licensed agent who submitted the Application was not appointed. The Company appointed Agent #2 on 4/10/14.

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

Company Response: There was one instance of non-compliance, and the Company has taken steps to ensure compliance with this requirement.

The Company believes that the applicable exam sheet is AY024, related to Iroquois Services Corp. On 3/26/14 it was reported to the company that although the Company reported for purposes of the original data call that Iroquois Services Corp was the agency of record for this policy, a review of the executed application indicated that J&S Yang Inc DBA Insurance Plus ([redacted]) was in fact the agency of record. J&S Yang Inc DBA Insurance Plus ([redacted]) was not appointed by the Company to place this business at the time it was written.

The Company's appointment process has since been modified to ensure consistent appointing of sub-producers like J&S Yang Inc, to ensure compliance with the regulations.

On 4/10/14, the Company appointed J&S Yang Inc DBA Insurance Plus ([redacted]).

PART THREE – EXAMINERS' NOTES

RECOMMENDATIONS

Rating and Underwriting

- Revise wording of rule on page D-4 pertaining to Specified Additional Amount of Insurance for Coverage A.

  Company Response: The wording of Rule 5. Specified Additional Amount of Insurance for Coverage A Dwelling on page D-4 was revised and submitted to the Bureau using effective dates of April 22, 2014 for both new and renewal business.

  Update the FIT scorecard to include reference to credit score "Z".

  Company Response: The FIT scorecard has been revised to include clarifying verbiage in multiple sections of the scorecard. The latest modified edition of the scorecard was submitted to the Bureau using effective dates of July 15, 2014 for both new and renewal business.

Claims

- Make all claim denials in writing and keep a copy in the claim file.

  Company Response: The Company's practice is that all denials are in writing and a copy is kept in the claim file. The claim adjusters responsible for violations are no longer with Company and the remaining staff has been reminded of the Company's expectations and procedures.

- The company should provide a reasonable explanation of the basis of the denial of a claim or offer of a compromise settlement.

  Company Response: The Company's practice is to provide a reasonable explanation of the basis for either a denial or compromise settlement. The claim adjusters responsible for violations are no longer with the Company and the remaining staff has been reminded of the Company's expectations and procedures.

- The company should not settle a first party claim by transferring the responsibility for payment to another party.

  Company Response: The claim in question associated with CHO027 is a 3rd Party liability claim, not a first party claim, and the Company does not agree with the Bureau's findings. It is the Company's practice to settle claims that are owed by the Company.

COMMONWEALTH OF VIRGINIA

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January 9, 2015

VIA UPS 2nd DAY DELIVERY

Larry Mortensen
Vice President-Pricing
Stillwater Insurance Company
4905 Belfort Road
Jacksonville, FL 32236-6007

Re: Market Conduct Examination
Stillwater Insurance (NAIC# 25180)
Examination Period: September 1, 2012 – August 31, 2013

Dear Mr. Mortensen:

The Bureau of Insurance (Bureau) has reviewed the September 18, 2014 response to the Preliminary Market Conduct Report of Stillwater Insurance Company (Fidelity National Insurance Company). The Bureau has referenced only those items in which the Company has disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

PART ONE – THE EXAMINERS' OBSERVATIONS

Rating and Underwriting Review

Homeowner New Business Policies

(1) This item stays in the Report. The form was listed and attached to the policy as an applicable endorsement on policies that did not have a percentage deductible applicable. The explanation is not necessary if the percentage deductible is not applicable. Notices are provided for explanations. If this document is used only to advise the insured of how the deductible amount is determined, it should not have been submitted as an optional endorsement to be approved and attached to policies with percentage deductibles.

The company has advised that use of the form was discontinued May 11, 2014. Did the company submit a filing to withdraw the form as an applicable form in Virginia?

The violation was cited multiple times because the document was attached to multiple policies when the percentage deductible did not apply.

The Company has requested a meeting with Mary Bannister, Rebecca Nichols, and me. Please advise of your availability during February 2015, and I will coordinate a meeting.

(2) The Company has acknowledged the violations cited in this area.

Homeowner Renewal Business Policies

(1) This item stays in the Report. The form was listed and attached to the policy as an applicable endorsement on policies that did not have a percentage deductible applicable. The explanation is not necessary if the percentage deductible is not applicable. Notices are provided for explanations. If this document is used only to advise the insured of how the deductible amount is determined, it should not have been submitted as an optional endorsement to be approved and attached to policies with percentage deductibles.

The Company has advised that use of the form was discontinued May 11, 2014. Did the Company submit a filing to withdraw the form as an applicable form in Virginia?

The violation was cited multiple times because the document was attached to multiple policies when the percentage deductible did not apply.

The Company has requested a meeting with Mary Bannister, Rebecca Nichols, and me. Please advise of your availability during February 2015, and I will coordinate a meeting.

(2a) The Company has acknowledged that the rule was not being applied as filed with the Bureau.

(2b) The violations for RHO031 and RHO083 remain in the Report. All variables used in determining the insurance score and proper tiering of a risk must be filed with the Bureau prior to use. The manual on file with the Bureau is incomplete in this respect.

This violation remains in the Report. The Company acknowledged that there was a programming error that caused the incorrect scoring.

The violations for RHO055 and RHO057 have been withdrawn from the Report.

Terminations Review

Homeowner Notices after the 89th Day of Coverage

(1b) The violations cited in this section remain in the Report. The insurance contract is a contract between the Company and the insured. The premium, although paid to the Company by the lienholder, is paid with money paid by the insured through escrow.

Nonpayment of Premium

(1) There were 17 violations regarding failure to calculate the return premium correctly. There are only 10 entries in the Restitution Spreadsheet as the other seven violations were undercharges. The Restitution Spreadsheet only includes the overcharges.

Insured Requested Cancellations

(1) There were eight violations regarding failure to calculate the return premium correctly. There are only seven entries in the Restitution Spreadsheet as the other one violation was an undercharge. The Restitution Spreadsheet only includes the overcharges.

Homeowner Non-renewal Policies

(1) This item remains in the Report. For reconsideration the Company must provide evidence of a midterm endorsement showing the change in the mailing address prior to the cancellation notice being mailed.

Claims Review

Homeowner Claims

(1) The violation for CHO008 and CHO009 remain in the Report. Debris is the remains of destroyed property. It is waste and, therefore, has no monetary value. The Company cannot depreciate something of zero value. Debris has no replacement value and by its very nature would not be replaced. The removal of debris is a service such as the removal of water from water soaked carpet. The removal of the water (waste) is not depreciated.

In addition, the Company is depreciating the removal of debris and then depreciating the items that resulted in the debris yet a second time under Coverage A and B. This is not permitted under the policy.

Concerning the Loss Settlement clause of the policy, the Company has chosen to settle claims without consideration of the Additional Coverages available to the policyholder. The Company should refer to the Virginia Minimum Standards of Content for a Homeowners Policy. Debris removal coverage is required. The Company cannot choose to avoid payment under this coverage.

The violation for CHO10 remains in the Report. The Company's file does not contain an explanation for the difference in the life expectancy and further, the reason for selecting a depreciation factor that was less favorable to the insured.

The violation for CHO012 has been withdrawn from the Report.

The violation for CHO013 remains in the Report. The Company's response is not relative to the violation cited in Review Sheet ClaimPropHO893745845.

The violation for CHO014 remains in the Report. The violation related to the table is removed. The violation related to depreciating debris remains in the Report for reasons stated above.

The violation for CHO016 remains in the Report. The Company's file was not properly documented regarding the status of subrogation since 2013. It was not until after the Bureau's review of the file that the Company requested an update from their subrogation vendor.

The file note cited by the Company regarding the Additional Living Expense does not address the discrepancy between the adjuster's report and the Independent Appraiser's report. The amount of the payment is not the issue in this violation. The issue is the Company's failure to document the claims file so that the events of the claim can be reconstructed.

The violation for CHO023 remains in the Report. In the Company's initial response, the Company agreed with the Bureau that the coverage letter was incorrect. The Company's letter outlined the attorney's coverage with the Company. The insured's attorney was not the insured. Concerning the Company's response regarding communicating with the insured's attorney, there is no such violation or reference to this in the Bureau's records. Further, there would be no basis for a violation related to communications with an insured's attorney.

