

MARKET CONDUCT EXAMINATION REPORT

OF

**COMMERCE AND INDUSTRY
INSURANCE COMPANY**

AS OF

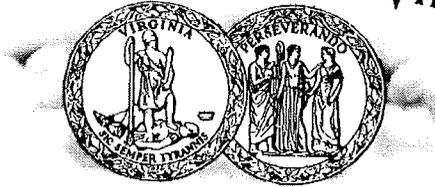
August 31, 2010

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

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA

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

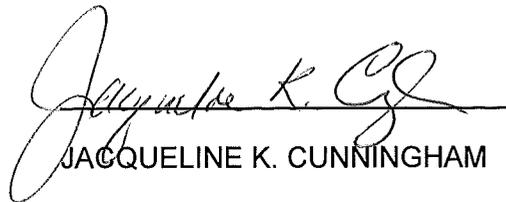


P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Market Conduct Examination Report of Commerce and Industry Insurance Company as of August 31, 2010, which took place at the company's office in New York City, New York is a true copy of the original Report on file with the Bureau and also includes a true copy of the company's final response to the findings set forth therein, and of the Bureau's letter and the Order of the State Corporation Commission finalizing the Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of this the Bureau
at the City of Richmond, Virginia,
this 17th day of July, 2012.



JACQUELINE K. CUNNINGHAM

Commissioner of Insurance

MARKET CONDUCT EXAMINATION REPORT

OF

**COMMERCE AND INDUSTRY
INSURANCE COMPANY**

AS OF

August 31, 2010

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

**Property and Casualty Division
Market Conduct Section**

TABLE OF CONTENTS

INTRODUCTION	1
COMPANY PROFILE	1
SCOPE OF THE EXAMINATION.....	4
STATISTICAL SUMMARY	5
PART ONE - THE EXAMINERS' OBSERVATIONS.....	7
RATING AND UNDERWRITING REVIEW	7
Automobile New Business Policies	7
Automobile Renewal Business Policies	8
TERMINATION REVIEW.....	10
Company-Initiated Cancellations – Automobile Policies.....	10
Notice Mailed Prior to the 60 th Day of Coverage.....	10
Notice Mailed After the 59 th Day of Coverage.....	10
All Other Cancellations - Automobile Policies	11
Nonpayment of Premium.....	11
Requested by the Insured	11
Requested by the Premium Finance Company	12
Company-Initiated Nonrenewals - Automobile Policies	12
CLAIMS REVIEW.....	13
Automobile Claims.....	13
REVIEW OF FORMS	17
Automobile Forms.....	17
Policy Forms Used During the Examination Period	17
Policy Forms Currently Used by the Company	18
REVIEW OF THE POLICY ISSUANCE PROCESS.....	18
Automobile Policies	18
New Business Policies	18
Renewal Business Policies.....	19

REVIEW OF STATUTORY NOTICES	19
General Statutory Notices	19
Statutory Vehicle Notices	20
Other Notices	20
LICENSING AND APPOINTMENT REVIEW	21
Agent Review	21
Agency Review	21
REVIEW OF THE COMPLAINT-HANDLING PROCEDURES	22
REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES	22
PART TWO – CORRECTIVE ACTION PLAN	23
General	23
Rating and Underwriting Review	23
Termination Review	24
Claims Review	25
Forms Review	26
Review of Policy Issuance Process	26
Review of Statutory Notices	26
Licensing and Appointment Review	27
PART THREE – EXAMINERS' NOTES	28
Rating and Underwriting	28
Claims	28
RECOMMENDATIONS	28
Rating and Underwriting	28
Claims	29
Forms	29
Policy Issuance Process	29

Statutory Notices 30
SUMMARY OF PREVIOUS EXAMINATION FINDINGS..... 30
ACKNOWLEDGEMENT 31

INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a target examination has been made of the private passenger automobile line of business written by Commerce and Industry Insurance Company at its offices in New York City, New York.

The examination commenced June 6, 2011 and concluded September 19, 2011. William T. Felvey and Andrea D. Baytop, examiners of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on August 5, 2010 and was assigned the examination number of VA199-M19. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILE*

Commerce and Industry Insurance Company was incorporated December 6, 1957 under the laws of New York. It began business December 27, 1957. Ownership passed to the Combined Insurance Company of America, Chicago, Illinois on February 15, 1968 through an exchange of shares. Financial control again changed hands on July 15, 1968 when American Home Assurance Company, New York, New York acquired over 99.0 percent of the outstanding stock. Since 1977, AIG has directly owned all of the stock of Commerce and Industry Insurance Company. The company is licensed in all 50 states and the District of Columbia.

* Source: Best's Insurance Reports, Property & Casualty, 2010 Edition.

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

GROUP CODE: 012	COMMERCE
NAIC Company Number	19410
LICENSED IN VIRGINIA	8/22/1958
LINES OF INSURANCE	
Accident and Sickness	
Aircraft Liability	x
Aircraft Physical Damage	x
Animal	
Automobile Liability	x
Automobile Physical Damage	x
Boiler and Machinery	x
Burglary and Theft	x
Commercial Multi-Peril	x
Credit	10/26/2000
Farmowners Multi-Peril	x
Fidelity	4/7/1976
Fire	x
General Liability	x
Glass	x
Homeowner Multi-Peril	x
Inland Marine	x
Miscellaneous Property	x
Ocean Marine	x
Surety	4/7/1976
Water Damage	x
Workers' Compensation	x

The table below shows the company's premium volume and approximate market share of business written in Virginia during 2009 for those lines of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Commerce and Industry Ins Co		
Private Automobile Liability	\$1,225,249	.05%
Private Automobile Physical Damage	\$1,269,097	.07%

* Source: The 2009 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 private passenger automobile line of business written in Virginia for the period beginning September 1, 2009 and ending August 31, 2010. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance¹, 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 business practice. These violations are the basis for any settlement offer that is made by the Bureau of Insurance (Bureau) as a result of this Report.

In Part Three, the examiners include recommendations regarding the company's practices that are not violations of Virginia insurance laws but require some action by the company. This section does not form the basis of any settlement offer made by the Bureau.

The examiners may not have discovered every unacceptable or non-compliant

¹ Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

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	Population Sample Requested			FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
	Commerce	TOTAL	FILES REVIEWED			
<u>Private Passenger Auto</u>						
New Business	<u>433</u> 15	<u>433</u> 15	15	0	15	100%
Renewal Business ¹	<u>1143</u> 30	<u>1143</u> 30	29	0	29	100%
Co-Initiated Cancellations	<u>3</u> 3	<u>3</u> 3	3	0	3	100%
All Other Cancellations ²	<u>234</u> 23	<u>234</u> 23	23	0	16	70%
Nonrenewal	<u>29</u> 10	<u>29</u> 10	10	0	9	90%
<u>Claims</u>						
Auto ³	<u>363</u> 50	<u>363</u> 50	48	0	39	81%

Footnote ¹

One file was not reviewed because it was a new business policy.

Footnote ²

The company was unable to provide an accurate population file for cancellations. The company indicated it did not have any cancellations requested by a premium finance company. However, one premium finance requested cancellation was found in the company's system during the review of the other cancellations

Footnote ³

The company was unable to provide an accurate number of claim occurrences during the examination period. Two of the policies were not issued in Virginia.

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

Automobile New Business Policies

The Bureau requested 15 new business policy files for review. The examiners reviewed all of these files. During this review, the examiners found overcharges totaling \$157.00 and undercharges totaling \$2,592.00. The net amount that should be refunded to insureds is \$157.00 plus six percent (6%) simple interest.

- (1) The examiners found seven violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance contract or policy all of the information required by the statute. The company listed endorsements on the declarations page that were not applicable to the policy.
- (2) The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company stated incorrect Income Loss Benefits and Accidental Death coverage limits on the declarations page.
- (3) The examiners found five violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the applicant a copy of the company's Insurance Information Collection and Disclosure Practices notice at the time non-public personal information was collected.
- (4) The examiners found 27 violations of § 38.2-1906 D of the Code of Virginia. The

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

- a. In one instance, the company failed to use the correct discounts and/or surcharges.
 - b. In eight instances, the company failed to use the correct symbols.
 - c. In one instance, the company failed to use the correct territory.
 - d. In eight instances, the company failed to use the correct tier eligibility criteria.
 - e. In one instance, the company failed to use the correct driver classification factor.
 - f. In four instances, the company failed to use the correct base and/or final rates.
 - g. In one instance, the company failed to use the correct uninsured motorist rates.
 - h. In three instances, the company failed to follow its filed rounding rule.
- (5) The examiners found seven violations of § 38.2-2234 A of the Code of Virginia. The company failed to provide the Credit Score Disclosure notice at the time of application.

Automobile Renewal Business Policies

The Bureau requested 30 renewal business policy files for review. The examiners reviewed 29 of these files. One new business file was inaccurately reported in the renewal business population. During this review, the examiners found overcharges totaling \$1,711.00 and undercharges totaling \$1,919.00. The net amount that should be refunded to insureds is \$1,711.00 plus six percent (6%) simple interest.

- (1) The examiners found 11 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance contract or policy all of the information

- required by the statute. The company listed endorsements on the declarations page that were not applicable to the policy.
- (2) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company stated incorrect Income Loss Benefits coverage limits on the declarations page.
- (3) The examiners found 64 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In three instances, the company failed to use the correct discounts and/or surcharges.
 - b. In two instances, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - c. In 25 instances, the company failed to use the correct symbols.
 - d. In one instance, the company failed to use the correct territory.
 - e. In 16 instances, the company failed to use the correct tier eligibility criteria.
 - f. In one instance, the company failed to use the correct driver classification factor.
 - g. In nine instances, the company failed to use the correct base and/or final rates.
 - h. In one instance, the company failed to use the correct uninsured motorist rates.
 - i. In six instances, the company failed to follow its filed rounding rule.
- (4) The examiners found six violations of § 38.2-2234 B of the Code of Virginia. The company failed to update the insured's credit information at least once in a three year period or when requested by the insured.

TERMINATION REVIEW

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

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

The Bureau requested automobile cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period.

The company did not have any cancellations in this category for review.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested three automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. The examiners reviewed all of these files. As a result of this review, the examiners found no overcharges no undercharges.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an adverse underwriting decision.
- (2) The examiners found two violations of § 38.2-2208 B of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (3) The examiners found two violations of § 38.2-2212 D of the Code of Virginia.
 - a. In one instance, the company cancelled the insured's motor vehicle policy

because of a revocation or suspension of a driver's license that did not occur during the period of time that would permit the company to use this as a basis for canceling the policy.

- b. In one instance, the company cancelled the insured's motor vehicle policy for a reason not permitted by the Code of Virginia.
- (4) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the insured written notice of cancellation.

All Other Cancellations - Automobile Policies

NONPAYMENT OF PREMIUM

The Bureau requested ten automobile cancellations that were initiated by the company for nonpayment of the policy premium. The examiners reviewed all of these files. As a result of this review, the examiners found no overcharges and undercharges totaling \$739.61.

- (1) The examiners found five violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the insured written notice of cancellation at least 15 days prior to the cancellation date.

REQUESTED BY THE INSURED

In addition, the Bureau requested 12 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The

examiners reviewed all of these files. As a result of this review, the examiners found no overcharges and undercharges totaling \$1,790.55.

- (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 one violation of § 38.2-2212 F of the Code of Virginia. The company failed to obtain the insured's written request to cancel his policy mid-term.
- (3) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advanced notice of cancellation from the insured.

REQUESTED BY THE PREMIUM FINANCE COMPANY

The Bureau reviewed one automobile cancellation that was initiated by a premium finance company under a power of attorney. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found one violation of 14 VAC 5-390-40 D. The company failed to provide the insured with the required affirmation that the company cancelled the policy.

Company-Initiated Nonrenewals - Automobile Policies

The Bureau requested ten automobile nonrenewals that were initiated by the company. The examiners reviewed all of these files.

- (1) The examiners found six violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an adverse underwriting decision.
- (2) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The

company failed to obtain valid proof of mailing the cancellation notice to the insured.

- (3) The examiners found eight violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to retain proof of mailing the non-renewal notice to the insured.
 - b. In six instances, the company failed to retain proof of mailing the non-renewal notice to the lienholder.
 - c. In one instance, the company failed to send the lienholder written notice of non-renewal.
- (4) The examiners found five violations of § 38.2-2212 E of the Code of Virginia.
 - a. In two instances, the company failed to send the insured written notice of non-renewal.
 - b. In three instances, the company failed to give the insured 45 days written notice of the non-renewal.

CLAIMS REVIEW

Automobile Claims

The examiners reviewed 48 automobile claims for the period of September 1, 2009 through August 31, 2010. Two files involved out of state policyholders and were not reviewed. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. The examiners found overpayments totaling \$396.69 and underpayments totaling \$5,378.50 during the review of these files. The net amount that should be paid to claimants is \$5,378.50 plus six percent (6%) simple interest.

- (1) The examiners found two 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.
- (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 contract that were pertinent to the claim.
- a. In one instance, the company failed to inform an insured of his Transportation Expense coverage when the file indicated the coverage was applicable to the loss.
- b. In two instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM).
- (3) The examiners found two violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
- (4) 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 failed to keep a copy of the written denial in the claim file.
- (5) 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.
- a. In three instances, the company failed to properly pay the insured's UMPD claim when Collision and/or UMPD coverages applied to the claim.
- b. In one instance, the company failed to pay the claim in accordance with

the policy provisions under the insured's Uninsured Motorist coverage.

- c. In six instances, the company failed to pay the proper sales and use tax, title fee, and license fee on first party total loss settlements.
- d. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.
- e. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision (OTC) or Collision coverage.

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

- (6) The examiners found 21 violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
 - a. In 16 instances, the company failed to provide a copy of the estimate to the insured.
 - b. In five instances, the company failed to provide a copy of the estimate to the claimant.

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

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

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

practice.

- (8) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make prompt, fair, and equitable settlement of a claim in which liability was reasonably clear. The company failed to promptly settle the insured's claim.
- (9) The examiners found 21 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

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

- (10) The examiners found two violations of § 38.2-510 C of the Code of Virginia. The company failed to disclose to the vehicle owner, either on the estimate of repairs or in a separate document, the required aftermarket parts notice.
- (11) The examiners found two violations of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured to make payments directly to the medical provider.
- (12) The examiners found two occurrences where the company failed to comply with the provisions of the insurance contract. The company paid an insured more than he/she was entitled to receive under the terms of the policy.

Other Law Violations

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

The examiners found 33 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 the 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.

Automobile Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 26 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found two violations of § 38.2-2220 of the Code of Virginia. The company failed to use standard forms filed and adopted by the Bureau. The company failed to have available for use form PP 02 01 01 05, Suspension of Insurance and form PP 13 53 06 00, the Joint Ownership coverage endorsement.
- (2) The examiners found one violation of § 38.2-2223 of the Code of Virginia. The company used a version of a form filed as a broadening that did not contain the

language approved by the Bureau.

POLICY FORMS CURRENTLY USED BY THE COMPANY

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

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

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

Automobile Policies

The company provided five new business policies mailed on the following dates: October 6, 20, November 15, 26, and December 1, 2010. In addition, the company provided five renewal business policies mailed on the following dates: August 1, 20, September 15, and October 8, and 29, 2010.

NEW BUSINESS POLICIES

- (1) The examiners found two violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute. The company listed form, PCA-EXTL-VA (09/04), Towing and Labor Costs Coverage-Virginia on the declarations page when this form was not applicable to the policy.

- (2) The examiners found five violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the insured with the Important Information Regarding Your Insurance notice as required by the Code of Virginia.

RENEWAL BUSINESS POLICIES

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute. The company listed form, PCA-MISCVEH-VA (03/07), Miscellaneous Type Vehicle Endorsement-Virginia, on the declarations page when this form was not applicable to the policy.
- (2) The examiners found five violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the insured with the Important Information Regarding Your Insurance notice as required by the Code of Virginia.

REVIEW OF STATUTORY NOTICES

To obtain copies of the notices used during the examination period for the 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 verified that the notices used by the company on all applications, on all policies, and those special notices used for vehicle policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

- (1) The examiners found one violation of § 38.2-604.1 B of the Code of Virginia. The company's long form Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by this statute.

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

Statutory Vehicle Notices

- (1) The examiners found one violation of § 38.2-2202 A of the Code of Virginia. The company failed to provide the Medical Expense Benefits notice in the precise wording and in boldface type as required by the Code of Virginia.
- (2) The examiners found one violation of § 38.2-2202 B of the Code of Virginia. The company failed to provide the rejection of higher Uninsured Motorist limits in the precise language and in boldface type as required by the Code of Virginia.
- (3) The examiners found one violation of § 38.2-2234 A 2 of the Code of Virginia. The company failed to include all of the information required by the statute in the Credit Adverse Action notice.

Other Notices

The company provided nine copies of other notices including applications that were used during the examination period.

- (1) The examiners found one violation of § 38.2-517 A 3 of the Code of Virginia. The company failed to have a glass claims procedure that properly disclosed the use of a Third Party Administrator.
- (2) The examiners found two violations of § 38.2-2212 E of the Code of Virginia. The company failed to include the required notices in its termination notice.
 - a. In one instance, the company failed to advise the insured of his right to review by the Commissioner of Insurance.
 - b. In one instance, the company failed to advise the insured of the

availability of other insurance through his agent, another insurer or the VAIP.

LICENSING AND APPOINTMENT REVIEW

A review was made of new business private passenger automobile policies to verify that the agent of record for those policies 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

- (1) The examiners found three violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents and records relating to the examination. The company was unable to provide the new business applications to the examiners for verification of the agent of record.
- (2) The examiners found one violation of § 38.2-1822 of the Code of Virginia. The company permitted a person to act in the capacity of an agent who was not licensed in Virginia.
- (3) The examiners found seven violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

Agency Review

- (1) The examiners found three violations of § 38.2-1812 of the Code of Virginia. The company directly or indirectly paid commissions to an agency that was not appointed by the company.

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

REVIEW OF THE COMPLAINT-HANDLING 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. A review was made of this program to verify compliance with § 38.2-613.2 of the Code of Virginia.

The company provided their 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

Commerce and Industry Insurance Company shall:

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

Rating and Underwriting Review

Commerce and Industry Insurance Company shall:

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

- (4) Specify accurate information in the policy by listing and attaching only forms applicable to the policy on the declarations page.
- (5) Provide the applicant a copy of the company's Insurance Information Collection and Disclosure Practices notice at the time non-public personal information is collected.
- (6) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts and surcharges, symbols, territory, tier eligibility, driver classifications, base and/or final rates, uninsured motorist rates and rounding rules.
- (7) Provide the Credit Score Disclosure notice as required by the Code of Virginia.
- (8) Update the credit information at least once in a three year period or when requested by the insured.

Termination Review

Commerce and Industry Insurance Company shall:

- (1) Provide a written AUD notice to insureds.
- (2) Calculate the return premium according to the filed rules and policy provisions.
- (3) Obtain and retain valid proof of mailing cancellation and non-renewal notices to the insured and lienholder.
- (4) Provide written notice of cancellations to insureds.
- (5) Send the cancellation notices (for policies cancelled after the 59th day of coverage) and non-renewal notices at least 45 days before the effective date of cancellation.
- (6) Cancel automobile policies after the 59th day of coverage only for reasons permitted by the Code of Virginia.

- (7) Obtain advance written notice when the insured requests cancellation of the policy.

Claims Review

Commerce and Industry 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) 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.
- (5) Provide copies of repair estimates prepared by or on behalf of the company to insureds and claimants.
- (6) Adopt and implement reasonable standards for prompt investigation of claims.
- (7) Include a correct statement of coverage under which payments are made with all claim payments issued to insureds.

