

MARKET CONDUCT EXAMINATION REPORT

OF

ARMED FORCES INSURANCE EXCHANGE

AS OF

APRIL 1, 2011

**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 Armed Forces Insurance Exchange as of April 2, 2013, which took place at the company's offices in Leavenworth, Kansas 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 23rd day of April, 2013.

A handwritten signature in cursive script, appearing to read 'Jacqueline K. Cunningham', written over a horizontal line.

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 targeted examination has been made of the private passenger automobile line of business written by Armed Forces Insurance Exchange at its office in Leavenworth, Kansas.

The examination commenced March 12, 2012 and concluded July 25, 2012. Andrea D. Baytop, William Felvey, 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 December 7, 2012 and was assigned the examination number of VA 097-M2. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILE*

The Exchange commenced business on August 1, 1982 succeeding the former Armed Forces Cooperative Insuring Association. The latter as originally named Army Co-operative Fire Association was organized February 7, 1887 for the sole purpose of insuring loss by fire. After World War II, catastrophic coverages were offered as many members were now serving in areas that suffered from typhoons, floods, or earthquakes. In 1954, insurance against loss by theft as well as many other perils was offered. Package coverages for homes in the U.S. as well as liability coverage throughout the world were offered in 1960. The company began offering personal lines automobile coverage in 1993; this coverage is currently offered in ten states.

Prior to the formation of the Exchange, the Association was not licensed as an insurance company in any state. The expansion of homeowners insurance and the growth in emphasis on state regulation of insurance companies forced the company to become licensed by state insurance departments. The Exchange was formed to assume all of the Association's business. On July 1, 1992, the remaining assets and liabilities of the Association were merged into the Armed Forces Insurance Exchange. In conjunction with the merger, Armed Forces Insurance Corporation, an attorney-in-fact corporation became a wholly owned subsidiary.

* 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 08/07/1985 except as noted in the table below.

ARMED FORCES INSURANCE EXCHANGE	
NAIC Company Number	41459
LICENSED IN VIRGINIA	08/07/1985
LINES OF INSURANCE	
Accident and Sickness	
Aircraft Liability	
Aircraft Physical Damage	
Animal	
Automobile Liability	3/11/1991
Automobile Physical Damage	3/11/1991
Boiler and Machinery	
Burglary and Theft	x
Commercial Multi-Peril	
Credit	
Farmowners Multi-Peril	x
Fidelity	
Fire	X
General Liability	X
Glass	
Homeowners Multi-Peril	X
Inland Marine	X
Miscellaneous Property	X
Ocean Marine	
Surety	
Water Damage	
Workers' Compensation	

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

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Armed Forces Insurance Exchange		
Private Automobile Liability	\$863,884	.04%
Private Automobile Physical Damage	\$629,162	.04%

* Source: The 2011 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the company's private passenger automobile line of business written in Virginia for the period beginning April 1, 2010 and ending March 31, 2011. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance¹, statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the company's operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

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

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a 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 specific company practices does not constitute an acceptance of the practices by the

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

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	AFIE	<u>Population</u>				
		<u>Sample Requested</u>	<u>FILES</u>	<u>FILES NOT</u>	<u>FILES WITH</u>	<u>ERROR</u>
		<u>TOTAL</u>	<u>REVIEWED</u>	<u>FOUND</u>	<u>ERRORS</u>	<u>RATIO</u>
<u>Private Passenger Auto</u>						
New Business ¹		<u>456</u>	44	0	30	68%
		56				
Renewal Business		<u>2177</u>	40	0	18	45%
		40				
Co-Initiated Cancellations		<u>3</u>	4	0	2	50%
		3				
All Other Cancellations		<u>81</u>	20	0	19	95%
		20				
Nonrenewals ²		<u>22</u>	3	0	1	33%
		4				
Rejected Applications		<u>23</u>	5	0	5	100%
		5				
<u>Claims</u>						
Auto		<u>411</u>	41	0	34	83%
		42				

Footnote ¹ 12 files were cancelled flat and therefore not reviewed.

Footnote ² One file was moved from the First 60 category to the Nonrenewal category.

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 56 new business policy files for review. The examiners reviewed 44 of these files. Twelve files were cancelled flat and not reviewed. As a result of this review, the examiners found overcharges totaling \$587.57 and undercharges totaling \$65.36. The net amount that should be refunded to insureds is \$583.08 plus six percent (6%) simple interest.

- (1) The examiners found ten violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information as required by the statute. The company listed the Medical Expense Benefits endorsement on the declarations page that was not applicable to the policy.
- (2) The examiners found 35 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 13 instances, the company failed to use the correct discounts and/or surcharges.
 - b. In two instances, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - c. In one instance, the company failed to use the correct symbol.
 - d. In one instance, the company failed to use the correct territory.
 - e. In one instance, the company failed to use the correct driver classification

factor.

- f. In 15 instances, the company failed to follow its filed Income Loss Benefits rule when rating the risk.
 - g. In two instances, the company failed to follow its filed rules by issuing policies beyond the six month policy period as defined in its filed rules.
- (3) The examiners found three violations of § 38.2-2234 A of the Code of Virginia. The company failed to provide the Credit Adverse Action notice to the insured.

Automobile Renewal Business Policies

The Bureau requested 40 renewal business policy files for review. The examiners reviewed all of these files. As a result of this review, the examiners found overcharges totaling \$140.02 and undercharges totaling \$334.48. The net amount that should be refunded to insureds is \$140.02 plus six percent (6%) simple interest.

- (1) The examiners found five violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information as required by the statute. The company listed the Medical Expense Benefits endorsement on the declarations page that was not applicable to the policy.
- (2) The examiners found 25 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 11 instances, the company failed to use the correct discounts and /or surcharges.
 - b. In one instance, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - c. In three instances, the company failed to use the correct symbols.
 - d. In one instance, the company failed to use the correct territory.
 - e. In one instance, the company failed to use the correct tier eligibility

criteria.