The file provided to the Bureau at the time of the examination by the Company, does not include any payment under Coverage C. The Company's response does not include evidence of payment under Coverage C. The Company's file contains copies of payments under Coverage A and Coverage D only. The payments under Coverage A exceed the policy limits without explanation in the file.

The violation for CHO031 remains in the Report. The Company's file states "The adjuster has depreciated taxes/permits at 100%..." The cost of permits is a known expense as is the tax in each venue in Virginia. The depreciation of these fixed expenses results in an unreasonable delay in payment and additional unnecessary paper work from the insured who must submit paid receipts for reimbursement.

The violation for CHO034 remains in the Report. The Company's expert clearly stated that this loss was caused by sewage back up, termites, ground water, and poorly placed downspouts. The Company's file is not properly documented to explain why the Company concluded there was coverage under these causes of loss.

The violation for CHO040 has been withdrawn from the Report.

(2a) The violation for CHO013 remains in the Report. The Company sent the insured a complete copy of her policy as well as a seven page letter outlining various portions of the coverage that were not relevant to the loss and further, did not specifically advise the insured regarding the policy provisions applicable to recovery of replacement cost. The Company's Exhibit 7 does not advise the insured of the requirements for recovery of replacement cost. The letter only advises the insured to submit receipts when work is completed.

The violation for CHO049 has been withdrawn from the Report.

(2b) The violation for CHO022 has been withdrawn from the Report.

(3) The violation for CHO023 has been withdrawn from the Report. Two additional violations have been added to the Report. The Company issued two payments under Coverage A when these payments should have been paid under Coverage C.

The Company did not provide an explanation for their second objection in this area of the Report.

(4) The violation for CHO001 has been withdrawn from the Report.

The violation for CHO021 remains in the Report. The Company advised the insured that the claim was under her deductible. The claim was not under her deductible but was instead a claim for a loss not covered under the policy. The company did not provide the insured with a valid reason for the denial of her claim.

(5) The violation for CHO027 has been withdrawn from the Report. An additional violation has been added to the Report reflecting the Company's improper referral of the claimant's claim to his own company when liability was clear.

(6a) The violation for CHO008 involves the Company's failure to offer a fair and reasonable settlement and as such, is in violation of 14 VAC 5-400-70 D of the Virginia Administrative Code. This claim is one of seven claims where a fair and reasonable settlement was not offered to an insured. As the Company will note under the section titled "Corrective Action Plan", the error threshold applied to claims handling is seven percent (7%) of the sampled files. Any error ratio above this threshold is considered to be a general business practice. Therefore, the violation in CHO008 is included in the total and as such, this file contributed to the general business practice.

The violation for CHO028 remains in the Report. Please provide confirmation from the insured that she did not incur remediation expenses. The insured had previously indicated that she paid out-of-pocket remediation expenses.

The violation for CHO031 remains in the Report. Please provide confirmation from the insured that the $18,885.38 in remediation expenses that was denied by the Company was, in fact, never paid by the insured.

The violation for CHO045 remains in the Report. The Company determined that this loss was covered. There is no documentation in the file to support the Company's recent interpretation of the IA's statement that, "The cause of loss is due to the backup of water..." and "...water has backed up from the floor drain...and caused the damage." In fact, the Company sent the insured a letter (9/22/2013) advising him that the cause of loss was back up of water from a damaged sewer line. The Company paid the loss under Coverage A and will now contact the insured, determine the cost of the mold remediation, and advise the Bureau of their payment. The Company cannot arbitrarily decide that this claim is not covered when the Company originally investigated the loss and afforded coverage.

The violation for CHO047 remains in the Report. This loss was reported as being caused by a leak from the neighbor's condominium unit into the insured's unit. The Company did not investigate this loss but instead denied coverage based on the presence of mold. The Company is now denying the loss without evidence of an investigation into the cause of the loss and is instead relying upon the insured's inexpert opinion. The Company will provide the Bureau with sufficient information to support their findings along with a copy of the denial letter issued to the insured.

CHO049 remains in the Report. The Company should provide evidence that the Homeowners Association Master Policy covered the mold remediation to the insured's unit.

CHO050 remains in the Report. The Company has no evidence that overhead and profit was not paid by the insured. An estimate is not a final bill. Additionally, the Company also excluded the cost of debris removal. For the previously stated reasons, the Company owes debris removal expenses. The

Company will contact the insured, determine if these expenses were incurred and if so, reimburse the insured accordingly.

(6c) The violation of CHO031 remains in the Report. Coverage A limits were increased via endorsement FN 1253 and an inflation protection endorsement. Neither of these endorsements limits the Additional Coverages (debris removal) to the Coverage A limits prior to the applicable endorsements. The policy language under Additional Coverage for debris removal does not limit the coverage to the limits stated on the declarations page. On the contrary, the limit is that of the Coverage A limit, which in this case has been increased through endorsements. Finally, under the policy Conditions, there is no language limiting debris removal to the Coverage A limits on the declarations page.

(6d) The violation for CHO005 remains in the Report. The insured and the Company are required to comply with the provisions of the policy. Although the Company may request personal contact from the insured, the policy does not require the insured to make personal contact. The insured is required to comply with the following policy provisions:

"You may make an initial claim for loss on an actual cash value basis. You may then make claim, in accordance with this endorsement, for the difference between the actual cash value and the replacement cost within six months of the later of:

(1) The last date you received a payment for actual cash value; or

(2) The date of entry of a final order of a court of competent jurisdiction declaring your right to full."

The insured complied with these provisions and is entitled to subsequent coverage and payment under his policy.

The violation for CHO014 has been revised to $239.56.

The restitution for CHO045 is correct. Please review the Restitution Spreadsheet (revised 8/25/2014) previously sent to the Company.

(7a) The violations for CHO003, CHO016, CHO020, and CHO024 remain in the Report. The Company must represent the facts as well as policy provisions accurately. Advising an insured that his "...particular state requires that a "form" Proof of Loss be provided to you..." is a misstatement of fact. Reciting incorrect policy language to an insured misrepresents the provisions of the policy.

The violation for CHO028 remains in the Report. Mold that results from a covered loss is not excluded under the policy. This property suffered a direct loss from water. As a result of the direct loss, mold was present. Damage from mold that arises as a result of a covered loss (water, in this case) is covered under the policy.

The violation for CHO031 remains in the Report. This violation is not related to a mold loss as is stated in the Company's response. This violation involves the Company misrepresenting the amount of available coverage on the policy. It is not the Bureau who determined the coverage limits but instead, the endorsement FN 1253. This endorsement increases Coverage A limits. Under the policy's Additional Coverages (debris removal), debris removal is provided at 5% of the Coverage A limit. The policy language under Additional Coverage for debris removal does not limit the coverage to the limits stated on the declarations page. On the contrary, the limit is 5% of the Coverage A limit which in this case has been increased by the endorsement.

(8) The violation for CHO023 remains in the Report. The Company did not complete any level of investigation into the coverage in this loss. The information in the Company's response regarding E&O coverage is not in the Company's file.

(10) The violation for CHO013 remains in the Report. The Company was not required to produce the draft copy. The Company was asked to produce evidence that the coverage under which the payment was made was either on the check, the check stub, or accompanying documentation. The Company's screen prints show what was entered in the Company's system; this is not evidence of what the insured was told.

(11a) The violation for CHO008, review sheet number 1406636039, is withdrawn and rewritten under review sheet number 1418928577 for consistency in writing the Report.

(11b) The violation for CHO034 remains in the Report. Both the expert hired by the Company and the insured stated that the sewage back up was as a result of a collapsed sewer line. The expert further stated that surface water above the ground also contributed to this loss as well as termites and improperly placed downspouts. There is no documentation to support the Company's conclusion that their expert was in error.

(11c) The violation for CHO024 referenced by the Company was originally on Review Sheet ClaimPropHO1808743126 and, subsequently, moved to ClaimPropHO 1406297363.

The violation for CHO008, review sheet 1418928577, is a rewrite of review sheet number 1406636039 for consistency in writing the Report.