Forms Review

Commerce and Industry Insurance Company shall:

- (1) Have available for use the required standard forms filed and adopted by the Bureau.
- (2) Use the forms filed as broadenings in the precise language filed and approved by the Bureau.

Review of Policy Issuance Process

Commerce and Industry Insurance Company shall:

- (1) Specify the required information in the policy by listing all applicable forms on the declarations page.
- (2) Provide the insured the Important Information Regarding Your Insurance notice with all new and renewal policies.

Review of Statutory Notices

Commerce and Industry Insurance Company shall:

- (1) Develop a glass script that complies with the Code of Virginia.
- (2) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with the Code of Virginia.
- (3) Amend the Adverse Underwriting Decision notice to comply with the Code of Virginia and Administrative Letter 1981-16.
- (4) Develop an Optional Medical Expense Benefits Coverage notice that complies with the Code of Virginia.
- (5) Develop an Optional Uninsured Motorist Coverage notice that complies with the Code of Virginia.

- (6) Amend the private passenger automobile Credit Score Disclosure notice to comply with the Code of Virginia.
- (7) Develop a notice that provides the right to review notice to insureds that contain the exact wording required by the Code of Virginia.
- (8) Develop a notice that advises the insured of the availability of other insurance through another insurer, his agent or the Virginia Automobile Insurance Plan.

Licensing and Appointment Review

Commerce and Industry Insurance Company shall:

- (1) Appoint agents within 30 days of the application.
- (2) Accept business only from agents or agencies who have obtained a current license from the Commonwealth of Virginia.

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.

Rating and Underwriting

- Failure to properly represent benefits, coverage, advantages and conditions of the policy by showing the accurate Income Loss Benefits and Accidental Death coverage limits on the declarations page.

Claims

- Failure to inform the insured of all applicable coverages pertinent to the claim. Particular emphasis should be given to Transportation Expense coverage, as well as Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM).

RECOMMENDATIONS

We recommend that the company take the following actions:

Rating and Underwriting

- The company should file revisions to its manual so that the company charges premium in accordance with its filed rules and rates. Particular attention should be given to antique, classic and exotic autos, trailers, tiering eligibility criteria, rounding rules, and agreed value.

Claims

- The company should review the BOI's "Common Problems Identified by the Property and Casualty Market Conduct and Consumer Services Sections" in regards to the reimbursement of the Collision Damage Waiver (CDW).
- The company should remove references to the FAP policy on the Virginia Regulations checklist used by the adjusters.
- The company should revise the fraud language on the Insured Driver's Statement to comply with the Code of Virginia.
- The company should reference the specific coverage deductible in written correspondences to the insured.
- The company should use the policy term "Medical Expense" instead of "Personal Injury Protection."
- The company should establish contact with the insured prior to issuing payment(s).
- The company should use the term "Other Than Collision" instead of "Comprehensive."
- The company should translate into English, those written correspondences that are in a foreign language.

Forms

- The company should correct the formatting errors in PCA-MEILB-VA (03/07), Medical Expense and Income Loss Benefits Coverage-Virginia, PCA-NNO-VA (03/07), Named Non-Owner Coverage-Virginia, and PCA-TRNSEX (12/04), Transportation Expenses Coverage-Virginia.

Policy Issuance Process

- The company should verify that the standard endorsement identifier as referenced on the declarations page is the same as the identifier listed on the standard endorsement.
- The company should not list notices under the "Forms and Endorsements" section of the declarations page.

Statutory Notices

- The company should have a separate Adverse Underwriting Decision notice (AUD) that is available for use as pursuant to the Code of Virginia.
- The company should revise the notice, PCG-VANRL (02/01), to include the title "Important Information Regarding Your Insurance." Furthermore, the company should include the correct zip code, 23218, for the Bureau and should add the Bureau's TDD number, 804-371-9206.

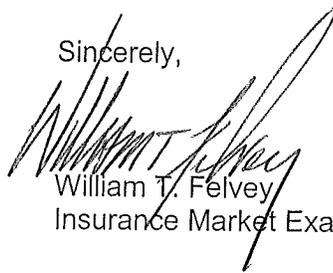
SUMMARY OF PREVIOUS EXAMINATION FINDINGS

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

ACKNOWLEDGEMENT

The courteous cooperation extended by the officers and employees of the company during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink, appearing to read "William T. Felvey". The signature is stylized with a large, sweeping initial "W" and a long, thin tail extending upwards and to the right.

William T. Felvey
Insurance Market Examiner

COMMONWEALTH OF VIRGINIA

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



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

November 3, 2011

VIA UPS 2ND DAY DELIVERY

Allan L. Wadsworth
Manager, Regulatory Affairs
Law Department
Chartis U.S.
175 Water Street, 18th Floor
New York, NY 10038

Re: Market Conduct Examination
Commerce and Industry Insurance Company (NAIC #19410)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of September 1, 2009 through August 31, 2010. The Preliminary Market Conduct Examination Report has been drafted for the company's review.

Enclosed with this letter is a copy of the Preliminary Market Conduct Examination Report (Report) and copies of review sheets that have been withdrawn or revised since September 19, 2011. Also enclosed are several technical 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. If the company disagrees with an item(s) or wishes to further comment on an item(s), please respond to the item(s) in Part I of the Report using the format of the Report. The company does not need to respond to any particular item in Part I if it agrees with 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. If the company uses the same format (headings and numbering) as found in the Report, it is much easier to follow the company's points.

Secondly, the company should respond to the corrective action plan (CAP) outlined in Part II of the Report. In some cases, the issues that should be addressed may be broader than those that are in the CAP. 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.

Thirdly, if the company has comments it wishes to make regarding the Examiners' Notes in Part III of the Report, please use the same headings and numbering for the comments.

Of course, should the company wish to comment on any other part of the Report, please reference the heading of the section where the item is found.

Finally, we have enclosed a CD containing an Excel spreadsheet that the company must complete and return to the Bureau with the company's response. This spreadsheet lists the files in which the examiners identified underpayments (claims).

The company's response(s) and the spreadsheet mentioned above must be returned to the Bureau by December 9, 2011.

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 December 9, 2011.

Sincerely,



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

Allan L. Wadsworth
Manager, Market Conduct Unit
Law Department
New York, New York 10038
(212) 458-7026 Telephone
(212) 458-2697 Facsimile
Allan.Wadsworth@chartisinsurance.com

STATE CORPORATION COMMISSION
11 DEC 16 AM 9:22
CHARTIS 

December 15, 2011

Via UPS Express Mail

Ms. Joy M. Morton, Supervisor
Market Conduct Section
Property & Casualty Division, 5th floor
Virginia Bureau of Insurance
State Corporation Commission
1300 E. Main Street
Richmond, Virginia 23219

**Re: COMMERCE & INDUSTRY INSURANCE COMPANY
(NAIC#19410)**

Private Passenger Automobile Market Conduct Examination
September 1, 2009 – August 31, 2010
Response to Preliminary Report

Dear Ms. Morton:

This is in response to your letter dated November 3, 2011 and the Commerce & Industry Insurance Company Private Passenger Automobile preliminary examination report. We appreciate the additional time granted to review the materials to provide a response on behalf of the Company.

We have reviewed the materials forwarded to the Company and enclose the following in response:

- Company response document
- Appendix A – Applications
- Appendix B – Underwriting and rating documentation
- Appendix C – Claim file documentation
- Action Plan summary dated December 15, 2011
- Draft restitution spreadsheets (with additional entries to be updated)

I will forward via overnight mail or e-mail the printed versions of the restitution spreadsheets as soon as they are completed and include the entries that could not be resolved at the time of this writing.

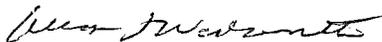
Chartis
175 Water Street – 18th floor
New York, New York 10038
www.chartisinsurance.com

Page 2
December 15, 2011
Ms. Joy M. Morton
Virginia Bureau of Insurance
Commerce & Industry MCE response

Also, please note that in multiple cases, the billing system rounded up the final amounts of the checks. In one case, we will have to issue a manual check. In four cases, the account system offset amount owed on the account by the credited amount of restitution. We will reissue with the actual check amount for documentation.

Thank you again for your cooperation in this matter and trust you will find this format acceptable.

Sincerely,



Allan L. Wadsworth
Manager, Market Conduct Unit
Chartis U.S.

www.Allan.Wadsworth@Chartisinsurance.com

Enclosures – See page 1 with list

Cc: R. Dunlevy, Chartis
M. Neuwirth, Chartis

JM morton VA PP Auto C&I response 12 15 11

COMMERCE & INDUSTRY INSURANCE COMPANY
Private Passenger Automobile

Response to Virginia Auto Preliminary Market Conduct Exam Report

PART ONE – RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

(1) 38.2-305 A of the Code of Virginia

We were cited with 7 violations for listing endorsements on the policy that were not applicable to the policy.

COMPANY RESPONSE: We agree with the 7 violations. The system incorrectly generated the Towing and Labor Coverage Endorsement on these policies. There was no charge associated with the coverage. The system was corrected on April 1, 2011.

(2) 38.2-502 of the Code of Virginia

We were cited with 2 violations stating incorrect Income and Loss Benefits Death coverage limits on the Dec page.

COMPANY RESPONSE: We agree with the 2 violations. The dec page incorrectly stated limits are "per policy." The dec page today reflects "per occurrence", but these policies predated the correction.

(3) 38.2-604 A of the Code of Virginia

We were cited with 10 violations for inability to locate an ACORD application.

COMPANY RESPONSE: We disagree with 9 of the 10 violations. We were unable to initially locate the applications because they were not uploaded into our system via broker self-serve or sent to the company. We subsequently located 9 of the 10 applications. Refer to appendix A for a copy of the applications. Please note that the agency management system used by some brokers generates a current print date when printing a document. Thus in some cases, the application will have a current print date. Finally, today brokers have the ability to upload documents into our system via broker self-serve. We will ask our IT Dep't to program a message in broker self-serve reminding brokers to upload the application.

We were unable to locate an application for RPA014.

(4) 38.2-1906 D of the Code of Virginia

a. We were cited with 1 violation for failing to use the correct discount.

COMPANY RESPONSE: We agree with the violation on this policy.

b. We were cited with 8 violations for not using the correct symbol.

COMPANY RESPONSE: We agree with the 8 violations. The system is being refreshed to reflect the correct symbols for these policies.

c. We were cited with 1 violation for using an incorrect territory code.

COMPANY RESPONSE: We agree with the violation. The territory for this policy was pulled from the mailing address instead of the garaging address. This has been corrected.

d. We were cited with 9 violations for failing to use the correct tier eligibility criteria.

COMPANY RESPONSE: We agree with 8 of the 9 violations. Refer to the below in order of the violation summary report.

RPA001 – We agree. This policy was charged for accidents over a 5 year period instead of 3 years. We will send the insured a refund of \$64 plus 6% interest.

RPA002 – We agree because the manual rules are not clear on how to charge for Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles.

RPA006 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA007 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. For this policy, we used limits of 100/300 in the calculation and the examiner ruled we should have used 500 CSL. We will send the insured a refund of \$18 plus 6% interest. In addition, we will file a clarification rule.

RPA008 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA011 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA013 – We disagree. Both vehicles are garaged. As requested, refer to appendix B for the screen prints.

RPA014 – We agree. The discrepancy is due to our failure to notify the DOI of the delayed effective date.

RPA015 – We agree. The CLUE report did not contain the amount paid for the 3/25/08 claim and thus we could not have known whether the claim was eligible for tier calculation. We will send the insured a refund of \$75 plus 6% interest.

e. We were cited with 1 violation for failing to use the correct driver classification factor.

COMPANY RESPONSE: We agree with the violation although this did not affect the rating. The underwriter incorrectly selected All Other instead of Only Operator. The underwriter was advised to correct the selection.

f. We were cited with 4 violations for failing to use the correct base or final rates.

COMPANY RESPONSE: We agree with 2 of the 4 violations. Refer to the below in order of the violation summary report.

RPA002 – We disagree. We acknowledge that the manual rules are not clear on how to charge for Medical Expense Benefits on Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles. However, the rating of Exotic, Classic or Antique cars for this policy was already addressed in item (d) above. We believe that a second rating violation for this policy is excessive and respectfully request that this violation be withdrawn.

RPA009 – We agree. The manual rules are not clear on how to charge for Medical Expense Benefits on Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles.

RPA013 – We agree. The system offered a \$15,000 Accidental Death coverage limit option when the highest available limit is \$10,000. The system was corrected in December 2011.

RPA014 – We disagree because this policy was already addressed in item (d) above. We believe that a second rating violation for this policy is excessive and respectfully request that this violation be withdrawn.

g. We were cited with 1 violation for failing to use the correct uninsured motorist rates.

COMPANY RESPONSE: We agree with the violation because the manual rule is not clear on how to charge for Uninsured Motorist coverage on Exotic, Classic or Antique cars. We will file a clarification rule specific to this class of vehicles.

h. We were cited with 3 violations for rounding errors.

COMPANY RESPONSE: We agree with the 3 violations. The manual rule is not consistent with how the system handles rounding. We will file a revised rule to align with the system.

(5) 38.2-2234 A of the Code of Virginia

We were cited with 10 violations for not providing the Credit Score Disclosure notice at the time of application.

COMPANY RESPONSE: We disagree with 9 of the 10 violations. This was already addressed in 38.2-604 A above. We were unable to initially locate the applications because they were not uploaded into our system via broker self-serve or sent to the company. The application contains the required use of credit disclosure language. We subsequently located 9 of the 10 applications. Refer to appendix A for a copy of the applications. Please note that the agency management system used by some brokers generates a current print date when printing a document. Thus in some cases, the application will have today's date, but the effective date will reflect the date requested when submitted. Finally, today brokers have the ability to upload documents into our system via broker self-serve. We will ask our IT Dep't to program a message in broker self-serve reminding brokers to upload the application.

We were unable to locate an application for RPA014.

Automobile Renewal Business Policies

(1) 38.2-305 A of the Code of Virginia

We were cited with 11 violations for listing endorsements on the policy that were not applicable to the policy.

COMPANY RESPONSE: We agree with the 11 violations. The system incorrectly generated the Towing and Labor Coverage Endorsement on these policies. There was no charge association with the coverage. The system was corrected on April 1, 2011.

(2) 38.2-502 of the Code of Virginia

We were cited with 1 violation stating incorrect Income and Loss Benefits Death coverage limits on the Dec page.

COMPANY RESPONSE: We agree with the violation. The dec page incorrectly stated limits are "per policy." The dec page today reflects "per occurrence", but this policies predated the correction.

(3) 38.2-1906 D of the Code of Virginia

a. We were cited with 5 violations for failing to use the correct discount and or surcharge.

COMPANY RESPONSE: We agree with 4 of the 5 violations. Refer to the below in order of the violation summary report.

RPA028 – We disagree. The examiner stated that the 1991 Lincoln Town Car does not appear to have passenger side air bags. A review of the vehicle safety specifications (ex. Edmunds) indicates passenger side air bags are an optional feature for this vehicle. Our system returned "airbags and automatic belts" which is defined to mean dual airbags. Please advise how the examiner determined there are no passenger side air bags.

RPA032 – We agree. The underwriter applied a multi-car discount when the policy and account only had one vehicle for this term.

RPA033 – We agree. The underwriter applied a multi-car discount when the policy and account only had one vehicle for this term.

RPA037 – We agree. The incident free discount was not applied.

RPA038 – We agree. The incident free discount was not applied.

b. We were cited with 2 violations for failing to apply the correct surcharge points for accidents and/or convictions.

COMPANY RESPONSE: We agree with the 2 violations. There was a discrepancy between the MVR and CLUE reports and what was recorded in our system.

c. We were cited with 25 violations for not using the correct symbol.

COMPANY RESPONSE: We agree with the 25 violations. The system is being refreshed to reflect the correct symbols for these policies. In addition, the system did not increase the model year factor by 3% for each subsequent model year, where applicable. This was corrected in 2010, but the applicable policies reviewed predated the correction.

d. We were cited with 2 violations for using an incorrect territory code.

COMPANY RESPONSE: We agree with 1 of the 2 violations. Refer to the below in order of the violation summary report.

RPA017 – We disagree. We previously provided a screen print showing the vehicles are garaged in zip code 22902. The examiners asked for further documentation showing the vehicles are garaged in that zip

code. Refer to appendix B for the insured's homeowner's policy showing a covered location with zip code of 22902.

RPA026 – We agree. The wrong zip code was entered. This has since been corrected.

e. We were cited with 16 violations for failing to use the correct tier eligibility criteria.

COMPANY RESPONSE: We agree with the 16 violations. Refer to the below in order of the violation summary report.

RPA016 – We agree because the manual rule is not clear regarding points assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA017 – We agree because the manual rule is not clear regarding whether convictions other than moving violations are used in tiering. We will file a clarification rule.

RPA020 – We agree. We will send the insured a refund of \$40 plus 6% interest.

RPA021 – We agree. We will send the insured a refund of \$76 plus 6% interest.

RPA023 – We agree, but note that operators were international drivers and we did not have insurance scores for these individuals in 2009. We will send the insured a refund of \$129 plus 6% interest.

RPA024 – We agree.

RPA025 – We agree because the manual rule is not clear regarding points assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA026 – We agree because the manual rule is not clear regarding points assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA029 – We agree. The correct tier is B. We will send the insured a refund of \$117 plus 6% interest.

RPA034 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA036 – We agree.

RPA038 – We agree. The discrepancy is due in part to the user entering the vehicle as "regular" car rather than as "miscellaneous" vehicle. We will send the insured a refund of \$466 plus 6% interest.

RPA039 – We agree because the manual rule is not clear regarding point assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA040 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA041 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA042 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

f. We were cited with 2 violations for failing to use the correct driver classification factor.

COMPANY RESPONSE: We agree with 1 of the 2 violations. Refer to the below in order of the violation summary report.

RPA017 – We disagree. 8871 is the correct classification. Please refer to appendix B for the system screen. On this endorsement there is now an occasional driver on the vehicle in question. This driver is a higher rated driver than the principal per our rate and rule:

When the # of vehicles is < than the number of drivers:

Each driver is assigned to one, and only one, vehicle as either a principal or occasional operator which he/she operates most frequently. The vehicle will be rated with the highest rated driver assigned to that vehicle based off of the primary classification factor.

RPA019 – We agree. The correct classification for the wife is 8871 due to being a homemaker and occasional operator. The policy will be corrected and \$38 with 6% interest refunded to the insured.

g. We were cited with 9 violations for failing to use the correct base or final rates.

COMPANY RESPONSE: We agree with 7 of the 9 violations. Refer to the below in order of the violation summary report.

RPA024 – We agree. Since the agreed value is higher than market value, we should have increased the OTC and Collision premiums.

RPA025 – We agree because the manual rules are not clear on how to charge for Exotic, Classic or Antique cars. We will file clarification rule specific to this class of vehicles.

RPA032 – We agree. There were 2 cars in 2007, but in the period reviewed only 1 car. The multi-car base rate for Medical Expense Benefits should not have been used.

RPA033 – We disagree. Although the policy only has 1 vehicle, the multi-car discount is appropriate due to the other vehicles insured. Refer to appendix B for the supporting policy.

RPA035 – We agree.

RPA036 – We agree.

RPA037 – We agree.

RPA038 – We disagree with 1 of the 2 violations. This policy is cited with 2 rating violations, which we believe is excessive. We acknowledge that the rating was not correct, but believe this should not be counted as two rating violations; thus we respectfully request that this violation be withdrawn.

h. We were cited with 1 violation for failing to use the correct uninsured motorist rates.

