

MARKET CONDUCT EXAMINATION REPORT

OF

**CALIFORNIA CASUALTY INDEMNITY
EXCHANGE**

AS OF

December 31, 2010

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

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, 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 **California Casualty Indemnity Exchange** as of **December 31, 2010**, which took place at the company's office in **Sacramento, CA** 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 **5th** day of **December**, **2012**.

A handwritten signature in cursive script, appearing to read "Jacqueline K. Cunningham".

JACQUELINE K. CUNNINGHAM

Commissioner of Insurance

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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 and homeowners lines of business written by California Casualty Indemnity Exchange at its office in Colorado Springs, Colorado.

The examination commenced September 12, 2011 and concluded January 18, 2012. Karen S. Gerber, Ju'Coby Hendrick, Richard L. Howell, Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on September 17, 2010 and was assigned the examination number of VA199-M22. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILE*

The interinsurance exchange was organized and began business on January 1, 1914. The attorney-in-fact and manager is California Casualty Management Company, (CCMC), a California corporation, most of whose stockholders and directors are directly associated in the management and conduct of the business. The name of the attorney-in-fact was changed from Index Underwriter, Inc., to its present form on July 1, 1969. The exchange was granted a certificate of perpetual non-assessability as of February 17, 1966 under the 1965 amendment to the California Insurance Code.

* Source: Best's Insurance Reports, Property & Casualty, 2011 Edition.

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

GROUP CODE: 0033	CCIE
NAIC Company Number	20117
LICENSED IN VIRGINIA	8/25/2000
LINES OF INSURANCE	
Accident and Sickness	
Aircraft Liability	
Aircraft Physical Damage	
Animal	
Automobile Liability	X
Automobile Physical Damage	X
Boiler and Machinery	
Burglary and Theft	X
Commercial Multi-Peril	
Credit	
Farmowners Multi-Peril	
Fidelity	
Fire	X
General Liability	X
Glass	X
Homeowners Multi-Peril	X
Inland Marine	X
Miscellaneous Property	X
Ocean Marine	
Surety	
Water Damage	X
Workers' Compensation	

The table below shows the company's premium volume and approximate market share of business written in Virginia during 2010 for those lines of insurance included in this examination.* This business was developed through employee agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
California Casualty Indemnity Exchange		
Private Automobile Liability	\$2,259,389	.10%
Private Automobile Physical Damage	\$1,871,827	.11%
Homeowners	\$840,592	.05%

* Source: The 2010 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 and homeowner's lines of business written in Virginia for the period beginning January 1, 2010 and ending December 31, 2010. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance¹, statutory notices, agent's licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the company's operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

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

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

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

The examiners may not have discovered every unacceptable or non-compliant activity in which the company engaged. The failure to identify, comment on, or criticize

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

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				
	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
<u>Private Passenger Auto</u>					
New Business ¹	<u>771</u> 30	26	0	17	65%
Renewal Business ²	<u>3129</u> 30	29	0	24	83%
Co-Initiated Cancellations	<u>22</u> 16	16	0	6	38%
All Other Cancellations	<u>1057</u> 20	20	0	1	5%
Nonrenewals	<u>51</u> 5	5	0	1	20%
<u>Homeowners</u>					
New Business	<u>207</u> 25	24	0	1	4%
Renewal Business	<u>1021</u> 30	30	0	1	3%
Co-Initiated Cancellations	<u>17</u> 5	5	0	4	80%
All Other Cancellations	<u>134</u> 20	20	0	2	10%
Nonrenewals	<u>3</u> 3	3	0	1	33%
<u>Claims</u>					
Auto ³	<u>2932</u> 77	73	0	50	68%
Property	<u>146</u> 30	30	0	20	67%

Footnote ¹ - Four files were not new business

Footnote ² - One file was an expiration

Footnote ³ - Three files were bulk billing and not subject to review

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 30 new business policy files for review. The examiners reviewed 26 of these files. Four files were not new business and were not reviewed. During this review, the examiners found overcharges totaling \$245.00 and undercharges totaling \$412.00. The net amount that should be refunded to insureds is \$245.00 plus six percent (6%) simple interest.

- (1) The examiners found nine violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company misrepresented the policy provisions applicable to the stacking of the Medical Expense Benefits limits.
- (2) The examiners found seven violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In one instance, the company failed to use the correct tier eligibility criteria.
 - b. In six instances, the company failed to use the correct driver classification factors.
- (3) The examiners found six violations of § 38.2-2234 A of the Code of Virginia. The company failed to provide the Credit Adverse Action notice.

Automobile Renewal Business Policies

The Bureau requested 30 renewal business policy files for review. The examiners reviewed 29 of these files. One policy was cancelled flat and not reviewed. During this review, the examiners found no overcharges and undercharges totaling \$878.00.

- (1) The examiners found 16 violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company misrepresented the policy provisions applicable to the stacking of the Medical Expense Benefits limits.
- (2) The examiners found 16 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - (a) In 15 instances, the company failed to use the correct driver classification factors.
 - (b) In one instance, the company failed to use the correct base and/or final rates.

Homeowner New Business Policies

The Bureau requested 25 new business policy files for review. The examiners reviewed 24 of these files. One policy included in the company's population was a renewal and not reviewed. During this review, the examiners found overcharges totaling \$ 27.00 and no undercharges. The net amount that should be refunded to insureds is \$27.00 plus 6% simple interest.

The examiners found one violation of § 38.2-2126 B of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to properly rate the policy based upon credit information obtained.

Homeowner Renewal Business Policies

The Bureau requested 30 renewal business policy files for review. The examiners reviewed all of these files. During this review, the examiners found overcharges totaling \$192.00 and no undercharges. The net amount that should be refunded to insureds is \$192.00 plus six percent (6%) simple interest.

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

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 ten 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 examiners reviewed all of these files. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found two violations of § 38.2-228 of the Code of Virginia. The company failed to provide, without an unreasonable delay, proof of financial responsibility when requested by the insured.
- (2) The examiners found three violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of cancellation to the insured.

- (3) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested six 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 and no undercharges.

- (1) The examiners found two violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of cancellation to the insured.
- (2) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.

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 no undercharges.

The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to provide notice of cancellation to the lienholder.

REQUESTED BY THE INSURED

The Bureau requested ten 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 no undercharges.

The examiners found no violations in this area.

Company-Initiated Nonrenewals - Automobile Policies

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

The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of nonrenewal to the lienholder.

Company-Initiated Cancellations - Homeowner PoliciesNOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The Bureau requested five homeowner's cancellations that were initiated by the company where the company mailed the notices prior to the 90th day of coverage in the initial policy period. The examiners reviewed all of these files. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found four violations of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

The company advised that they did not have any company initiated cancellations after the 89th day of coverage, as such; the Bureau did not review any homeowner cancellations in this category.

All Other Cancellations - Homeowner PoliciesNONPAYMENT OF PREMIUM

The Bureau requested ten homeowner 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 no undercharges.

- (1) The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of cancellation to the insured.
- (2) The examiners found two violations of § 38.2-2113 C of the Code of Virginia.
 - a. In one instance, the company failed to provide proper notice of cancellation to the lienholder.
 - b. In one instance, the company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.

REQUESTED BY THE INSURED

The Bureau requested ten homeowner's 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 no undercharges.

The examiners found no violations in this area.

Company-Initiated Nonrenewals - Homeowners Policies

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

- (1) The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of non-renewal to the insured.
- (2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of non-renewal to the lienholder.

CLAIMS REVIEW

Automobile Claims

The examiners reviewed 75 automobile claims for the period of January 1, 2010 through December 31, 2010. Three files were towing claims that were direct billed and did not qualify for review. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,654.47 and underpayments totaling \$9834.14. The net amount that should be paid to claimants is \$9723.89 plus six percent (6%) simple interest.

- (1) The examiners found 12 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

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

- (2) The examiners found ten 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 accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
- b. In five instances, the company failed to accurately inform an insured of his Transportation Expense coverage when the file indicated the coverage was applicable to the loss.
- c. In four instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM).

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

- (3) The examiners found ten violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within 10 working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

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

- (4) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found seven violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by

the investigation of the claim, or failed to pay a claim in accordance with the insured's policy provisions.

- a. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Uninsured Motorist coverage.
- b. In six instances, the company failed to pay the claim in accordance with the policy provisions under the Insured's Transportation Expense coverage.

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

- (6) The examiners found six 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 five instances, the company failed to provide a copy of the repair estimate to the insured.
 - b. In one instance, the company failed to provide a copy of the repair estimate to the claimant.

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

- (7) The examiners found four violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- (8) The examiners found two violations 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.
 - a. In one instance, the company failed to promptly reimburse the insured's

deductible under his Uninsured Motorist coverage.

- b. In one instance, the company failed to timely offer reasonable rental reimbursement to the insured under his Transportation Expense Coverage.
- (9) The examiners found one violation of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.
- (10) The examiners found three 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.
- (11) The examiners found 22 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 his/her 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 28 violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

Homeowner Claims

The examiners reviewed 30 homeowner claims for the period of January 1, 2010 through December 31, 2010. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$364.66 and underpayments totaling \$ 1574.00.

The net amount that should be paid to claimants is \$ 1574.00 plus six percent (6%) simple interest.

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

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

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

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

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

- (4) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to send the insured a letter setting forth the reasons additional time was needed for the investigation of a first party claim.

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

- (6) The examiners found four violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the

investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

- a. In one instance, the company failed to properly pay the claim under the insured's Replacement Cost Dwelling coverage.
- b. In three instances, the company failed to properly pay the claim under the insured's Personal Property Replacement Cost coverage.