- f. In one instance, the company failed to use the correct driver classification factor.
- g. In seven instances, the company failed to follow its filed Income Loss Benefits rule when rating the risk.

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 two 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 three files. One file was reviewed under the Notice Mailed After the 59th Day of coverage category. One file was moved from the Notice Mailed After the 59th Day of coverage category. One file was moved from the Non renewal category. 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 proof of financial responsibility without unreasonable delay when requested by the insured.
- (2) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the lienholder.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested one automobile cancellation that was initiated by the company where the company mailed the notice 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 this policy. One file was reviewed under the Notice Mailed Prior to the 59th Day of Coverage category. One file was moved from the Prior to the 59th Day of Coverage category. As result of this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

All Other Cancellations – Automobile PoliciesNONPAYMENT OF THE 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.

- (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 cancellation notice to the insured.
- (2) The examiners found four violations of § 38.2-2208 B of the Code of Virginia.
 - a. In three instances, the company failed to provide proper notice of cancellation to the lienholder.
 - b. In one instance, the company failed to retain proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found 14 violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance the company failed to address the cancel notice to all of

the named insureds.

- b. In ten instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
- c. In three instances, the company failed to advise the insured of the availability of other insurance through his agent, another insurer or the Virginia Automobile Insurance Plan (VAIP).

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.

- (1) The examiners found nine violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain the insured's written request to cancel his policy mid-term.
- (2) The examiners found one occurrence where the company failed to comply with the provisions of the insurance contract. The company failed to obtain advanced written notice of cancellation from the insured.

Rejected Applications – Automobile Policies

The Bureau requested five automobile insurance applications for which the company declined to issue a policy. The examiners reviewed all of these files.

- (1) The examiners found four violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the applicant a copy of the company's Notice of Insurance Information Collection and Disclosure Practices.
- (2) The examiners found two violations of § 38.2-610 A of the Code of Virginia.
 - a. In one instance, the company failed to provide the applicant with the

specific reason for the adverse underwriting decision.

- b. In one instance, the company failed to provide the insured with written notice of an AUD.

Company-Initiated Non-renewals – Automobile Policies

The Bureau requested four automobile non-renewals that were initiated by the company. The examiners reviewed three of these files. One file was reviewed under the Notice Mailed Prior to the 60th Day of Coverage category.

The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to all named insureds listed on the policy.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 41 automobile claims for the period of April 1, 2010 through March 31, 2011. One file was a Kansas policy and not reviewed. 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 \$2,541.55 and underpayments totaling \$553.59. The net amount that should be paid to claimants is \$419.54 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 13 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim.
- a. In one instance, the company failed to inform an insured of his physical damage deductible when the file indicated that the coverage was applicable to the loss.
 - b. In five instances, the company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
 - c. In four 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.
 - d. In three 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 eight violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

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

- (4) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (5) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

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

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

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

- (7) The examiners found 13 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 12 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.

- (8) The examiners found two violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- (9) The examiners found 15 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

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

- (10) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.
- (11) The examiners found one violation of § 38.2-510 C of the Code of Virginia. The company failed to disclose the required aftermarket parts notice to the vehicle owner on the estimate of repairs or in a separate document.
- (12) The examiners found 16 occurrences where the company failed to comply with the provisions of the insurance contract.
 - a. In one instance, the company incorrectly advised the insured that a police report was required on an Uninsured Motorist Property Damage (UMPD) claim.

- b. In two instances, the company failed to include the lienholder on the check.
- c. In 12 instances, the company paid an insured more than he/she was entitled to receive under the terms of his/her policy.
- d. In one instance, the company issued payments under an incorrect coverage.

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

REVIEW OF FORMS

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

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

Automobile FormsPOLICY FORMS USED DURING THE EXAMINATION PERIOD

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the 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 November 16, 22, and 29, December 1, and 15, 2011. In addition, the company provided five renewal business policies mailed on November 3, 2011.

NEW BUSINESS POLICIES

- (1) The examiners found two violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute. The company listed endorsements on the declarations page that were not applicable to the policy.

- (2) The examiners found five violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by this statute.
- (3) The examiners found five violations of § 38.2-604.1 A of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by this statute.

RENEWAL BUSINESS POLICIES

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute. The company listed endorsements on the declarations page that were not applicable to the policy.
- (2) The examiners found five violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by this statute.
- (3) The examiners found five violations of § 38.2-604.1 A of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by this statute.

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 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 two violations of § 38.2-604 B of the Code of Virginia. The company's long form Notice of Information Collection and Disclosure Practices did not contain all of the information required by this statute.
- (2) The examiners found three violations of § 38.2-610 A of the Code of Virginia. The company's Adverse Underwriting Decision (AUD) notice did not include language substantially similar as that of the prototype set forth in Administrative Letter 1981-16.

Statutory Vehicle Notices

- (1) The examiners found one violation of § 38.2-517 A 3 of the Code of Virginia. The company's glass claim procedure did not properly disclose the use of a Third Party Administrator.
- (2) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company failed to have available for use an Accident Point Surcharge notice as required by the statute.
- (3) The examiners found one violation of § 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.

- (4) 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 application.
- (5) 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.

Other Notices

The company provided copies of six other notices, including applications, which were used during the examination period.

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

LICENSING AND APPOINTMENT REVIEW

A review was made of new business 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

The examiners found no violations in this area.

Agency

The examiners found one violation of § 38.2-1812 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of application.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

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.