(11d) The violation for CHO024 remains in the Report and is corrected to address the issue of including the mortgagee on the checks for the insured's personal property. Although the Company noted the correct coverage on a check memo, the Company issued payments for the insured's personal property to the insured and the mortgagee. The mortgagee had no interest in the insured's personal property.

CORRECTIVE ACTION PLAN

General

The Company should make the outstanding restitution as indicated in the revised Restitution Spreadsheet enclosed.

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 Company's response to this letter is due in the Bureau's office by January 29, 2015.

Sincerely,

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

JMM/pgh
Enclosures

STILLWATER
INSURANCE GROUP

STATE CORP. COMMISSION
2015 FEB 20 AM 11:41
BUREAU OF INSURANCE

February 19, 2015

Joy Morton
Supervisor
Market Conduct Section
Property & Casualty Division
SCC Bureau of Insurance
1300 E Main St
Richmond, VA 23219

RE: Stillwater Insurance Company f.k.a. Fidelity National Insurance Company
Market Conduct Examination
NAIC# 25180
Examination Period: September 1, 2012 – August 31, 2013

Dear Ms. Morton:

Stillwater Insurance Company (Company) is in receipt of the correspondence from the Bureau dated January 9, 2015 pertaining to the Preliminary Report, Part One – The Examiners' Observations. The Company has reviewed the information from the Bureau of Insurance (Bureau) and prepared additional responses which are contained in this document.

Additionally, the Excel file reflecting details of the policy specific refunds that have been issued is enclosed. The file also contains documentation regarding any issues that are still being disputed by the Company. In an effort to resolve the outstanding issues, the Company is requesting a meeting with personnel at the Bureau. Potential dates based on the availability of company personnel have been provided to the Bureau via e:mail correspondence.

Sincerely,

Larry Mortensen
Vice President-Pricing
Stillwater Insurance Company
(904) 997-7340
Larry.Mortensen@Stillwater.com

PART ONE – THE EXAMINER'S OBSERVATIONS

RATING AND UNDERWRITING REVIEW

Homeowners New Business Policies

Overcharges and Undercharges

(1) 30 Violations of 38.2-305 A of the Code of Virginia regarding policy information.

Company Response: - As previously indicated, the Company respectfully disagrees with the observation of the examiner regarding the use of the informational endorsement pertaining to the calculation of a percentage based deductible. The Company has requested a meeting with Joy Morton, Rebecca Nichols and Mary Bannister in an effort to resolve this issue. Potential dates for the meeting have been noted in the cover letter.

A filing to formally withdraw the endorsement in Virginia has not been submitted. The use of the endorsement was discontinued by the company by means of changing it from being a mandatory form to being an optional form on the computer system. This change results in the endorsement no longer being automatically added to new business policies and being removed from existing policies as part of the renewal process.

(2) 6 Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.

a. 3 violations related to discounts and/or surcharges

Company Response: No additional information is being provided.

b. 1 instance of an incorrect base rate and/or final rate

Company Response: No additional information is being provided.

c. 2 instances of the Policy Fee not being charged

Company Response: No additional information is being provided.

Homeowners Renewal Business Policies

Overcharges and Undercharges

(1) Violations of 38.2-305 A of the Code of Virginia regarding policy information.

Company Response: - As previously indicated, the Company respectfully disagrees with the observation of the examiner regarding the use of the informational endorsement pertaining to the calculation of a percentage based deductible. The Company has requested a meeting with Joy Morton, Rebecca Nichols and Mary Bannister in an effort to resolve this issue. Potential dates for the meeting have been noted in the cover letter.

A filing to formally withdraw the endorsement in Virginia has not been submitted. The use of the endorsement was discontinued by the company by means of changing it from being a mandatory form to being an optional form on the computer system. This change results in the endorsement no longer being automatically added to new business policies and being removed from existing policies as part of the renewal process.

(2) Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.

a. 8 instances related to discounts and/or surcharges

Company Response: No additional information is being provided.

b. 4 instances of using incorrect Tier eligibility

Company Response: As previously indicated, the Company respectfully disagrees with the observation of the examiner for the two instances that have been identified pertaining to the Insurance Score section of the tiering chart with respect to the administration of the Neutral (no hit/no score) category. The Company has requested a meeting with Joy Morton, Rebecca Nichols and Mary Bannister in an effort to resolve this issue. Given that the issue is still being disputed, no refunds have yet to be issued to the policies associated with RHO031 or RHO083.

The Company acknowledges that the two review sheets, RHO055 and RHO057, regarding a tiering display issue on the computer system have been withdrawn by the Bureau.

c. 2 instances of an incorrect deductible factor being applied.

Company Response: No additional information is being provided.

(3) 4 Violations of 38.2-2126 A of the Code of Virginia regarding Adverse Action notices.

Company Response: No additional information is being provided.

TERMINATION REVIEW

Homeowners Policies

Company-Initiated Cancellations – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

Overcharges and Undercharges

Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau and correct calculation of return premium.

Company Response: No additional information is being provided.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

Overcharges and Undercharges

(1) Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.

a. Company failed to calculate correct return premium.

Company Response: No additional information is being provided.

b. Company failed to send the refund check to the insured.

Company Response: The Company acknowledges the Bureau's position regarding this isssue.

However, the Company has not yet refunded the premium for the policy associated with Ref # THO020 because the amount in the Restitution workbook does not match the amount on the exam sheet. The amount on the exam sheet indicated $866.55. The amount in the Restitution workbook is $963.00. This includes the additional amount of the pro-rated unearned portion of the policy fee ($27.95). $866.55 + $27.95 = $894.50 (before interest). With the 6% interest, the refund amount would be $948.17 rather than $1,020.78 referenced in the Restitution workbook.

The Company respectfully requests clarification from the Bureau.

(2) Violations of 38.2-2114 A of the Code of Virginia regarding the cancellation of a policy for a reason not permitted by the statute.

Company Response: No additional information is being provided.

(3) Violations of 38.2-2114 C of the Code of Virginia regarding failure to advise insured of right to request review by the Commissioner of Insurance.

Company Response: No additional information is being provided.

All Other Cancellations – Homeowner Policies

NONPAYMENT OF THE PREMIUM

Overcharges and Undercharges

(1) Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.

Company Response: No additional information is being provided.

(2) Violations of 38.2-2114 C of the Code of Virginia

a. Regarding failure to advise insured of right to request review by the Commissioner of Insurance.

Company Response: No additional information is being provided.

b. Regarding failure to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).

Company Response: No additional information is being provided.

REQUESTED BY THE INSURED

Overcharges and Undercharges

(1) Violations of 38.2-1906 D of the Code of Virginia regarding failure to calculate correct return premium.

Company Response: No additional information is being provided.

(2) Violations of 38.2-2114 E of the Code of Virginia regarding failure to obtain written request to cancel a policy.

Company Response: No additional information is being provided.

Company-Initiated Non-renewals – Homeowner Policies

(1) Violation of 38.2-2114 A of the Code of Virginia regarding failure to send the cancellation notice to the name and/or address listed on the policy.

Company Response: The Company respectfully requests reconsideration of the issue related to the mailing address used for the cancellation of the policy associated with reference number THO020 . Documentation of the mid-term change to the mailing address is provided below.

New Business output generated on 2/23/12. It was mailed to [redacted]

On 4/13/12 there was a mid-term endorsement through the Company's website, FIRST, and the mailing address was added/changed to [redacted].

The output generated prior to 4/13/12 is the New Business and the corrective action letter. The only output that generated after 4/13/12 was the non-renewal notice, which was sent to the new mailing address.

The screen shots below are in chronological order.

New Business output generated 2/23/12. It was mailed to [redacted].