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

- (7) The examiners found 12 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or policy provisions relating to coverages at issue.

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

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

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

- (9) The examiners found two 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.

REVIEW OF FORMS

Automobile Forms

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

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

Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 29 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED BY THE COMPANY

The examiners found no additional forms to review.

Homeowner Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 33 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

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: January 25, 28, and 31, 2011. In addition, the company provided five renewal business policies mailed on the following dates: January 25, 26, 28 and 31, 2011.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

Homeowner Policies

The company provided five new business policies mailed on the following dates: January 18, 21, 26, and 31, 2011. In addition, the company provided five renewal business policies mailed on the following dates: January 26, 27, and 31, 2011.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

REVIEW OF STATUTORY NOTICES

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

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

reviewed documents that were created by the company, but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

General Statutory Notices

- (1) The examiners found one violation of § 38.2-604 C of the Code of Virginia. The company's short form Notice of Information Collection and Disclosure Practices did not contain all of the information required by this statute.
- (2) 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.

Statutory Vehicle Notices

- (1) The examiners found one violation of § 38.2-2202 A of the Code of Virginia. The company failed to use the precise wording required by the statute in its Medical Expense Benefits notice.
- (2) The examiners found one violation § 38.2-2202 B of the Code of Virginia. The company failed to provide the uninsured motorist limits notice 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 1 of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.
- (4) The examiners found two 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 its Credit Adverse Action notice.

Statutory Property Notices

- (1) The examiners found one violation of § 38.2-2125 of the Code of Virginia. The company failed to include all of the information required by the statute in its flood exclusion notice.
- (2) The examiners found three violations of § 38.2-2126 A of the Code of Virginia.
 - a. In one instance the company failed to include all of the information required by the statute in its Credit Score Disclosure notice.
 - b. In two instances, the company failed to include all of the information required by the statute in its Credit Adverse Action notice.

Other Notices

The company provided copies of 19 other notices including applications that were used during the examination period.

- (1) The examiners found three violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The application incorrectly stated that the binder would automatically terminate in 30 days if not signed and returned to the company.
- (2) The examiners found one violation of § 38.2-2210 A of the Code of Virginia. The company failed to include the 60-day cancellation warning notice on or attached to the first page of the private passenger automobile application.
- (3) The examiners found two violations of § 38.2-2212 E of the Code of Virginia. The company's availability of other insurance notice within the cancellation notice does not include all of the information required by the statute.

LICENSING AND APPOINTMENT REVIEW

A review was made of new business private passenger automobile and homeowner 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

The examiners found no violations in this area.

Agency Review

The examiners found no violations in this area.

REVIEW OF THE COMPLAINT-HANDLING PROCEDURES

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

The examiners found no violations in this area.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

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

The company provided a copy of its information security program.

PART TWO – CORRECTIVE ACTION PLAN

As stated in the Scope of the Examination, only those violations identified by the examiners as business practices of the company will be considered in the settlement offer. 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

California Casualty Indemnity Exchange shall:

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

Rating and Underwriting Review

California Casualty Indemnity Exchange shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insured's accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.
- (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) Properly represent the benefits, coverage, advantages and conditions of the policy by showing accurate policy stacking provisions for Medical Expense Benefits coverage and by showing the correct policy limits for Transportation Expense on the Declarations Page.
- (5) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of classification factors, filed discounts and/or surcharges, tier eligibility, base and/or final rates, and surcharges for accidents/convictions.
- (6) Provide the Credit Adverse Action notice as required by § 38.2-2234 A of the Code of Virginia.

Termination Review

California Casualty Indemnity Exchange shall:

- (1) Provide proof of financial responsibility without unreasonable delay when requested by the insured.
- (2) Obtain valid proof of mailing cancellation notices to the insured and/or lienholder.
- (3) Provide proper notice of cancellation to the lienholder when canceling a policy.

Claims Review

California Casualty Indemnity Exchange shall:

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

- (3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.
- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular emphasis should be given to rental benefits available under UMPD, Transportation Expense coverage, and Medical Expense Benefits coverage.
- (6) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within 10 business days.
- (7) 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.
- (8) Provide copies of repair estimates prepared by or on behalf of the company to insureds and claimants.
- (9) Negotiate prompt, fair and equitable settlements of claims in which liability is reasonably clear.
- (10) Properly represent the time allotted to make a replacement cost claim.
- (11) Adopt and implement standards for prompt investigation of claims.

Review of Statutory Notices

California Casualty Indemnity Exchange shall:

- (1) Amend the Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 C of the Code of Virginia.
- (2) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 C of the Code of Virginia.
- (3) Amend the Medical Expense Benefits notice to comply with § 38.2-2202 A of the Code of Virginia.
- (4) Amend the Uninsured Motorist Limits notice to comply with § 38.2-2202 B of the Code of Virginia.
- (5) Provide the 60-day cancellation warning notice on or attached to the first page of the application to comply with § 38.2-2210 A of the Code of Virginia.
- (6) Amend the Insurance Credit Score Disclosure notice to comply with § 38.2-2126 A and § 38.2-2234 A 1 of the Code of Virginia.
- (7) Amend the flood exclusion notice to comply with § 38.2-2125 of the Code of Virginia.
- (8) Correct the company's application to remove the automatic termination statement.
- (9) Correct the company's application by replacing the 60 day time limit with a 90 day time limit.
- (10) Amend the cancellation notice to use the precise language in its notice of right to review by the Commissioner of Insurance.
- (11) Amend the cancellation notice to advise the insured of all of the available options for acquiring replacement insurance.

PART THREE – RECOMMENDATIONS

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. We recommend that the company take the following actions:

Rating and Underwriting

- The company should rate the policy using the credit information obtained.
- The company should amend Rule F Utility Rating Plan Factor to clarify applicable discounts.
- The company should amend its Driving Record Assessment to address minor speeding convictions.

Termination

- The company should omit the right to review on cancellation notices where the policy has been in effect less than 90 days.

Claims

- The company should deny a claim in writing and keep a copy of the written denial in the claim file.
- The company should adopt and implement standards for the prompt investigation of claims.
- The company should amend the terminology on their automobile claims forms to read Medical Expense Benefits.
- The company should deny a claim in writing and keep a copy of the written denial in the claim file.
- The company should adopt and implement standards for the prompt investigation of claims.

Statutory Notices

- The company should add the TDD number on their Important Information

Regarding Your Insurance notice.

- The company should amend the language on their Attention Important Information about How Your Claim Will Be Handled notice to state that medical benefits will be paid to the insured unless the insured directs the company to pay the provider direct. The same notice should be amended to comply with the Amendment of Policy Provisions relating to theft coverage.

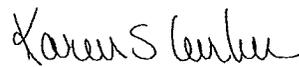
SUMMARY OF PREVIOUS EXAMINATION FINDINGS

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 companies during the course of the examination is gratefully acknowledged.

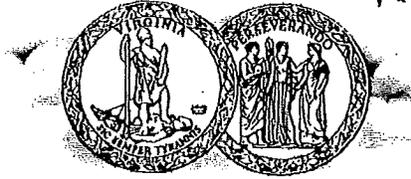
Sincerely,



Karen S. Gerber
Senior Insurance Market Examiner

COMMONWEALTH OF VIRGINIA

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



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March 5, 2012

VIA UPS 2nd DAY DELIVERY

L. Kyle Belvill, MCM, PLCS
Assistant Vice President, Underwriting Analyst Manager
California Casualty Management Company
1650 Telstar Dr
Colorado Springs, Colorado 80920

RE: Market Conduct Examination
California Casualty Insurance Company (NAIC#20177)
Exam Period January 1, 2010 through December 31, 2010

Dear Mr. Belvill:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of January 1, 2010 through December 31, 2010. The preliminary examination report (Report) has been drafted for the company's review.

Enclosed with this letter is a copy of the preliminary examination report and copies of review sheets that have been withdrawn or revised since January 18, 2012. Also enclosed are several reports that will provide you with the specific file references for the violations listed in the report.

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

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

Thirdly, the company should provide a Corrective Action Plan that addresses all of the issues identified in the examination. In some cases, the issues that should be addressed in the plan may be broader than those that are in Part Three of the Report.

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

The company's response and the spreadsheet mentioned above must be returned to the Bureau by April 9, 2012.

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 April 9, 2012.

Sincerely,

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



STATE CORP. COMMISSION
BUREAU OF INSURANCE
12 MAY 23 AM 9:21

May 22, 2012

Joy Morton, Supervisor
Market Conduct Section
Property & Casualty Division
Bureau of Insurance
Commonwealth of Virginia
1300 E Main St
Richmond, VA 23219-3630

**Re: Market Conduct Examination
California Casualty Indemnity Exchange (NAIC#20117)
Exam Period January 1, 2010 through December 31, 2010**

Ms. Morton:

This is in response to your March 5, 2012 preliminary examination report (Report) of California Casualty Indemnity Exchange (NAIC #20117). Please note that, while the Report references the examination as pertaining to California Casualty Insurance Company (NAIC#20177), the examination was actually conducted on California Casualty Indemnity Exchange (NAIC#20117).

Where necessary or otherwise deemed appropriate, a response has been provided on the following pages to each of the violations cited within your report, requests for corrective action, and recommendations.

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

- (1) Violation of VAC 38.2-502 – The Company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The Company misrepresented the policy provisions for stacking Medical Expense Benefits coverage.

Company Response: While the Company acknowledges this violation and has already implemented the changes to correct it, it should be noted that the language in violation was used at the guidance of a court decision in the Commonwealth of Virginia and was not intended to misrepresent the policy provisions for stacking Medical Expense Benefits coverage.