PART TWO – CORRECTIVE ACTION PLAN

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

General

Armed Forces Insurance Exchange shall:

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

Rating and Underwriting Review

Armed Forces Insurance Exchange shall:

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

- (4) Specify accurate information in the policy by showing only applicable forms on the declarations page.
- (5) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and/or convictions, symbols, territory, driver classification factors and Income Loss Benefits when rating a risk.
- (6) Provide the Credit Adverse Action notice as required by § 38.2- 2234 A of the Code of Virginia.

Termination Review

Armed Forces Insurance Exchange shall:

- (1) File proof of financial responsibility without delay when requested by an insured.
- (2) Provide the Notice of Insurance Information Collection and Disclosure Practices to the insured.
- (3) Provide a written AUD notice to the insured.
- (4) Obtain and retain valid proof of mailing the notice of cancellation or nonrenewal to the insured and lienholder.
- (5) Provide proper notice of cancellation to the lienholder when canceling a policy.
- (6) Inform the insured of his/her right to review by the Commissioner for non-payment of premium cancellations.
- (7) Inform the insured of the availability of other insurance through another insurer, his agent or the VAIP.
- (8) Obtain a written request for cancellation from the insured before processing insured requested cancellations.
- (9) Send the cancellation notices to all named insureds on the policy.

Claims Review

Armed Forces Insurance 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 the claim file 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 Medical Expense Benefits, Transportation Expense coverage and rental benefits under Uninsured Motorists coverage (UMPD).
- (6) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days.
- (7) Make all claim denials in writing and keep a copy in the claim file.
- (8) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
- (9) Provide copies of vehicle repair estimates prepared by or on behalf of the company to insureds and claimants.
- (10) Include a correct statement of coverage under which payments are made with all

claim payments made to the insured.

Review of Policy Issuance Process

Armed Forces Insurance Exchange shall:

- (1) Specify the required information in the policy by listing only forms applicable to the policy on the declarations page.
- (2) Provide the insured the Notice of Information Collection and Disclosure Practices with all new and renewal policies as required by § 38.2-604 of the Code of Virginia.
- (3) Provide the insured the Notice of Financial Collection and Disclosure Practices with all new and renewal policies as required by § 38.2-604.1 of the Code of Virginia.

Review of Statutory Notices

Armed Forces Insurance Exchange shall:

- (1) Amend the Glass Script to comply with § 38.2-517 A 3 of the Code of Virginia.
- (2) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (3) Amend the Adverse Underwriting Decision notice to comply with § 38.2-610 A of the Code of Virginia.
- (4) Amend the Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.
- (5) Amend the Rejection of Higher UM Limits notice to comply with § 38.2-2202 B of the Code of Virginia.
- (6) 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.

- (7) Amend the Credit Score Disclosure notice to comply with § 38.2-2234 A of the Code of Virginia.

Licensing and Appointment Review

Armed Forces Insurance Exchange shall:

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

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. The following errors will not be included in the settlement offer.

RECOMMENDATIONS

We recommend the company take the following actions:

Rating and Underwriting

- The company should amend the wording on the declarations page to mirror the wording on the endorsements.
- The company should correct the declarations page to show the individual premiums for each of the coverages in the appropriate fields.

Termination

- The company should amend the cancellation notice to include the effective date of cancellation as opposed to effective date of notice.

Claims

- The company should apply the correct Virginia vehicle sales tax, title and tag fees on claimants total loss settlements.

Forms

- The company should amend the Customizing Equipment Coverage form (PP 03 05 08 86) to include the standard form identifier of "Personal Auto".
- The company should amend the Automobile Additional Insured - Lessor (PP 03 19 08 86) to include the standard form identifier of "Personal Auto".
- The company should amend the Auto Loan/Lease Coverage form

(PP 03 35 09 93) to include the standard form identifier of "Personal Auto".

Policy Issuance Process

- The company should change the term "Rental Reimbursement" to Transportation Expense Coverage on its declarations page.
- The company should list only endorsements on the section of the declaration page titled "Endorsements forming a part of this policy".

Statutory Notices

- The company should revise its "Important Information Regarding Your Insurance" notice to include the toll free and TDD phone numbers.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

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

ACKNOWLEDGEMENT

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

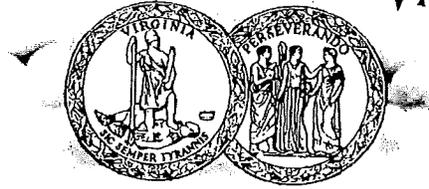
Sincerely,

A handwritten signature in black ink, appearing to read "Karen S. Gerber". The signature is fluid and cursive, with the first name "Karen" being the most prominent.

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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TELEPHONE: (804) 371-9741
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August 9, 2012

VIA UPS 2nd DAY DELIVERY

William B. Cody
Chief Risk Officer
Armed Forces Insurance Exchange
550 Eisenhower Rd.
Leavenworth, KS 60648-4864

Re: Market Conduct Examination
Armed Forces Insurance Exchange (NAIC # 41459)
Examination Period: April 1, 2010 – March 31, 2011

Dear Mr. Cody:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of April 1, 2010, through March 31, 2011. 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 July 25, 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 put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report. The company does not need to respond to any particular item with which it agrees. If the company disagrees with an item or wishes to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the report or modify a violation unless the company provides written documentation to support its position.

Secondly, 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 file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The company's response and the spreadsheet mentioned above must be returned to the Bureau by September 17, 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 September 17, 2012.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is fluid and cursive, with a large loop at the beginning of the first name.

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



September 27, 2012

Commonwealth of Virginia
P.O. Box 1157
Richmond, VA 23218

Attn: Ms. Joy M. Morton
Supervisor, Market Conduct Section

Re: Market Conduct Examination
Armed Forces Insurance Exchange (NAIC# 41459)

Dear Ms. Morton,

As requested in your letter dated August 9, 2012, please find enclosed our company's response to the Bureau's market conduct examination.