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FIDELITY
NATIONAL INSURANCE COMPANY
A Stock Company

PO BOX 45126
JACKSONVILLE FL 32232-5126
1-800-849-6140

POLICY NUMBER
[redacted]
HOMEOWNERS 3 SPECIAL FORM
Client ID [redacted]

NEW

COVERAGE
DECLARATION

EFFECTIVE DATE 02/23/2012
EXPIRATION DATE 02/23/2013

INSURED
[redacted]

AGENT
WELLS FARGO INSURANCE INC
MAC N9306-132
733 MARQUETTE AVE 13TH FLOOR
MINNEAPOLIS MN 55402
(800) 849-6140

LOCATION OF RESIDENCE PREMISES [redacted]
EFFECTIVE TIME IS 12:01 A.M. STANDARD TIME AT YOUR RESIDENCE

SECTION I
PROPERTY COVERAGES

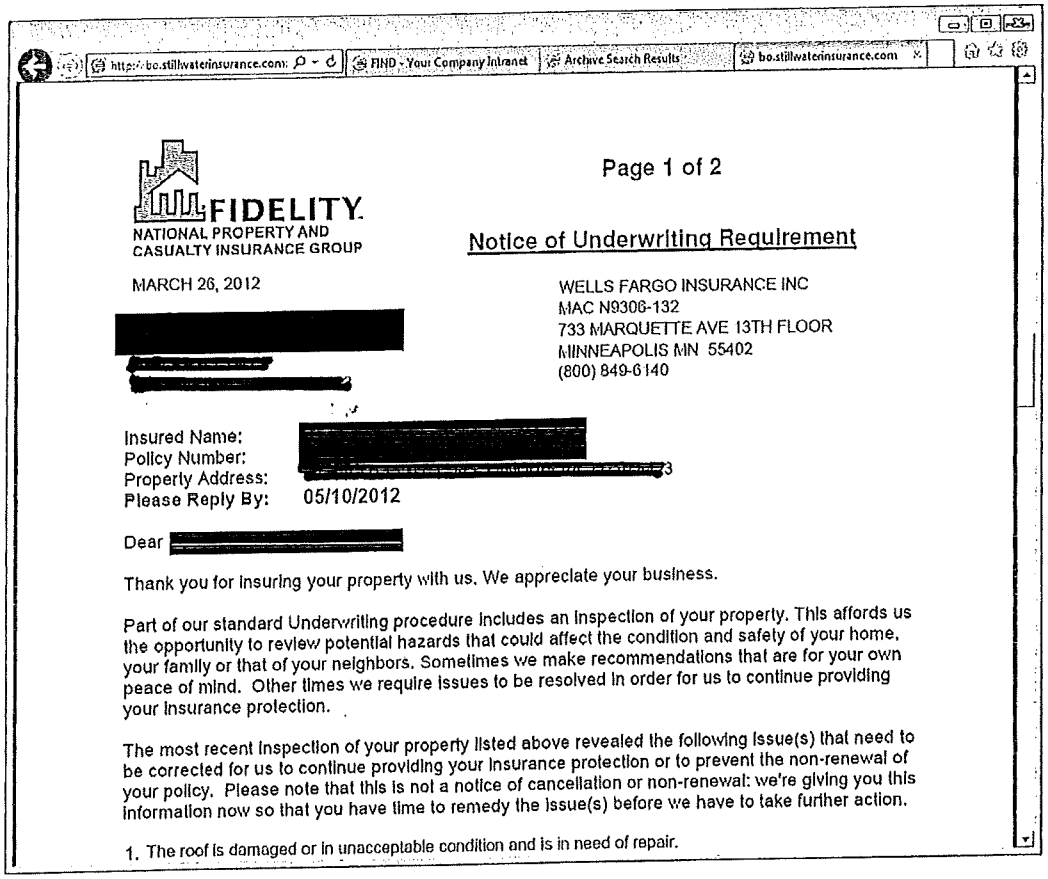
COVERAGE A DWELLING	COVERAGE B OTHER STRUCTURES	COVERAGE C PERSONAL PROPERTY	COVERAGE D LOSS OF USE	DEDUCTIBLE
$ 258,000	$ 25,800	$ 129,000	$ 103,200	ALL PERIL $ 1000

SECTION II LIABILITY COVERAGES

COVERAGE E - PERSONAL LIABILITY	COVERAGE F - MED PAY TO OTHERS
$ 500,000 EACH OCCURRENCE	$ 5,000 EACH PERSON/$25,000 EACH OCCURRENCE

	LIMIT	PREMIUM/CREDIT
COVERAGE A - DWELLING	$258,000	$371.00
COVERAGE B - OTHER STRUCTURES	$25,800	
COVERAGE C - PERSONAL PROPERTY	$129,000	
COVERAGE D - LOSS OF USE	$103,200	
COV E - PERSONAL LIABILITY	$500,000	$17.00
COV F - MED PAY TO OTHERS	$5,000	$9.00
HOME ALERT PROTECTION		$12.00-

The corrective action letter is dated 3/26/12 and it was mailed to [redacted]



FIDELITY
NATIONAL PROPERTY AND CASUALTY INSURANCE GROUP

Page 1 of 2

Notice of Underwriting Requirement

MARCH 26, 2012

[redacted]

WELLS FARGO INSURANCE INC
MAC N9306-132
733 MARQUETTE AVE 13TH FLOOR
MINNEAPOLIS MN 55402
(800) 849-6140

Insured Name: [redacted]
Policy Number:
Property Address: [redacted]3
Please Reply By: 05/10/2012

Dear [redacted]

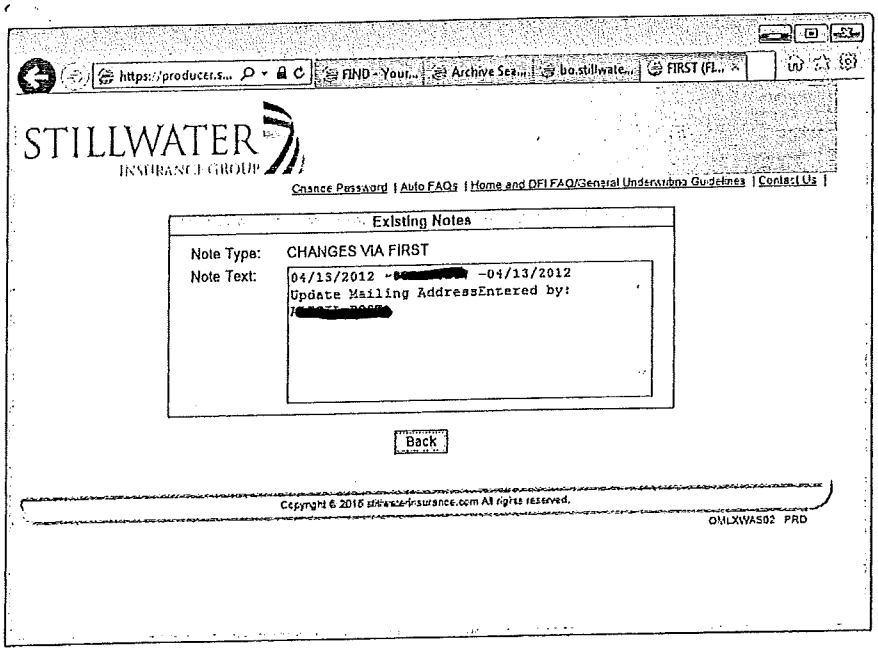
Thank you for insuring your property with us. We appreciate your business.

Part of our standard Underwriting procedure includes an inspection of your property. This affords us the opportunity to review potential hazards that could affect the condition and safety of your home, your family or that of your neighbors. Sometimes we make recommendations that are for your own peace of mind. Other times we require issues to be resolved in order for us to continue providing your insurance protection.

The most recent inspection of your property listed above revealed the following issue(s) that need to be corrected for us to continue providing your insurance protection or to prevent the non-renewal of your policy. Please note that this is not a notice of cancellation or non-renewal: we're giving you this information now so that you have time to remedy the issue(s) before we have to take further action.

1. The roof is damaged or in unacceptable condition and is in need of repair.

The mailing address of [redacted] was added effective 4/13/12.