- (2) Violation of VAC 38.2-1906 – 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 driver classification factors.
Company Response: The Company acknowledges this isolated user error.
- b. In six instances, the Company failed to use the correct tier eligibility criteria.
Company Response: Acknowledged. The resulting overcharge of \$245 plus 6% interest (rounded up to the \$1) was calculated at \$260 and has been refunded to the insured.
- (3) Violation of VAC 38.2-2234 – The Company failed to send the Credit Adverse Action notice.
Company Response: Acknowledged

Automobile Renewal Business Policies

- (1) Violation of VAC 38.2-502 – The Company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The Company misrepresented the policy provisions for stacking Medical Expense Benefits coverage.
Company Response: While the Company acknowledges this violation and has already implemented the changes to correct it, it should be noted that the language in violation was used at the guidance of a court decision in the Commonwealth of Virginia and was not intended to misrepresent the policy provisions for stacking Medical Expense Benefits coverage.
- (2) Violation of VAC 38.2-1906 – The Company failed to use the rules and/or rates on file with the Bureau.
- a. In 15 instances, the Company failed to use the correct driver classification factors.
Company Response: Acknowledged
- b. In one instance, the Company failed to use the correct base and/or final rates.
Company Response: Acknowledged

Homeowner New Business Policies

- Violation of VAC 38.2-1906 – 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.



Company Response: The Company previously did not receive the Review Sheet pertaining to this violation and, therefore, did not have an opportunity to respond. With that explained, the Company feels this policy was rated correctly and requests that the Bureau review the rating of this policy again.

This insured has an original inception date of 8/19/04, which was 6 years old at the time of the renewal in question, and 0 claims. There are two parts that get multiplied together. For 6 years of persistency with 0 claims under part A, the factor is 0.92. For part B, the correct factor is 0.98 since they did not have any paid All Other Claims in 3 years. The factor for part A is 0.92, which is then multiplied by the factor for part B of 0.98, which gives you a Persistency Rating Factor of 0.90. That is the factor that was used and gives you the same total premium as what the company charged. There was not an undercharge of \$42.

- b. Violation of VAC 38.2-1906 D – The Company failed to use the rules and/or rates on file with the Bureau

Company Response: Acknowledged. The resulting overcharge of \$27 plus 6% interest (rounded up to the \$1) was calculated at \$29 and has been refunded to the insured.

Homeowner Renewal Business Policies

Violation of VAC 38.2-1906 – The Company failed to use the rules and/or rates on file with the Bureau. The Company failed to use the correct discounts and/or surcharges.

Company Response: Acknowledged. The resulting overcharge of \$192 plus 6% interest (rounded up to the \$1) was calculated at \$204 and has been refunded to the insured. Additionally, since this error continued beyond the examination period, the Company has also made corrections to the subsequent policy period, resulting in another \$228 (including 6% simple interest) being refunded to the insured for a total of \$432 in refunds.

TERMINATION REVIEW

Company-Initiated Cancellations – Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

- (1) Violation of VAC 38.2-228 – The Company failed to provide without an unreasonable delay proof of financial responsibility when requested by the insured.

Company Response: Acknowledged



- (2) Violation of VAC 38.2-2208 A – The Company failed to obtain valid proof of mailing the notice of cancellation to the insured.

Company Response: Acknowledged

- (3) Violation of 38.2-2208 B – The Company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.

Company Response: Acknowledged

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

- (1) Violation of VAC 38.2-2208 A – The Company failed to obtain valid proof of mailing the notice of cancellation to the insured.

Company Response: Acknowledged

- (2) Violation of 38.2-2208 B – The Company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.

Company Response: Acknowledged

All Other Cancellations – Automobile Policies

NONPAYMENT OF PREMIUM

Violation of VAC 38.2-2208 B – The Company failed to provide notice of cancellation to the lienholder.

Company Response: Acknowledged

Company-Initiated Nonrenewals – Automobile Policies

Violation of VAC 38.2-2208 B – The Company failed to obtain valid proof of mailing the notice of nonrenewal to the lienholder.

Company Response: Acknowledged

Company-Initiated Cancellations – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

Violation of VAC 38.2-2113 C – The Company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.

Company Response: Acknowledged



All Other Cancellations – Homeowners Policies

NONPAYMENT OF PREMIUM

- (1) Violation of VAC 38.2-2113 A – The Company failed to obtain valid proof of mailing the notice of cancellation to the insured.
Company Response: Acknowledged
- (2) Violation of VAC 38.2-2113 C
 - a. In one instance, the Company failed to provide proper notice of cancellation to the lienholder.
Company Response: Acknowledged
 - b. In one instance, the Company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.
Company Response: Acknowledged

Company-Initiated Nonrenewals – Homeowners Policies

- (1) Violation of VAC 38.2-2113 A – The Company failed to obtain valid proof of mailing the notice of cancellation to the insured.
Company Response: Acknowledged
- (2) Violation of VAC 38.2-2113 C – The Company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.
Company Response: Acknowledged

CLAIMS REVIEW

Automobile Claims

- (1) The Examiners found ten violations of 14 VAC 5-400-30 – the Company failed to properly document the claim to sufficiently reconstruct events.
Company Response: The Company acknowledges these violations and the individual adjusters were counseled.
- (2) Violation of 14 VAC 5-400-40 A.
 - a. In one instance, the Company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
Company Response: The Company acknowledges that in this one instance the adjuster failed to advise of the coverage.



- b. In five instances, the Company failed to inform an insured of his Transportation Expense coverage when the file indicated the coverage was applicable to the loss.
Company Response: The Company acknowledges that we failed to explain the available benefit.
- c. In four instances, the Company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist Coverage (UIM).
Company Response: The Company acknowledges this and this issue has been addressed with the individual claims handlers.
- (3) The examiners found ten violations of 14 VA 5-400-50 C. The Company failed to make an appropriate reply within 10 working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected. These findings occurred with such frequency as to indicate a general business practice.
Company Response: The Company agrees these ten violations occurred, but wants to emphasize that there is a provision in the Company state specific claims manual and our own internal procedures requiring that replies be made within the statutory period. This has been addressed with the file handlers.
- (4) The examiners found four violations of 14 VAC 5-400-70A. 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 file.
Company's Response: These claim files involved partial denials for CDW and this violation is acknowledged and the adjusters involved have been counseled. This will also be covered in the claim unit's bi-weekly meetings to reinforce the importance of putting partial denials in writing.
- (5) The examiners found seven violations of 14 VAC 5-400-70 D. The Company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim, or failed to pay a claim in accordance with the insured's policy provisions.
- a. In one instance the Company failed to pay to the claim in accordance with the policy provisions under the insured's Uninsured Motorist Coverage.
Company Response: The Company acknowledges this violation and the individual adjuster has been counseled.



- b. In six instances, the Company failed to pay the claim in accordance with the policy provisions under the insured's transportation expense.
Company Response: The Company acknowledges these violations. These claims involved transportation expense and for a variety of issues such as denial of future rental due to delay in a part, no partial denial of the CDW etc. The individual adjusters have been counseled and the importance of partial denial letters will be stressed.
- (6) The examiners found six violations of 14 VAC 5-400-80D. The Company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on half of the Company.
- a. In five instances the Company failed to provide a copy of the estimate to the insured.
Company Response: The Company acknowledges these violations and the adjusters involved have been individually counseled on this subject. The Company has now added a procedure that once the adjuster approves the estimate the clerks will send a copy of the estimate out to the insured.
- b. In one instance the Company failed to provide a copy of the estimate to a claimant.
Company Response: The Company acknowledges this violation and we have instituted the same program for third party claims.
- (7) The examiners found four violations of 38.2-510 A 3 of the Code of Virginia. The Company failed to implement reasonable standards for prompt investigation of claims arising under insurance policies.
Company Response: The adjusters involved have been counseled.
- (8) The examiners found two violations 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.
- a. In one instance, the Company failed to promptly reimburse the insured's deductible under his Uninsured Motorist Coverage.
- b. In one instance, the Company failed to timely offer reasonable rental reimbursement to the insured under his Transportation Expense Coverage.
Company Response: These are acknowledged and the adjusters were individually counseled.
- (9) The examiners found one violation of 38.2-510A 10 of the Code of Virginia. The Company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage (s) under which payment was made.
Company Response: The adjuster was counseled on this error and additional training provided.



- (10) The examiners found six 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.

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

Company Response: The importance of having a signed assignment of benefits on file has been discussed with the adjusters.

- (11) The examiners found 21 occurrences where the Company failed to comply with the provisions of the insurance contract.

- a. In 17 instances the Company paid an insured more than he/she was entitled to receive under the terms of his/her policy.

Company Response: We have corrected our chart to reflect the correct amounts owed for tag and license fees.

- b. In four instances the Company failed to properly pay an Uninsured Motorist claim.

Company Response: These claims involved Coll/UMP apportionment and this has been brought to the attention of the team managers and they are reminding their staff of the correct way to apportion this in bi-weekly staff meetings.

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 28 violations of the 52-40 of the Code of Virginia. The Company failed to include the statement regarding insurance fraud on claim forms required by the Company as a condition of payment.

Company Response: At the time these were brought to our attention the forms in question have been updated to include the fraud language.

Homeowner Claims

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

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

Company Response: The Company acknowledges this violation and the adjuster's involved have been individually counseled and the importance of documentation will continue to be stressed.



- (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.

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

Company Response: The Company acknowledges these violations, which occurred strictly by omission, and the individual adjusters were counseled on the importance of advising our insured's with all the coverages that may apply to their loss.