We have included 6 attachments. The first attachment, Attachment A, contains introductory comments and an excerpt of the examination report's observations with our comments following in bold font. Also included in Attachment A is the corrective action plan. Attachments B – F are supporting exhibits referenced in our comments. For your convenience, we have provided both electronic and hard copies of our response. We have also included the restitution spreadsheet on the enclosed disk.

I want to thank you again for the two week extension of our response deadline. Should you have any questions, please do not hesitate to contact me at 913-727-4654 or at Bill.Cody@afi.org.

Regards,

A handwritten signature in cursive script that reads 'William B. Cody'.

William B. Cody
Chief Actuary and Chief Risk Officer

INTRODUCTION

Armed Forces Insurance Exchange (also herein AFIE or the company) appreciates this opportunity to respond to Virginia's "Market Conduct Examination Report of Armed Forces Insurance Exchange as of April 1, 2011" (Preliminary). The following pertains to VA's Report and will augment such prior responses as Armed Forces Insurance has issued pursuant to the subject Market Conduct Examination.

AFIE takes seriously the Commonwealth of Virginia's governing authority over commerce within the state including regulatory governance of property and casualty insurance business as part of AFIE's ongoing commitment to afford risk protection to its valued members. This response in whole or in part, including acknowledgement, acceptance, settlement or agreement with Virginia's findings and any ensuing payment of underpayment refunds, overcharging of premiums, interest, fines, assessments or fees of any kind or nature should not be construed to waive or relinquish any right, administrative, at law, in equity or of any other kind or nature whatsoever. All rights are reserved including but not limited to AFIE's rights to dispute and contest the factual accuracy, investigative sufficiency, findings and/or assessments of alleged improper conduct. Any and all deficiency of market conduct by AFIE is expressly denied, including but not limited to any express finding within VA's Report that AFIE market conduct violates requirements, laws or regulations "...with such frequency as to indicate a general business practice." Notwithstanding such full and unequivocal reservation of rights AFIE seeks to engage this administrative process including remediation in earnest so to settle all related violations alleged by the Commonwealth of Virginia such that it may buy its peace and continue to afford the fullest possible insurance protection to its membership in Virginia and elsewhere as AFIE determines necessary and appropriate.

PART ONE – EXAMINERS’ OBSERVATIONS

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

- (2) 38.-1318 The Company was unable to provide the new business application. (1 violation)

During the initial exam, the company was not able to provide the requested application due to a system constraint. Subsequent to the initial findings draft, the company was able to provide the requested application information. Attachment B is the new business information originally requested.

- (3) 38.2-1906D The Company failed to use rules and/or rates on file with the Bureau

- a. The Company failed to use the correct discounts and/or surcharges (13 violations)

The company disagrees with this finding. The Good Driver Discount and SDIP charges were applied as filed in the manual.

The base class for the secondary classification table is zero points. The existence of a single point results in the same factors as the base class in the secondary class factor table, thus there is no difference in premium due to the secondary classification for a zero point and one point risk. I.e. there is no surcharge for having a single point assigned. However, the risk does retain the assigned point. Rule 5.B.1.a. Exception #1 indicates there will not be a surcharge on a one-point risk; however, it does not indicate that the point shall be removed.

The risk is ineligible for the Good Driver Discount as Rule 5.E.1 clearly states no points can be assigned to the vehicle to be eligible for the discount.

An example of how the rule applies may provide more clarification. The rating for a single car policy using various point levels:

Points assigned per Rule 5.B.	Additional factor (surcharge) per Secondary Classification Table (SDIP)	Good Driver Discount Applies?
0	0	Yes: No points assigned
1	0	No: 1 Point assigned but no surcharge applied
2	+ 0.4	No: Points assigned
3	+ 0.6	No: Points assigned

Automobile Renewal Business Policies

- (2) 38.2-1318 The company was unable to provide the renewal declarations page (2 violations)

The company disagrees with this finding. The Bureau is asking for a printed copy of the declarations page corresponding to the renewal bill. The two vehicles in question were cancelled prior to the policy renewal effective date but after the renewal bill processed. Because the two vehicles were cancelled prior to the policy effective date, they were not included on the declarations page. Since the cancellation occurred after the renewal bill processed, they were listed on the renewal bill.

- (3) 38.2-1905A The company failed to notify the insured in writing that his policy had been surcharged for an at-fault accident (1 violation)

The company disagrees with this finding. Evidence of the accident in question was provided to the Bureau and no response was received from the Bureau. See 4-12-2012 response to R&URBPPA-16499118171.

- (4) 38.2-1906 D The company failed to use the rules and/or rates on file with the Bureau
- a. The Company failed to use the correct discounts and/or surcharges (11 violations)

The company disagrees with the finding. This involves the application of the Good Driver Discount. Please see response above in subsection (3) of the New Business Policy section.

- e. The Company failed to use the correct tier eligibility criteria

The company disagrees with this finding. There is no record of the review sheet for this citation (RPA074-1339072100).

TERMINATION REVIEW

Company-Initiated Cancellations – Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

- (1) 38.2-228 The Company failed to provide proof of financial responsibility without unreasonable delay when requested by the insured (2 violations)

The company disagrees with this finding. The policy in question for TPA003 was cancelled due to suspension of license.

All Other Cancellations – Automobile Policies

NONPAYMENT OF THE PREMIUM

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

The company disagrees with this finding. Please see Attachment C for copies of the proof of mailing along with a printed web page from the USPS indicating that Form 3877 or a facsimile is acceptable proof for certified mail. As a result, the company believes it complied with 38.2-2208 A – 1, as no specific reference is made to utilize form 3817 from the USPS, only that the notice is sent via certified mail and Form 3877 complies with that requirement.