STILLWATER INSURANCE GROUP

Change Password | Auto FAQs | Home and DFI FAQ/General Underwriting Guidelines | Contact Us |

Existing Notes

Note Type: CHANGES VIA FIRST
Note Text: 04/13/2012 [redacted] -04/13/2012
Update Mailing AddressEntered by:
[redacted]

Back

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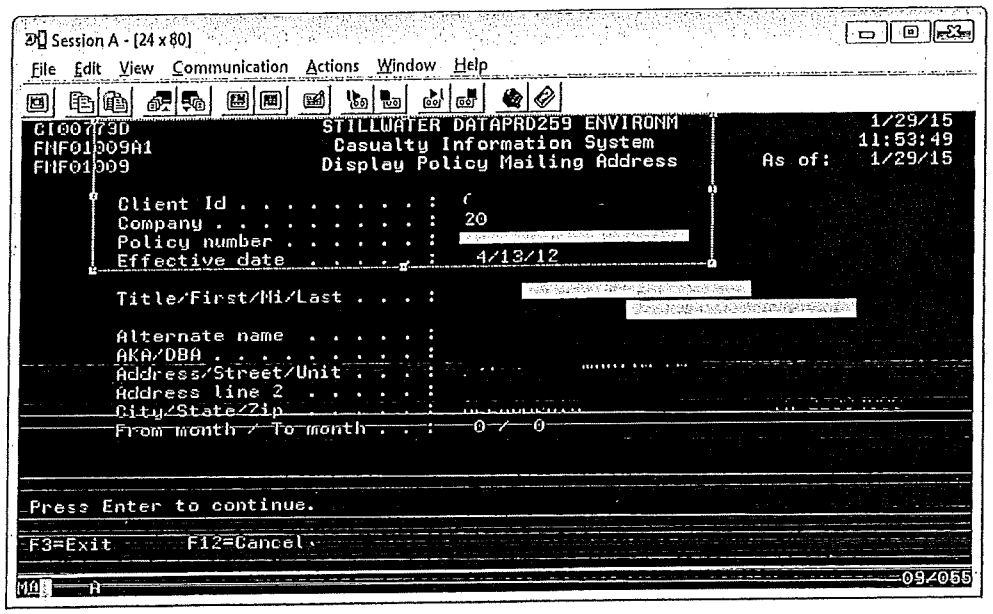
OMLXWAS02 PRD

The screen shot below shows the mailing address change as of 4/13/12.



Since there was no mailing address record prior to 4/13/12 the system had mailed all output to the property address.

All correspondence after 4/13/12 was mailed to [redacted]

Therefore, the non-renewal notice dated 1/23/13 was mailed to [redacted]. See the screen shot below.

http://bo.stillwaterinsurance.com: | FIND - Your Company Intranet | Archive Search Results | bo.stillwaterinsurance.com

FIDELITY
NATIONAL INSURANCE COMPANY
PO Box 45126, Jacksonville, Florida 32232-5126

[redacted]

[redacted]

POLICY NUMBER: [redacted]
LOAN NUMBER:
DATE OF NOTICE: January 23, 2013
RE: NOTICE OF NONRENEWAL: - HOMEOWNERS POLICY
EFFECTIVE DATE OF NONRENEWAL: February 23, 2013 12:01 A.M.

Dear Policyholder:

This letter is to notify you that under the terms of your policy and state law, your policy will be nonrenewed on the date listed above.

Your policy is being nonrenewed because we determined the roof is damaged which makes the risk unacceptable.

(2) Violations of 38.2-2114 C of the Code of Virginia regarding failure to advise insured of right to request review by the Commissioner of Insurance.

Company Response: No additional information is being provided.

CLAIMS REVIEW

Homeowner Claims

Overpayments and Underpayments

(1) The examiners found 28 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.

<u>Company response:</u>
CHO008 & CHO009 - We have taken corrective action by implementing the opinion of the Bureau. We will no longer depreciate demolition, debris removal, taxes or permits. Training has been provided to our staff and the process is in place. We have also advised the IA firms we use of this as well.

CHO010 – The Company acknowledges the Bureau's position.

CHO012 – The Company acknowledges the violation has been withdrawn.

CH0013 - We have updated our letter templates to clearly state the requirements of recovery of replacement cost. Please see attached copy **(Exhibits 1 & 1A)**.

CH0014 - We have taken corrective action by implementing the opinion of the Bureau. We will no longer depreciate demolition, debris removal, taxes or permits. Training has been provided to our staff and the process is in place. We have also advised the IA firms we use of this as well.

CH0016 - We have revised our process for receiving updates from our subrogation vendor. They will now provide a monthly update of open subrogation claims.

CHO023 – The Company acknowledges the Bureau's position.

CH0031 - We have taken corrective action by implementing the opinion of the Bureau. We will no longer depreciate demolition, debris removal, taxes or permits. Training has been provided to our staff and the process is in place. We have also advised the IA firms we use of this as well.

CH0034 - We have changed our procedures for handling water backup and/or overflow claims and have provided training to our staff noting that if the insured policy is endorsed with the water back-up and sump discharge or overflow endorsement, any time water backs up through sewers or drains or is discharged from the sump the loss is covered by the endorsement regardless of where the water originated subject to the exclusions in the water back up endorsement.

CHO040 – The Company acknowledges the violation has been withdrawn.

(2) The examiners found five 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 provisions of an insurance policy that were pertinent to the claim.

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

a. In 4 instances the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.

Company response:
CH0013 - We have updated our letter templates to clearly state the requirements of recovery of replacement cost. Please see attached copy **(Exhibits 1 & 1A)**.

CHO049 – The Company acknowledges the violation has been withdrawn.

b. In one instance the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy

Company response:
CHO022 – The Company acknowledges the violation has been withdrawn.

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

Company response:
CHO023 – The Company acknowledges the violation has been withdrawn from this section of the Report. The issues related to mistakenly issuing payment under Coverage A rather than Coverage C has been acknowledged under this same reference number in item (1) above.

(4) 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.

Company response:
CHO001 – The Company acknowledges the violation has been withdrawn.

CHO021 – The Company acknowledges the Bureau's position.

(5) The examiners found one violation of 14 VAC 5-400-70 C. The company failed to settle a first party claim by transferring the responsibility for payment to another party.

Company response:
CHO027 – The Company acknowledges the violation has been withdrawn from this section of the Report. The Company also acknowledges the issue related to mistakenly referring the claimant to his own company.

(6) The examiners found 12 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.

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

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

Company response:
CHO008 – The Company acknowledges the Bureau's position.

CH0028 – Regarding the insured not incurring mold remediation expenses, please see the attached affidavit. **(Exhibit 2)**

CH0031 – Regarding the insured not incurring mold remediation expenses but, the residence will be tested for mold to determine if remediation is needed, please see the attached affidavit. **(Exhibit 3)**

CH0045 – An additional payment in the amount of $301.12 + $18.07 interest has been issued. Please see Restitution spreadsheet for details and total payments.

CH0047 – The Company has assigned this to an IA for re-evaluation.

CH0049 – Attached is a copy of the e:mail from the property manager showing mold remediation was included in their estimate and covered by the Homeowners Association Master Policy. **(Exhibit 4)**

CH0050 – The insured submitted an invoice listing the roof replacement at $5,100 as well as an invoice in the amount of $240 for dump fees, total costs incurred $5,340. We previously issued payment to the insured in the amount of $4,097.87. Considering the $1,000 policy deductible, an additional payment was made in the amount of $256.66 which includes interest in the amount of $14.53.

Please see Restitution spreadsheet for required information.

b. In one instance the company failed to pay the entire claim under the insured's Additional Living Expense coverage.

Company Response: No additional information is being provided.

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

Company response:
CHO031 – The Company acknowledges the Bureau's position. The insured will be paid $1,462.55.05 plus interest under this section after it is determined if any additional monies are owed under the Item (6)a. above for this same claim.

d. In three instances the company failed to pay the entire claim under the insured's Personal Property Replacement Cost coverage.

Company response:
CHO005 – We have updated our letter templates. Please see the attached copies **(Exhibits 5 & 5A).** We have also issued payment in the amount of $741.44 + $44.49 interest. Please see the Restitution spreadsheet for required information.

CHO014 – The Company acknowledges the revised payment amount of $239.56. However, this value represents an additional payment of $226.00 (i.e. $600-$374) plus $13.56 of interest. The Restitution spreadsheet incorrectly reflects an additional payment of $239.56 plus $14.37 of interest for a total of $253.93.