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

Company Response: The individual has been counseled on the importance of timely response to communication.

- (4) The examiners found one violation of 14 VAC 5-400-60 B. The Company failed to send the insured a letter setting forth the reasons for additional time was needed for the investigation of a first party claim.

Company Response: The Company acknowledges this violation and the adjusters will be reminded in their bi-weekly meetings to send out more time needed letters.

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

Company Response: The individual has been counseled on the importance of accuracy in the denial of a claim.

- (6) The examiners found five violations of 14 VAC 5-400-70 D. The Company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim.

- a. In one instance, the Company failed to properly pay the claim under the insured's Replacement Cost Dwelling coverage.
- b. In four instances, the Company failed to properly pay the claim under the insured's Personal Property Replacement Cost coverage.

Company Response: These instances were varied with regard to replacement cost and the handling of the claims. The individual claims adjusters were counseled on all these files.



- (7) The examiners found 12 violations of 38.2-510 A 1 of the Code of Virginia. The Company misrepresented pertinent facts or policy provisions relating to coverages at issue. The Company gave the insured 180 days from the last actual cash payment rather than six months from the date of the last received actual cash payment. These findings occurred with such frequency as to indicate a general business practice.
Company Response: The Company acknowledges this violation and our form letter has been corrected to reflect the state specific policy language.
- (8) The examiners found seven violations of 38.2-510 A 3 of the Code of Virginia. The Company failed to adopt and implement reasonable standards for prompt investigation of claims arising under insurance policies. These findings occurred with such frequency as to indicate a general business practice.
Company Response: The Company acknowledges these instances and the individual adjusters have been counseled on the importance of prompt investigation and follow thru.
- (9) The examiners found two violations of 38.2-510A 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.
Company Response: The Company acknowledges these violations and the adjusters have been counseled.

REVIEW OF STATUTORY NOTICES

General Statutory Notices

- (1) Violation of VAC 38.2-604 C – The Company’s short form Notice of Information Collection and Disclosure Practices did not contain all of the information required by this statute.
Company Response: Acknowledged
- (2) Violation of VAC 38.2-604.1 B – The Company’s long form Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by this statute.
Company Response: Acknowledged

Statutory Vehicle Notices

- (1) Violation of VAC 38.2-2202 A – The Company failed to use the precise wording required by the statute in its Medical Expense Benefits notice.
Company Response: Acknowledged



- (2) Violation of VAC 38.2-2202 B – The Company failed to provide the uninsured motorist limits notice in the precise language and in boldface type as required by the Code of Virginia.
Company Response: Acknowledged
- (3) Violation of VAC 38.2-2234 A 1 – The Company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.
Company Response: Acknowledged
- (4) Violation of VAC 38.2-2234 A 2 – The Company failed to include all of the information required by the statute in its Credit Adverse Action notice.
Company Response: Acknowledged

Statutory Property Notices

- (1) Violation of VAC 38.2-2125 – The Company failed to include all of the information required by the statute in its notice regarding flood exclusion.
Company Response: Acknowledged
- (2) Violation of VAC 38.2-2126 A – The Company failed to provide the uninsured motorist limits notice in the precise language and in boldface type as required by the Code of Virginia.
 - a. In one instance, the Company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.
Company Response: Acknowledged
 - b. In two instances, the Company failed to include all of the information required by the statute in its Credit Adverse Action notice.
Company Response: Acknowledged

Other Notices

- (1) Violation of VAC 38.2-502 – The Company misrepresented the benefits, advantages, conditions or terms of the insurance policy.
 - a. In three instances, the Company's application incorrectly stated that the binder would automatically terminate in 30 days if not signed and returned to the Company.
Company Response: Acknowledged
 - b. In two instances the Company's application incorrectly stated that the homeowner policy could cancel for any reason in the first 60 days.
Company Response: Acknowledged



- (2) Violation of VAC 38.2-2210 A – The Company failed to include the 60-day cancellation warning notice on or attached to the first page of the private passenger automobile application.
Company Response: Acknowledged
- (3) Violation of VAC 38.2-2212 E – The Company’s notice of availability of other insurance does not include all of the possible options.
Company Response: Acknowledged

POLICY FORMS USED DURING THE EXAMINATION PERIOD

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insured or credit the insured’s accounts the amount of the overcharge as of the date the error first occurred.
Corrective Action: All errors that caused overcharged and undercharges have been corrected. Refunds have been sent to the insureds who received overcharges, which included 6% simple interest from the date the error first occurred.
- (2) Include 6% simple interest in the amount refunded and/or credited to the insureds’ account.
Corrective Action: All errors that caused overcharged and undercharges have been corrected. Refunds have been sent to the insureds who received overcharges, which included 6% simple interest from the date the error first occurred.
- (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.
Corrective Action: Completed the file titled “Rating Overcharges Cited during the Examination”, acknowledging that the overcharges listed in the file have been refunded. This is included with this response to the Bureau.
- (4) Properly represent the benefits, coverage, advantages and conditions of the policy by showing the accurate policy stacking provisions for the Medical Expense Benefits coverage and by showing the correct policy limits for Transportation Expense on the Declarations Page.
Corrective Action: The statement on the Declarations page has been amended as agreed to with the Bureau during the examination so it is specific to Uninsured Motorists and can no longer be misinterpreted to apply to Medical Expense Benefits coverage.



Additionally, while the current endorsement for Transportation Expense was filed with the Bureau and approved for use, the Company agrees that it is in need of clarification and is in the process of revising it to better explain how Transportation Expense coverage works. This change will be subject to filing and approval by the Bureau.

- (5) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of classification factors, filed discounts and/or surcharges, tier eligibility, based and/or final rates, and surcharges for accidents/convictions.
Corrective Action: The relevant factor in the filed rating manual was identified as a data entry error. The rate charged on the policies noted was what was intended to have been included in the filed manual. The filed rating manual was corrected, filed and approved effective March 1, 2011.
- (6) Provide the Credit Adverse Action notice as required by 38.2-2232 A of the Code of Virginia.
Corrective Action: The Company has corrected when its Credit Adverse Action notice is to be provided as required by 38.2- 2234 A. The correction of the delivery for this notice was implemented on March 10, 2011.

Termination Review

- (1) Provide proof of financial responsibility without unreasonable delay when requested by the insured.
Corrective Action: This was an isolated incident and has been brought to the employee's manager for training purposes.
- (2) Obtain valid proof of mailing cancellation notices to the insured and lienholder.
Corrective Action: The proof of mailing documentation has been updated at the direction of the Bureau to include the requested statement. Also, the Company is working with the local United States Postal Service branch regarding the need for them to provide a readable stamp on the proof of mailing documents.
- (3) Provide property notice of cancellation to the lienholder when canceling a policy.
Corrective Action: The notice to lienholders has been amended to clearly advise of the correct legal days notice for the lienholder.



- (4) Refund the unearned premium to the insured when the policy cancels due to foreclosure. A refund cannot be made to the lienholder without permission from the insured.

Corrective Action: The Company already has a procedure in place to not refund any unearned premium to the lienholder without the specific permission from the insured to do so. However, the procedures have been clarified to stress this.

DISPUTE: While it is not addressed in this report, there is a reference in the TERMINATION OVERCHARGES CITED DURING TH EXAMINATION for reference number TPA007 that was verbally discussed with Joy Morton and it was agreed that this should not have been on the report. Mrs. Morton asked the Company to reference that discussion in the response to the report.

Claims Review Items:

11 total items are identified under this caption of the Report. The Company's corrective actions for these items follow:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the Company acknowledges that it has paid the underpayments listed in the file.
- (4) Properly document claims files to that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claimant file that all applicable coverages have been discussed with the insured. Particular emphasis should be given to rental benefits available under UMPD, Transportation Expense coverage, and Medical Expense Benefits coverage.
- (6) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within 10 business days.
- (7) 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.
- (8) Provide copies of repair estimates prepared by or on behalf of the Company to insureds and claimants.
- (9) Negotiate prompt, fair and equitable settlements of claims in which liability is reasonably clear.
- (10) Obtain a written authorization from an insured prior to making payments directly to the medical provider.
- (11) Adopt and implement standards for the prompt investigation of claims.



Corrective Action: For these items, the Company has compliant procedures in place, but those procedures were not followed in some of the files examined. The importance of following Virginia law and our existing procedures for every claim has been reinforced with individual adjusters and groups of adjusters, as appropriate.

Disputes:

CPA021 That was withdrawn during the audit – see copy attached

CPA001 An assignment of benefits was on file at the time payment was made. A copy is attached.

CPA046 We dispute that we would owe the insured \$5000.00 plus interest as this would be a duplicate payment.

CPA059 As agreed with Joy Morton this was removed since the assignment was on file.

CPA061 We dispute the amount owed and believe it would be 215.99 plus 6%

CPA067 As agreed with Joy Morton this was removed.

CHO18 We disagree with the amount suggested that we owed. Our payment was based on the purchase price of \$1400.00. The examiner felt it would cost \$1000 more to replace at today's rate. We had paid the insured \$400. Attached is a copy of the receipt we asked the insured to produce for the replacement of that piece of jewelry. She purchased a new ring for \$602.44.

CHO21 We do agree additional money was due the insured for the cleaning of personal items. We had an IA go out and inspect and an agreed figure was reached at \$465. The adjuster paid that amount so we have issued an additional check for the 6% or \$27.92.

CHO26 We do agree additional money was due to the insured the claim was paid in the amount of \$240 as indicated so we will owe the 6% interest or 14.40.