- (2) 38.2-2208B

- a. The Company failed to retain proof of mailing the cancellation notice to the insured (1 violation)

The company disagrees with this finding. Attachment D is the certificate of mailing. This response was previously sent but no correspondence was received from the Bureau acknowledging this copy of the certificate of mailing.

- b. The Company failed to provide proper notice of cancellation to the lienholder (3 violations)

The company disagrees with this finding. Attachment E is the proper notification for TPA009. This response was previously sent but no correspondence was received from the Bureau acknowledging this copy of the notice of cancellation.

- c. The Company failed to retain proof of mailing the cancellation notice to the lienholder (1 violation)

The company disagrees with this finding. Attachment F is the proof of mailing. This response was previously sent but no correspondence was received from the bureau acknowledging this copy of the certificate of mailing.

REVIEW OF THE COMPLAINT-HANDLING PROCEDURE

38.2-511 The Company failed to maintain a complete complaint register (1 violation)

The company disagrees with this finding. A complaint register is maintained, however, the company did not receive any complaints during the review period. The company was only asked to provide complaints between specified dates.

PART TWO – CORRECTIVE ACTION PLAN

Armed Forces Insurance Exchange shall provide a Corrective Action Plan (CAP) with its response to the Report.

On April 9, 2012, the company notified the Bureau via SERFF that it has stopped issuing new personal auto business. Effective July 1, 2012, the company began non-renewing the personal auto book and will no longer have any personal auto policies in force as of January 2013. All affected policyholders have been advised of the company's intent to withdraw from the market.

Although the company is exiting the market, some of the items noted by the Bureau are specifically addressed below. Other items have become obsolete with the company's exit from the market.

Should the company decide to re-enter the personal auto market, the items identified by the Bureau with respect to policy issuance and policy maintenance, rating, notification and disclosure will be modified to comply with the Virginia law.

Because the company does expect to continue to receive claims even after the expiration of the last policy, items affecting claims handling and all applicable related notices will be corrected. The company will adopt and undertake such actions as may be necessary to ensure compliance with all items cited and otherwise regular conduct and administration of claims processes consistent with Virginia law and administrative requirements. Corrective action will include:

- 1. Distribution of and training pursuant to the corrective actions required as set forth within VA's Report.**
- 2. Regularized management oversight of regular claim activities to ensure future conduct meets with VA requirements.**
- 3. Periodic internal claims file audit and review to include regularized compliance evaluation in context of good faith and fair dealing as well as jurisdictionally specific mandates as appropriate, including but not limited to those set forth within VA's (Market Conduct Examination) Report.**
- 4. Modification of scripts to comply with VA law.**

The company acknowledges that historical handling of vehicle title, tax and tag payments contemplated tax at applicable VA sales tax rates. As such slight overpayment calculations ensued. This error has been noted and publicized to ensure future calculations correctly and accurately reflect sales tax associated with future claims settlements where appropriate.

Rating and Underwriting Review

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

Errors identified that do not involve the application or removal of the Good Driver Discount have been corrected and refunds sent on the dates indicated in the file. Insureds' premiums where the application or removal of the Good Driver Discount impacts the amount charged were not completed as the company disagrees with Bureau's calculation of the appropriate premium.

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

An interest amount equaling six percent (6%) simple interest has been included to the amount of overage. For policies that were inadvertently undercharged, we have opted not to bill our policyholders for the additional premium owed.

- (3) *Complete and submit to the Bureau, the file titled "Rating Overcharges Cited during the Examination."*

The file has been completed and included in this mailing for those policies that do not involve the application or removal of the Good Driver Discount. Insureds' premiums where the application or removal of the Good Driver Discount impacts the amount charged were not completed as the company disagrees with Bureau's calculation of the appropriate premium. The premiums in question have been identified within the spreadsheet.

Claims Review

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

Errors identified for the claim that AFIE acknowledges was in error have been corrected (CPA019). Because the company disagrees with the Bureau's findings on the remaining claims, these have not been completed.

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

An interest amount equaling six percent (6%) simple interest has been included to the amount of overage.

- (3) *Complete and submit to the Bureau, the file titled "Claims Underpayments Cited during the Examination."*

The file has been completed and included in this mailing for the claim that the company acknowledges was in error. (CPA019) The company disagrees with the Bureau's findings on the other claims as discussed in the "CLAIMS OVERPAYMENT/UNDERPAYMENT REPORT" section below.

Review of Statutory Notices

Armed Forces Insurance Exchange shall:

- (1) *Amend the Glass Script to comply with 38.2-517A 3 of the Code of Virginia. (VA # 4)*

The company will amend the Glass Script to comply with 38.2-517A 3 of the Code of Virginia.

Licensing and Appointment Review

Armed Forces Insurance Exchange shall:

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

AFIE appointed AFIA effective April 9, 2012.

Review of the Complaint-Handling Process

- (1) *Maintain complete complaint register*

The company currently maintains a complaint register. The company received no complaints during the review period specified by the Bureau. Because no complaints were received, none were sent to the Bureau for review. The Bureau concluded we do not have a complaint register. This is not a correct conclusion as the company does maintain a complaint register.

CLAIMS OVERPAY/UNDERPAY REPORT

AFIE's review of CPA001 (\$275.38) indicates VA's reported conclusion was reached in error. VA's examiner's finding reads in pertinent part:

"CITE: 14-5-400-80-D... The company failed to give a copy of the estimate to the owner of the insured vehicle...(and reflects)... OBSERVATION(s):

- (1) The file is not documented to reflect the insured was given a copy of the estimate (and)
- (2) The file is not documented to reflect the insured was sent a copy of the supplement.”