COMPANY RESPONSE: We agree with the violation. The policy was issued without UMPD. The system today prohibits users from removing UMPD, but this policy predated the current system functionality.

i. We were cited with 6 violations for rounding errors.

COMPANY RESPONSE: We agree with the 6 violations. The manual rule is not consistent with how the system handles rounding. We will file a revised rule to align with the system.

(4) **38.2-2234 B of the Code of Virginia**

We were cited with 6 violations for failing to obtain the insured's credit score once in a three year period.

COMPANY RESPONSE: We agree with the 6 violations. The original credit scores were correctly pulled for the applicable policies. However, when the new credit scores was ordered for those policies, the system noted the new date and dropped the original date from viewing. In addition, the users did not request a new credit score after three years. Today, the system automatically pulls credit scores annually.

PART ONE – TERMINATION REVIEW

Company Initiated Cancellations - Automobile Policies

Notice Mailed After the 59th Day of Coverage

(1) 38.2-610 A of the Code of Virginia

We were cited with 1 violation for not providing a written notice of adverse underwriting decision.

COMPANY RESPONSE: We agree with the violation.

(2) 38.2-1906 D/34 of the Code of Virginia

We were cited with 1 violation for incorrectly calculating return premium resulting in \$9,363.95 refund owed.

COMPANY RESPONSE: We continue to disagree with the violation. The policy was canceled midterm because the insured transported weapons in his vehicle. The earned premium based on the midterm cancellation was correctly calculated and is not disputed by the examiner. The examiner is of the position that we could have voided the policy and thus there should not have been any earned premium. Again, we disagree with this position because our intent was not to void the policy, but to cancel midterm. The premium was calculated based on the cancellation date.

(3) 38.2-2208 B of the Code of Virginia

We were cited with 2 violations for not retaining proof of mailing the cancellation notice to the insured.

COMPANY RESPONSE: We agree with the 2 violations. We were unable to locate the proof of mailing in archives. We implemented a new workflow in October 2011. Client services will scan and upload all proof of mailings onto our ePCG system.

(4) 38.2-2212 D of the Code of Virginia

We were cited with 2 violations for cancellation reason used is not permitted by the Code.

COMPANY RESPONSE: We agree with 1 of the 2 violations. Refer to the below in order of the violation summary report.

TPA003 - We continue to disagree. The insured was canceled for a suspended license. The suspension occurred on May 9, 2009. We mailed a cancellation notice on January 13, 2010 to be effective February

28, 2010. The examiner notes that the timeframe is beyond the 90 days proceeding the last effective date of the renewal (i.e., 2/6/10). We do not understand this logic because 90 days proceeding the effective date of the renewal is May 6, 2010 which is well within the 90 days. We believe we properly canceled the policy for a suspended license.

TPA001 - We agree. The insured was canceled because he was transporting weapons in his vehicle. However, the reason used on the cancellation notice was not one of the allowable reasons per the Code.

(5) 38.2-2212 E of the Code of Virginia

(6)

We were cited with 2 violations for using an improper cancellation notice/failure to send a notice.

COMPANY RESPONSE: We agree with the 2 violations. In the future, the Oden Policy Terminator will be used for all cancellations.

All Other Cancellations - Automobile Policies

Nonpayment of Premium

(1) 38.2-1906 D of the Code of Virginia

We were cited with 5 violations for not calculating the return premium correctly.

COMPANY RESPONSE: We agree with the 5 violations. The insureds did not pay for their renewal policy. We sent a cancellation notice for nonpayment, but should have marked the policy as "not taken", which is the current procedure. These policies predated the current workflow.

(2) 38.2-2208 A of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing the cancellation notice to the insured.

COMPANY RESPONSE: We continue to disagree with the violation. The examiner observed that our internal log did not reference the building number. However, as previously stated, we do not believe that an internal log mistake is relevant when the cancellation notice was mailed to the correct address and proof of mailing was provided.

(3) 38.2-2208 B of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing the cancellation notice to the lien holder.

COMPANY RESPONSE: We agree with the violation. We were unable to locate proof of mailing in archives. We implemented a new workflow in October 2011. Client services will scan and upload all proof of mailings onto our ePCG system.

(4) 38.2-2212 E of the Code of Virginia

We were cited with 2 violations for using an improper cancellation notice/failure to send a notice.

COMPANY RESPONSE: We agree with the 2 violations. In the future, the Oden Policy Terminator will be used for all cancellations.

Request By The Insured

(1) 38.2-1906 D of the Code of Virginia

We were cited with 8 violations for not calculating the return premium correctly.

COMPANY RESPONSE: We agree with the 8 violations. We are filed to calculate the premium short rate, but the system is programmed to calculate the premium pro rata. Based on our filed rule, we over-refunded premium. We will file a revised rule to be consistent with our system.

(2) 38.2-2212 F of the Code of Virginia

We were cited with 2 violations for failing to obtain the insured's written request to cancel the policy.

COMPANY RESPONSE: We agree with 1 of the 2 violations. Refer to the below in order of the violation summary report.

TPA016 – The insured requested a cancellation by faxing a signed ACORD Cancellation Request form on May 17, 200 requesting a back date of April 29, 2010. The examiner agrees we received proper documentation. However, the examiner is of the position that per our policy provision we should have used a cancellation date of May 17, 2010 instead of honoring the back date. We honored the back date because the Insurance Department would require us to honor the back date in a consumer complaint. In many cases, the insured has secured coverage with another company as of the date requested for cancellation. We agree that the policy provision states the insured must give us "advance" notice of cancellation. However, this violation is already noted under the Policy Provision/9 section and thus we disagree with this documentation violation.

TPA017 – We agree. We were unable to find documentation in the file.

(3) Policy Provision/9

We were cited with 2 violations for failing to obtain the insured's written request to cancel the policy.

COMPANY RESPONSE: We agree with the 2 violations. As a rule, we honor an insured's reasonable request to back date a cancellation. In many cases, insured's secure coverage from another company as of the date requested for cancellation. We honor the back date because the Insurance Department would require us to honor the back date in a consumer complaint. However, we agree that the policy provision states the insured must give us "advance" notice of cancellation. We will file an amended policy provision to be consistent with our procedure.

Request By The Premium Finance Company

(1) 14 VAC 5-390-40 D

We were cited with 1 violation for not mailing a cancellation notice requested by the premium finance company.

COMPANY RESPONSE: We agree with the violation. The premium finance company retracted the cancellation request, but the file does not contain documentation to support the retraction.

Company-Initiated Nonrenewals – Automobile Policies

(1) 38.2-610 A/1 of the Code of Virginia

We were cited with 6 violations for failing to provide the insured with a written notice of adverse underwriting decision.

COMPANY RESPONSE: We agree with the 6 violations. The adverse underwriting decision language appears on the cancellation and nonrenewal notices. In one case, we could not locate a copy of the notice in the file. In the other cases, the Oden Policy Terminator was not used to generate the nonrenewal notices. In the future, the Oden Policy Terminator will be used for all nonrenewal notices.

(2) 38.2-2208 A of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing the nonrenewal notice to the insured.

COMPANY RESPONSE: We agree with the violation.

(3) 38.2-2208 B of the Code of Virginia

a. We were cited with 1 violation for not retaining proof of mailing the nonrenewal notice to the insured.

COMPANY RESPONSE: We agree with the violation.

b. We were cited with 6 violations for not retaining proof of mailing the nonrenewal to the lienholder.

COMPANY RESPONSE: We agree with the 6 violations.

c. We were cited with 1 violation for failing to send a nonrenewal notice to the lienholder.

COMPANY RESPONSE: We agree with the violation.

(4) 38.2-2212 E of the Code of Virginia

a. We were cited with 2 violations for failing to send a written notice of nonrenewal.

COMPANY RESPONSE: We agree with the 2 violations. We could not locate the notices in our system.

b. We were cited with 3 violations for not providing 45 days advance written notice of nonrenewal.

COMPANY RESPONSE: We agree with the 3 violations. In these cases, the Oden Policy Terminator was not utilized to ensure the proper advance written notice of nonrenewal. In the future, the Oden Policy Terminator will be used for all nonrenewals.

c. We were cited with 6 violations for failing to advise the insured of his right to review by the Commissioner of Insurance.

COMPANY RESPONSE: We agree with the observations. However, we disagree with the violations because they are already addressed in section 38.2-610 A/1. We advised in section 38.2-610 A/1 that we did not use Oden Policy Terminator which generates the correct legal notices. The notices include the required Virginia disclosure and notification language. We believe that citing us for 6 more violations for not disclosing the right to review language is excessive. Therefore, we respectfully request that these 6 violations be withdrawn.

d. We were cited with 6 violations for failing to advise the insured of the availability of insurance through his agent, another insurer or the VAIP.

COMPANY RESPONSE: We agree with the observations. However, we disagree with the violations because they are already addressed in section 38.2-610 A/1. We advised in section 38.2-610 A/1 that we did not use Oden Policy Terminator which generates the correct legal notices. The Oden notices include the required Virginia disclosure and notification language. We believe that citing the company for 6 more violations for not disclosing the right to review language is excessive. Therefore, we respectfully request that these 6 violations be withdrawn.

PART ONE – CLAIMS REVIEW

Automobile Claims

(1) 14 VAC 5-400-30

We were cited with 6 violations for not properly documenting files.

COMPANY RESPONSE: We agree with 2 of the 6 violations. Refer to the below in order of the violation summary report.

CPA007 – We disagree. Refer to appendix C for the roadside assistance payment support.

CPA019 - We disagree. We use the National Automobile Dealers Association (NADA) to determine the agreed value. The agreed value limit is then listed on the policy dec page and in the vehicle coverage tab of our system. The claim was adjusted based on the limit on the dec page.

CPA031 - We disagree. We use the National Automobile Dealers Association (NADA) to determine the agreed value. The agreed value limit is then listed on the policy dec page and in the vehicle coverage tab of our system. The claim was adjusted based on the limit on the dec page.

CPA032 – We disagree. We use the National Automobile Dealers Association (NADA) to determine the agreed value. The agreed value limit is then listed on the policy dec page and in the vehicle coverage tab of our system. The claim was adjusted based on the limit on the dec page.

CPA037 – We agree. The note was entered in the wrong file.

CPA041 – We agree. The \$20 taxi receipt was not located in the file.

(2) 14 VAC 5-400-40

We were cited with 3 violations for not properly communicating the coverage available.

COMPANY RESPONSE: We agree with 2 of the 3 violations. Refer to the below in order of the violation summary report.

CPA002 – We agree. Although the file contains a note on 10/2/09 stating a rental vehicle is not needed, this note pertains to the claimant. There are no notes indicating the insured, who also sustained damage, turned down a rental vehicle.

CPA029 – We disagree. Refer to appendix C for a letter notifying the insured of the availability of rental vehicle coverage.

CPA049 - We agree. The file does not contain evidence the insured was notified that rental reimbursement is available under UMPD should the primary rental coverage be exhausted.

(3) 14 VAC 5-400-50 C

We were cited with 2 violations for failing to acknowledge pertinent communications within 10 days.

COMPANY RESPONSE: We agree, but believe this should be considered a single violation. Although there were two instances where we failed to acknowledge the communication within 10 days, they occurred on the same claim file.

(4) 14 VAC 5-400-70 A

We were cited with 2 violations for failing to provide the insured with a written denial of coverage.
COMPANY RESPONSE: We agree with the 2 violations. The need to retain written partial or full denials in the claim file was addressed in recent training.

(5) 14 VAC 5-400-70 D

We were cited with 15 violations for failing to pay a fair amount or an amount in accordance with policy provisions.

COMPANY RESPONSE: We agree with 13 of the 15 violations. Refer to the below in order of the violation summary report.

CPA018 – We agree. The company should have approved UM coverage. With a \$200 deductible the company owes the insured \$50. This is a training issue that has since been addressed. We will reimburse the insured for \$50 plus 6% interest.

CPA022 – We agree. The company did not release a \$200 payment under UMPD. This is a training issue that has since been addressed. We will reimburse the insured for \$200 plus 6% interest.

CPA029 – We agree. The company did not recognize UM coverage and owes the insured \$300. This is a training issue that has since been addressed. We will reimburse the insured for \$300 plus 6% interest.

CPA023 – We agree. Based on the endorsement language, a bicycle is considered tangible property. We will reimburse the insured for \$500 plus 6% interest.

CPA007 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$132.75 plus 6% interest.

CPA019 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$468.60 plus 6% interest.

CPA031 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$303.60 plus 6% interest.

CPA032 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$1,667 plus 6% interest.

CPA038 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$811.07 plus 6% interest.

CPA047 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$947.25 plus 6% interest.

CPA004 – We agree that we owe the insured \$25 plus 6% interest under the Medical Expense Benefits coverage and will reimburse that amount. However, we disagree that we owe the insured \$550. Please refer to documentation in appendix B. The \$550.00 is referring to a bill dated 02/16/10. The Explanation of Benefits cited by the examiner is for \$485.00, which was submitted on 02/02/10 and paid in full.

CPA038 – We disagree. The examiner observes that the insured incurred \$336.32 in out of pocket rental fees due to the company electing to withhold 50% of the funds until the necessary paperwork was secured. As previously noted, the insured was moving overseas and acknowledged that she may not replace the damaged vehicle. Thus we continue to believe our claims handling was appropriate.

CPA020 – We agree. The company should have applied the \$250 OTC deductible instead of the \$500 Collision Deductible. We will reimburse the insured for \$184.55 plus 6% interest.

CPA025 – We disagree. As previously noted, we did not deduct \$76 for unrelated prior damage. Rather, we only listed the \$76 on the estimate for the insured's reference. The insured was paid the full amount of \$920.60 less \$500 deductible. The examiner is of the position that we should have paid the \$76 because it was listed on the estimate. Our position is that we paid the correct amount.

(6) 14 VAC 5-400-80 D

We were cited with 21 violations for failing to provide a copy of the estimate to the insured or claimant.

COMPANY RESPONSE: All insureds or claimants received an estimate. The claims could not have otherwise been settled. In some cases we were unable to locate a note or copy of the estimate in the file. Our files are paperless today, but the claims reviewed predated this change. We agree there are documentation violations on 13 claim files. However, we believe the recording of 20 violations on 13 claim files (multiple violations on identical files) is excessive and ask that this be considered as 13 violations. We disagree with the violation on 1 claim file. Refer to the below in order of the violation summary report.

CPA002 – We agree.

CPA003 – We agree. The estimate was sent to the insured, but the supplement was sent to the shop.

CPA027 – We agree.

CPA028 – We agree. The estimate we referenced that was provided by the insured to us is not in the file.

CPA030 – We agree.

CPA039 – We agree. Although the estimate is in the file, there is no email or note indicating it was provided to the insured.

CPA014 – We agree. The estimate was sent to the insured, but the supplements were sent only to the shop. However, we believe this should be considered a single claim file violation, not 2 violations.

CPA037 – We agree. However, we believe this should be considered a single claim file violation, not 2 violations.

CPA004 – We agree. However, we believe this should be considered a single claim file violation, not 3 violations.

CPA042 – We agree. However, we believe this should be considered a single claim file violation, not 3 violations.

CPA002 – We disagree. The appraisal previously provided indicates the claimant was notified.

CPA015 – We agree. The file did not have a note or the estimate.

CPA034 – We agree.

CPA014 – We agree. However, we believe this should be considered a single claim file violation, not 2 violations.

(7) 38.2-510 A 3 of the Code of Virginia

We were cited with 8 violations for failing to adopt reasonable standards for the prompt investigation of claims.

COMPANY RESPONSE: We agree with 3 of the 8 violations. This has been addressed in recent training and will be included in follow up training. Refer to the below in order of the violation summary report.

CPA004 – We disagree. There is no liability to be held to the insured. The insured was rear-ended by the other party. The insured is not liable and thus not responsible for the Out of Pocket expenses of \$115.00 incurred by the IP. Therefore, BI would not pay for this amount.

CPA013 – We agree with the violation. The adjuster did not follow up.

CPA018 – We agree with the observation, but note this violation is a duplicate of 14 VAC 5-400-70-D/03 (offering a reasonable settlement). We ask that this issue not be listed as two violations. We agree to reimburse the \$50 under UM coverage in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA022 – We agree with the observation, but note this violation is a duplicate of 14 VAC 5-400-70-D/03 (offering a reasonable settlement). We ask that this issue not be listed as two violations. We agree to reimburse the \$200 under UMPM coverage in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA023 – We agree with the observation, but note this violation is a duplicate of 14 VAC 5-400-70-D/03 (offering a reasonable settlement). We ask that this issue not be listed as two violations. We agree to reimburse the \$500 for the damage to the bicycle as noted in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA029 – We agree with the observation, but note this violation is a duplicate of 14 VAC 5-400-70-D/03 (offering a reasonable settlement). We ask that this issue not be listed as two violations. We agree to reimburse the \$300 under UM coverage in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA042 – We agree with the violation. The company did not follow up with the insured to obtain medical bills.

CPA046 – We agree with the violation. The adjuster did not follow up.

(8) 38.2-510 A 6 of the Code of Virginia

We were cited with 1 violation for failing to promptly settle the claim.

COMPANY RESPONSE: We agree with the violation. The company released a settlement check on 8/18, but only authorized the rental until 8/14. We should have offered the rental for another 4 days.

(9) 38.2-510 A 10 of the Code of Virginia

We were cited with 39 violations for making a claim payment not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

COMPANY RESPONSE: We agree with 20 of the 39 violations. This has been addressed in recent training. Our process is to identify the coverage on the stub of the check. The coverage is generated from the Claim Inquiry History Detail Screen. We do not retain copies of check stubs, which are attached to the checks provided to insureds and claimants. We only retain copies of checks. However, if the Claim Inquiry History Detail Screen has the coverage noted, we know it is generated on the check stub. If it is not noted on the screen, it is not generated on the check stub. For this reason, we agree with 20 violations and disagree with 19 violations. Refer to appendix B for a sample check with stub.

We disagree with the below. Refer to the below in order of the violation summary report.

CPA005 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA009 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA018 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA022 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA027 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA028 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA029 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA030 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA031 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA034 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA039 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA048 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA049 – We disagree. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA037 – We disagree with 1 of the 2 violations. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA043 – We disagree with 2 of the 2 violations. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA044 – We disagree with 2 of the 2 violations. Refer to appendix C for the Claim Inquiry History Detail Screen.

CPA041 – We disagree with 1 of the 4 violations. Refer to appendix C for the Claim Inquiry History Detail Screen.

(10) 38.2-510 C of the Code of Virginia

We were cited with 2 violations for failing to disclose to the vehicle owners the aftermarket parts notice.

COMPANY RESPONSE: We provided aftermarket parts disclosure language on our estimates. The language accomplishes the intent of the Code of Virginia. However, we agree to the violations because the language used is not identical to the language prescribed in the Code. We replaced our language with the prescribed language on November 30, 2011.

(11) 38.2-2201 B of the Code of Virginia

We were cited with 10 violations for failing to obtain a statement from the insured to make Medical Expense Benefits payments directly to the medical provider.

COMPANY RESPONSE: We agree with the violations due to not finding documentation of an assignment in the claims file. This file predated our conversation to electronic files on 11/10. However, these violations apply to a single claims file. We ask that this issue be considered a single violation due to the single claim rather than 10 violations.

(12) Policy Provision/27

We were cited with 2 violations for paying the insured more than he/she was entitled to receive under the terms of the policy.

COMPANY RESPONSE: We agree with the 2 violations. Refer to the below in order of the violation summary report.

CPA012 – We agree that based on the policy provision, we overpaid by \$393.89. We will align the policy provision with our settlement guidelines, which pay the higher of ACV or Agreed Value. We will file a revised policy provision.

CPA024 – We agree that based on the policy provision, we overpaid the towing and labor cost by \$10. Our current policy provision is aligned with the company claims settlement guidelines.