We are attaching a copy of the completed CLAIM UNDERPAYMENTS CITED DURING THE EXAMINATION for the undisputed claims.



Review of Statutory Notices

- (1) Amend the Notice of Information Collection and Disclosure Practices to comply with 38.2-604 C of the Code of Virginia.
Corrective Action: The Company revised its CALIFORNIA CASUALTY COMBINED NOTICE OF INFORMATION COLLECTION AND DISCLOSURE PRACTICES AND OF FINANCIAL INFORMATION COLLECTION AND DISCLOSURE PRACTICES FOR THE STATE OF VIRGINIA to be in compliance with 38.2-604 C. The revised notice was implemented March 1, 2011.
- (2) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with 38.2-604.1 C of the Code of Virginia.
Corrective Action: The Company revised its CALIFORNIA CASUALTY COMBINED NOTICE OF INFORMATION COLLECTION AND DISCLOSURE PRACTICES AND OF FINANCIAL INFORMATION COLLECTION AND DISCLOSURE PRACTICES FOR THE STATE OF VIRGINIA to be in compliance with 38.2-604.1 C. The revised notice was implemented March 1, 2011.
- (3) Amend the Medical expense Benefits notice to comply with 38.2-2202 A of the Code of Virginia.
Corrective Action: The Company revised its Medical Expense Benefits notice to comply with 38.2-2202 A. The revised notice was implemented on December 1, 2011.
- (4) Amend the Uninsured Motorists notice to comply with 38.2-2202 B of the Code of Virginia.
Corrective Action: The Company revised its Uninsured Motorist Limits notice to comply with 38.2-2202 B. The revised notice was implemented on December 1, 2011.
- (5) Provide the 60-day cancellation warning notice on or attached to the first page of the application to comply with 38.2-2210 A of the Code of Virginia.
Corrective Action: The Company revised its auto application to include the 60-day cancellation warning notice on the first page of the application to comply with 38.2-2210 A. This change was effective December 21, 2011.
- (6) Amend the Insurance Credit Score Disclosure notice to comply with 38.2-2126 A and 38.2-2234 A 1 of the Code of Virginia.
Corrective Action: The Company revised its Insurance Credit Score Disclosure notices to comply with 38.2-2234 A 1 and 38.2-2126 A. These were changed on March 25, 2011.
- (7) Amend the flood exclusion notice to comply with 38.2-2125 of the Code of Virginia.



Corrective Action: The Company revised its flood exclusion notice to comply with 38.2-2125. This change was made on November 3, 2011.

- (8) Correct the Company's application to remove the automatic termination statement.
Corrective Action: The Company corrected its auto and property applications to remove the automatic termination statement. These changes were made on December 21, 2011.
- (9) Correct the Company's application by replacing the 60-day time limit with a 90-day time limit.
Corrective Action: The Company corrected its property application by replacing the 60-day time limit with a 90-day time limit. This change was made on December 21, 2011.
- (10) Amend the cancellation notice to use the precise language in its notice of right to review by the Commissioner of Insurance.
Corrective Action: The Company amended all its cancellation notices to use the precise language of the insured's right to review by the Commissioner of Insurance. These changes were made on October 26, 2011.
- (11) Amend the cancellation notice to advise the insured of all of the available options for acquiring replacement insurance.
Corrective Action: The Company amended all its cancellation notices to use the correct notice to advise the insured of all of the available options for acquiring replacement insurance. These changes were made on October 26, 2011.

PART THREE – RECOMMENDATIONS

Rating and Underwriting

- The company should rate the policy using the credit information obtained.
Corrective Action: The first time the Company orders a financial responsibility score the policy is rated with the score that is returned. If at any time a new score is run at the insured's request and the score is better, then the newer score is applied to the policy at that time. If the score has gotten worse, then the worse score will not be applied until the next renewal to avoid a midterm increase in premium.
- The Company should amend Rule F Utility Rating Plan Factor to clarify applicable discounts.
 - **Corrective Action:** The Company will amend Rule F Utility Rating Plan Factor to clarify applicable discounts. This change will be made with the next scheduled filing effective August 1, 2012. The revised description is below with the change indicated:



Utility Rating Plan Factor

These factors are based on the LATER year of (1) the year of construction ~~and~~ or (2) the calendar year that utilities were updated, and are located in Table 7.

For utilities to be considered updated and qualify for the discounts, the following must be updated by qualified contractors with all work conforming to local code requirements:

- a. Electrical service: replacement of fuse or breaker boxes, switches, fixtures and wiring.
 - b. Heating and cooling system: furnace and air-conditioning replacements, or replacement of burners on furnaces and compressors on central air-conditioning systems.
 - c. Plumbing: installation of new water lines within the structure and plumbing fixtures.
- The Company should amend its Driving Record Assessment to address minor speeding convictions.

Corrective Action: The Company will amend the definition of Exhibition of Speed to be more specific and differentiate it from all other minor speeds. The new definition is:

“Exhibition of speed – spinning wheels, excessive acceleration, etc. (EXH)”

All other speeds that do not fit the definition of an EXH would be considered a minor conviction. This change will be made with the next scheduled filing effective September 1, 2012.

Termination

- The Company should omit the right to review on cancellation notices where the policy has been in effect less than 90 days.
- Corrective Action:** The Company amended its new account cancellation notices to omit the right to review where the policy has been in effect for less than 90 days. These changes were made on October 26, 2011.

Claims Review Items

- The Company should deny a claim in writing and keep a copy of the written denial in the claim file.
- The Company should adopt and implement standards for the prompt investigation of claims.
- The Company should amend the terminology on their automobile claims forms to read Medical Expense Benefits.
- The Company should deny a claim in writing and keep a copy of the written denial in the claim file.



- The Company should adopt and implement standards for the prompt investigation of claims.

Corrective Action: The Company is carefully scrutinizing the recommendations and making any necessary corrections.

Statutory Notices

- The Company should add the TDD number on their Important Information Regarding Your Insurance notice.

Corrective Action: The Company revised its Important Information Regarding Your Insurance notice to add the Bureau's TDD number. This revision was done effective December 1, 2011.

- The Company should amend the language on their Attention Important Information about How Your Claim Will Be Handled notice to state that medical benefits will be paid to the insured unless the insured directs the Company to pay the provide direct. The same notice should be amended to comply with the Amendment of Policy Provision related to theft coverage.

Corrective Action: The Company is carefully scrutinizing the recommendations and making any necessary corrections.

Sincerely,

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California Casualty Management Company
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Colorado Springs, Colorado 80920
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July 5, 2012

VIA UPS 2ND DAY DELIVERY

L. Kyle Belvill, MCM, PLCS
Assistant Vice President, Underwriting Analyst Manager
California Casualty Management Company
1650 Telstar Dr
Colorado Springs, Colorado 80920

RE: Market Conduct Examination
California Casualty Indemnity Exchange (NAIC#20177)
Exam Period January 1, 2010 through December 31, 2010

Dear Mr. Belvill:

The Bureau of Insurance (Bureau) has reviewed California Casualty Indemnity Exchange's May 22, 2012 response to the Preliminary Market Conduct Report (Report) of the above referenced Company. The Bureau has referenced only those items in which the Company has disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report

PART ONE – EXAMINERS' OBSERVATIONS

Homeowner New Business Rating

- (a) After further review, the violation for RHO021 has been removed from the Report. The undercharge is amended to \$0.00.

The violation of § 38.2-1906 D of the Code of Virginia for reference number RHO006 has been withdrawn from the Report and replaced with a violation of § 38.2-2126 B of the Code of Virginia.

Claims-Automobile Policies

- (10) The violation for CPA001 remains in the Report. Although there was a lien for the medical bills, there was not an assignment of benefits. The Company's reference to the assignment is instead a list of insurers and a medical pricing review company.

The violation for CPA021 has been removed from the Report.

The violation for CPA046 remains in the Report. There is no assignment of benefits in the claim file. Combined with the overpayment of \$36.75, the net amount due to the insured is \$4963.25 plus 6% interest.

The violations for CPA059 and CPA067 have been withdrawn from the Report and replaced with violations for failing to document the file sufficiently. The assignment of benefits was not included in the file documentation at the time the file was reviewed.

Claims-Homeowner Policies

- (1) The violation for CHO018 remains in the Report. The Company's file was not documented with the replacement cost information until after the Market Conduct Examination.

- (6) After further review the violation for CHO18 is withdrawn.
The violation for CHO021 remains in the Report but has been revised to an underpayment of \$465.00.

Other Notices

- (1) The violations for NON001 and NON002 have been amended to one violation each of § 38.2-502 of the Code of Virginia. A 60 day underwriting period on a Homeowner Policy is not a violation. It is more advantageous to the insured for the Company to limit the amount of time that the policy can be cancelled. If the underwriting period exceeded 90 days it would then be more restrictive than the minimum standards.

PART TWO CORRECTIVE ACTION PLAN

- (1) The Company should make restitution to all insureds listed in the table prior to the response date below.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheets, and any review sheets withdrawn, added or altered as a result of this review. The Company's response to this letter is due in the Bureau's office by July 23, 2012.

Sincerely,

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

August 16, 2012

Joy Morton, Supervisor
Market Conduct Section
Property & Casualty Division
Bureau of Insurance
Commonwealth of Virginia
1300 E Main St
Richmond, VA 23219-3630



**Re: Market Conduct Examination
California Casualty Indemnity Exchange (NAIC#20117)
Exam Period January 1, 2010 through December 31, 2010**

Ms. Morton:

This is in response to your July 5, 2012 Market Conduct Examination Report (Report) of California Casualty Indemnity Exchange (NAIC #20117).