AFIE's response was issued by way of "Company Comments" as follows:

” Controverted: Your cited authority provides in pertinent part, "If an insurer prepares an estimate...." None was prepared by the insurer, The insured vehicle owner selected the repair shop and estimated repairs. We worked directly with the shop on request of the vehicle owner. Desk review of the shop's estimate, if any is performed by ACE. All repairs charged by the shop were paid, less deductible in the appropriate amount. Please withdraw.”

No factual basis for the alleged underpayment determined by VA's examiner, nor any administrative violation of the cited authority is referenced. We reiterate our request that both the alleged violation and request for reimbursement to the insured be withdrawn.

AFIE's review of CPA011 reflects the VA Examiner finds AFIE underpayment to 3rd party claimant for rental reimbursement where claim file records indicate unequivocally

1. the 3rd party claimant sought and recovered under 1st party insurance coverage with GEICO; and
2. 3rd Party Claimant arranged rental with GEICO directly and concluded same prior to AFIE's receipt of detail sufficient to issue payment. On receipt of sufficient information GEICO negotiated rental fees with Enterprise (rental company). AFIE reimbursed for such auto rental charges as were incurred.

VA's Report cites AFIE and directs reimbursement for alleged misconduct, if any, of GEICO not AFIE. Withdrawal of CITED violation and directed reimbursement is requested.

Regarding directed reimbursement of underpayment of \$74.84 pursuant to CPA012 VA's examiner has overstated the amount or reimbursement required. We request the reimbursement amount be redirected @ \$43.78 net to customer; \$46.41 with 6% simple interest.

COMMONWEALTH OF VIRGINIA

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



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November 16, 2012

VIA UPS 2ND DAY DELIVERY

William Cody
Chief Actuary and Chief Risk Officer
Armed Forces Insurance Exchange
550 Eisenhower Rd.
Leavenworth, KS 66048-4864

Re: Market Conduct Examination
Armed Forces Insurance Exchange (NAIC #41459)
Market Exam Period: April 1, 2010 – March 31, 2011

Dear Mr. Cody:

The Bureau of Insurance (Bureau) has reviewed the September 27, 2012 response to the Preliminary Market Conduct Report (Report) of Armed Forces Insurance Exchange (Company). The Bureau has referenced only those items where the Company has disagreed with the Bureau's findings, or items that have changed in the Report. The Company failed to respond to the Report in the format requested. The Bureau's response to the Company follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

Automobile New Business

- (2) The violation for RPA028 remains in the Report. The information provided by the Company consists of screen shots that were available for the examiners review while on site. The Company has not provided a representation of either a paper application or any version of an online application.
- (3a) The violations in this section remain in the Report. The Company's rules are not consistent. One rule indicates the discount applies and another rule indicates it does not. In a situation where the Company's rules are inconsistent, the application of discounts and/or surcharges is applied in favor of the insured.

Automobile Renewal Business

- (2) After further review, RPA076 is removed from the Report. RPA093 remains in the Report. The Company has not provided any additional information for the Bureau to reconsider its initial findings.
- (3) The violation for RPA084 remains in the Report. The review sheet referenced in your response was for a violation of § 38.2-610 A of the Code of Virginia. The violation in this section is for a violation of § 38.-1905 A of the Code of Virginia. The Company

surcharged the insured's policy for an at fault accident and did not notify the insured in writing that the surcharge points applied.

- (4a) The violations in this section remain in the Report. The Company's rules are not consistent. One rule indicates the discount applies and another rule indicates it does not. In a situation where the Company's rules are inconsistent, the application of discounts and/or surcharges is applied in favor of the insured.
- (4e) The violation for RPA074 remains in the Report. The Company responded to and acknowledged document number R&URBPPA-465701286. In the Company's response it advised that it could not locate the information requested by the Bureau in either the Company files or vendor files. Please see copies attached.

Automobile Terminations

Company Initiated Cancellations

Notice Mailed Prior to the 60th Day of Coverage

- (1) The violations for TPA003 and TPA027 remain in the Report. The policy for TPA003 was in effect for 54 days. The policy for TPA027 was in effect for 62 days. The Company failed to file with the Department of Motor Vehicles without delay an SR-22 on either of the policies.

Nonpayment of Premium

- (1) The violation for TPA006 remains in the Report. The Company is unable to provide proof of postage paid for the mailing.
- (2a) The violation for § 38.2-2208 B for reference number TPA004 has been removed from the Report. A violation has been added to section 1a of the Report for a violation of § 38.2-2208 A of the Code of Virginia. The Company provided a copy of the document obtained as proof of mailing the notice of cancellation. However, the proof of mailing obtained is not valid because the document does not include evidence of postage paid. The Report has been renumbered to reflect these changes.
- (2b) The violation for TPA006 remains in the Report. The cancellation date on this policy was 12/23/2010. The Company did not mail the cancellation notice to the lienholder until 1/12/2011.

The violation for TPA009 remains in the Report. The Company's Attachment E does not apply to the cancellation under review. The cancellation notice provided in attachment E was "mailed" on 6/21/10 for an effective date of cancellation of 8/19/10. The cancellation date requested for review of this policy was effective 6/22/2010. The documents provided for review of the examination show that the notice for the 6/22/10 cancellation was mailed to the lienholder on 6/30/2010.

The violation for TPA010 remains in the Report. The cancellation date on this policy was 11/24/2010. The Company did not mail the cancellation notice to the lienholder until 12/14/2010.

Complaint Handling Process

The violation has been removed from the Report. The Company did not have any complaints during the examination period.

Claims-Automobile Policies

- (6a) The violation for CPA001 remains in the Report. Reference number CPA001 has more than one violation. The Company's response is to a violation of 14 VAC 5-400-80 D. However, the \$275.38 underpayment is as a result of a violation of 14 VAC 5-400-70 D for failing to pay all of the rental expenses incurred. The Company's claim file includes a rental bill for \$635.38. The Company paid \$360.00 of this bill. There is no documentation or explanation for the denial of the remaining \$275.38 billed by the rental company.