PART ONE - OTHER LAW VIOLATIONS

(1) 46.2-1602.1 of the Code of Virginia

We were cited with 3 violations for failing to obtain a non-repairable certificate from the Department of Motor Vehicles. Damage to a late model vehicle exceeded 75% of its actual cash value.

COMPANY RESPONSE: We disagree with the 3 violations. Refer to the below in order of the violation summary report.

CPA012 – Refer to appendix C for the certificate.

CPA038 – Refer to appendix C for the certificate.

CPA047 – Refer to appendix C for the certificate.

(2) 52.40 of the Code of Virginia

We were cited with 33 violations for failing to include fraud language on claims forms.

COMPANY RESPONSE: We agree with the violations and have updated our forms on 8/15/11 with assistance from the examiner. However, we note that several claims files are counted as 3 or 4 violations and ask that you consider this issue as 20 violations due to the 20 claims files.

PART ONE – REVIEW OF FORMS

Automobile Forms

Policy Forms Used During Exam Period

(1) 38.2-2220 of the Code of Virginia

We were cited with 2 violations for not using standard forms adopted by the Bureau. Specifically the Suspension of Insurance PP0201(1-05) and Joint Ownership PP1353 (6-00).

COMPANY RESPONSE: We agree with the 2 violations. Our program was updated 8-1-11.

(2) 38.2-2220 of the Code of Virginia

We were cited with 1 violation for using a version of a form filed as broadening that did not contain the language approved by the Bureau.

COMPANY RESPONSE: We agree with the violation. This was corrected 5-10-11.

PART ONE – REVIEW OF POLICY ISSUANCE PROCESS

Automobile Policies

New Business Policies

(1) **38.2-305A of the Code of Virginia**

We were cited with 2 violations for incorrectly attaching the Towing Labor Cost Coverage Endorsement to the policy.

COMPANY RESPONSE: These violations are a repeat from the rating and underwriting section. As noted, we agree with the violations. The system had incorrectly generated the endorsements. The system was corrected on 4-1-11.

(2) **38.2-305B of the Code of Virginia**

We were cited with 5 violations for failing to attach the Important Information Policyholder Notice to the policy.

COMPANY RESPONSE: We agree with the 5 violations. The system was corrected in January 2011.

Renewal Business Policies

(1) **38.2-305A of the Code of Virginia**

We were cited with 1 violation for attaching an endorsement not applicable to the policy. Specifically, the Miscellaneous Type Vehicle Endorsement.

COMPANY RESPONSE: We agree with the violation.

(2) **38.2-305B of the Code of Virginia**

We were cited with 5 violations for failing to attach the Important Information Policyholder Notice to the policy.

COMPANY RESPONSE: We agree with the 5 violations. The system was corrected in January 2011.

PART ONE – REVIEW OF STATUTORY NOTICES

General Statutory Notices

(1) **38.2-604.1B of the Code of Virginia**

We were cited with 1 violation for not using a compliant information collection long notice.

COMPANY RESPONSE: We continue to disagree with the violation. The code does not promulgate the language to use nor the method (1 notice vs 2 notices). We acknowledge that the examiners do not feel the language of our notices is sufficient. We will thus draft a single notice incorporating the examiner's observations, but respectfully request that this violation be moved to a recommendation.

(2) 38.2-610 A of the Code of Virginia

We were cited with 2 violations for not using an approved prototype AUD notice.

COMPANY RESPONSE: We disagree with the violations in part. The adverse action notice contains language similar to the prototype set forth in Adm./ Letter 1981-16 while expanding upon the disclosure. However, we agree that the reference to 90 days should read 90 business days and will update the notice.

Statutory Vehicle Notices

(1) 38.2-2202 A/1 of the Code of Virginia

We were cited with 1 violation for using an optional Medical Expense Benefits notice that was not written in the precise wording of the Code of Virginia.

COMPANY RESPONSE: We agree with the violation. The notice will be updated to reflect the precise language.

(2) 38.2-2202 B/1 of the Code of Virginia

We were cited with 1 violation for using a UM Selection/Rejection Form that was not written in the precise wording of the Code of Virginia.

COMPANY RESPONSE: We agree with the violation. The notice will be updated to reflect the precise language.

(3) 38.2-2234 A-1/2 of the Code of Virginia

We were cited with 1 violation for using incomplete credit score disclosure language.

COMPANY RESPONSE: We continue to disagree with the violation. The industry standard Virginia ACORD application contains similar credit score disclosure language. We believe that language complies with the Code. Therefore, we respectfully request that this violation be withdrawn.

Other Notices

(1) 38.2-517 A 3 of the Code of Virginia

We were cited with 1 violation for failing to use a glass claims procedure that properly disclosed the use of a Third Party Administrator.

COMPANY RESPONSE: We agree with the violation. We updated our glass script on November 23, 2011 to disclose the use of a Third Party Administrator.

PART ONE – LICENSING AND APPOINTMENT REVIEW

Agent Review

(1) 38.2-1318 of the Code of Virginia

We were cited with 3 violations for not providing an ACORD application to verify the submitting agent.

COMPANY RESPONSE: We agree with the 3 violations. They were not uploaded into our system via broker self-serve or sent to the company. Today brokers have the ability to upload documents into our system via broker self-serve. We will ask our IT Dep't to program a message in broker self-serve reminding brokers to upload the application.

(2) 38.2-1822 of the Code of Virginia

We were cited with 1 violation for using an unlicensed agent.

COMPANY RESPONSE: We agree with the violation. The individual who submitted the business for the agency did not have a Virginia license.

(3) 38.2-1833 of the Code of Virginia

We were cited with 7 violations for using agents not appointed.

COMPANY RESPONSE: We agree with the 7 violations. The agents were not appointed for the writing company at the time the policies were written. However, all have been appointed in 2010 or early 2011.

Agency Review

(1) 38.2-1812 of the Code of Virginia

We were cited with 3 violations for paying commission to an agency not appointed.

COMPANY RESPONSE: We agree with the 3 violations. Refer to the below in order of the violation summary report.

AY002 – We agree. The agency will be required to produce business through an appointed agency going forward.

AY003 - We agree. The agency had a DBA that was not updated on the license and thus not appointed. We spoke with the agency and they have since updated their license to include the DBA. The appointment was processed.

AY011 – We agree. The agency was not appointed at the time of the exam. The agency is currently appointed.

(2) **38.2-1822 of the Code of Virginia**

We were cited with 2 violations for agency not licensed.

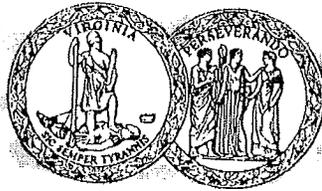
COMPANY RESPONSE: We agree with the 2 violations. Refer to the below in order of the violation summary report.

AY002 – We agree. The agency will be required to produce business through an appointed agency going forward.

had a DBA that was not updated on the license. We spoke with the agency and they have since updated their license to include the DBA.

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/b>

February 13, 2012

VIA UPS 2nd DAY DELIVERY

Allan L. Wadsworth
Manager, Regulatory Affairs
Law Department
Chartis U.S.
175 Water Street, 18th Floor
New York, NY 10038

Re: Market Conduct Examination
Commerce and Industry Insurance Company (NAIC #19410)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has reviewed the December 15, 2011, response to the Preliminary Market Conduct Report (Report) of Commerce and Industry Insurance Company. The Bureau has referenced only those items where 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

Automobile New Business Policies

- 3) The violations for RPA001, RPA010, RPA013 and RPA015 have been withdrawn. The remaining violations remain in the Report. The applications for RPA002, RPA003, RPA004 and RPA009 were all completed (dated) after the examination period (all done in 2011). The violation for RPA012 was only the first page of the application and did not include the notice required by § 38.2-604 of the Code of Virginia.
- 4d) The violation for RPA013 remains in the Report. The information provided is not verification that the vehicles are kept in a garage.
- 4f) The violations for RPA002 and RPA014 remain in the Report. These violations are not duplicates. The violations in subsection (d) are for failing to use the correct tier. The violations in this section (f) are for failing to use the filed Medical Expense Benefits rates.

- 5) The violations for RPA013 and RPA015 have been withdrawn. The remaining violations remain in the Report. The applications provided for RPA001, RPA010 and RPA012 did not include the credit disclosure notice. The violations for RPA002, RPA003, RPA004 and RPA009 were all completed after the examination period and did not apply to the new business policies.

Automobile Renewal Business Policies

- 3a) The violation for RPA028 has been withdrawn.
- 3d) The violation for RPA017 has been withdrawn.
- 3f) The violation for RPA017 has been withdrawn.
- 3g) The violations for RPA033 and RPA038 both remain in the Report. The declarations page provided with the response for RPA033 is for James J. Bailey, III. The insured on the policy in question is for Robert Bailey. There are two different violations on the policy for RPA038. One violation is for using superseded rates on the automobile and the other violation is for failing to use the filed rates for the trailer.

Terminations

Company Initiated Cancellations – Automobile Policies

- 2) The violation for TPA001 has been withdrawn.
- 4) The violation for TPA003 remains in the Report. The statute states that the suspension must occur either during “the current policy period” or if the policy is a renewal “within 90 days immediately preceding the **current** policy period”. The suspension occurred outside of the time the statute allows as a permitted reason after the 60th day of coverage.

All Other Cancellations

NONPAYMENT OF PREMIUM

- 2) The violation for TPA010 remains in the Report. The mailing list provided as proof of mailing does not include the insured’s complete address causing the proof of mailing to be invalid.

REQUESTED BY THE INSURED

- 2) The violation for TPA016 is withdrawn and replaced with a violation of the policy provisions.

- 3) The total number of violations in this section is increased to three. A violation is added for TPA016 for cancelling the policy retroactively.

Nonrenewals

- 4c-d) The violations in these sections remain in the Report. The company failed to give these insureds the notices required by § 38.2-2212 E of the Code of Virginia.

CLAIMS

- (1) The violations for CPA007, CPA019, CPA031 and CPA032 have been withdrawn.
- (2) The violation for CPA029 stays in the Report. The letter referenced in the company's response does not specifically advise the insured that rental reimbursement was available under the UM coverage of the policy.
- (3) The total number of violations remains at two. The two violations arose from separate events within the claim file and therefore are not considered a single violation.
- (5) The violations for CPA025 and CPA038 have been withdrawn. The violation for CPA004 is revised and the \$550 underpayment has been withdrawn. However, a \$115 underpayment has been added due to the revision made to review sheet number ClaimVehPPA1309957497.
- (6) There were 14 review sheets that documented 21 violations of 14 VAC 5-400-80 D. Of the 14 review sheets, five documented 12 violations. These multiple violations on a single claim file pertained to the failure of providing a copy of the estimate and supplement(s) to either the insured or the claimant and these multiple violations cannot be reduced. The violation for CPA002 stays in the Report. There is no evidence in the claim file that the claimant received the estimate and this violation cannot be reconsidered until the company provides evidence for reconsideration.
- (7) The violation for CPA004 remains in the Report. The Observation has been revised because the insured passenger can make a claim for the \$115 expenses under the MEB coverage of the policy. For CPA018, CPA022, CPA023, and CPA029, the violations cited under 14 VAC 5-400-70 D/ 3 and 6 pertain to the claim underpayments and are not duplicate violations of § 38.2-510 A 3 of the Code of Virginia, which pertain to the violations of a prompt investigation.
- (9) The violations for CPA005, CPA009, CPA018, CPA022, CPA024, CPA027, CPA028, CPA029, CPA030, CPA034, CPA039, CPA043, CPA048 and CPA049 have been withdrawn. The violations for CPA037, CPA041 and CPA044 have each been reduced by one violation. The remaining 21

violations stay in the Report because the claim inquiry print outs did not indicate that a first party coverage was noted on the payment stub that the insured received.

- (11) The number of violations for CPA004 has been reduced from 10 to 2. The company released payment under the insured's Medical Expense Benefits coverage to two different medical providers.

PART ONE-OTHER LAW VIOLATIONS

- (1) The violations for CPA012, CPA038 and CPA047 have been withdrawn.
- (2) The review sheets that indicate multiple violations of § 52-40 of the Code of Virginia cannot be reduced because the violations document the multiple company specific claim forms that were not in compliance with this statute.

REVIEW OF STATUTORY NOTICES

General Statutory Notices

- (1) The violation for NGS006 remains in the Report. The company should revise this notice to comply with subdivision 8 of § 38.2-604.1 B of the Code of Virginia.
- (2) The violations for NGS004 and NGS005 remain in the Report. The company's two notices fail to comply with subdivision 2 of § 38.2-610 A of the Code of Virginia. Also the two notices incorrectly advised the insured of 90 days instead of 90 business days.

PART TWO-CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (2) The Report has been amended to reflect the changes in RPA017 and RPA028. Please refer to the revised overcharge table enclosed and make the outstanding restitution prior to responding to the Report.
- (5) Please advise implementation date for the Insurance Information Collection and Disclosure Practices notice.
- (6) The company's response to this corrective action is insufficient. The Company should include in its response the steps taken or the processes implemented to comply with using the rules and rates that are on file with the Bureau.
- (7) The company must advise when the Credit Score Disclosure notice will be added to its application.

Terminations Review

- (1) The corrective action concerning the undercharge has been removed.
- (5) We are unable to find evidence of a filing to amend the calculation of return premiums. Please provide the filing reference number.

Claims Review

- (3) The underpayment for CPA004 has been revised and the underpayment for CPA025 has been removed. Please refer to the revised underpayments table enclosed and make the outstanding restitution.
- (4) The corrective action concerning properly documenting claim file(s) has been removed.
- (9) The corrective action concerning written authorization(s) has been removed.

Forms Review

- (1) Please advise when this corrective action will be implemented.

Statutory Notices

- (1-6) Please advise when the revised notice(s) will be available for use.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added, or altered as a result of this review. We look forward to your response by February 29, 2011.

Sincerely,

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

JMM
Enclosures

Allan L. Wadsworth
Manager, Market Conduct Unit
Law Department
New York, New York 10038
(212) 458-7026 Telephone
(212) 458-2697 Facsimile
Allan.Wadsworth@chartisinsurance.com

March 8, 2012

CHARTIS 

Via UPS Express Mail

Ms. Joy M. Morton, Supervisor
Market Conduct Section
Property & Casualty Division, 5th floor
Virginia Bureau of Insurance
State Corporation Commission
1300 E. Main Street
Richmond, Virginia 23219



Re: **COMMERCE & INDUSTRY INSURANCE COMPANY**
(NAIC#19410)
Private Passenger Automobile Market Conduct Examination
September 1, 2009 – August 31, 2010
Response to Preliminary Report

Dear Ms. Morton:

This is in response to your letter dated February 13, 2012 and the preliminary examination report. We acknowledge your reconsideration and removal of violations with our past correspondence. We also appreciate the additional time granted to review the materials to provide a response on behalf of the Company.

Attached is our response dated March 8, 2012 based on information from your February 13, 2012 revised submission to the Company.

Thank you again for your cooperation in this matter.

Sincerely,

Allan L. Wadsworth
Manager, Market Conduct Unit
Chartis U. S.

www.Allan.Wadsworth@Chartisinsurance.com

Enclosures- 19 page document, Appendix A & B, revised restitution list

Cc: R. Dunlevy, Chartis
M. Neuwirth, Chartis

JM morton VA PP Auto C&I response 03 08 12

Chartis
175 Water Street – 18th floor
New York, New York 10038
www.chartisinsurance.com

COMMERCE & INDUSTRY INSURANCE COMPANY

Private Passenger Automobile Market Conduct Examination Response of March 8, 2012

(Second Response to Virginia Auto Preliminary Market Conduct Exam Report)

PART ONE – RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

(1) 38.2-305 A of the Code of Virginia

We were cited with 7 violations for listing endorsements on the policy that were not applicable to the policy.

COMPANY RESPONSE: We agree with the 7 violations. The system incorrectly generated the Towing and Labor Coverage Endorsement on these policies. There was no charge associated with the coverage. The system was corrected on April 1, 2011.

(2) 38.2-502 of the Code of Virginia

We were cited with 2 violations stating incorrect Income and Loss Benefits Death coverage limits on the Dec page.

COMPANY RESPONSE: We agree with the 2 violations. The dec page incorrectly stated limits are "per policy." The dec page today reflects "per occurrence", but these policies predated the correction.

(3) 38.2-604 A of the Code of Virginia

We were cited with 6 violations for inability to locate an ACORD application.

COMPANY RESPONSE: Thank you for withdrawing 4 of the original violations. We have 6 violations remaining. We disagree with 4 of the 6 violations. We were unable to initially locate the applications because they were not uploaded into our system via broker self-serve or sent to the company. We subsequently located 4 of the applications. Refer to appendix A for a copy of the applications. Please note that the agency management system used by some producers generates a current print date when printing a document. Thus in some cases, the application will have today's date, but the effective date will reflect the date requested when submitted. Today producers have the ability to upload documents into our system via broker self-serve. We added a reminder to the producer sign-on screen and included a reminder in our December producer newsletter on 12/22/11.

We were unable to locate an application for RPA003 and RPA014.

(4) **38.2-1906 D of the Code of Virginia**

a. We were cited with 1 violation for failing to use the correct discount.

COMPANY RESPONSE: We agree with the violation on this policy.

b. We were cited with 8 violations for not using the correct symbol.

COMPANY RESPONSE: We agree with the 8 violations. The system is being refreshed to reflect the correct symbols for these policies.

c. We were cited with 1 violation for using an incorrect territory code.

COMPANY RESPONSE: We agree with the violation. The territory for this policy was pulled from the mailing address instead of the garaging address. This has been corrected.

d. We were cited with 9 violations for failing to use the correct tier eligibility criteria.

COMPANY RESPONSE: We agree with 8 of the 9 violations. Refer to the below in order of the violation summary report.

RPA001 – We agree. This policy was charged for accidents over a 5 year period instead of 3 years. We will send the insured a refund of \$64 plus 6% interest.

RPA002 – We agree because the manual rules are not clear on how to charge for Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles.

RPA006 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA007 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. For this policy, we used limits of 100/300 in the calculation and the examiner ruled we should have used 500 CSL. We will send the insured a refund of \$18 plus 6% interest. In addition, we will file a clarification rule.

RPA008 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA011 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA013 – We continue to disagree. Both vehicles are garaged. In addition to the screen prints, please refer to the application in appendix B.

RPA014 – We agree. The discrepancy is due to our failure to notify the DOI of the delayed effective date.

RPA015 – We agree. The CLUE report did not contain the amount paid for the 3/25/08 claim and thus we could not have known whether the claim was eligible for tier calculation. We will send the insured a refund of \$75 plus 6% interest.

e. We were cited with 1 violation for failing to use the correct driver classification factor.

COMPANY RESPONSE: We agree with the violation although this did not affect the rating. The underwriter incorrectly selected All Other instead of Only Operator. The underwriter was advised to correct the selection.

f. We were cited with 4 violations for failing to use the correct base or final rates.

COMPANY RESPONSE: We agree with the 4 violations. Refer to the below in order of the violation summary report.

RPA002 – We agree. The manual rules are not clear on how to charge for Medical Expense Benefits on Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles.

RPA009 – We agree. The manual rules are not clear on how to charge for Medical Expense Benefits on Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles.

RPA013 – We agree. The system offered a \$15,000 Accidental Death coverage limit option when the highest available limit is \$10,000. The system was corrected in December 2011.

RPA014 – We agree. The manual rules are not clear on how to charge for Medical Expense Benefits on Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles.

g. We were cited with 1 violation for failing to use the correct uninsured motorist rates.