Where necessary or otherwise deemed appropriate, a response has been provided on the following pages to each of the violations cited within your report, requests for corrective action, and recommendations.

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

- (1) Violation of VAC 38.2-502 – The Company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The Company misrepresented the policy provisions for stacking Medical Expense Benefits coverage.
Company Response: While the Company acknowledges this violation and has already implemented the changes to correct it, it should be noted that the language in violation was used at the guidance of a court decision in the Commonwealth of Virginia and was not intended to misrepresent the policy provisions for stacking Medical Expense Benefits coverage.



- (2) Violation of VAC 38.2-1906 – 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 driver classification factors.
Company Response: The Company acknowledges this isolated user error.
- b. In six instances, the Company failed to use the correct tier eligibility criteria.
Company Response: Acknowledged. The resulting overcharge of \$245 plus 6% interest (rounded up to the \$1) was calculated at \$260 and has been refunded to the insured.
- (3) Violation of VAC 38.2-2234 – The Company failed to send the Credit Adverse Action notice.
Company Response: Acknowledged

Automobile Renewal Business Policies

- (1) Violation of VAC 38.2-502 – The Company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The Company misrepresented the policy provisions for stacking Medical Expense Benefits coverage.
Company Response: While the Company acknowledges this violation and has already implemented the changes to correct it, it should be noted that the language in violation was used at the guidance of a court decision in the Commonwealth of Virginia and was not intended to misrepresent the policy provisions for stacking Medical Expense Benefits coverage.
- (2) Violation of VAC 38.2-1906 – The Company failed to use the rules and/or rates on file with the Bureau.
- a. In 15 instances, the Company failed to use the correct driver classification factors.
Company Response: Acknowledged
- b. In one instance, the Company failed to use the correct base and/or final rates.
Company Response: Acknowledged

Homeowner New Business Policies

- a. Violation of VAC 38.2-2126 B – The Company failed to use the rules and/or rates on file with the Bureau
Company Response: Acknowledged. The resulting overcharge of \$27 plus 6% interest (rounded up to the \$1) was calculated at \$29 and has been refunded to the insured.



Homeowner Renewal Business Policies

Violation of VAC 38.2-1906 – The Company failed to use the rules and/or rates on file with the Bureau. The Company failed to use the correct discounts and/or surcharges.

Company Response: Acknowledged. The resulting overcharge of \$192 plus 6% interest (rounded up to the \$1) was calculated at \$204 and has been refunded to the insured. Additionally, since this error continued beyond the examination period, the Company has also made corrections to the subsequent policy period, resulting in another \$228 (including 6% simple interest) being refunded to the insured for a total of \$432 in refunds.

TERMINATION REVIEW

Company-Initiated Cancellations – Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

- (1) Violation of VAC 38.2-228 – The Company failed to provide without an unreasonable delay proof of financial responsibility when requested by the insured.
Company Response: Acknowledged
- (2) Violation of VAC 38.2-2208 A – The Company failed to obtain valid proof of mailing the notice of cancellation to the insured.
Company Response: Acknowledged
- (3) Violation of 38.2-2208 B – The Company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.
Company Response: Acknowledged

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

- (1) Violation of VAC 38.2-2208 A – The Company failed to obtain valid proof of mailing the notice of cancellation to the insured.
Company Response: Acknowledged
- (2) Violation of 38.2-2208 B – The Company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.
Company Response: Acknowledged



All Other Cancellations – Automobile Policies

NONPAYMENT OF PREMIUM

Violation of VAC 38.2-2208 B – The Company failed to provide notice of cancellation to the lienholder.

Company Response: Acknowledged

Company-Initiated Nonrenewals – Automobile Policies

Violation of VAC 38.2-2208 B – The Company failed to obtain valid proof of mailing the notice of nonrenewal to the lienholder.

Company Response: Acknowledged

Company-Initiated Cancellations – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

Violation of VAC 38.2-2113 C – The Company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.

Company Response: Acknowledged

All Other Cancellations – Homeowners Policies

NONPAYMENT OF PREMIUM

- (1) Violation of VAC 38.2-2113 A – The Company failed to obtain valid proof of mailing the notice of cancellation to the insured.
Company Response: Acknowledged
- (2) Violation of VAC 38.2-2113 C
 - a. In one instance, the Company failed to provide proper notice of cancellation to the lienholder.
Company Response: Acknowledged
 - b. In one instance, the Company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.
Company Response: Acknowledged

Company-Initiated Nonrenewals – Homeowners Policies

- (1) Violation of VAC 38.2-2113 A – The Company failed to obtain valid proof of mailing the notice of cancellation to the insured.
Company Response: Acknowledged



- (2) Violation of VAC 38.2-2113 C – The Company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.
Company Response: Acknowledged

CLAIMS REVIEW

Automobile Claims

- (1) The Examiners found twelve violations of 14 VAC 5-400-30 – the Company failed to properly document the claim to sufficiently reconstruct events.
Company Response: The Company acknowledges these violations and the individual adjusters were counseled.
- (2) Violation of 14 VAC 5-400-40 A.
- a. In one instance, the Company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
Company Response: The Company acknowledges that in this one instance the adjuster failed to advise of the coverage.
- b. In five instances, the Company failed to inform an insured of his Transportation Expense coverage when the file indicated the coverage was applicable to the loss.
Company Response: The Company acknowledges that we failed to explain the available benefit.
- c. In four instances, the Company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist Coverage (UIM).
Company Response: The Company acknowledges this and this issue has been addressed with the individual claims handlers.
- (3) The examiners found ten violations of 14 VA 5-400-50 C. The Company failed to make an appropriate reply within 10 working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected. These findings occurred with such frequency as to indicate a general business practice.
Company Response: The Company agrees these ten violations occurred, but wants to emphasize that there is a provision in the Company state specific claims manual and our own internal procedures requiring that replies be made within the statutory period. This has been addressed with the file handlers.



- (4) The examiners found four violations of 14 VAC 5-400-70A. 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 file.

Company's Response: These claim files involved partial denials for CDW and this violation is acknowledged and the adjusters involved have been counseled. This will also be covered in the claim unit's bi-weekly meetings to reinforce the importance of putting partial denials in writing.

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

- a. In one instance the Company failed to pay to the claim in accordance with the policy provisions under the insured's Uninsured Motorist Coverage.

Company Response: The Company acknowledges this violation and the individual adjuster has been counseled.

- b. In six instances, the Company failed to pay the claim in accordance with the policy provisions under the insured's transportation expense.

Company Response: The Company acknowledges these violations. These claims involved transportation expense and for a variety of issues such as denial of future rental due to delay in a part, no partial denial of the CDW etc. The individual adjusters have been counseled and the importance of partial denial letters will be stressed.

- (6) The examiners found six violations of 14 VAC 5-400-80D. The Company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on half of the Company.

- a. In five instances the Company failed to provide a copy of the estimate to the insured.

Company Response: The Company acknowledges these violations and the adjusters involved have been individually counseled on this subject. The Company has now added a procedure that once the adjuster approves the estimate the clerks will send a copy of the estimate out to the insured.

- b. In one instance the Company failed to provide a copy of the estimate to a claimant.

Company Response: The Company acknowledges this violation and we have instituted the same program for third party claims.



- (7) The examiners found four violations of 38.2-510 A 3 of the Code of Virginia. The Company failed to implement reasonable standards for prompt investigation of claims arising under insurance policies.
Company Response: The adjusters involved have been counseled.
- (8) The examiners found two violations 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.
- In one instance, the Company failed to promptly reimburse the insured's deductible under his Uninsured Motorist Coverage.
 - In one instance, the Company failed to timely offer reasonable rental reimbursement to the insured under his Transportation Expense Coverage.
- Company Response:** These are acknowledged and the adjusters were individually counseled.
- (9) The examiners found one violation of 38.2-510A 10 of the Code of Virginia. The Company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage (s) under which payment was made.
Company Response: The adjuster was counseled on this error and additional training provided.
- (10) The examiners found six 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. These finders occurred with such frequency as to indicate a general business practice.
Company Response: The importance of having a signed assignment of benefits on file has been discussed with the adjusters.
- (11) The examiners found 21 occurrences where the Company failed to comply with the provisions of the insurance contract.
- In 17 instances the Company paid an insured more than he/she was entitled to receive under the terms of his/her policy.
Company Response: We have corrected our chart to reflect the correct amounts owed for tag and license fees.
 - In four instances the Company failed to properly pay an Uninsured Motorist claim.
Company Response: These claims involved Coll/UMP apportionment and this has been brought to the attention of the team managers and they are reminding their staff of the correct way to apportion this in bi-weekly staff meetings.



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 28 violations of the 52-40 of the Code of Virginia. The Company failed to include the statement regarding insurance fraud on claim forms required by the Company as a condition of payment.

Company Response: At the time these were brought to our attention the forms in question have been updated to include the fraud language.

Homeowner Claims

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

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

Company Response: The Company acknowledges this violation and the adjuster's involved have been individually counseled and the importance of documentation will continue to be stressed.

- (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.

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

Company Response: The Company acknowledges these violations, which occurred strictly by omission, and the individual adjusters were counseled on the importance of advising our insured's with all the coverages that may apply to their loss.

- (3) The examiners found one violation of 14 VAC5-400-50-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.

Company Response: The individual has been counseled on the importance of timely response to communication.