The violation for CPA012 has been amended to show the underpayment as \$43.78. The Report and the Restitution Spreadsheet have been amended to reflect this change.

- (10) The violation for CPA011 remains in the Report. The Company was in direct contact with the claimant throughout the rental period. The Company was also in contact with the third party carrier. At no time did the Company inform the claimant or his carrier that the Company would refuse to pay Collision Damage Waiver charges.

PART TWO CORRECTIVE ACTION PLAN

Rating and Underwriting

- (2) The Company should provide evidence of payment for all of the overcharges cited in the restitution spreadsheet.
- (4) The Company should provide a Corrective Action Plan as it relates to showing applicable forms on declaration pages during the time in which the Company continues to do automobile business in Virginia.
- (6) The Company should provide a Corrective Action Plan as it relates to using filed rates and rules during the time in which the Company continues to do automobile business in Virginia.

Terminations

- (1) The Company should provide a Corrective Action Plan as it relates to filing proof of financial responsibility during the time in which the Company continues to do automobile business in Virginia.
- (4) The Company should provide a Corrective Action Plan as it relates to obtaining and retaining valid proof of mailing the notice on cancellation or nonrenewal to the insured and lienholder during the time in which the Company continues to do automobile business in Virginia.

- (5) The Company should provide a Corrective Action Plan as it relates to providing proper notice to the lienholder during the time in which the Company continues to do automobile business in Virginia.
- (7) The Company should provide a Corrective Action Plan as it relates to providing information to insureds regarding the availability of other insurance through their agent, another insurer or the VAIP during the time in which the Company continues to do automobile business in Virginia.
- (8) The Company should provide a Corrective Action Plan as it relates to sending cancellation notices to all named insureds on the policy during the time in which the Company continues to do automobile business in Virginia.

Claims

- (2) The Company should provide evidence of payment for the underpayments cited in the restitution spreadsheet.

The company has not provided the training completion date(s) or proposed audit intervals for the items in their Correction Action Plan.

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 December 12, 2012.

Sincerely,

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



Armed Forces Insurance
EXCHANGE

December 12, 2012

Commonwealth of Virginia
P.O. Box 1157
Richmond, VA 23218

Attn: Ms. Joy M. Morton
Supervisor, Market Conduct Section

Re: Market Conduct Examination
Armed Forces Insurance Exchange (NAIC# 41459)

Dear Ms. Morton,

As requested in your letter dated November 16, 2012, please find attached our company's response to the Bureau's market conduct examination as well as the completed restitution spreadsheet.

In order to facilitate the closure of the exam, we have responded to the items that we believe additional information is available for your consideration. Items that do not have a response as well as the completed restitution spreadsheet are not to be construed as an admission on our part of any wrong doing or element of bad faith; we are only simply trying to bring closure to the process.

For your convenience, we have provided both electronic and hard copies of our response. Hard copies of the response and the disk containing the completed restitution spreadsheet will be sent via express mail.

Should you have any questions, please do not hesitate to contact me at 913-727-4654 or at Bill.Cody@afi.org.

Regards,

William B. Cody
Chief Actuary and Chief Risk Officer

PART ONE – EXAMINERS’ OBSERVATIONS

Automobile New Business Policies

- (2) Attachment B from our prior response is the original on-line application. Our prior response did not indicate that the screen prints were the actual application. We have re-attached the Attachment B information for your convenience and reconsideration.

Automobile Renewal Business Policies

- (2) Our original response to review sheet RPA093 dated indicated there was a premium adjustment of (\$20.55). The credit was a result of the application of the Good Student Discount.

The renewal for the policy processed with a premium of \$1,051.20 on January 25, 2011. Page one of Attachment C shows how the policy looked as of January 25, 2011. (Note the highlighted Good Student Discount equals “N” on this date.) On January 25, 2011, the policyholder supplied information to warrant the application of a Good Student Discount. This was the information originally presented in RPA093 and included again in Attachment C as pages two through five showing the credit of (\$20.55). On January 26, 2011, the policy was amended to include the Good Student Discount. See page six of Attachment C where the highlighted Good Student Discount equals “Y” on this date. Included as page seven are the notes associated with these transactions. The original premium of \$1,051.20 less the Good Student Discount of (\$20.55) equals \$1,030.65 and is reflected on the dec. The final dec page is included as Attachment C, page eight.

- (3) Attachment D has a copy of the original review sheet and a copy of the letter notifying the policyholder of the surcharge, dated May 17, 2010. This letter accompanied the issue.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review.

- (2) Attached is the completed restitution sheet complete with check numbers and mailing dates.
- (4) & (6) The company is no longer writing personal automobile insurance. With only 45 policies in force as of Dec 13, 2012 and the last policy set to expire January 3, 2013, the amount of time needed to incorporate the Bureau's recommendations cannot be completed prior to the expiration of the last policy.

Terminations

- (1) The company is no longer writing personal automobile insurance. There are only 45 policies in force as of Dec 13, 2012 and the last policy is set to expire January 3, 2013. None of the remaining policies currently requires the SR-22 filing, but the company is prepared to file proof of financial responsibility in a timely manner if required.
- (4) The company is no longer writing personal automobile insurance. There are only 45 policies in force as of Dec 13, 2012 and the last policy is set to expire on January 3, 2013. Non-renewal notices have been mailed to all insureds and lienholders and proof of mailing has been retained by the company.
- (5) All lienholders have been provided proper notice of AFIE's intent to exit the personal automobile line and non-renew the policies.
- (7) Non-renewal notices have been mailed to all remaining personal auto policies. The letter included information on other insurance. A copy of the letter is included as Attachment E.
- (8) Non-renewal notices have been mailed that include all named insured for all remaining personal auto policies. Please see Attachment E.