COMPANY RESPONSE: We agree with the violation because the manual rule is not clear on how to charge for Uninsured Motorist coverage on Exotic, Classic or Antique cars. We will file a clarification rule specific to this class of vehicles.

h. We were cited with 3 violations for rounding errors.

COMPANY RESPONSE: We agree with the 3 violations. The manual rule is not consistent with how the system handles rounding. We will file a revised rule to align with the system.

(5) 38.2-2234 A of the Code of Virginia

We were cited with 8 violations for not providing the Credit Score Disclosure notice at the time of application.

COMPANY RESPONSE: Thank you for withdrawing 2 of the original violations. We have 8 violations remaining. We disagree with 4 of the 8 violations. We were unable to initially locate the applications because they were not uploaded into our system via broker self-serve or sent to the company. The application contains the required use of credit disclosure language. We subsequently located 4 of the applications. Refer to appendix A for a copy of the applications. Please note that the agency management system used by some producers generates a current print date when printing a document. Thus in some cases, the application will have today's date, but the effective date will reflect the date requested when submitted. Today producers have the ability to upload documents into our system via broker self-serve. We added a reminder to the producer sign-on screen and included a reminder in our December producer newsletter on 12/22/11.

We agree with RPA001, RPA003, RPA010 and RPA014.

Automobile Renewal Business Policies

(1) 38.2-305 A of the Code of Virginia

We were cited with 11 violations for listing endorsements on the policy that were not applicable to the policy.

COMPANY RESPONSE: We agree with the 11 violations. The system incorrectly generated the Towing and Labor Coverage Endorsement on these policies. There was no charge association with the coverage. The system was corrected on April 1, 2011.

(2) 38.2-502 of the Code of Virginia

We were cited with 1 violation stating incorrect Income and Loss Benefits Death coverage limits on the Dec page.

COMPANY RESPONSE: We agree with the violation. The dec page incorrectly stated limits are "per policy." The dec page today reflects "per occurrence", but this policies predated the correction.

(3) 38.2-1906 D of the Code of Virginia

a. We were cited with 4 violations for failing to use the correct discount and or surcharge.

COMPANY RESPONSE: We agree with the 4 violations. Refer to the below in order of the violation summary report.

RPA032 – We agree. The underwriter applied a multi-car discount when the policy and account only had one vehicle for this term.

RPA033 – We agree. The underwriter applied a multi-car discount when the policy and account only had one vehicle for this term.

RPA037 – We agree. The incident free discount was not applied.

RPA038 – We agree. The incident free discount was not applied.

b. We were cited with 2 violations for failing to apply the correct surcharge points for accidents and/or convictions.

COMPANY RESPONSE: We agree with the 2 violations. There was a discrepancy between the MVR and CLUE reports and what was recorded in our system.

c. We were cited with 25 violations for not using the correct symbol.

COMPANY RESPONSE: We agree with the 25 violations. The system is being refreshed to reflect the correct symbols for these policies. In addition, the system did not increase the model year factor by 3% for each subsequent model year, where applicable. This was corrected in 2010, but the applicable policies reviewed predated the correction.

d. We were cited with 1 violation for using an incorrect territory code.

COMPANY RESPONSE: We agree with the violation for RPA026. The wrong zip code was entered. This has since been corrected.

e. We were cited with 16 violations for failing to use the correct tier eligibility criteria.

COMPANY RESPONSE: We agree with the 16 violations. Refer to the below in order of the violation summary report.

RPA016 – We agree because the manual rule is not clear regarding points assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA017 – We agree because the manual rule is not clear regarding whether convictions other than moving violations are used in tiering. We will file a clarification rule.

RPA020 – We agree. We will send the insured a refund of \$40 plus 6% interest.

RPA021 – We agree. We will send the insured a refund of \$76 plus 6% interest.

RPA023 – We agree, but note that operators were international drivers and we did not have insurance scores for these individuals in 2009. We will send the insured a refund of \$129 plus 6% interest.

RPA024 – We agree.

RPA025 – We agree because the manual rule is not clear regarding points assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA026 – We agree because the manual rule is not clear regarding points assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA029 – We agree. The correct tier is B. We will send the insured a refund of \$117 plus 6% interest.

RPA034 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA036 – We agree.

RPA038 – We agree. The discrepancy is due in part to the user entering the vehicle as “regular” car rather than as “miscellaneous” vehicle. We will send the insured a refund of \$466 plus 6% interest.

RPA039 – We agree because the manual rule is not clear regarding point assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA040 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA041 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA042 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

f. We were cited with 1 violation for failing to use the correct driver classification factor.

COMPANY RESPONSE: We agree with the violation for RPA019. The correct classification for the wife is 8871 due to being a homemaker and occasional operator. The policy will be corrected and \$38 with 6% interest refunded to the insured.

g. We were cited with 9 violations for failing to use the correct base or final rates.

COMPANY RESPONSE: We agree with 7 of the 9 violations. Refer to the below in order of the violation summary report.

RPA024 – We agree. Since the agreed value is higher than market value, we should have increased the OTC and Collision premiums.

RPA025 – We agree because the manual rules are not clear on how to charge for Exotic, Classic or Antique cars. We will file clarification rule specific to this class of vehicles.

RPA032 – We agree. There were 2 cars in 2007, but in the period reviewed only 1 car. The multi-car base rate for Medical Expense Benefits should not have been used.

RPA033 – We continue to disagree. Although the policy only has 1 vehicle, the multi-car discount is appropriate due to the other vehicle insured. Refer to appendix B for the Louisiana vehicle policy dec page for [REDACTED]

RPA035 – We agree.

RPA036 – We agree.

RPA037 – We agree.

RPA038 – We continue to disagree with 1 of the 2 violations. This policy is cited with 2 rating violations, which we believe is excessive. We acknowledge that the rating was not correct, but believe two rating violations on a single policy is excessive.

h. We were cited with 1 violation for failing to use the correct uninsured motorist rates.

COMPANY RESPONSE: We agree with the violation. The policy was issued without UMPD. The system today prohibits users from removing UMPD, but this policy predated the current system functionality.

i. We were cited with 6 violations for rounding errors.

COMPANY RESPONSE: We agree with the 6 violations. The manual rule is not consistent with how the system handles rounding. We will file a revised rule to align with the system.

(4) 38.2-2234 B of the Code of Virginia

We were cited with 6 violations for failing to obtain the insured's credit score once in a three year period.

COMPANY RESPONSE: We agree with the 6 violations. The original credit scores were correctly pulled for the applicable policies. However, when the new credit scores was ordered for those policies, the system noted the new date and dropped the original date from viewing. In addition, the users did not request a new credit score after three years. Today, the system automatically pulls credit scores annually.

PART ONE – TERMINATION REVIEW

Company Initiated Cancellations - Automobile Policies

Notice Mailed After the 59th Day of Coverage

(1) **38.2-610 A of the Code of Virginia**

We were cited with 1 violation for not providing a written notice of adverse underwriting decision.

COMPANY RESPONSE: We agree with the violation.

(2) **38.2-2208 B of the Code of Virginia**

We were cited with 2 violations for not retaining proof of mailing the cancellation notice to the insured.

COMPANY RESPONSE: We agree with the 2 violations. We were unable to locate the proof of mailing in archives. We implemented a new workflow in October 2011. Client services will scan and upload all proof of mailings onto our ePCG system.

(3) **38.2-2212 D of the Code of Virginia**

We were cited with 2 violations for cancellation reason used is not permitted by the Code.

COMPANY RESPONSE: We agree with the 2 violations. Refer to the below in order of the violation summary report.

- a. TPA003 – Upon further review, we agree. The insured should have been nonrenewed for a suspended license rather than renewed and subsequently issued a cancellation notice.
- b. TPA001 - We agree. The insured was canceled because he was transporting weapons in his vehicle. However, the reason used on the cancellation notice was not one of the allowable reasons per the Code.

(4) **38.2-2212 E of the Code of Virginia**

We were cited with 2 violations for using an improper cancellation notice/failure to send a notice.

COMPANY RESPONSE: We agree with the 2 violations. In the future, the Oden Policy Terminator will be used for all cancellations.

All Other Cancellations - Automobile Policies

Nonpayment of Premium

(1) **38.2-1906 D of the Code of Virginia**

We were cited with 5 violations for not calculating the return premium correctly.

COMPANY RESPONSE: We agree with the 5 violations. The insureds did not pay for their renewal policy. We sent a cancellation notice for nonpayment, but should have marked the policy as "not taken", which is the current procedure. These policies predated the current workflow.

(2) 38.2-2208 A of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing the cancellation notice to the insured.

COMPANY RESPONSE: We continue to disagree with the violation. The examiner observed that our internal log did not reference the building number. However, as previously stated, we do not believe that an internal log mistake is relevant when the cancellation notice was mailed to the correct address and proof of mailing was provided. The insured received the cancellation notice and did not dispute it. Refer to appendix B for the notice.

(3) 38.2-2208 B of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing the cancellation notice to the lien holder.

COMPANY RESPONSE: We agree with the violation. We were unable to locate proof of mailing in archives. We implemented a new workflow in October 2011. Client services will scan and upload all proof of mailings onto our ePCG system.

(4) 38.2-2212 E of the Code of Virginia

We were cited with 2 violations for using an improper cancellation notice/failure to send a notice.

COMPANY RESPONSE: We agree with the 2 violations. In the future, the Oden Policy Terminator will be used for all cancellations.

Request By The Insured

(1) 38.2-1906 D of the Code of Virginia

We were cited with 8 violations for not calculating the return premium correctly.

COMPANY RESPONSE: We agree with the 8 violations. We are filed to calculate the premium short rate, but the system is programmed to calculate the premium pro rata. Based on our filed rule, we over-refunded premium. We will file a revised rule to be consistent with our system.

(2) 38.2-2212 F of the Code of Virginia

We were cited with 1 violation for failing to obtain the insured's written request to cancel the policy.

COMPANY RESPONSE: We agree with the violation for TPA017. We were unable to find documentation in the file.

(3) Policy Provision/9

We were cited with 3 violations for failing to obtain advance notice of cancellation from the insured.

COMPANY RESPONSE: We agree with the 3 violations. As a rule, we honor an insured's reasonable request to back date a cancellation. In many cases, insured's secure coverage from another company as of the date requested for cancellation. We honor the back date because the Insurance Department would require us to honor the back date in a consumer complaint. However, we agree that the policy provision states the insured must give us "advance" notice of cancellation. We will file an amended policy provision to be consistent with our procedure.

Request By The Premium Finance Company

(1) 14 VAC 5-390-40 D

We were cited with 1 violation for not mailing a cancellation notice requested by the premium finance company.

COMPANY RESPONSE: We agree with the violation. The premium finance company retracted the cancellation request, but the file does not contain documentation to support the retraction.

Company-Initiated Nonrenewals – Automobile Policies

(1) 38.2-610 A/1 of the Code of Virginia

We were cited with 6 violations for failing to provide the insured with a written notice of adverse underwriting decision.

COMPANY RESPONSE: We agree with the 6 violations. The adverse underwriting decision language appears on the cancellation and nonrenewal notices. In one case, we could not locate a copy of the notice in the file. In the other cases, the Oden Policy Terminator was not used to generate the nonrenewal notices. In the future, the Oden Policy Terminator will be used for all nonrenewal notices.

(2) 38.2-2208 A of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing the nonrenewal notice to the insured.

COMPANY RESPONSE: We agree with the violation.

(3) 38.2-2208 B of the Code of Virginia

a. We were cited with 1 violation for not retaining proof of mailing the nonrenewal notice to the insured.

COMPANY RESPONSE: We agree with the violation.

b. We were cited with 6 violations for not retaining proof of mailing the nonrenewal to the lienholder.

COMPANY RESPONSE: We agree with the 6 violations.

c. We were cited with 1 violation for failing to send a nonrenewal notice to the lienholder.

COMPANY RESPONSE: We agree with the violation.

(4) 38.2-2212 E of the Code of Virginia

a. We were cited with 2 violations for failing to send a written notice of nonrenewal.

COMPANY RESPONSE: We agree with the 2 violations. We could not locate the notices in our system.

b. We were cited with 3 violations for not providing 45 days advance written notice of nonrenewal.

COMPANY RESPONSE: We agree with the 3 violations. In these cases, the Oden Policy Terminator was not utilized to ensure the proper advance written notice of nonrenewal. In the future, the Oden Policy Terminator will be used for all nonrenewals.

c. We were cited with 6 violations for failing to advise the insured of his right to review by the Commissioner of Insurance.

COMPANY RESPONSE: We continue to disagree with the number of violations cited for use of an improper nonrenewal notice. We advised in section 38.2-610 A/1 that we did not use Oden Policy Terminator which generates the correct legal notice. This notice includes the required Virginia disclosure and notification language. We believe that citing us for 6 additional violations for not disclosing the right to review language and 6 additional violations for availability of insurance through agent, another insurer or VAIP (refer to item d below) is excessive. This results in 18 violations for using an improper nonrenewal notice on 6 policies.

d. We were cited with 6 violations for failing to advise the insured of the availability of insurance through his agent, another insurer or the VAIP.

COMPANY RESPONSE: We continue to disagree with the number of violations cited for use of an improper nonrenewal notice. We advised in section 38.2-610 A/1 that we did not use Oden Policy Terminator which generates the correct legal notice. This notice includes the required Virginia disclosure and notification language. We believe that citing us for 6 additional violations for not disclosing the right to review language (refer to item c above) and 6 additional violations for availability of insurance through agent, another insurer or VAIP is excessive. This results in 18 violations for using an improper nonrenewal notice on 6 policies.

PART ONE – CLAIMS REVIEW

Automobile Claims

(1) 14 VAC 5-400-30

We were cited with 2 violations for not properly documenting files.

COMPANY RESPONSE: We agree with the 2 violations. Refer to the below in order of the violation summary report.

CPA037 – We agree. The note was entered in the wrong file.

CPA041 – We agree. The \$20 taxi receipt was not located in the file.

(2) 14 VAC 5-400-40

We were cited with 3 violations for not properly communicating the coverage available.

COMPANY RESPONSE: We agree with 2 of the 3 violations. Refer to the below in order of the violation summary report.

CPA002 – We agree. Although the file contains a note on 10/2/09 stating a rental vehicle is not needed, this note pertains to the claimant. There are no notes indicating the insured, who also sustained damage, turned down a rental vehicle.

CPA029 – We continue to disagree. The letter provided notified the insured of the availability of rental vehicle coverage.

CPA049 - We agree. The file does not contain evidence the insured was notified that rental reimbursement is available under UMPD should the primary rental coverage be exhausted.

(3) 14 VAC 5-400-50 C

We were cited with 2 violations for failing to acknowledge pertinent communications within 10 days.

COMPANY RESPONSE: We agree, but continue to believe this should be considered a single violation due to the single claim file.

(4) 14 VAC 5-400-70 A

We were cited with 2 violations for failing to provide the insured with a written denial of coverage.

COMPANY RESPONSE: We agree with the 2 violations. The need to retain written partial or full denials in the claim file was addressed in recent training.

(5) 14 VAC 5-400-70 D

We were cited with 13 violations for failing to pay a fair amount or an amount in accordance with policy provisions.

COMPANY RESPONSE: Thank you for withdrawing the 2 original violations. We agree with the 13 remaining violations. Refer to the below in order of the violation summary report.

CPA018 – We agree. The company should have approved UM coverage. With a \$200 deductible the company owes the insured \$50. This is a training issue that has since been addressed. We will reimburse the insured for \$50 plus 6% interest.

CPA022 – We agree. The company did not release a \$200 payment under UMPD. This is a training issue that has since been addressed. We will reimburse the insured for \$200 plus 6% interest.

CPA029 – We agree. The company did not recognize UM coverage and owes the insured \$300. This is a training issue that has since been addressed. We will reimburse the insured for \$300 plus 6% interest.

CPA023 – We agree. Based on the endorsement language, a bicycle is considered tangible property. We will reimburse the insured for \$500 plus 6% interest.

CPA007 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$132.75 plus 6% interest.

CPA019 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$468.60 plus 6% interest.

CPA031 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$303.60 plus 6% interest.

CPA032 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$1,667 plus 6% interest.

CPA038 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$811.07 plus 6% interest.

CPA047 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$947.25 plus 6% interest.

CPA004 – We agree that we owe the insured \$25 plus 6% interest under the Medical Expense Benefits coverage and will reimburse that amount.

CPA020 – We agree. The company should have applied the \$250 OTC deductible instead of the \$500 Collision Deductible. We will reimburse the insured for \$184.55 plus 6% interest.

(6) 14 VAC 5-400-80 D

We were cited with 21 violations for failing to provide a copy of the estimate to the insured or claimant.

COMPANY RESPONSE: All insureds or claimants received an estimate. The claims could not have otherwise been settled. In some cases we were unable to locate a note or copy of the estimate in the file. Our files are paperless today, but the claims reviewed predated this change. We agree there are documentation violations on 14 claim files. However, we continue to believe that the recording of 21 violations where there are 14 claim files is excessive. Refer to the below in order of the violation summary report.

CPA002 – We agree.

CPA003 – We agree. The estimate was sent to the insured, but the supplement was sent to the shop.

CPA027 – We agree.

CPA028 – We agree. The estimate we referenced that was provided by the insured to us is not in the file.

CPA030 – We agree.

CPA039 – We agree. Although the estimate is in the file, there is no email or note indicating it was provided to the insured.

CPA014 – We agree. The estimate was sent to the insured, but the supplements were sent only to the shop. However, we believe this should be considered a single claim file violation, not 2 violations.

CPA037 – We agree. However, we believe this should be considered a single claim file violation, not 2 violations.

CPA004 – We agree. However, we believe this should be considered a single claim file violation, not 3 violations.

CPA042 – We agree. However, we believe this should be considered a single claim file violation, not 3 violations.

CPA002 – We agree. The appraisal previously provided indicates the claimant was notified, but there is no further documentation.

CPA015 – We agree. The file did not have a note or the estimate.

CPA034 – We agree.

CPA014 – We agree. However, we believe this should be considered a single claim file violation, not 2 violations.

(7) 38.2-510 A 3 of the Code of Virginia

We were cited with 8 violations for failing to adopt reasonable standards for the prompt investigation of claims.

COMPANY RESPONSE: We agree with 8 of the 8 violations. This has been addressed in recent training and will be included in follow up training. Refer to the below in order of the violation summary report.

CPA004 – We agree that the insured passenger can make a claim for the \$115 in expenses under the MEB coverage of the policy. We will thus pay \$115 plus 6% interest for a total of \$121.90 to the passenger.

CPA013 – We agree with the violation. The adjuster did not follow up.

CPA018 – We agree with the observation, but continue to note that we believe multiple violations on a single claim file are excessive. We agree to reimburse the \$50 under UM coverage in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA022 – We agree with the observation, but continue to note that we believe multiple violations on a single claim file are excessive. We agree to reimburse the \$200 under UMPM coverage in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA023 – We agree with the observation, but continue to note that we believe multiple violations on a single claim file are excessive. We agree to reimburse the \$500 for the damage to the bicycle as noted in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA029 – We agree with the observation, but continue to note that we believe multiple violations on a single claim file are excessive. We agree to reimburse the \$300 under UM coverage in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA042 – We agree with the violation. The company did not follow up with the insured to obtain medical bills.

CPA046 – We agree with the violation. The adjuster did not follow up.

(8) 38.2-510 A 6 of the Code of Virginia

We were cited with 1 violation for failing to promptly settle the claim.

COMPANY RESPONSE: We agree with the violation. The company released a settlement check on 8/18, but only authorized the rental until 8/14. We should have offered the rental for another 4 days.