- (4) The examiners found one violation of 14 VAC 5-400-60 B. The Company failed to send the insured a letter setting forth the reasons for additional time was needed for the investigation of a first party claim.
Company Response: The Company acknowledges this violation and the adjusters will be reminded in their bi-weekly meetings to send out more time needed letters.
- (5) The Company found one violation of 14 VAC 5-400-70 B. The Company failed to provide a reasonable explanation of the basis for the denial in the written denial of the claim.
Company Response: The individual has been counseled on the importance of accuracy in the denial of a claim.
- (6) The examiners found five violations of 14 VAC 5-400-70 D. The Company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim.
- In one instance, the Company failed to properly pay the claim under the insured's Replacement Cost Dwelling coverage.
 - In four instances, the Company failed to properly pay the claim under the insured's Personal Property Replacement Cost coverage.
- Company Response:** These instances were varied with regard to replacement cost and the handling of the claims. The individual claims adjusters were counseled on all these files.
- (7) The examiners found 12 violations of 38.2-510 A 1 of the Code of Virginia. The Company misrepresented pertinent facts or policy provisions relating to coverages at issue. The Company gave the insured 180 days from the last actual cash payment rather than six months from the date of the last received actual cash payment
These findings occurred with such frequency as to indicate a general business practice.
Company Response: The Company acknowledges this violation and our form letter has been corrected to reflect the state specific policy language.
- (8) The examiners found seven violations of 38.2-510 A 3 of the Code of Virginia. The Company failed to adopt and implement reasonable standards for prompt investigation of claims arising under insurance policies.
These findings occurred with such frequency as to indicate a general business practice.
Company Response: The Company acknowledges these instances and the individual adjusters have been counseled on the importance of prompt investigation and follow thru.



- (9) The examiners found two violations of 38.2-510A 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.
Company Response: The Company acknowledges these violations and the adjusters have been counseled.

REVIEW OF STATUTORY NOTICES

General Statutory Notices

- (1) Violation of VAC 38.2-604 C – The Company’s short form Notice of Information Collection and Disclosure Practices did not contain all of the information required by this statute.
Company Response: Acknowledged
- (2) Violation of VAC 38.2-604.1 B – The Company’s long form Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by this statute.
Company Response: Acknowledged

Statutory Vehicle Notices

- (1) Violation of VAC 38.2-2202 A – The Company failed to use the precise wording required by the statute in its Medical Expense Benefits notice.
Company Response: Acknowledged
- (2) Violation of VAC 38.2-2202 B – The Company failed to provide the uninsured motorist limits notice in the precise language and in boldface type as required by the Code of Virginia.
Company Response: Acknowledged
- (3) Violation of VAC 38.2-2234 A 1 – The Company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.
Company Response: Acknowledged
- (4) Violation of VAC 38.2-2234 A 2 – The Company failed to include all of the information required by the statute in its Credit Adverse Action notice.
Company Response: Acknowledged

Statutory Property Notices

- (1) Violation of VAC 38.2-2125 – The Company failed to include all of the information required by the statute in its notice regarding flood exclusion.
Company Response: Acknowledged



- (2) Violation of VAC 38.2-2126 A – The Company failed to provide the uninsured motorist limits notice in the precise language and in boldface type as required by the Code of Virginia.
 - a. In one instance, the Company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.
Company Response: Acknowledged
 - b. In two instances, the Company failed to include all of the information required by the statute in its Credit Adverse Action notice.
Company Response: Acknowledged

Other Notices

- (1) Violation of VAC 38.2-502 – The Company misrepresented the benefits, advantages, conditions or terms of the insurance policy.
 - a. In three instances, the Company’s application incorrectly stated that the binder would automatically terminate in 30 days if not signed and returned to the Company.
Company Response: Acknowledged
- (2) Violation of VAC 38.2-2210 A – The Company failed to include the 60-day cancellation warning notice on or attached to the first page of the private passenger automobile application.
Company Response: Acknowledged
- (3) Violation of VAC 38.2-2212 E – The Company’s notice of availability of other insurance does not include all of the possible options.
Company Response: Acknowledged

POLICY FORMS USED DURING THE EXAMINATION PERIOD

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insured or credit the insured’s accounts the amount of the overcharge as of the date the error first occurred.
Corrective Action: All errors that caused overcharged and undercharges have been corrected. Refunds have been sent to the insureds who received overcharges, which included 6% simple interest from the date the error first occurred.



- (2) Include 6% simple interest in the amount refunded and/or credited to the insureds' account.
Corrective Action: All errors that caused overcharged and undercharges have been corrected. Refunds have been sent to the insureds who received overcharges, which included 6% simple interest from the date the error first occurred.
- (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.
Corrective Action: Completed the file titled "Rating Overcharges Cited during the Examination", acknowledging that the overcharges listed in the file have been refunded. This is included with this response to the Bureau.
- (4) Properly represent the benefits, coverage, advantages and conditions of the policy by showing the accurate policy stacking provisions for the Medical Expense Benefits coverage and by showing the correct policy limits for Transportation Expense on the Declarations Page.
Corrective Action: The statement on the Declarations page has been amended as agreed to with the Bureau during the examination so it is specific to Uninsured Motorists and can no longer be misinterpreted to apply to Medical Expense Benefits coverage.
- Additionally, while the current endorsement for Transportation Expense was filed with the Bureau and approved for use, the Company agrees that it is in need of clarification and is in the process of revising it to better explain how Transportation Expense coverage works. This change will be subject to filing and approval by the Bureau.
- (5) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of classification factors, filed discounts and/or surcharges, tier eligibility, based and/or final rates, and surcharges for accidents/convictions.
Corrective Action: The relevant factor in the filed rating manual was identified as a data entry error. The rate charged on the policies noted was what was intended to have been included in the filed manual. The filed rating manual was corrected, filed and approved effective March 1, 2011.
- (6) Provide the Credit Adverse Action notice as required by 38.2-2232 A of the Code of Virginia.
Corrective Action: The Company has corrected when its Credit Adverse Action notice is to be provided as required by 38.2- 2234 A. The correction of the delivery for this notice was implemented on March 10, 2011.



Termination Review

- (1) Provide proof of financial responsibility without unreasonable delay when requested by the insured.
Corrective Action: This was an isolated incident and has been brought to the employee's manager for training purposes.
- (2) Obtain valid proof of mailing cancellation notices to the insured and lienholder.
Corrective Action: The proof of mailing documentation has been updated at the direction of the Bureau to include the requested statement. Also, the Company is working with the local United States Postal Service branch regarding the need for them to provide a readable stamp on the proof of mailing documents.
- (3) Provide property notice of cancellation to the lienholder when canceling a policy.
Corrective Action: The notice to lienholders has been amended to clearly advise of the correct legal days notice for the lienholder.
- (4) Refund the unearned premium to the insured when the policy cancels due to foreclosure. A refund cannot be made to the lienholder without permission from the insured.
Corrective Action: The Company already has a procedure in place to not refund any unearned premium to the lienholder without the specific permission from the insured to do so. However, the procedures have been clarified to stress this.

Claims Review Items:

11 total items are identified under this caption of the Report. The Company's corrective actions for these items follow:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the Company acknowledges that it has paid the underpayments listed in the file.
- (4) Properly document claims files to that all events and dates pertinent to the claim can be reconstructed.



- (5) Document the claimant file that all applicable coverages have been discussed with the insured. Particular emphasis should be given to rental benefits available under UMPD, Transportation Expense coverage, and Medical Expense Benefits coverage.
- (6) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within 10 business days.
- (7) 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.
- (8) Provide copies of repair estimates prepared by or on behalf of the Company to insureds and claimants.
- (9) Negotiate prompt, fair and equitable settlements of claims in which liability is reasonably clear.
- (10) Obtain a written authorization from an insured prior to making payments directly to the medical provider.
- (11) Adopt and implement standards for the prompt investigation of claims.

Corrective Action: For these items, the Company has compliant procedures in place, but those procedures were not followed in some of the files examined. The importance of following Virginia law and our existing procedures for every claim has been reinforced with individual adjusters and groups of adjusters, as appropriate.

We are attaching a copy of the completed CLAIM UNDERPAYMENTS CITED DURING THE EXAMINATION for the undisputed claims.

Review of Statutory Notices

- (1) Amend the Notice of Information Collection and Disclosure Practices to comply with 38.2-604 C of the Code of Virginia.
Corrective Action: The Company revised its CALIFORNIA CASUALTY COMBINED NOTICE OF INFORMATION COLLECTION AND DISCLOSURE PRACTICES AND OF FINANCIAL INFORMATION COLLECTION AND DISCLOSURE PRACTICES FOR THE STATE OF VIRGINIA to be in compliance with 38.2-604 C. The revised notice was implemented March 1, 2011.
- (2) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with 38.2-604.1 C of the Code of Virginia.
Corrective Action: The Company revised its CALIFORNIA CASUALTY COMBINED NOTICE OF INFORMATION COLLECTION AND DISCLOSURE PRACTICES AND OF FINANCIAL INFORMATION COLLECTION AND DISCLOSURE PRACTICES FOR THE STATE OF VIRGINIA to be in compliance with 38.2-604.1 C. The revised notice was implemented March 1, 2011.