Claims

- (2) Attached is the completed restitution sheet complete with check numbers and mailing dates.

The corrective actions from our previous response have the following completion schedule:

1. Distribution of and training pursuant to the corrective actions required as set forth within VA's Report. – Monthly training sessions are conducted by supervisors for every line of business that not only include state required training, but additional training to keep claim practices as current as possible. The Bureau's recommendations are being incorporated into these monthly training sessions.
2. Regularized management oversight of regular claim activities to ensure future conduct meets with VA requirements. – The claim supervisors perform on-going file reviews each week at a rate of approximately 15 files per week, per supervisor.
3. Periodic internal claims file audit and review to include regularized compliance evaluation in context of good faith and fair dealing as well as jurisdictionally specific mandates as appropriate, including but not limited to those set forth within VA's (Market Conduct Examination) Report. – On-going committee meetings are held to audit coverage determination and reserving practices.
4. Modification of scripts to comply with VA law. – The scripts were modified and distributed October 1, 2012.

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

February 8, 2013

VIA UPS 2nd DAY DELIVERY

Kurt Seelbach, President and CEO
Armed Forces Insurance Exchange
550 Eisenhower Rd.
Leavenworth, KS 66048-4864

Re: Market Conduct Examination
Armed Forces Insurance Exchange (NAIC #41459)
Exam Period: April 1, 2010 – March 31, 2011

Dear Mr. Seelbach:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of December 12, 2012. Based upon the Bureau's review of the company's letter, we are now in a position to conclude this examination. Enclosed are withdrawn review sheets and the final Market Conduct Examination Report of Armed Forces Insurance Exchange (Report).

The Report has been amended to reflect the following changes:

PART ONE - EXAMINERS' OBSERVATIONS

Automobile New Business

- (2) The violation for RPA028 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

Automobile Renewal Business

- (2) The violation for RPA093 has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (3) The violation for RPA084 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

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, 38.2-305 A, 38.2-510 A 10, 38.2-517 A, 38.2-604 A, 38.2-604 B, 38.2-604.1 A, 38.2-610 A, 38.2-1812, 38.2-1905 A, 38.2-1906 D, 38.2-2202 B, 38.2-2208 A,

38.2-2208 B, 2210 A, 38.2-2212 E, 38.2-2212 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 A, 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

JMM/



Armed Forces Insurance

OUR MISSION IS YOU.®

STATE CORP COMMISSION,
BUREAU OF INSURANCE

13 MAR -4 AM 9:47

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

410134

RE: Market Conduct Examination Settlement Offer
Armed Forces Insurance Exchange (NAIC#41459)

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter February 19, 2013, concerning the above referenced matter.

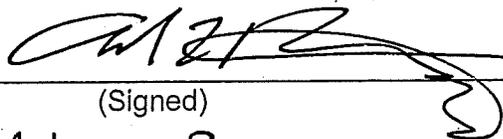
We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ 38.2-228, 38.2-305 A, 38.2-510 A 10, 38.2-517 A, 38.2-604 A, 38.2-604 B, 38.2-604.1 A, 38.2-610 A, 38.2-1812, 38.2-1905 A, 38.2-1906 D, 38.2-2202 B, 38.2-2208 A, 38.2-2208 B, 2210 A, 38.2-2212 E, 38.2-2212 F, 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 A, 14 VAC 5-400-70 D, 14 VAC 5-400-80 D of the Virginia Administrative Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$18,700.00.
2. We agree to comply with the corrective action plan set forth in the company's letter of December 12, 2012.
3. We confirm that restitution was made to 23 consumers for \$1211.20 in accordance with the company's letter of December 12, 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,

Armed Forces Insurance Exchange



(Signed)

Arlen L. Briggs

(Type or Print Name)

CFO and Treasurer, AFIE

(Title)

3/1/13

(Date)

Enclosure

COMMONWEALTH OF VIRGINIA

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



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Armed Forces Insurance Exchange has tendered to the Bureau of Insurance the settlement amount of \$18,700.00 by their check numbered B0000156292 and dated March 1, 2013, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, APRIL 2, 2013

CLERK'S OFFICE
CONTROL CENTER

2013 APR -2 A 9:55

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2013-00042

ARMED FORCES INSURANCE EXCHANGE,

Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Armed Forces Insurance 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 § 38.2-305 A of the Code by failing to provide the information required by the statute in the insurance policy; violated §§ 38.2-604 A, 38.2-604 B, 38.2-604.1 A, 38.2-610 A, 38.2-1905 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 § 38.2-1812 of the Code by paying commissions for services as an agent to persons who were not properly licensed and appointed; violated § 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendant; violated §§ 38.2-2208 A, 38.2-2208 B, 38.2-2212 E, and 38.2-2212 F of the Code by failing to properly terminate insurance policies; violated §§ 38.2-510 A and 38.2-517 A 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 A,

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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 a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendant has been advised of its right to a hearing in this matter whereupon the Defendant, without admitting any violation of Virginia law, has made an offer of settlement to the Commission wherein the Defendant has tendered to the Commonwealth the sum of Eighteen Thousand Seven Hundred Dollars (\$18,700), waived its right to a hearing, agreed to comply with the corrective action plan set forth in its letter to the Bureau dated December 12, 2012, and confirmed that restitution was made to 23 consumers in the amount of One Thousand Two Hundred Eleven Dollars and Twenty Cents (\$1,211.20).

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 Armed Forces Insurance 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: Kurt Seelbach, President and CEO, Armed Forces Insurance Exchange, 550 Eisenhower Road, Leavenworth, Kansas 66048-4864; 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.