(9) 38.2-510 A 10 of the Code of Virginia

We were cited with 21 violations for making a claim payment not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

COMPANY RESPONSE: Thank you for withdrawing 17 of the original violations. We agree with the 21 violations. This has been addressed in recent training. Our process is to identify the coverage on the stub of the check. The coverage is generated from the Claim Inquiry History Detail Screen. We do not retain copies of check stubs, which are attached to the checks provided to insureds and claimants. We only retain copies of checks. However, if the Claim Inquiry History Detail Screen has the coverage noted, we know it is generated on the check stub. If it is not noted on the screen, it is not generated on the check stub. For this reason, we agree with 21 violations.

(10) 38.2-510 C of the Code of Virginia

We were cited with 2 violations for failing to disclose to the vehicle owners the aftermarket parts notice.

COMPANY RESPONSE: We provided aftermarket parts disclosure language on our estimates. The language accomplishes the intent of the Code of Virginia. However, we agree to the violations because the language used is not identical to the language prescribed in the Code. We replaced our language with the prescribed language on November 30, 2011.

(11) 38.2-2201 B of the Code of Virginia

We were cited with 2 violations for failing to obtain a statement from the insured to make Medical Expense Benefits payments directly to the medical provider.

COMPANY RESPONSE: Thank you for withdrawing 8 of the original violations. We agree with the 2 violations due to not finding documentation of an assignment in the claims file. This file predated our conversation to electronic files on 11/10.

(12) Policy Provision/27

We were cited with 2 violations for paying the insured more than he/she was entitled to receive under the terms of the policy.

COMPANY RESPONSE: We agree with the 2 violations. Refer to the below in order of the violation summary report.

CPA012 – We agree that based on the policy provision, we overpaid by \$393.89. We will align the policy provision with our settlement guidelines, which pay the higher of ACV or Agreed Value. We will file a revised policy provision.

CPA024 – We agree that based on the policy provision, we overpaid the towing and labor cost by \$10. Our current policy provision is aligned with the company claims settlement guidelines.

PART ONE - OTHER LAW VIOLATIONS

(1) 52.40 of the Code of Virginia

We were cited with 33 violations for failing to include fraud language on claims forms.

COMPANY RESPONSE: We agree with the violations and have updated our forms on 8/15/11 with assistance from the examiner. However, we continue to note that several claims files are counted as 3 or 4 violations and believe we should have 20 violations due to the 20 claims files not 33 violations.

PART ONE – REVIEW OF FORMS

Automobile Forms

Policy Forms Used During Exam Period

(1) 38.2-2220 of the Code of Virginia

We were cited with 2 violations for not using standard forms adopted by the Bureau. Specifically the Suspension of Insurance PP0201(1-05) and Joint Ownership PP1353 (6-00).

COMPANY RESPONSE: We agree with the 2 violations. Our program was updated 8-1-11.

(2) 38.2-2220 of the Code of Virginia

We were cited with 1 violation for using a version of a form filed as broadening that did not contain the language approved by the Bureau.

COMPANY RESPONSE: We agree with the violation. This was corrected 5-10-11.

PART ONE – REVIEW OF POLICY ISSUANCE PROCESS

Automobile Policies

New Business Policies

(1) 38.2-305A of the Code of Virginia

We were cited with 2 violations for incorrectly attaching the Towing Labor Cost Coverage Endorsement to the policy.

COMPANY RESPONSE: These violations are a repeat from the rating and underwriting section. As noted, we agree with the violations. The system had incorrectly generated the endorsements. The system was corrected on 4-1-11.

(2) 38.2-305B of the Code of Virginia

We were cited with 5 violations for failing to attach the Important Information Policyholder Notice to the policy.

COMPANY RESPONSE: We agree with the 5 violations. The system was corrected in January 2011.

Renewal Business Policies

(1) 38.2-305A of the Code of Virginia

We were cited with 1 violation for attaching an endorsement not applicable to the policy. Specifically, the Miscellaneous Type Vehicle Endorsement.

COMPANY RESPONSE: We agree with the violation.

(2) 38.2-305B of the Code of Virginia

We were cited with 5 violations for failing to attach the Important Information Policyholder Notice to the policy.

COMPANY RESPONSE: We agree with the 5 violations. The system was corrected in January 2011.

PART ONE – REVIEW OF STATUTORY NOTICES

General Statutory Notices

(1) 38.2-604.1B of the Code of Virginia

We were cited with 1 violation for not using a compliant information collection long notice.

COMPANY RESPONSE: At the request of the examiner, we incorporated the revisions to reflect 38.2-604.1 B. The revisions have been implemented in our system. However, we continue to disagree that we were in violation of the code. The code does not promulgate the language to use nor the method (1 notice vs 2 notices). We continue to respectfully request that this violation be moved to a recommendation.

(2) 38.2-610 A of the Code of Virginia

We were cited with 2 violations for not using an approved prototype AUD notice.

COMPANY RESPONSE: At the request of the examiner, we incorporated the revisions to reflect 38.2-610 A. The revisions have been implemented in our system. However, we continue to disagree that we were in violation of the code. The prior adverse action notice contained language similar to the prototype set forth in Adm./ Letter 1981-16 while expanding upon the disclosure. We do agree that the reference to 90 days should read 90 business days.

Statutory Vehicle Notices

(1) 38.2-2202 A/1 of the Code of Virginia

We were cited with 1 violation for using an optional Medical Expense Benefits notice that was not written in the precise wording of the Code of Virginia.

COMPANY RESPONSE: We agree with the violation. The notice was updated on 2/15/12 to reflect the precise language.

(2) 38.2-2202 B/1 of the Code of Virginia

We were cited with 1 violation for using a UM Selection/Rejection Form that was not written in the precise wording of the Code of Virginia.

COMPANY RESPONSE: We agree with the violation. The notice was updated on 2/15/12 to reflect the precise language.

(3) 38.2-2234 A-1/2 of the Code of Virginia

We were cited with 1 violation for using incomplete credit score disclosure language.

COMPANY RESPONSE: We continue to disagree with the violation. The industry standard Virginia ACORD application contains similar credit score disclosure language. We believe that language complies with the Code. Therefore, we respectfully request that this violation be withdrawn.

Other Notices

(1) 38.2-517 A 3 of the Code of Virginia

We were cited with 1 violation for failing to use a glass claims procedure that properly disclosed the use of a Third Party Administrator.

COMPANY RESPONSE: We agree with the violation. We updated our glass script on November 23, 2011 to disclose the use of a Third Party Administrator.

PART ONE – LICENSING AND APPOINTMENT REVIEW

Agent Review

(1) 38.2-1318 of the Code of Virginia

We were cited with 3 violations for not providing an ACORD application to verify the submitting agent.

COMPANY RESPONSE: We agree with the 3 violations. They were not uploaded into our system via broker self-serve or sent to the company. Today producers have the ability to upload documents into our system via broker self-serve. We added a reminder to the producer sign-on screen and included a reminder in our December producer newsletter on 12/22/11.

(2) 38.2-1822 of the Code of Virginia

We were cited with 1 violation for using an unlicensed agent.

COMPANY RESPONSE: We agree with the violation. The individual who submitted the business for the agency did not have a Virginia license.

(3) 38.2-1833 of the Code of Virginia

We were cited with 7 violations for using agents not appointed.

COMPANY RESPONSE: We agree with the 7 violations. The agents were not appointed for the writing company at the time the policies were written. However, all have been appointed in 2010 or early 2011.

Agency Review

(1) 38.2-1812 of the Code of Virginia

We were cited with 3 violations for paying commission to an agency not appointed.

COMPANY RESPONSE: We agree with the 3 violations. Refer to the below in order of the violation summary report.

AY002 – We agree. The agency will be required to produce business through an appointed agency going forward.

AY003 - We agree. The agency had a DBA that was not updated on the license and thus not appointed. We spoke with the agency and they have since updated their license to include the DBA. The appointment was processed.

AY011 – We agree. The agency was not appointed – at the time of the exam. The agency is currently appointed.

(2) 38.2-1822 of the Code of Virginia

We were cited with 2 violations for agency not licensed.

COMPANY RESPONSE: We agree with the 2 violations. Refer to the below in order of the violation summary report.

AY002 – We agree. The agency will be required to produce business through an appointed agency going forward.

had a DBA that was not updated on the license. We spoke with the agency and they have since updated their license to include the DBA.

PART TWO – CORRECTIVE ACTION PLAN

With respect to the follow up questions from the examiner, please see below.

Rating and Underwriting Review

(2) All overcharge restitutions were previously made according to our records. Please advise if otherwise.

(5) The implementation date for the notice was 12/15/11.

(6) All rules that were vague or missing have been filed with the DOI on 12/15/11. The SERFF filing number is APCG-127898225 and State Tracking Number is 018. The DOI has not yet approved our filing. Rating issues involving underwriter errors have been communicated to the regional underwriting office for further training.

(7) The credit disclosure notice is on the ACORD application which is utilized by the company and its brokers.

Terminations Review

(5) The SERFF filing number is APCG-127898225 and State Tracking Number is 018. The DOI has not yet approved our filing.

Claims Review

(3) The restitution for the one claim was made.

Forms Review

(1) The revised forms were implemented on 12/15/11.

Statutory Notices

(1) The revised notices were implemented on 12/15/11.

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>

April 6, 2012

VIA UPS 2nd DAY DELIVERY

Allan L. Wadsworth
Manager, Regulatory Affairs
Law Department
Chartis U.S.
175 Water Street, 18th Floor
New York, NY 10038

Re: Market Conduct Examination
Commerce and Industry Insurance Company (NAIC #19410)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has reviewed the March 8, 2012, response to the Preliminary Market Conduct Report (Report) of Commerce and Industry Insurance Company. The Bureau has referenced only those items where 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

Automobile New Business Policies

- (3) The violation for RPA012 has been withdrawn. All of the other violations cited in this section remain in the Report. The applications for RPA002, RPA004 and RPA009 were all completed (dated) after the examination period (all done in 2011).
- (4d) The violation for RPA013 has been withdrawn. All of the other violations cited in this section remain in the Report.
- (5) The violation for RPA012 has been withdrawn. All of the other violations cited in this section remain in the Report. The applications provided for RPA001 and RPA010 did not include the credit disclosure notice. The applications for RPA002, RPA003, RPA004 and RPA009 were all completed after the examination period and did not apply to the new business policies.

Automobile Renewal Business Policies

- (3g) The violation for RPA033 has been withdrawn. All of the other violations cited in this section remain in the Report and the number of violations for RPA038 remains at two.

TERMINATIONS

Company Initiated

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

- (4b) This item has been withdrawn and the Report has been renumbered to reflect this change.

All Other Cancellations

NONPAYMENT OF PREMIUM

- (2) The violation for TPA010 has been withdrawn. The Report has been renumbered to reflect this change.
- (3b) This item has been withdrawn and the Report has been renumbered to reflect this change.

NONRENEWALS

- (4c-d) The 12 violations for failing to provide the insured with the notice of the right to review by the Commissioner of Insurance and the availability of other insurance have been withdrawn and the Report has been renumbered to reflect this change. The nonrenewal notice that triggered these violations has been moved to and reviewed under the Other Notices section of the examination.

CLAIMS

- (2) The violation for CPA029 stays in the Report. The letter referenced in the company's response failed to advise the insured that rental reimbursement was available under the UM coverage of the policy should the insured exhaust the rental reimbursement under the primary Transportation Expenses Coverage-Virginia.

- (3) The total number of violations remains at two. The two violations arose from separate communications within the claim and therefore are not considered a single violation.
- (6) The number of violations will not be reduced because in each instance either the insured and/or the claimant failed to receive a copy of the company prepared estimate and/or supplement(s). Each instance triggered a violation and each is considered a separate violation within the claim file.

PART ONE-OTHER LAW VIOLATIONS

- (2) The number of violations for § 52-40 of the Code of Virginia cannot be reduced because the violations document the multiple company specific claim forms that were not in compliance with this statute. These violations represent individual instances where a claim form failed to have language that complied with this statute.

REVIEW OF STATUTORY NOTICES

General Statutory Notices

- (1) The violation for NGS006 remains in the Report. The company is correct in that the code does not promulgate the language that has to be used or the method. However, the company's notice did not reference the types of financial information about former policyholders that may be disclosed. Moreover, a review of the policy issuance indicated that the aforementioned was not indicated on any of the notices sent to the policyholder.
- (2) The violations for NGS004 and NGS005 remain in the Report. By way of the company's own admission, the notice(s) under review incorrectly referenced 90 days versus 90 business days and at minimum these notice(s) fail to be substantially similar to the prototype made available for use by Administrative Letter 1981-16. The company needs to revise NGS004 to comply 38.2-610 A of the Code of Virginia; NGS005 should be revised in its entirety to comply with the aforementioned statute.

Statutory Vehicle Notices

- (3) The violation for NSV002 remains in the Report. The language found on the ACORD application does not comply with § 38.2-2234 A 1 of the Code of Virginia. In particular, the insured is not advised that he may request that his credit information be updated and that the insurer will reevaluate the insured based on the corrected credit information.

Other Notices

- (2a-b) Two violations have been added to the Notices Section of the Report. These violations were moved from the Terminations, Non-Renewal Section of the Report. Please see the review sheets attached.

PART TWO-CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (3) The company agreed with the violations that resulted in the overcharges for RPA017 and RPA028. However, the company failed to make restitution for these two overcharges. The company should make restitution pursuant to the amounts listed on the enclosed file titled "Rating Overcharges Cited during the Examination" and the company should complete and return the Restitution spreadsheet.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added, or altered as a result of this review. We look forward to your response by April 24, 2012.

Sincerely,

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

JMM
Enclosures

Allan L. Wadsworth
Manager, Market Conduct Unit
Law Department
New York, New York 10038
(212) 458-7026 Telephone
(212) 458-2697 Facsimile
Allan.Wadsworth@chartisinsurance.com

April 26, 2012

Via E-mail & UPS 2nd day Mail

Ms. Joy M. Morton, Supervisor
Market Conduct Section
Property & Casualty Division, 5th floor
Virginia Bureau of Insurance
State Corporation Commission
1300 E. Main Street
Richmond, Virginia 23219



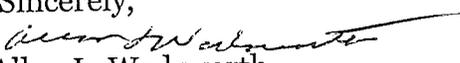
Re: **COMMERCE & INDUSTRY INSURANCE COMPANY**
(NAIC#19410)
Private Passenger Automobile Market Conduct Examination
September 1, 2009 – August 31, 2010
Response to Revised Preliminary Report

Dear Ms. Morton:

This is in response to your letter dated April 6, 2012 and the revised preliminary examination report received on April 10, 2012.

Attached is our response which was based on information from your April 6, 2012 revised submission to the Company. As of late this afternoon at the time of the e-mail submission of this information, the two checks are still pending completion. We expect them tomorrow or early next week.

Thank you again for your cooperation in this matter.

Sincerely,

Allan L. Wadsworth
Manager, Market Conduct Unit
Chartis U. S.

www.Allan.Wadsworth@Chartisinsurance.com

Enclosures- 18 page document, revised restitution list
Cc: S. Harris, Chartis
R. Dunlevy, Chartis
M. Neuwirth, Chartis
S. Miller, Chartis

JM morton VA PP Auto C&I response 04 26 12

Chartis
175 Water Street – 18th floor
New York, New York 10038
www.chartisinsurance.com

COMMERCE & INDUSTRY INSURANCE COMPANY

Private Passenger Automobile Market Conduct Examination
Commonwealth of Virginia

Final Response to Virginia Auto Preliminary Market Conduct Exam Report
(Bureau's letter of April 6, 2012)

PART ONE – RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

(1) 38.2-305 A of the Code of Virginia

We were cited with 7 violations for listing endorsements on the policy that were not applicable to the policy.

COMPANY RESPONSE: We agree with the 7 violations. The system incorrectly generated the Towing and Labor Coverage Endorsement on these policies. There was no charge associated with the coverage. The system was corrected on April 1, 2011.

(2) 38.2-502 of the Code of Virginia

We were cited with 2 violations stating incorrect Income and Loss Benefits Death coverage limits on the Dec page.

COMPANY RESPONSE: We agree with the 2 violations. The dec page incorrectly stated limits are "per policy." The dec page today reflects "per occurrence", but these policies predated the correction.

(3) 38.2-604 A of the Code of Virginia

We were cited with 5 violations for inability to locate an ACORD application.

COMPANY RESPONSE: Thank you for withdrawing RPA012. We have 5 violations remaining. We continue to disagree with the violations RPA002, RPA004 and RPA009. We were unable to initially locate the applications because they were not uploaded into our system via broker self-serve or sent to the company. We subsequently located 3 of the applications and provided them via A of the prior response. As previously noted, the agency management system used by some producers generates a current print date when printing a document. Thus in some cases, the application will have today's date, but the effective date will reflect the date requested when submitted. The examiner noted that those applications were completed in 2011, but this is incorrect. The applications were only printed from the producer's agency management system in 2011. Today producers have the ability to upload documents into our system via broker self-serve. We added a reminder to the producer sign-on screen and included a reminder in our December producer newsletter on 12/22/11.

We were unable to locate an application for RPA003 and RPA014.

(4) **38.2-1906 D of the Code of Virginia**

a. We were cited with 1 violation for failing to use the correct discount.

COMPANY RESPONSE: We agree with the violation on this policy.

b. We were cited with 8 violations for not using the correct symbol.

COMPANY RESPONSE: We agree with the 8 violations. The system is being refreshed to reflect the correct symbols for these policies.

c. We were cited with 1 violation for using an incorrect territory code.

COMPANY RESPONSE: We agree with the violation. The territory for this policy was pulled from the mailing address instead of the garaging address. This has been corrected.

d. We were cited with 8 violations for failing to use the correct tier eligibility criteria.

COMPANY RESPONSE: Thank you for withdrawing RPA013. We agree with the 8 violations below.

RPA001 – We agree. This policy was charged for accidents over a 5 year period instead of 3 years. We will send the insured a refund of \$64 plus 6% interest.

RPA002 – We agree because the manual rules are not clear on how to charge for Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles.

RPA006 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA007 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. For this policy, we used limits of 100/300 in the calculation and the examiner ruled we should have used 500 CSL. We will send the insured a refund of \$18 plus 6% interest. In addition, we will file a clarification rule.

RPA008 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA011 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA014 – We agree. The discrepancy is due to our failure to notify the DOI of the delayed effective date.

RPA015 – We agree. The CLUE report did not contain the amount paid for the 3/25/08 claim and thus we could not have known whether the claim was eligible for tier calculation. We will send the insured a refund of \$75 plus 6% interest.

e. We were cited with 1 violation for failing to use the correct driver classification factor.

COMPANY RESPONSE: We agree with the violation although this did not affect the rating. The underwriter incorrectly selected All Other instead of Only Operator. The underwriter was advised to correct the selection.

f. We were cited with 4 violations for failing to use the correct base or final rates.

COMPANY RESPONSE: We agree with the 4 violations. Refer to the below in order of the violation summary report.

RPA002 – We agree. The manual rules are not clear on how to charge for Medical Expense Benefits on Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles.

RPA009 – We agree. The manual rules are not clear on how to charge for Medical Expense Benefits on Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles.

RPA013 – We agree. The system offered a \$15,000 Accidental Death coverage limit option when the highest available limit is \$10,000. The system was corrected in December 2011.

RPA014 – We agree. The manual rules are not clear on how to charge for Medical Expense Benefits on Exotic, Classic or Antique cars. We will file clarification rules specific to this class of vehicles.

g. We were cited with 1 violation for failing to use the correct uninsured motorist rates.

COMPANY RESPONSE: We agree with the violation because the manual rule is not clear on how to charge for Uninsured Motorist coverage on Exotic, Classic or Antique cars. We will file a clarification rule specific to this class of vehicles.

h. We were cited with 3 violations for rounding errors.