CHO045 (Claim #465172) – As noted above in Section (6a), we have issued payment in the amount of $301.12 + $18.07 interest. Please see the Restitution spreadsheet for required information.

(7) The examiners found 10 violations of 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to the coverages at issue.

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

a. In seven instances, the company failed to inform the insured of applicable coverage, accurate policy limits, and the insureds' duties after a loss.

Company response:
CHO003, CHO016, CHO020 and CHO024 – The Company acknowledges the Bureau's position.

CHO028 – The Company acknowledges the Bureau's position.

CHO031 – The Company acknowledges the Bureau's position.

b. In three instances, the company failed to properly represent the replacement cost provisions of the policy.

Company Response: No additional information is being provided.

(8) The examiners found ten 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 policies.

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

Company response:
CHO023 – The Company acknowledges the Bureau's position.

(9) The examiners found three 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.

Company Response: No additional information is being provided.

(10) The examiners found one violation 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.

Company response:
CHO013 – The Company acknowledges the Bureau's position.

(11) The examiners found 11 occurrences where the company failed to comply with the provisions of the insurance contract.

a. In one instance the company incorrectly informed the insured that they were required to obtain a police report.

Company response:
CHO008 – The Company acknowledges that this violation has been withdrawn but rewritten.

b. In eight instances the company paid an insured more than he/she was entitled to receive under the terms of his/her policy and the company issued payments under the incorrect coverages.

Company Response:
CH0034 - We have changed our procedures for handling water backup and/or overflow claims and have provided training to our staff noting that if the insured policy is endorsed with the water back-up and sump discharge or overflow endorsement, any time water backs up through sewers or drains or is

discharged from the sump the loss is covered by the endorsement regardless of where the water originated subject to the exclusions in the water back up endorsement.

c. In one instance, the company issued a payment under an incorrect coverage

Company response:
CHO008 and CHO024 – The Company acknowledges the revisions to the applicable review sheet numbers.

In one instance the company included the name of the mortgagee on the payment for a personal property loss.

Company response:
CHO013 – The Company acknowledges the Bureau's position.

Other Law Violations

The examiners found two 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.

Company Response: No additional information is being provided.

REVIEW OF FORMS

Homeowner Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

No violations

REVIEW OF THE POLICY ISSUANCE PROCESS

Homeowner Policies

NEW BUSINESS POLICIES

No violations

RENEWAL BUSINESS POLICIES

No violations

REVIEW OF STATUTORY NOTICES

General Statutory Notices

No violations

Statutory Property Notices

No violations

Other Notices

No violations

LICENSING AND APPOINTMENT REVIEW

Agent Review

Violation of 38.2-1833 of the Code of Virginia regarding the failure to appoint an agent within 30 days of the application.

Company Response: No additional information is being provided.

Agency Review

Violation of 38.2-1812 of the Code of Virginia regarding the payment of commission to an agency that was not an appointed agency within 30 days of the insurance transaction.

Company Response: No additional information is being provided.

REVIEW OF THE COMPLAINT-HANDLING PROCEDURES

No violations

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

No violations

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
http://www.scc.virginia.gov/division/bo

March 27, 2015

VIA UPS 2nd DAY DELIVERY

Larry Mortensen
Vice President-Pricing
Stillwater Insurance Company
4905 Belfort Road
Jacksonville, FL 32236-6007

RE: Market Conduct Examination
Stillwater Insurance (NAIC# 25180)
Examination Period: September 1, 2012 – August 31, 2013

Dear Mr. Mortensen:

The Bureau of Insurance (Bureau) has reviewed the February 19, 2015 response to the Preliminary Market Conduct Report of Stillwater Insurance Company (Company) (Fidelity National Insurance Company). The Bureau has referenced only those items in which the Company has disagreed with the Bureau's findings or items that have changed in the Report. This response follows the format of the Report.

PART ONE – THE EXAMINERS' OBSERVATIONS

Rating and Underwriting Review

Homeowner New Business Policies

(1) The violations in this section remain in the Report. By listing the Deductible Percentage Endorsement (FN1326 VA) as an applicable form on all homeowner policies, the Company has not accurately reflected the conditions of the insurance contract.

Homeowner Renewal Business Policies

(1) The violations in this section remain in the Report. By listing the Deductible Percentage Endorsement (FN1326 VA) as an applicable form on all

homeowner policies, the Company has not accurately reflected the conditions of the insurance contract.

(2b) The violations for RHO031 and RHO083 remain in the Report. All variables used in determining the insurance score and proper tiering of a risk must be filed with the Bureau prior to use. The manual on file with the Bureau is incomplete in this respect.

Terminations Review

Homeowner Notices after the 89th Day of Coverage

(1b) The restitution amount for the violations cited on THO020 has been amended to $894.50 plus 6% interest.

Homeowner Non-renewal Policies

(1) The Company's response does not apply to THO020. It appears the Company is responding to THO057. The violation for THO057 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

Claims Review

Homeowner Claims

(1) The violation for CHO013 remains in the Report. The Company's response is not relative to the violation cited in Review Sheet ClaimPropHO893745845.

The Company's revised Exhibits provided March 12, 2015 in response to discussions with the Bureau on March 4, 2015 are acceptable.

(2) The Company's response to CHO013 includes revised Exhibits provided March 12, 2015 as a result of a meeting between the Company and the Bureau on March 4, 2015. The revisions the Company submitted are acceptable.

(5a) The violation for CHO028 has been withdrawn from the Report.

The violation for CHO031 remains in the Report. The Company should advise the Bureau the results of the additional investigation and any associated remediation expenses on or before April 17, 2015.

The Bureau acknowledges the restitution on CHO045.

The violation for CHO047 remains in the Report. The Company should advise the Bureau the results of the additional investigation April 17, 2015.

The violation for CHO049 has been withdrawn from the Report.

The restitution for the violation in CHO050 has been amended to $242.13 plus 6% interest.

(5c) The violation for CHO031 remains in the Report. The amount owed to the insured under the debris removal limits is $1,868.05 plus 6% simple interest. The restitution on this violation is not related to the pending mold issue. The Company has not presented any evidence that the debris removal was $1,462.55. Company should issue payment to the insured for $1,868.05 plus 6% interest.

(5d) The violation for CHO005 remains in the Report. The revised templates submitted by the Company on March 12, 2015 are acceptable.

The restitution for CHO014 has been revised to show $226.00 plus 6% interest for a total of $239.56 for which the Company has issued payment.

(11b) The Company's response to CHO034, infers that that it is the Bureau's position that the Company provide coverage "any time water backs up through sewers or drains...regardless of where the water originated...." We would like to clarify that it is the Bureau's position that an investigation into the cause of loss, coverage conditions, and exclusions should always be completed on any claim prior to accepting or denying coverage.

CORRECTIVE ACTION PLAN

General

The Company should make the outstanding restitution as indicated in the revised Restitution Spreadsheet enclosed.

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 Company's response to this letter is due in the Bureau's office by April 17, 2015.

Sincerely,

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

JMM/pgh
Enclosures

Gloria Warriner

From: Joy Morton
Sent: Monday, April 20, 2015 8:35 AM
To: 'Jeff Nash'; Mary Bannister
Cc: 'Mark Davey'; 'Larry Mortensen'; Gloria Warriner
Subject: RE: Stillwater (Fidelity National) exam follow up

Jeff:

Please provide the amended spreadsheet showing the restitution has been made on the two outstanding rating files.

JOY

From: Jeff Nash [mailto:jnash@thenashgroupLLC.com]
Sent: Wednesday, April 15, 2015 4:15 PM
To: Mary Bannister; Joy Morton
Cc: 'Mark Davey'; 'Larry Mortensen'
Subject: Stillwater (Fidelity National) exam follow up

Thank you for allowing me the opportunity to discuss the no-hit/thin file issue with you the week before last in connection with the Stillwater (Fidelity National) market conduct exam. I have attached the relevant page that had been filed showing the score breaks by tier, and the weighting associated with the score. The company has elected to withdraw any further opposition to this market conduct criticism, considering (1) it only affected two files in the sample set, (2) it cannot occur again as a market conduct issue since the company has already added a clarifying footnote to the filing that says any non-numeric score reflects a no-hit/thin file [which will be displayed in the company's computer output as a "z" tier], and (3) the company will refund premium to those two insureds as if they were in the most favorable credit tier.

