

PUBLIC REPORT OF THE MARKET CONDUCT EXAMINATION

OF THE CLAIMS PRACTICES OF THE

STARNET INSURANCE COMPANY
NAIC # 40045 CDI # 3068-4

AS OF MARCH 31, 2003

STATE OF CALIFORNIA



DEPARTMENT OF INSURANCE

MARKET CONDUCT DIVISION

FIELD CLAIMS BUREAU



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DEPARTMENT OF INSURANCE

Consumer Services and Market Conduct Branch
Field Claims Bureau, 11th Floor
300 South Spring Street
Los Angeles, CA 90013



July 21, 2003

The Honorable John Garamendi
Insurance Commissioner
State of California
45 Fremont Street
San Francisco, California 94105

Honorable Commissioner:

Pursuant to instructions, and under the authority granted under Part 2, Chapter 1, Article 4, Sections 730, 733, 736, and Article 6.5, Section 790.04 of the California Insurance Code; and Title 10, Chapter 5, Subchapter 7.5, Section 2695.3(a) of the California Code of Regulations, an examination was made of the claims practices and procedures in California of:

StarNet Insurance Company
NAIC #40045

Hereinafter referred to as StarNet or as the Company.

This report is made available for public inspection and is published on the California Department of Insurance web site (www.insurance.ca.gov) pursuant to California Insurance Code section 12938.

SCOPE OF THE EXAMINATION

The examination covered the claims handling practices of the aforementioned Company during the period April 1, 2002 through March 31, 2003. The examination was made to discover, in general, if these and other operating procedures of the Company conform with the contractual obligations in the policy forms, to provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR), the California Vehicle Code (CVC) and case law. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al.

To accomplish the foregoing, the examination included:

1. A review of the guidelines, procedures, training plans and forms adopted by the Company for use in California including any documentation maintained by the Company in support of positions or interpretations of fair claims settlement practices.
2. A review of the application of such guidelines, procedures, and forms, by means of an examination of claims files and related records.
3. A review of consumer complaints received by the California Department of Insurance (CDI) in the most recent year prior to the start of the examination.

The examination was conducted at the Company's claims office in Tempe, Arizona.

The report is written in a "report by exception" format. The report does not present a comprehensive overview of the subject insurer's practices. The report contains only a summary of pertinent information about the lines of business examined and details of the non-compliant or problematic activities or results that were discovered during the course of the examination along with the insurer's proposals for correcting the deficiencies. When a violation is discovered that results in an underpayment to the claimant, the insurer corrects the underpayment and the additional amount paid is identified as a recovery in this report. All unacceptable or non-compliant activities may not have been discovered, however, and failure to identify, comment on or criticize activities does not constitute acceptance of such activities.

Any alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process.

CLAIM SAMPLE REVIEWED AND OVERVIEW OF FINDINGS

The examiners reviewed files drawn from the category of Closed Claims for the period April 1, 2002 through March 31, 2003, commonly referred to as the “review period”. The examiners reviewed 319 claims files. The examiners cited 10 claims handling violations of the Fair Claims Settlement Practices Regulations and/or California Insurance Code Section 790.03 within the scope of this report. Further details with respect to the files reviewed and alleged violations are provided in the following tables and summaries.

StarNet Insurance Company			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
Personal Auto Bodily Injury	1444	65	0
Personal Auto Property Damage	5160	67	0
Personal Auto Collision	537	60	2
Personal Auto Comprehensive	166	48	6
Personal Auto UMBI	70	35	2
Personal Auto UMPD	127	44	0
TOTALS	7504	319	10



TABLE OF TOTAL CITATIONS		
Citation	Description	
CCR §2695.8(b)(1)	The Company failed to include, in the settlement, all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable automobile.	4
CCR §2695.4(a)	The Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy.	4
CCR §2695.3(a)	The Company's claim file failed to contain all documents, notes, and work papers which pertain to the claim.	1
CCR §2695.8(f)	The Company failed to supply the claimant with a copy of the estimate upon which the settlement is based.	1
Total Citations		10

**SUMMARY OF CRITICISMS, INSURER
COMPLIANCE ACTIONS AND TOTAL RECOVERIES**

The following is a brief summary of the criticisms that were developed during the course of this examination related to the violations alleged in this report. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al. In response to each criticism, the Company is required to identify remedial or corrective action that has been or will be taken to correct the deficiency. Regardless of the remedial actions taken or proposed by the Company, it is the Company's obligation to ensure that compliance is achieved. The total money recovered within the scope of this report was \$470.00. Following the findings of the examination, a closed claim survey conducted by the Company resulted in additional payments of \$10,412.00.

1. The Company failed to include, in the settlement, all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable automobile.

In four instances, the Company failed to include in the settlement, all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable automobile. In each instance noted by the examiners, the adjuster incorrectly paid the refund amount rather than the settlement amount in calculating the VLF fee due. The Department alleges these acts are in violation of CCR §2695.8(b)(1).

Summary of Company Response: The Company acknowledged that in four instances the Company paid only a partial amount of the vehicle license refund amount verses the unused vehicle license fee, or settlement amount. As result of this examination, the Company issued payment for the differences and has conducted training of claim staff. Additionally, the Company will conduct a self-review, going back to January 1, 2002, of all total loss settlements to verify that the proper settlement amount was paid rather than the refund amount.

2. The Company failed to disclose all policy provisions. In four instances, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy. The Department alleges these acts are in violation of CCR §2695.4(a).

Summary of Company Response: The Company has acknowledged that the initial acknowledgement of claim letter was vague regarding the payment of transportation expense in event of a Comprehensive claim involving Total Theft of vehicle. As result of this examination, the Company has changed the wording in the letter and has conducted training of the claim staff. The Company agreed to review and correspond on all Total Theft claim files going back to January 1, 2001, asking if an insured incurred transportation expenses. Upon receipt of proof of expenses the Company will resolve the claim in accordance with the terms of the policy.

3. The Company failed to properly document claim files. In one instance, the Company's file failed to contain all documents, notes and work papers. The Department alleges this act is in violation of CCR §2695.3(a).

Summary of Company Response: The Company has acknowledged that in one instance the file notes mentioned receipt of Affidavit of Theft, but the document was not in the



file. The Company has procedures in place requiring receipt of Affidavit of Theft on total theft claims prior to settlement.

4. **The Company failed to supply the claimant with a copy of the estimate upon which the settlement is based.** In one instance, the Company failed to supply the claimant with a copy of the estimate upon which the settlement is based. The Department alleges this act is in violation of CCR §2695.8(f).

Summary of Company Response: The Company acknowledged that in one instance the claims handler documented in file conversation with the insured that amount of damage was slightly over the deductible. The adjuster failed to follow up and mail copy of the estimate. As result of this examination, the Company has conducted training of claim staff emphasizing requirement to provide claimants with copies of repair estimates.