COMPANY RESPONSE: We agree with the 3 violations. The manual rule is not consistent with how the system handles rounding. We will file a revised rule to align with the system.

(5) 38.2-2234 A of the Code of Virginia

We were cited with 7 violations for not providing the Credit Score Disclosure notice at the time of application.

COMPANY RESPONSE: Thank you for withdrawing RPA012. We have 7 violations remaining. We continue to disagree with the violations RPA002, RPA004 and RPA009. We were unable to initially locate the applications because they were not uploaded into our system via broker self-serve or sent to the company. We subsequently located 3 of the applications and provided them via A of the prior response. As previously noted, the agency management system used by some producers generates a current print date when printing a document. Thus in some cases, the application will have today's date, but the effective date will reflect the date requested when submitted. The examiner noted that those applications were completed in 2011, but this is incorrect. The applications were only printed from the producer's agency management system in 2011. Today producers have the ability to upload documents into our system via broker self-serve. We added a reminder to the producer sign-on screen and included a reminder in our December producer newsletter on 12/22/11.

We agree with RPA001, RPA003, RPA010 and RPA014.

Automobile Renewal Business Policies

(1) 38.2-305 A of the Code of Virginia

We were cited with 11 violations for listing endorsements on the policy that were not applicable to the policy.

COMPANY RESPONSE: We agree with the 11 violations. The system incorrectly generated the Towing and Labor Coverage Endorsement on these policies. There was no charge association with the coverage. The system was corrected on April 1, 2011.

(2) 38.2-502 of the Code of Virginia

We were cited with 1 violation stating incorrect Income and Loss Benefits Death coverage limits on the Dec page.

COMPANY RESPONSE: We agree with the violation. The dec page incorrectly stated limits are "per policy." The dec page today reflects "per occurrence", but this policies predated the correction.

(3) 38.2-1906 D of the Code of Virginia

a. We were cited with 4 violations for failing to use the correct discount and or surcharge.

COMPANY RESPONSE: We agree with the 4 violations. Refer to the below in order of the violation summary report.

RPA032 – We agree. The underwriter applied a multi-car discount when the policy and account only had one vehicle for this term.

RPA033 – We agree. The underwriter applied a multi-car discount when the policy and account only had one vehicle for this term.

RPA037 – We agree. The incident free discount was not applied.

RPA038 – We agree. The incident free discount was not applied.

b. We were cited with 2 violations for failing to apply the correct surcharge points for accidents and/or convictions.

COMPANY RESPONSE: We agree with the 2 violations. There was a discrepancy between the MVR and CLUE reports and what was recorded in our system.

c. We were cited with 25 violations for not using the correct symbol.

COMPANY RESPONSE: We agree with the 25 violations. The system is being refreshed to reflect the correct symbols for these policies. In addition, the system did not increase the model year factor by 3% for each subsequent model year, where applicable. This was corrected in 2010, but the applicable policies reviewed predated the correction.

d. We were cited with 1 violation for using an incorrect territory code.

COMPANY RESPONSE: We agree with the violation for RPA026. The wrong zip code was entered. This has since been corrected.

e. We were cited with 16 violations for failing to use the correct tier eligibility criteria.

COMPANY RESPONSE: We agree with the 16 violations. Refer to the below in order of the violation summary report.

RPA016 – We agree because the manual rule is not clear regarding points assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA017 – We agree because the manual rule is not clear regarding whether convictions other than moving violations are used in tiering. We will file a clarification rule.

RPA020 – We agree. We will send the insured a refund of \$40 plus 6% interest.

RPA021 – We agree. We will send the insured a refund of \$76 plus 6% interest.

RPA023 – We agree, but note that operators were international drivers and we did not have insurance scores for these individuals in 2009. We will send the insured a refund of \$129 plus 6% interest.

RPA024 – We agree.

RPA025 – We agree because the manual rule is not clear regarding points assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA026 – We agree because the manual rule is not clear regarding points assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA029 – We agree. The correct tier is B. We will send the insured a refund of \$117 plus 6% interest.

RPA034 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA036 – We agree.

RPA038 – We agree. The discrepancy is due in part to the user entering the vehicle as “regular” car rather than as “miscellaneous” vehicle. We will send the insured a refund of \$466 plus 6% interest.

RPA039 – We agree because the manual rule is not clear regarding point assigned for 250/500 limit. The tiering has 100/300 and 300/300+ limits. We will file a clarification rule.

RPA040 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA041 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

RPA042 – We agree because the manual rule is not clear on whether to use prior liability limits or current policy limits in tiering. We will file a clarification rule.

f. We were cited with 1 violation for failing to use the correct driver classification factor.

COMPANY RESPONSE: We agree with the violation for RPA019. The correct classification for the wife is 8871 due to being a homemaker and occasional operator. The policy will be corrected and \$38 with 6% interest refunded to the insured.

g. We were cited with 8 violations for failing to use the correct base or final rates.

COMPANY RESPONSE: Thank you for withdrawing RPA033. We have 8 violations remaining. We agree with 7 of the 8 violations. Refer to the below in order of the violation summary report.

RPA024 – We agree. Since the agreed value is higher than market value, we should have increased the OTC and Collision premiums.

RPA025 – We agree because the manual rules are not clear on how to charge for Exotic, Classic or Antique cars. We will file clarification rule specific to this class of vehicles.

RPA032 – We agree. There were 2 cars in 2007, but in the period reviewed only 1 car. The multi-car base rate for Medical Expense Benefits should not have been used.

RPA035 – We agree.

RPA036 – We agree.

RPA037 – We agree.

RPA038 – We continue to disagree with 1 of the 2 violations. This policy is cited with 2 rating violations, which we believe is excessive. We acknowledge that the rating was not correct, but believe two rating violations on a single policy is excessive.

h. We were cited with 1 violation for failing to use the correct uninsured motorist rates.

COMPANY RESPONSE: We agree with the violation. The policy was issued without UMPD. The system today prohibits users from removing UMPD, but this policy predated the current system functionality.

i. We were cited with 6 violations for rounding errors.

COMPANY RESPONSE: We agree with the 6 violations. The manual rule is not consistent with how the system handles rounding. We will file a revised rule to align with the system.

(4) 38.2-2234 B of the Code of Virginia

We were cited with 6 violations for failing to obtain the insured's credit score once in a three year period.

COMPANY RESPONSE: We agree with the 6 violations. The original credit scores were correctly pulled for the applicable policies. However, when the new credit scores was ordered for those policies, the system noted the new date and dropped the original date from viewing. In addition, the users did not request a new credit score after three years. Today, the system automatically pulls credit scores annually.

PART ONE – TERMINATION REVIEW

Company Initiated Cancellations - Automobile Policies

Notice Mailed After the 59th Day of Coverage

(1) 38.2-610 A of the Code of Virginia

We were cited with 1 violation for not providing a written notice of adverse underwriting decision.

COMPANY RESPONSE: We agree with the violation.

(2) 38.2-2208 B of the Code of Virginia

We were cited with 2 violations for not retaining proof of mailing the cancellation notice to the insured.

COMPANY RESPONSE: We agree with the 2 violations. We were unable to locate the proof of mailing in archives. We implemented a new workflow in October 2011. Client services will scan and upload all proof of mailings onto our ePCG system.

(3) 38.2-2212 D of the Code of Virginia

We were cited with 2 violations for cancellation reason used is not permitted by the Code.

COMPANY RESPONSE: We agree with the 2 violations. Refer to the below in order of the violation summary report.

a. TPA003 – Upon further review, we agree. The insured should have been nonrenewed for a suspended license rather than renewed and subsequently issued a cancellation notice.

b. TPA001 - We agree. The insured was canceled because he was transporting weapons in his vehicle. However, the reason used on the cancellation notice was not one of the allowable reasons per the Code.

(4) 38.2-2212 E of the Code of Virginia

We were cited with 1 violation for using an improper cancellation notice/failure to send a notice.

COMPANY RESPONSE: We agree with the violation. In the future, the Oden Policy Terminator will be used for all cancellations.

All Other Cancellations - Automobile Policies

Nonpayment of Premium

(1) 38.2-1906 D of the Code of Virginia

We were cited with 5 violations for not calculating the return premium correctly.

COMPANY RESPONSE: We agree with the 5 violations. The insureds did not pay for their renewal policy. We sent a cancellation notice for nonpayment, but should have marked the policy as "not taken", which is the current procedure. These policies predated the current workflow.

(2) 38.2-2208 B of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing the cancellation notice to the lien holder.

COMPANY RESPONSE: We agree with the violation. We were unable to locate proof of mailing in archives. We implemented a new workflow in October 2011. Client services will scan and upload all proof of mailings onto our ePCG system.

(3) 38.2-2212 E of the Code of Virginia

We were cited with 1 violation for using an improper cancellation notice/failure to send a notice.

COMPANY RESPONSE: We agree with the violation. In the future, the Oden Policy Terminator will be used for all cancellations.

Request By The Insured

(1) 38.2-1906 D of the Code of Virginia

We were cited with 8 violations for not calculating the return premium correctly.

COMPANY RESPONSE: We agree with the 8 violations. We are filed to calculate the premium short rate, but the system is programmed to calculate the premium pro rata. Based on our filed rule, we over-refunded premium. We will file a revised rule to be consistent with our system.

(2) 38.2-2212 F of the Code of Virginia

We were cited with 1 violation for failing to obtain the insured's written request to cancel the policy.

COMPANY RESPONSE: We agree with the violation for TPA017. We were unable to find documentation in the file.

(3) Policy Provision/9

We were cited with 3 violations for failing to obtain advance notice of cancellation from the insured.

COMPANY RESPONSE: We agree with the 3 violations. As a rule, we honor an insured's reasonable request to back date a cancellation. In many cases, insured's secure coverage from another company as of the date requested for cancellation. We honor the back date because the Insurance Department would require us to honor the back date in a consumer complaint. However, we agree that the policy provision states the insured must give us "advance" notice of cancellation. We will file an amended policy provision to be consistent with our procedure.

Request By The Premium Finance Company

(1) 14 VAC 5-390-40 D

We were cited with 1 violation for not mailing a cancellation notice requested by the premium finance company.

COMPANY RESPONSE: We agree with the violation. The premium finance company retracted the cancellation request, but the file does not contain documentation to support the retraction.

Company-Initiated Non-renewals – Automobile Policies

(1) 38.2-610 A/1 of the Code of Virginia

We were cited with 6 violations for failing to provide the insured with a written notice of adverse underwriting decision.

COMPANY RESPONSE: We agree with the 6 violations. The adverse underwriting decision language appears on the cancellation and nonrenewal notices. In one case, we could not locate a copy of the notice in the file. In the other cases, the Oden Policy Terminator was not used to generate the nonrenewal notices. In the future, the Oden Policy Terminator will be used for all nonrenewal notices.

(2) 38.2-2208 A of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing the nonrenewal notice to the insured.

COMPANY RESPONSE: We agree with the violation.

(3) 38.2-2208 B of the Code of Virginia

a. We were cited with 1 violation for not retaining proof of mailing the nonrenewal notice to the insured.

COMPANY RESPONSE: We agree with the violation.

b. We were cited with 6 violations for not retaining proof of mailing the nonrenewal to the lienholder.

COMPANY RESPONSE: We agree with the 6 violations.

c. We were cited with 1 violation for failing to send a nonrenewal notice to the lienholder.

COMPANY RESPONSE: We agree with the violation.

(4) 38.2-2212 E of the Code of Virginia

a. We were cited with 2 violations for failing to send a written notice of nonrenewal.

COMPANY RESPONSE: We agree with the 2 violations. We could not locate the notices in our system.

b. We were cited with 3 violations for not providing 45 days advance written notice of nonrenewal.

COMPANY RESPONSE: We agree with the 3 violations. In these cases, the Oden Policy Terminator was not utilized to ensure the proper advance written notice of nonrenewal. In the future, the Oden Policy Terminator will be used for all nonrenewals.

PART ONE – CLAIMS REVIEW

Automobile Claims

(1) **14 VAC 5-400-30**

We were cited with 2 violations for not properly documenting files.

COMPANY RESPONSE: We agree with the 2 violations. Refer to the below in order of the violation summary report.

CPA037 – We agree. The note was entered in the wrong file.

CPA041 – We agree. The \$20 taxi receipt was not located in the file.

(2) **14 VAC 5-400-40**

We were cited with 3 violations for not properly communicating the coverage available.

COMPANY RESPONSE: We agree with 2 of the 3 violations. Refer to the below in order of the violation summary report.

CPA002 – We agree. Although the file contains a note on 10/2/09 stating a rental vehicle is not needed, this note pertains to the claimant. There are no notes indicating the insured, who also sustained damage, turned down a rental vehicle.

CPA029 – We continue to disagree. We believe that the letter previously provided to the insured was properly worded.

CPA049 - We agree. The file does not contain evidence the insured was notified that rental reimbursement is available under UMPD should the primary rental coverage be exhausted.

(3) **14 VAC 5-400-50 C**

We were cited with 2 violations for failing to acknowledge pertinent communications within 10 days.

COMPANY RESPONSE: We agree, but continue to believe this should be considered a single violation due to the single claim file.

(4) **14 VAC 5-400-70 A**

We were cited with 2 violations for failing to provide the insured with a written denial of coverage.

COMPANY RESPONSE: We agree with the 2 violations. The need to retain written partial or full denials in the claim file was addressed in recent training.

(5) **14 VAC 5-400-70 D**

We were cited with 13 violations for failing to pay a fair amount or an amount in accordance with policy provisions.

COMPANY RESPONSE: We agree with the 13 violations. Refer to the below in order of the violation summary report.

CPA018 – We agree. The company should have approved UM coverage. With a \$200 deductible the company owes the insured \$50. This is a training issue that has since been addressed. We will reimburse the insured for \$50 plus 6% interest.

CPA022 – We agree. The company did not release a \$200 payment under UMPD. This is a training issue that has since been addressed. We will reimburse the insured for \$200 plus 6% interest.

CPA029 – We agree. The company did not recognize UM coverage and owes the insured \$300. This is a training issue that has since been addressed. We will reimburse the insured for \$300 plus 6% interest.

CPA023 – We agree. Based on the endorsement language, a bicycle is considered tangible property. We will reimburse the insured for \$500 plus 6% interest.

CPA007 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$132.75 plus 6% interest.

CPA019 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$468.60 plus 6% interest.

CPA031 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$303.60 plus 6% interest.

CPA032 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$1,667 plus 6% interest.

CPA038 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$811.07 plus 6% interest.

CPA047 – We agree. The policy does not define agree value as including taxes and fees. As it reads today, state and local sales taxes and title and license transfer fees are in addition to the limit of liability. We will file a revised policy provision to align with our procedure to include taxes and fees in the agreed value amount. We will reimburse the insured for \$947.25 plus 6% interest.

CPA004 – We agree that we owe the insured \$25 plus 6% interest under the Medical Expense Benefits coverage and will reimburse that amount.

CPA020 – We agree. The company should have applied the \$250 OTC deductible instead of the \$500 Collision Deductible. We will reimburse the insured for \$184.55 plus 6% interest.

(6) 14 VAC 5-400-80 D

We were cited with 21 violations for failing to provide a copy of the estimate to the insured or claimant.

COMPANY RESPONSE: All insureds or claimants received an estimate. The claims could not have otherwise been settled. In some cases we were unable to locate a note or copy of the estimate in the file. Our files are paperless today, but the claims reviewed predated this change. We agree there are documentation violations on 14 claim files. However, we continue to believe that the recording of 21 violations where there are 14 claim files is excessive. Refer to the below in order of the violation summary report.

CPA002 – We agree.

CPA003 – We agree. The estimate was sent to the insured, but the supplement was sent to the shop.

CPA027 – We agree.

CPA028 – We agree. The estimate we referenced that was provided by the insured to us is not in the file.

CPA030 – We agree.

CPA039 – We agree. Although the estimate is in the file, there is no email or note indicating it was provided to the insured.

CPA014 – We agree. The estimate was sent to the insured, but the supplements were sent only to the shop. However, we believe this should be considered a single claim file violation, not 2 violations.

CPA037 – We agree. However, we believe this should be considered a single claim file violation, not 2 violations.

CPA004 – We agree. However, we believe this should be considered a single claim file violation, not 3 violations.

CPA042 – We agree. However, we believe this should be considered a single claim file violation, not 3 violations.

CPA002 – We agree. The appraisal previously provided indicates the claimant was notified, but there is no further documentation.

CPA015 – We agree. The file did not have a note or the estimate.

CPA034 – We agree.

CPA014 – We agree. However, we believe this should be considered a single claim file violation, not 2 violations.

(7) 38.2-510 A 3 of the Code of Virginia

We were cited with 8 violations for failing to adopt reasonable standards for the prompt investigation of claims.

COMPANY RESPONSE: We agree with 8 of the 8 violations. This has been addressed in recent training and will be included in follow up training. Refer to the below in order of the violation summary report.

CPA004 – We agree that the insured passenger can make a claim for the \$115 in expenses under the MEB coverage of the policy. We will thus pay \$115 plus 6% interest for a total of \$121.90 to the passenger.

CPA013 – We agree with the violation. The adjuster did not follow up.

CPA018 – We agree with the observation, but continue to note that we believe multiple violations on a single claim file are excessive. We agree to reimburse the \$50 under UM coverage in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA022 – We agree with the observation, but continue to note that we believe multiple violations on a single claim file are excessive. We agree to reimburse the \$200 under UMPM coverage in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA023 – We agree with the observation, but continue to note that we believe multiple violations on a single claim file are excessive. We agree to reimburse the \$500 for the damage to the bicycle as noted in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA029 – We agree with the observation, but continue to note that we believe multiple violations on a single claim file are excessive. We agree to reimburse the \$300 under UM coverage in 14 VAC 5-400-70-D/03 and again under 38.2-510 A 3.

CPA042 – We agree with the violation. The company did not follow up with the insured to obtain medical bills.

CPA046 – We agree with the violation. The adjuster did not follow up.

(8) 38.2-510 A 6 of the Code of Virginia

We were cited with 1 violation for failing to promptly settle the claim.

COMPANY RESPONSE: We agree with the violation. The company released a settlement check on 8/18, but only authorized the rental until 8/14. We should have offered the rental for another 4 days.

(9) 38.2-510 A 10 of the Code of Virginia

We were cited with 21 violations for making a claim payment not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

COMPANY RESPONSE: We agree with the 21 violations. This has been addressed in recent training. Our process is to identify the coverage on the stub of the check. The coverage is generated from the Claim Inquiry History Detail Screen. We do not retain copies of check stubs, which are attached to the checks provided to insureds and claimants. We only retain copies of checks. However, if the Claim Inquiry History Detail Screen has the coverage noted, we know it is generated on the check stub. If it is not noted on the screen, it is not generated on the check stub. For this reason, we agree with 21 violations.

(10) 38.2-510 C of the Code of Virginia

We were cited with 2 violations for failing to disclose to the vehicle owners the aftermarket parts notice.

COMPANY RESPONSE: We provided aftermarket parts disclosure language on our estimates. The language accomplishes the intent of the Code of Virginia. However, we agree to the violations because the language used is not identical to the language prescribed in the Code. We replaced our language with the prescribed language on November 30, 2011.

(11) **38.2-2201 B of the Code of Virginia**

We were cited with 2 violations for failing to obtain a statement from the insured to make Medical Expense Benefits payments directly to the medical provider.

COMPANY RESPONSE: We agree with the 2 violations due to not finding documentation of an assignment in the claims file. This file predated our conversation to electronic files on 11/10.

(12) **Policy Provision/27**

We were cited with 2 violations for paying the insured more than he/she was entitled to receive under the terms of the policy.