- (3) Amend the Medical expense Benefits notice to comply with 38.2-2202 A of the Code of Virginia.
Corrective Action: The Company revised its Medical Expense Benefits notice to comply with 38.2-2202 A. The revised notice was implemented on December 1, 2011.
- (4) Amend the Uninsured Motorists notice to comply with 38.2-2202 B of the Code of Virginia.
Corrective Action: The Company revised its Uninsured Motorist Limits notice to comply with 38.2-2202 B. The revised notice was implemented on December 1, 2011.
- (5) Provide the 60-day cancellation warning notice on or attached to the first page of the application to comply with 38.2-2210 A of the Code of Virginia.
Corrective Action: The Company revised its auto application to include the 60-day cancellation warning notice on the first page of the application to comply with 38.2-2210 A. This change was effective December 21, 2011.
- (6) Amend the Insurance Credit Score Disclosure notice to comply with 38.2-2126 A and 38.2-2234 A 1 of the Code of Virginia.
Corrective Action: The Company revised its Insurance Credit Score Disclosure notices to comply with 38.2-2234 A 1 and 38.2-2126 A. These were changed on March 25, 2011.
- (7) Amend the flood exclusion notice to comply with 38.2-2125 of the Code of Virginia.
Corrective Action: The Company revised its flood exclusion notice to comply with 38.2-2125. This change was made on November 3, 2011.
- (8) Correct the Company's application to remove the automatic termination statement.
Corrective Action: The Company corrected its auto and property applications to remove the automatic termination statement. These changes were made on December 21, 2011.
- (9) Correct the Company's application by replacing the 60-day time limit with a 90-day time limit.
Corrective Action: The Company corrected its property application by replacing the 60-day time limit with a 90-day time limit. This change was made on December 21, 2011.
- (10) Amend the cancellation notice to use the precise language in its notice of right to review by the Commissioner of Insurance.
Corrective Action: The Company amended all its cancellation notices to use the precise language of the insured's right to review by the Commissioner of Insurance. These changes were made on October 26, 2011.



- (11) Amend the cancellation notice to advise the insured of all of the available options for acquiring replacement insurance.
Corrective Action: The Company amended all its cancellation notices to use the correct notice to advise the insured of all of the available options for acquiring replacement insurance. These changes were made on October 26, 2011.

PART THREE – RECOMMENDATIONS

Rating and Underwriting

- The company should rate the policy using the credit information obtained.
Corrective Action: The first time the Company orders a financial responsibility score the policy is rated with the score that is returned. If at any time a new score is run at the insured's request and the score is better, then the newer score is applied to the policy at that time. If the score has gotten worse, then the worse score will not be applied until the next renewal to avoid a midterm increase in premium.
- The Company should amend Rule F Utility Rating Plan Factor to clarify applicable discounts.
 - **Corrective Action:** The Company will amend Rule F Utility Rating Plan Factor to clarify applicable discounts. This change will be made with the next scheduled filing effective August 1, 2012. The revised description is below with the change indicated:

Utility Rating Plan Factor

These factors are based on the LATER year of (1) the year of construction and or (2) the calendar year that utilities were updated, and are located in Table 7.

For utilities to be considered updated and qualify for the discounts, the following must be updated by qualified contractors with all work conforming to local code requirements:

- a. Electrical service: replacement of fuse or breaker boxes, switches, fixtures and wiring.
 - b. Heating and cooling system: furnace and air-conditioning replacements, or replacement of burners on furnaces and compressors on central air-conditioning systems.
 - c. Plumbing: installation of new water lines within the structure and plumbing fixtures.
- The Company should amend its Driving Record Assessment to address minor speeding convictions.



Corrective Action: The Company will amend the definition of Exhibition of Speed to be more specific and differentiate it from all other minor speeds. The new definition is:

“Exhibition of speed – spinning wheels, excessive acceleration, etc. (EXH)”

All other speeds that do not fit the definition of an EXH would be considered a minor conviction. This change will be made with the next scheduled filing effective September 1, 2012.

Termination

- The Company should omit the right to review on cancellation notices where the policy has been in effect less than 90 days.

Corrective Action: The Company amended its new account cancellation notices to omit the right to review where the policy has been in effect for less than 90 days. These changes were made on October 26, 2011.

Claims Review Items

- The Company should deny a claim in writing and keep a copy of the written denial in the claim file.
- The Company should adopt and implement standards for the prompt investigation of claims.
- The Company should amend the terminology on their automobile claims forms to read Medical Expense Benefits.
- The Company should deny a claim in writing and keep a copy of the written denial in the claim file.
- The Company should adopt and implement standards for the prompt investigation of claims.

Corrective Action: The Company is carefully scrutinizing the recommendations and making any necessary corrections.

Statutory Notices

- The Company should add the TDD number on their Important Information Regarding Your Insurance notice.

Corrective Action: The Company revised its Important Information Regarding Your Insurance notice to add the Bureau’s TDD number. This revision was done effective December 1, 2011.



- The Company should amend the language on their Attention Important Information about How Your Claim Will Be Handled notice to state that medical benefits will be paid to the insured unless the insured directs the Company to pay the provide direct. The same notice should be amended to comply with the Amendment of Policy Provision related to theft coverage.

Corrective Action: The Company is carefully scrutinizing the recommendations and making any necessary corrections.

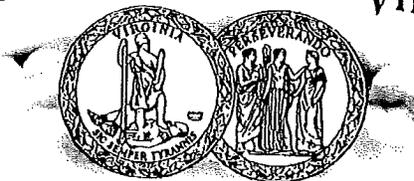
Sincerely,

L. Kyle Belvill, MCM, PLCS
Assistant Vice President
Underwriting Analyst Manager
California Casualty Management Company
1650 Telstar Drive
Colorado Springs, Colorado 80920
Telephone: (719) 532-8360
Email: kbelvill@calcas.com

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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

August 24, 2012

VIA UPS 2nd DAY DELIVERY

L. Kyle Belvill, MCM, PLCS
Assistant Vice President, Underwriting Analyst Manager
California Casualty Management Company
1650 Telstar Dr
Colorado Springs, Colorado 80920

RE: Market Conduct Examination
California Casualty Indemnity Exchange (NAIC#20177)
Exam Period January 1, 2010 through December 31, 2010

Dear Mr. Belvill:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of August 16, 2012. Based upon the Bureau's review of the company's letter, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of California Casualty Indemnity Exchange (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 38.2-228, 38.2-502, 38.2-510 A 1, 38.2-510 A 3, 38.2-604 C, 38.2-604.1 B, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2125, 38.2-2126 A, 38.2-2126 B, 38.2-2202 A, 38.2-2202 B, 38.2-2208 A, 38.2-2208 B, 38.2-2210 A, 38.2-2212 E, 38.2-2234 A of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, 14 VAC 5-400-70 D, 14 VAC 5-400-80 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

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

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

RE: Market Conduct Examination Settlement Offer



Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated ^, 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 §§ 38.2-228, 38.2-502, 38.2-510 A 1, 38.2-510 A 3, 38.2-604 C, 38.2-604.1 B, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2125, 38.2-2126 A, 38.2-2126 B, 38.2-2202 A, 38.2-2202 B, 38.2-2208 A, 38.2-2208 B, 38.2-2210 A, 38.2-2212 E, 38.2-2234 A of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, 14 VAC 5-400-70 D, 14 VAC 5-400-80 D of the Virginia Administrative Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$18,000.00.
2. We agree to comply with the corrective action plan set forth in the company's letters of May 22, 2012 and August 16, 2012.
3. We confirm that restitution was made to 15 consumers for \$11,991.80 in accordance with the company's letters of May 22, 2012 and August 16, 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,

California Casualty Indemnity Exchange


(Signed)

400078

Joseph L. Volponi
(Type or Print Name)

Executive Vice President*
(Title)

September 10, 2012
(Date)

Enclosure

*of California Casualty Management Company, Attorney-in-Fact
for California Casualty Indemnity Exchange

COMMONWEALTH OF VIRGINIA

121120209

STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 13, 2012

REG-CLERK'S OFFICE
REGISTRATION CONTROL CENTER

2012 NOV 13 P 3:55

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2012-00215

CALIFORNIA CASUALTY INDEMNITY
EXCHANGE,

Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that California Casualty Indemnity Exchange ("Defendant"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Commonwealth"), violated § 38.2-228 of the Code of Virginia ("Code"), by failing to provide to the Commissioner of the Department of Motor Vehicles proof of future financial responsibility at the request of a named insured; violated § 38.2-502 of the Code by misrepresenting the benefits, advantages, conditions or terms of an insurance policy; violated §§ 38.2-604 C, 38.2-604.1 B, 38.2-2125, 38.2-2126 A, 38.2-2202 A, 38.2-2202 B, 38.2-2210 A, and 38.2-2234 A of the Code by failing to accurately provide the required notices to insureds; violated § 38.2-2126 B of the Code by failing to properly update insureds' credit information at least once every three (3) years; 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 §§ 38.2-2113 A, 38.2-2113 C, 38.2-2208 A, 38.2-2208 B, 38.2-2212 E of the Code by failing to properly terminate insurance policies; and violated §§ 38.2-510 A 1, and 38.2-510 A 3 of the Code, as

well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to properly handle claims with such frequency as to indicate a general business practice.

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 Eighteen Thousand Dollars (\$18,000), waived its right to a hearing, confirmed that restitution was made to fifteen (15) consumers in the amount of Eleven Thousand Nine Hundred Ninety-one Dollars and Eighty Cents (\$11,991.80), and agreed to comply with the corrective action plan set forth in its letters to the Bureau dated May 22, 2012, and August 16, 2012.

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.

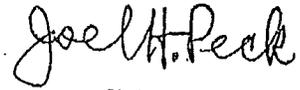
Accordingly, IT IS ORDERED THAT:

(1) The offer of California Casualty Indemnity Exchange in settlement of the matter set forth herein is hereby accepted.

(2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:
L. Kyle Belvill, Assistant Vice President, California Casualty Management Company,
1650 Telstar Drive, Colorado Springs, Colorado 80920; 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.

A True Copy
Teste:



Clerk of the
State Corporation Commission