It was undisputed that the no-hit/thin file neutral treatment was filed and followed in all cases. What was not included in the filing was that the company used Tier "z" as the internal system designation for a no-hit or thin file, indicating that the risk was not subject to a credit tier and was given neutral treatment. I have argued that as a non-tier, technically the "tier code z" was not subject to the filing requirement. I cannot, however, deny that the omission of the "z" code in the alpha list caused confusion in the exam. The company does not want to present any obstacles to concluding this exam and has asked me to inform you that they accept the inclusion of this issue in the final report.

Thank you for your time and consideration with respect to this matter.

Respectfully yours,

Jeff Nash

Jeffrey Nash
Regulatory Compliance Counsel
The Nash Group LLC

Phone: 440-759-0817

Please visit our website: www.thenashgroupLLC.com

This e-mail and any files transmitted with it are confidential and may contain attorney work product or attorney-client privileged material. It is intended only for the individual(s) shown above. If you have received this communication in error, please notify the sender. Unauthorized distribution or copying of this message is prohibited.

STILLWATER
INSURANCE GROUP

April 29, 2015

Joy Morton
Supervisor
Market Conduct Section
Property & Casualty Division
SCC Bureau of Insurance
1300 E Main St
Richmond, VA 23219

RE: Stillwater Insurance Company f.k.a. Fidelity National Insurance Company
Market Conduct Examination
NAIC# 25180
Examination Period: September 1, 2012 – August 31, 2013

Dear Ms. Morton:

Stillwater Insurance Company (Company) is in receipt of the correspondence from the Bureau dated March 17, 2015 pertaining to the Preliminary Report, Part One – The Examiners' Observations. The Company has reviewed the information from the Bureau of Insurance (Bureau) and prepared additional responses which are contained in this document.

Additionally, the CD containing the Excel file that reflects the details of the policy specific refunds that have been issued is enclosed.

Sincerely,

Larry Mortensen
Vice President-Pricing
Stillwater Insurance Company
(904) 997-7340
Larry.Mortensen@Stillwater.com

PART ONE – THE EXAMINER'S OBSERVATIONS

RATING AND UNDERWRITING REVIEW

Homeowners New Business Policies

Overcharges and Undercharges

(1) Violations of 38.2-305 A of the Code of Virginia regarding policy information.

Company Response: The Company continues to respectfully disagree with the observation of the examiner regarding the use of the informational endorsement pertaining to the calculation of a percentage based deductible. The Company is not providing any additional appeals at this time and it should be noted that the suggested corrective actions were implemented during the onsite portion of the exam.

(2) Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.

a. 3 violations related to discounts and/or surcharges

Company Response: No additional information is being provided.

b. 1 instance of an incorrect base rate and/or final rate

Company Response: No additional information is being provided.

c. 2 instances of the Policy Fee not being charged

Company Response: No additional information is being provided.

Homeowners Renewal Business Policies

Overcharges and Undercharges

(1) Violations of 38.2-305 A of the Code of Virginia regarding policy information.
Company Response: The Company continues to respectfully disagree with the observation of the examiner regarding the use of the informational endorsement pertaining to the calculation of a percentage based deductible. The Company is not providing any additional appeals at this time and it should be noted that the suggested corrective actions were implemented during the onsite portion of the exam.

(2) Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.

a. 8 instances related to discounts and/or surcharges

Company Response: No additional information is being provided.

b. 2 instances of using incorrect Tier eligibility

Company Response: The Company continues to respectfully disagree with the observation of the examiner regarding the the need to file with the Bureauthe "z" score that represents neutral or no effect of a no-hit/thin file credit score . The Company is not providing any additional appeals relative to this issue and it should be noted that the suggested corrective actions were implemented.

The policies associated with RHO031 and RHO083 have been refunded the amounts reflected in the restitution worksheet.

c. 2 instances of an incorrect deductible factor being applied.

Company Response: No additional information is being provided.

(3) 4 Violations of 38.2-2126 A of the Code of Virginia regarding Adverse Action notices.

Company Response: No additional information is being provided.

TERMINATION REVIEW

Homeowners Policies

Company-Initiated Cancellations – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

Overcharges and Undercharges

Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau and correct calculation of return premium.

Company Response: No additional information is being provided.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

Overcharges and Undercharges

(1) Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.

a. Company failed to calculate correct return premium.
Company Response: No additional information is being provided.

b. Company failed to send the refund check to the insured.
Company Response: The Company acknowledges the Bureau's position regarding this isssue.

The policy associated with RHO020 has been refunded the revised amount relected in the restitution worksheet.

(2) Violations of 38.2-2114 A of the Code of Virginia regarding the cancellation of a policy for a reason not permitted by the statute.
Company Response: No additional information is being provided.

(3) Violations of 38.2-2114 C of the Code of Virginia regarding failure to advise insured of right to request review by the Commissioner of Insurance.

Company Response: No additional information is being provided.

All Other Cancellations – Homeowner Policies

NONPAYMENT OF THE PREMIUM

Overcharges and Undercharges

(1) Violations of 38.2-1906 D of the Code of Virginia regarding rules and/or rates on file with the Bureau.
Company Response: No additional information is being provided.

(2) Violations of 38.2-2114 C of the Code of Virginia
   a. Regarding failure to advise insured of right to request review by the Commissioner of Insurance.
   Company Response: No additional information is being provided.

   b. Regarding failure to advise the insured of the availability of insurance through the Virginia Property Insurance Association (VPIA).
   Company Response: No additional information is being provided.

REQUESTED BY THE INSURED

Overcharges and Undercharges

(1) Violations of 38.2-1906 D of the Code of Virginia regarding failure to calculate correct return premium.
Company Response: No additional information is being provided.

(2) Violations of 38.2-2114 E of the Code of Virginia regarding failure to obtain written request to cancel a policy.
Company Response: No additional information is being provided.

Company-Initiated Non-renewals – Homeowner Policies

(1) Violation of 38.2-2114 A of the Code of Virginia regarding failure to send the cancellation notice to the name and/or address listed on the policy.

Company Response: Ref # THO020

The Company mailed a refund check for $948.17 to the insured on Monday, March 16, 2015. This amount was the sum of the $866.55 pro-rated unearned premium, plus the $27.95 pro-rated unearned portion of the policy fee, plus 6% simple interest.

The Company had in good faith previously refunded the $866.55 pro-rated unearned premium to the insured's lender, Select Portfolio Servicing. However, the Bureau determined that the pro-rated unearned portion of the policy fee and the pro-rated unearned premium should have been paid directly to the insured, because the contract of insurance was between the insured and the Company. Therefore the Company refunded the insured $948.17, which also included 6% simple interest.

Please note that in consideration of the insured's position, the Company did not and will not pursue efforts to seek reimbursement for the $866.55 that was over-paid to the insured via his lender, Select Portfolio Servicing.

(2) Violations of 38.2-2114 C of the Code of Virginia regarding failure to advise insured of right to request review by the Commissioner of Insurance.
Company Response: No additional information is being provided.

CLAIMS REVIEW

Homeowner Claims

Overpayments and Underpayments

(1) The examiners found 28 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.
Company response:

CH0013 – The Company acknowledges that the Bureau has deemed the revised Claim letter templates as being acceptable.

(2) The examiners found 3 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 provisions of an insurance policy that were pertinent to the claim.

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

a. In 4 instances the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.
Company response: The Company acknowledges the Bureau's position regarding the underlying issue and the acceptance of the proposed revisions to the Claim letter templates.

b. In one instance the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy
Company Response: No additional information is being provided.

(3) The examiners found 1 violation of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing, and/or keep a copy of the written denial in the file.
Company Response: No additional information is being provided.

(4) The examiners found 1 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.
Company Response: No additional information is being provided.

(5) The examiners found 10 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.

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

a. In seven instances, the company failed to properly pay the claim under the insured's replacement cost Dwelling coverage.
Company response:

CH0028 – The Company acknowledges that this violation has been withdrawn.