COMPANY RESPONSE: We agree with the 2 violations. Refer to the below in order of the violation summary report.

CPA012 – We agree that based on the policy provision, we overpaid by \$393.89. We will align the policy provision with our settlement guidelines, which pay the higher of ACV or Agreed Value. We will file a revised policy provision.

CPA024 – We agree that based on the policy provision, we overpaid the towing and labor cost by \$10. Our current policy provision is aligned with the company claims settlement guidelines.

PART ONE - OTHER LAW VIOLATIONS

(1) **52.40 of the Code of Virginia**

We were cited with 33 violations for failing to include fraud language on claims forms.

COMPANY RESPONSE: We agree with the violations and have updated our forms on 8/15/11 with assistance from the examiner. However, we continue to note that several claims files are counted as 3 or 4 violations and believe we should have 20 violations due to the 20 claims files not 33 violations.

PART ONE – REVIEW OF FORMS

Automobile Forms

Policy Forms Used During Exam Period

(1) **38.2-2220 of the Code of Virginia**

We were cited with 2 violations for not using standard forms adopted by the Bureau. Specifically the Suspension of Insurance PP0201(1-05) and Joint Ownership PP1353 (6-00).

COMPANY RESPONSE: We agree with the 2 violations. Our program was updated 8-1-11.

(2) **38.2-2220 of the Code of Virginia**

We were cited with 1 violation for using a version of a form filed as broadening that did not contain the language approved by the Bureau.

COMPANY RESPONSE: We agree with the violation. This was corrected 5-10-11.

PART ONE – REVIEW OF POLICY ISSUANCE PROCESS

Automobile Policies

New Business Policies

(1) **38.2-305A of the Code of Virginia**

We were cited with 2 violations for incorrectly attaching the Towing Labor Cost Coverage Endorsement to the policy.

COMPANY RESPONSE: These violations are a repeat from the rating and underwriting section. As noted, we agree with the violations. The system had incorrectly generated the endorsements. The system was corrected on 4-1-11.

(2) **38.2-305B of the Code of Virginia**

We were cited with 5 violations for failing to attach the Important Information Policyholder Notice to the policy.

COMPANY RESPONSE: We agree with the 5 violations. The system was corrected in January 2011.

Renewal Business Policies

(1) **38.2-305A of the Code of Virginia**

We were cited with 1 violation for attaching an endorsement not applicable to the policy. Specifically, the Miscellaneous Type Vehicle Endorsement.

COMPANY RESPONSE: We agree with the violation.

(2) **38.2-305B of the Code of Virginia**

We were cited with 5 violations for failing to attach the Important Information Policyholder Notice to the policy.

COMPANY RESPONSE: We agree with the 5 violations. The system was corrected in January 2011.

PART ONE – REVIEW OF STATUTORY NOTICES

General Statutory Notices

(1) 38.2-604.1B of the Code of Virginia

We were cited with 1 violation for not using a compliant information collection long notice.

COMPANY RESPONSE: At the request of the examiner, we incorporated the revisions to reflect 38.2-604.1 B. The revisions have been implemented in our system. The code does not promulgate the language to use nor the method (1 notice vs 2 notices), but we agree with the violation.

(2) 38.2-610 A of the Code of Virginia

We were cited with 2 violations for not using an approved prototype AUD notice.

COMPANY RESPONSE: We agree with the 2 violations. At the request of the examiner, we incorporated the revisions to reflect 38.2-610 A. The revisions have been implemented in our system.

Statutory Vehicle Notices

(1) 38.2-2202 A/1 of the Code of Virginia

We were cited with 1 violation for using an optional Medical Expense Benefits notice that was not written in the precise wording of the Code of Virginia.

COMPANY RESPONSE: We agree with the violation. The notice was updated on 2/15/12 to reflect the precise language.

(2) 38.2-2202 B/1 of the Code of Virginia

We were cited with 1 violation for using a UM Selection/Rejection Form that was not written in the precise wording of the Code of Virginia.

COMPANY RESPONSE: We agree with the violation. The notice was updated on 2/15/12 to reflect the precise language.

(3) 38.2-2234 A-1/2 of the Code of Virginia

We were cited with 1 violation for using incomplete credit score disclosure language.

COMPANY RESPONSE: We continue to disagree with the violation because the industry utilizes the standard Virginia ACORD application. This application contains similar credit score disclosure language. Therefore, we respectfully request that this violation be withdrawn.

Other Notices

(1) 38.2-517 A 3 of the Code of Virginia

We were cited with 1 violation for failing to use a glass claims procedure that properly disclosed the use of a Third Party Administrator.

COMPANY RESPONSE: We agree with the violation. We updated our glass script on November 23, 2011 to disclose the use of a Third Party Administrator.

(2) 38.2-2212 E of the Code of Virginia

a. We were cited with 1 violation for failing to send a written notice of nonrenewal with the right to review language.

COMPANY RESPONSE: We agree with the violation. In this case, the Oden Policy Terminator was not utilized to ensure the proper advance written notice of nonrenewal. In the future, the Oden Policy Terminator will be used for all nonrenewals.

b. We were cited with 1 violation for failing to send a written notice of nonrenewal with availability of coverage elsewhere language.

COMPANY RESPONSE: We agree with the violation. In this case, the Oden Policy Terminator was not utilized to ensure the proper advance written notice of nonrenewal. In the future, the Oden Policy Terminator will be used for all nonrenewals.

PART ONE – LICENSING AND APPOINTMENT REVIEW

Agent Review

(1) 38.2-1318 of the Code of Virginia

We were cited with 3 violations for not providing an ACORD application to verify the submitting agent.

COMPANY RESPONSE: We agree with the 3 violations. They were not uploaded into our system via broker self-serve or sent to the company. Today producers have the ability to upload documents into our system via broker self-serve. We added a reminder to the producer sign-on screen and included a reminder in our December producer newsletter on 12/22/11.

(2) 38.2-1822 of the Code of Virginia

We were cited with 1 violation for using an unlicensed agent.

COMPANY RESPONSE: We agree with the violation. The individual who submitted the business for the agency did not have a Virginia license.

(3) 38.2-1833 of the Code of Virginia

We were cited with 7 violations for using agents not appointed.

COMPANY RESPONSE: We agree with the 7 violations. The agents were not appointed for the writing company at the time the policies were written. However, all have been appointed in 2010 or early 2011.

Agency Review

(1) 38.2-1812 of the Code of Virginia

We were cited with 3 violations for paying commission to an agency not appointed.

COMPANY RESPONSE: We agree with the 3 violations. Refer to the below in order of the violation summary report.

AY002 – We agree. The agency will be required to produce business through an appointed agency going forward.

AY003 - We agree. The agency had a DBA that was not updated on the license and thus not appointed. We spoke with the agency and they have since updated their license to include the DBA. The appointment was processed.

AY011 – We agree. The agency was not appointed at the time of the exam. The agency is currently appointed.

(2) 38.2-1822 of the Code of Virginia

We were cited with 2 violations for agency not licensed.

COMPANY RESPONSE: We agree with the 2 violations. Refer to the below in order of the violation summary report.

AY002 – We agree. The agency will be required to produce business through an appointed agency going forward.

had a DBA that was not updated on the license. We spoke with the agency and they have since updated their license to include the DBA.

PART TWO – CORRECTIVE ACTION PLAN

With respect to the follow up questions from the examiner, please see below.

Rating and Underwriting Review

(3) All overcharge restitutions have been made. Please refer to the restitution sheet.

Joy Morton

From: William Felvey
Sent: Friday, May 25, 2012 11:23 AM
To: 'Wadsworth, Allan'
Cc: Joy Morton
Subject: 5/24/12 Conference Call

Allan,

As agreed to in our conference call yesterday afternoon I am sending this email to memorialize what was discussed today in terms of your company's response dated April 26, 2012.

For ease of reading purposes I'll itemize the violations that were discussed:

Part One-Rating and Underwriting Review

Automobile New Business Policies

- Item 3, page 1, 38.2-604 A: As Joy Morton advised on the call, these five violations could not be withdrawn because the applications did not contain the date(s) the applications were completed. We understand the company's argument that the date on those applications print as the "current" date due to the system configuration, however, this system issue distorts the integrity of the audit trail in that the "original" date of the completed application is not preserved. Per Michael Neuwirth, the company has agreed to allow these five violations to stand.
- Item 5, page 3, 38.2-2234 A: These seven violations are directly related to the applications noted above in Item 3 and considering this, these violations will remain in the Report.

Automobile Renewal Business Policies

- Item RPA038, page 6, 38.2-1906 D: The company's disagreement with this violation centered on a mistaken belief that there were two rating violations for this single policy. However, as Joy Morton advised, there was only one violation noted for this policy and the company's concerns regarding this matter should now be eliminated.

Part One-Claims Review

- Item 2, CPA029, page 10, 14 VAC 5-400-40: This violation relates to the company's failure to advise the insured of his rental reimbursement benefits afforded under his Uninsured Motorists Coverage-Virginia, PP 14 03 01 05 (UMPD); in particular, the insured was never advised that should his primary rental reimbursement benefits be exhausted under the Transportation Expenses Coverage-Virginia, PP 13 52 01 04 then he would be entitled to excess rental reimbursement that was available under UMPD. The company responded to the review sheet that documented this violation that a letter dated April 13, 2010 advised the insured of rental reimbursement under UMPD. However, this letter stated in part "Please let me know if you will be in need of a rental vehicle and I will be happy to arrange one for you at your convenience." This letter did not specifically address that rental reimbursement was afforded under UM coverage. Furthermore, the company failed to recognize the UM exposure when adjusting this claim file and the insured did not receive a partial reimbursement of his collision deductible under the UM coverage of his policy; a separate violation was created to document this underpayment. Considering the aforementioned in terms of how this UMPD claim was handled by the company, this violation will remain in the Report.

- Item 3, page 10, 14 VAC 5-400-50 C: The review of this claim resulted in two violations; the company's position is that this should be a single violation considering it was a review of a single claim that generated these violation(s). These two violations originated from two separate medical specials that were submitted to the company on two different dates; in other words, there were two different occurrences wherein the company received two different written "communications" and failed to acknowledge same with ten working days. The BOI cannot arbitrarily choose one violation over another and withdraw same to reduce the number of violations from "2" to "1".
- Item 6, page 12, 14 VAC 5-400-80 D: The company's disagreement with these violations centers on the fact that a review of 14 claim files generated 21 violations. However, as discussed during the call, these multiple violations on a single claim file was the result of failing to provide the insured and/or claimant with the company prepared estimate and/or supplement. The Virginia Administrative Code section, 14 VAC 5-400-80 D is clear in that a company prepared estimate must be given to the insured and/or claimant. For this reason, these violations will remain in the Report.
- Item 1, page 14, 52-40: Again, the company believes that 33 violations on a review of 20 claim files are excessive. However, in each instance wherein a claim file had multiple violations noted it was determined that the company's claim forms, which were required to be signed, did not have the fraud language mandated by this Code section. Again, the Virginia Code Section 52-40 is clear that "all claim forms provided and required by an insurer or required by law as a condition of payment of a claim shall contain" the fraud language provided within this statute. For this reason, these violations will remain in the Report.
- Item 3, page 16, 38.2-2234 A: The company's disagreement centers in part that the company utilized the "standard Virginia ACORD application". This ACORD application is not in compliance with the referenced Virginia statute because it is missing parts two and three of 38.2-2234 A 1. In particular, the insured may request that his credit information be updated and that the company will reevaluate the insured based on same if the insured makes a request. This violation will remain in the Report.

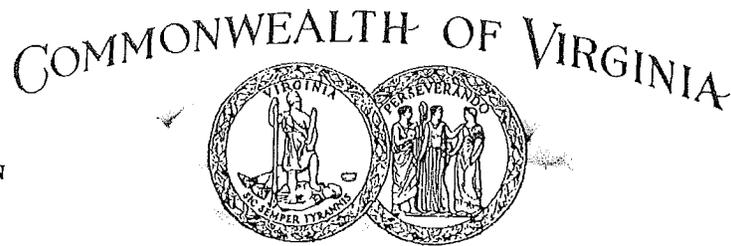
The purpose of this email was to document the conference call and the violations that were discussed. We will follow up with your company in the near future regarding the resolution of this market conduct exam.

Thanks,

Will

William Felvey, AIC, AIE, ARC
 Sr Insurance Market Analyst
 Virginia Bureau of Insurance
 State Corporation Commission
 804.371.9732

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



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

May 30, 2012

VIA UPS 2nd DAY DELIVERY

Allan L. Wadsworth
Manager, Regulatory Affairs
Law Department
Chartis U.S.
175 Water Street, 18th Floor
New York, NY 10038

Re: Market Conduct Examination
Commerce and Industry Insurance Company (NAIC #19410)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has concluded its review of the company's response. Based upon the Bureau's review of the company's April 26, 2012 letter and our conference call of May 24, 2012, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Commerce and Industry 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; 38.2-305 B; 38.2-502 A; 38.2-510 A 3; 38.2-510 A 10; 38.2-517 A; 38.2-604 A, 38.2-604.1 B; 38.2-610 A; 38.2-1318; 38.2-1812; 38.2-1822; 38.2-1833; 38.2-1906 D; 38.2-2202 A; 38.2-2202 B; 38.2-2208 A; 38.2-2208 B; 38.2-2212 D; 38.2-2212 E; 38.2-2212 F; 38.2-2220; 38.2-2223; 38.2-2234 A; 38.2-2234 B of the Code of Virginia; and 14 VAC 5-390-40 D; 14 VAC 5-400-70 D; 14 VAC 5-400-80 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the business of insurance 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

Allan L. Wadsworth
Manager, Market Conduct Unit
Law Department
New York, New York 10038
(212) 458-7026 Telephone
(212) 458-2697 Facsimile
Allan.Wadsworth@chartisinsurance.com

CHARTIS

June 21, 2012

Via 2nd Day UPS Express Mail

Ms. Joy M. Morton, Supervisor
Market Conduct Section
Property & Casualty Division, 5th floor
Virginia Bureau of Insurance
State Corporation Commission
1300 E. Main Street
Richmond, Virginia 23219

Re: **COMMERCE & INDUSTRY INSURANCE COMPANY (NAIC#19410)**
Private Passenger Automobile Market Conduct Examination
September 1, 2009 – August 31, 2010
Settlement Offer

Dear Ms. Morton:

This is in response to your letter dated June 4, 2012 for the Commerce & Industry Insurance Company Private Passenger Automobile Examination. After our resolution of the issues in the exam, we are committed to disposing of the matter.

Attached please find the signed Settlement Offer and a check in the amount of \$37,300 payable to the Virginia State Treasurer.

Thank you again for your cooperation in this matter. We will mark our file closed in light of the settlement.

Sincerely,


Allan L. Wadsworth
Manager, Market Conduct Unit
Chartis U.S.

www.Allan.Wadsworth@Chartisinsurance.com

Enclosures – Settlement offer & check

Cc: S. Harris, Chartis U.S.

R. Dunlevy, Chartis U.S.

S. Miller, Chartis U.S.

M. Neuwirth, Chartis U.S.

Jmorton VA PP Auto C&I settlement 06 21 12

Chartis
175 Water Street – 18th floor
New York, New York 10038
www.chartisinsurance.com

Charles E. Williamson
President
Consumer Lines
212 458 7824 Telephone
212 458 8551 Facsimile
201 404 1379 Mobile
charles.williamson@chartisinsurance.com

400068



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

June 20, 2012

RE: Market Conduct Examination Settlement Offer
Commerce and Industry Insurance Company (NAIC#19410)

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated May 30, 2012, 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; 38.2-305 B; 38.2-502 A; 38.2-510 A 3; 38.2-510 A 10; 38.2-517 A; 38.2-604 A; 38.2-604.1 B; 38.2-610 A; 38.2-1318; 38.2-1812; 38.2-1822; 38.2-1833; 38.2-1906 D; 38.2-2202 A; 38.2-2202 B; 38.2-2208 A; 38.2-2208 B; 38.2-2212 D; 38.2-2212 E; 38.2-2212 F; 38.2-2220; 38.2-2223; 38.2-2234 A; 38.2-2234 B of the Code of Virginia as well as ¹⁴VAC 5-390-40 D; 14 VAC 5-400-70 D; 14 VAC 5-400-80 D of the Virginia Administration Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$37,300.00.
2. We agree to comply with the corrective action plan set forth in the company's letters of December 15, 2011, March 8, 2012 and April 26, 2012.
3. We confirm that restitution was made to 27 consumers for \$7,218.68 in accordance with the company's letters of December 15, 2011, March 8, 2012 and April 26, 2012.
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.

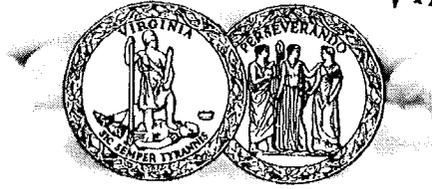
Sincerely,

Enclosure

Chartis U.S.
180 Maiden Lane - 27th Floor
New York, NY 10038
www.chartisinsurance.com

COMMONWEALTH OF VIRGINIA

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



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

Commerce and Industry Insurance Company has tendered to the Bureau of Insurance the settlement amount of \$37,300.00 by its check numbered 90057730 and dated June 19, 2012, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JULY 12, 2012

REG. CLERK'S OFFICE
STATE CONTROL CENTER
2012 JUL 12 P 3: 20

120720163

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2012-00130

COMMERCE & INDUSTRY
INSURANCE COMPANY,
Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Commerce & Industry 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 and 38.2-305 B of the Code of Virginia ("Code") by failing to provide the information required by the statute in the insurance policy; violated § 38.2-502 of the Code by misrepresenting the benefits, advantages, conditions or terms of an insurance policy; violated §§ 38.2-517 A, 38.2-604 A, 38.2-604.1 B, 38.2-610 A, 38.2-2202 A, 38.2-2202 B, 38.2-2234 A, and 38.2-2234 B of the Code by failing to accurately provide the required notices to insureds; violated § 38.2-1318 of the Code by failing to provide convenient access to files, documents and records; violated § 38.2-1812, 38.2-1822, and 38.2-1833 of the Code by paying commissions to agents and/or agencies that were not properly licensed and/or appointed; violated § 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; violated §§ 38.2-2208 A, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, and 38.2-2212 F of the Code by failing to properly

terminate insurance policies; violated § 38.2-2220 of the Code by using standard automobile forms not in the precise language approved for use by the Commission; violated § 38.2-2223 of the Code by using broadenings of the standard forms without obtaining approval prior to use; and violated §§ 38.2-510 A 3 and 38.2-510 A 10 of the Code, as well as subsection D of 14 VAC 5-390-40, *Cancellation of insurance*, of the Commission's Rules Governing Insurance Premium Finance Companies, 14 VAC 5-390-10 *et seq.*, by improperly terminating premium financed policies, subsection D of 14 VAC 5-400-70, *Standards for prompt, fair and equitable settlement of claims applicable to all insurers*, and subsection D of 14 VAC 5-400-80, *Standards for prompt, fair and equitable settlements applicable to automobile insurance*, of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to handle claims properly with such frequency as to indicate a general business practice.

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 the Defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that the 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-seven Thousand Three Hundred Dollars (\$37,300), waived its right to a hearing, agreed to comply with the Corrective Action Plan set forth in its letters to the Bureau dated December 15, 2011, March 8, 2012, and April 26, 2012, and confirmed that restitution was made to 27 consumers in the amount of Seven Thousand Two Hundred Eighteen Dollars and Sixty-eight Cents (\$7,218.68).

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 Commerce & Industry Insurance Company in settlement of the matter set forth herein be, and it 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:

Allan L. Wadsworth, Chartis Insurance Company, 175 Water Street – 18th Floor, New York, New York 10038; 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.