CH0031 – The investigation revealed mold damage totaling $9,100.95. Payment was issued on 4/8/15 and included the 6% interest. Total amount issued to the insured for this item was $9,647.01. Additional payment was made to this insured under item (5c) below.

CH0047 – The investigation revealed mold damage totaling $11,453.28. We have issued payment for this on 4/21/15 and included the 6% interest. Total amount issued to the insured was $12,140.48

CH0049 – The Company acknowledges that this violation has been withdrawn.

Please see Restitution spreadsheet for required information.

b. In one instance the company failed to pay the entire claim under the insured's Additional Living Expense coverage.
Company Response: No additional information is being provided.

c. In one instance the company failed to pay the entire claim under the insured's Additional Coverages.
Company response:

CHO031 – In regard to the debris removal limit, in speaking with the insured, it was determined that they paid $380 for mold testing. This amount was included in the payment that was issued to the insured for debris removal. The breakdown of the payment is as follows:

$ 1868.05	Debris removal
+ $112.08	Interest
+ $380.00	Mold test
$2,360.13	Total paid on 3/5/15

Additional payment was made to this insured under item (5a) above.

d. In three instances the company failed to pay the entire claim under the insured's Personal Property Replacement Cost coverage.
Company response:
CHO005 – The Company acknowledges that the Bureau has deemed the revised Claim letter templates as being acceptable.

(6) The examiners found 10 violations of 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to the coverages at issue.

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

a. In seven instances, the company failed to inform the insured of applicable coverage, accurate policy limits, and the insureds' duties after a loss.
Company Response: No additional information is being provided.

b. In three instances, the company failed to properly represent the replacement cost provisions of the policy.
Company Response: No additional information is being provided.

(7) The examiners found ten 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 policies.

These findings occurred with such frequency as to indicate a general business practice.
Company Response: No additional information is being provided.

(8) The examiners found three 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.
Company Response: No additional information is being provided.

(9) The examiners found one violation 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.
Company Response: No additional information is being provided.

(10) The examiners found 11 occurrences where the company failed to comply with the provisions of the insurance contract.

a. In one instance the company incorrectly informed the insured that they were required to obtain a police report.
Company Response: No additional information is being provided.

b. In eight instances the company paid an insured more than he/she was entitled to receive under the terms of his/her policy and the company issued payments under the incorrect coverages.
Company Response: The Company acknowledges the Bureau's clarification that an investigation into the cause of loss, coverage conditions and exclusions should always be completed on any claim prior to accepting or denying coverage.

c. In one instance, the company issued a payment under an incorrect coverage
Company Response: No additional information is being provided.

In one instance the company included the name of the mortgagee on the payment for a personal property loss.
Company Response: No additional information is being provided.

Other Law Violations

The examiners found two 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.

Company Response: No additional information is being provided.

REVIEW OF FORMS

Homeowner Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

No violations

REVIEW OF THE POLICY ISSUANCE PROCESS

Homeowner Policies

NEW BUSINESS POLICIES

No violations

RENEWAL BUSINESS POLICIES

No violations

REVIEW OF STATUTORY NOTICES

General Statutory Notices

No violations

Statutory Property Notices

No violations

Other Notices

No violations

LICENSING AND APPOINTMENT REVIEW

Agent Review

Violation of 38.2-1833 of the Code of Virginia regarding the failure to appoint an agent within 30 days of the application.

Company Response: No additional information is being provided.

Agency Review

Violation of 38.2-1812 of the Code of Virginia regarding the payment of commission to an agency that was not an appointed agency within 30 days of the insurance transaction.

Company Response: No additional information is being provided.

REVIEW OF THE COMPLAINT-HANDLING PROCEDURES

No violations

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

No violations

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

COMMONWEALTH OF VIRGINIA

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
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www.scc.virginia.gov/boi

May 14, 2015

VIA UPS 2nd DAY DELIVERY

Larry Mortensen
Vice President-Pricing
4905 Belfort Rd.
Stillwater Insurance Company
Jacksonville, Florida 32236-6007

RE: Stillwater Insurance Company (NAIC# 25180)
Market Conduct Examination
Examination Period: September 1, 2012 – August 31, 2013

Dear Mr. Mortensen:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of April 29, 2015. Based upon the Bureau's review of the company's letter, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Stillwater Insurance Company (Report).

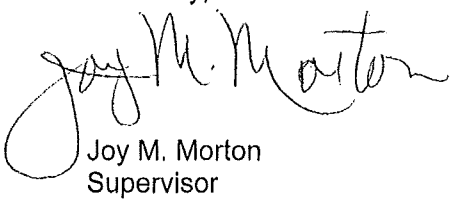
Based on the Bureau's review of the Report and the company's responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-305 A, 38.2-510 A1, 38.2-510 A3, 38.2-1812, 38.2-1833, 38.2-1906 D, 38.2-2126 A, 38.2-2114 A, 38.2-2114 C, and 38.2-2114 E, of the Code of Virginia; and 14 VAC 5-400-30 and 14 VAC 5-400-70 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,



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

STILLWATER
INSURANCE GROUP

Mark Davey
President / CEO

STATE CORP COMMISSION
BUREAU OF INSURANCE
15 MAY 26 AM 10: 10

May 22, 2015

Mary Bannister
Deputy Commissioner
Property and Casualty
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

400109

RE: Market Conduct Examination
Settlement Offer Stillwater Insurance Company (NAIC#25180)

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated May 15, 2015, concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ 38.2-305 A, 38.2-510 A1, 38.2-510 A3, 38.2-1812, 38.2-1833, 38.2-1906 D, 38.2-2126 A, 38.2-2114 A, 38.2-2114 C, and 38.2-2114 E, of the Code of Virginia; and 14 VAC 5-400-30 and 14 VAC 5-400-70 D, of the Virginia Administrative Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of $32,600.

2. We agree to comply with the corrective action plan set forth in the company's letters of September 18, 2014, February 19, 2015 and April 29, 2015.

3. We confirm that restitution was made to 50 consumers for $30,170.87 in accordance with the company's letter dated April 29, 2015.

4. We further acknowledge the company's 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,

Stillwater Insurance Company

Mark Davey
President & CEO
Direct Line (904) 997-7310
mark.davey@stillwater.com

enclosures

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

COMMONWEALTH OF VIRGINIA

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

Stillwater Insurance Company has tendered to the Bureau of Insurance the settlement amount of $32,600.00 by its check numbered 0420010737 and dated May 20, 2015, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 12, 2015

SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER

2015 JUN 12 P 2:35

150612 0169

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2015-00094

STILLWATER INSURANCE COMPANY,
Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Stillwater Insurance Company ("Defendant"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Commonwealth"), violated: § 38.2-305 A of the Code of Virginia ("Code") by failing to provide the information required in the statute; §§ 38.2-510 A (1) and 38.2-510 A (3) of the Code as well as 14 VAC 5-400-30 and 14 VAC 5-400-70 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; §§ 38.2-1812 and 38.2-1833 of the Code by paying commissions to agencies/agents that were not appointed by the Defendant; § 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 Defendant; § 38.2-2126 A of the Code by failing to accurately provide the required notices to insureds; and § 38.2-2114 of the Code by failing to properly terminate insurance policies.

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 Defendant has been advised of its right to a hearing in this matter whereupon the Defendant, without admitting any violation of Virginia law, has made an offer of settlement to the Commission wherein the Defendant has tendered to the Commonwealth the sum of Thirty-two Thousand Six Hundred Dollars ($32,600), waived its right to a hearing, agreed to comply with the corrective action plan set forth in its letters to the Bureau dated September 18, 2014, February 19, 2015, and April 29, 2015, and confirmed that restitution was made to 50 consumers in the amount of Thirty Thousand One Hundred Seventy Dollars and Eighty-seven cents ($30,170.87).

The Bureau has recommended that the Commission accept the offer of settlement of the Defendant 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 Defendant, and the recommendation of the Bureau, is of the opinion that the Defendant's offer should be accepted.

Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendant 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: Larry Mortensen, Vice President – Pricing, Stillwater Insurance Company, 4905 Belfort Road, Jacksonville, Florida 32236-6007; 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.

15062019