[IN ACCORDANCE WITH CALIFORNIA INSURANCE CODE (CIC) SECTION 12938, THIS REPORT WILL BE MADE PUBLIC AND PUBLISHED ON THE CALIFORNIA DEPARTMENT OF INSURANCE (CDI) WEBSITE]

WEBSITE PUBLISHED REPORT OF THE MARKET CONDUCT EXAMINATION OF THE CLAIMS PRACTICES OF

KEMPER INDEPENDENCE INSURANCE COMPANY
NAIC # 10914 CDI # 4592-2

AS OF NOVEMBER 30, 2012

ADOPTED SEPTEMBER 29, 2014

STATE OF CALIFORNIA

CALIFORNIA DEPARTMENT OF INSURANCE

MARKET CONDUCT DIVISION

FIELD CLAIMS BUREAU

NOTICE

The provisions of Section 735.5(a) (b) and (c) of the California Insurance Code (CIC) describe the Commissioner's authority and exercise of discretion in the use and/or publication of any final or preliminary examination report or other associated documents. The following examination report is a report that is made public pursuant to California Insurance Code Section 12938(b)(1) which requires the publication of every adopted report on an examination of unfair or deceptive practices in the business of insurance as defined in Section 790.03 that is adopted as filed, or as modified or corrected, by the Commissioner pursuant to Section 734.1.

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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

September 29, 2014

The Honorable Dave Jones
Insurance Commissioner
State of California
300 Capitol Mall
Sacramento, California 95814

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 handling practices and procedures in California of:

Kemper Independence Insurance Company
NAIC # 10914

Group NAIC # 0215

Hereinafter, the Company listed above also will be referred to as KIIC or the Company.

This report is made available for public inspection and is published on the California Department of Insurance website (www.insurance.ca.gov) pursuant to California Insurance Code section 12938(b)(1).

FOREWORD

The examination covered the claims handling practices of the aforementioned Company on Private Passenger Automobile and Homeowner claims closed during the period from December 1, 2011 through November 30, 2012. The examination was made to discover, in general, if these and other operating procedures of the Company conform to the contractual obligations in the policy forms, the California Insurance Code (CIC), the California Code of Regulations (CCR) and case law. This report contains all alleged violations of laws that were identified during the course of the examination.

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 a summary of pertinent information about the lines of business examined, details of the non-compliant or problematic activities that were discovered during the course of the examination and the insurer's proposals for correcting the deficiencies. When a violation that reflects an underpayment to the claimant is discovered and the insurer corrects the underpayment, the additional amount paid is identified as a recovery in this report. All unacceptable or non-compliant activities may not have been discovered. Failure to identify, comment upon or criticize non-compliant practices in this state or other jurisdictions does not constitute acceptance of such practices.

Alleged violations identified in this report, any criticisms of practices and the Company's responses, if any, have not undergone a formal administrative or judicial process.

SCOPE OF THE EXAMINATION

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 the California Insurance Code, Fair Claims Settlement Practices Regulations, and other related statutes, regulations and case law used by the Company to ensure fair claims settlement practices.

2. A review of the application of such guidelines, procedures, and forms, by means of an examination of a sample of individual claims files and related records.

3. A review of the California Department of Insurance's (CDI) market analysis results; a review of consumer complaints and inquiries about this Company closed by the CDI during the period December 1, 2011 through November 30, 2012; a review of previous CDI market conduct claims examination reports on this Company; and a review of prior CDI enforcement actions.

The review of the sample of individual claims files was conducted at the offices of the Company in Folsom, California.

EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED

The Private Passenger Automobile and Homeowner claims reviewed were closed from December 1, 2011 through November 30, 2012, referred to as the “review period”. The examiners randomly selected 330 KIIC claims files for examination. The examiners cited 321 alleged claims handling violations of the California Insurance Code and the California Code of Regulations from this sample file review.

Findings of this examination included failure to ask if a child passenger restraint system was in use by a child during an accident or was in the vehicle at the time of a loss; failure to provide written notice of the need for additional time or information every 30 calendar days; failure to supply the claimant with a copy of the estimate; attempts to settle a claim by making a low settlement offer; failure to explain the basis for any adjustment in writing; and failure to document the basis of betterment or depreciation.

RESULTS OF REVIEWS OF MARKET ANALYSIS, CONSUMER COMPLAINTS AND INQUIRIES, PREVIOUS EXAMINATIONS, AND PRIOR ENFORCEMENT ACTIONS

Except as noted below, market analysis did not identify any specific issues of concern.

The Company was the subject of 17 California consumer complaints and inquiries closed from December 1, 2011 through November 30, 2012, in regard to the lines of business reviewed in this examination. The CDI alleged seven violations of law including one failure to honor the methodology used in determining paint and material charges by offering or paying an amount unrelated to a particular methodology. Of the complaints and inquiries, the CDI determined five complaints were justified. The examiners focused on these issues during the course of the file review.

The previous claims examination reviewed a period from June 1, 2004 through May 31, 2005. The most significant noncompliance issues identified in the previous examination report were the Company's failure to send the principally-at-fault letter; failure to accept or deny the claim within 40 days; failure to send additional time letters; failure to tender payment within 30 calendar days upon acceptance of a claim; failure to provide the written basis for the denial of a claim; failure to respond to written communications within 15 calendar days; attempts to settle a claim by making a low settlement offer; failure to document the determination of value; and failure to supply the claimant with a copy of the estimate. With the exception of failure to tender payment within 30 days and failure to provide the written basis for denial, these issues were identified as problematic in the current examination.

KIIC was not the subject of any prior enforcement action by the California Department of Insurance.

DETAILS OF THE CURRENT EXAMINATION

Further details with respect to the examination and alleged violations are provided in the following tables and summaries:

KIIC SAMPLE FILES REVIEW			
LINE OF BUSINESS / CATEGORY	**CLAIMS IN REVIEW PERIOD**	**SAMPLE FILES REVIEWED**	**NUMBER OF ALLEGED CITATIONS**
Private Passenger Automobile / Physical Damage (includes collision and comprehensive)	4,122	70	101
Private Passenger Automobile / Liability (includes bodily injury and property damage)	2,842	70	61
Private Passenger Automobile / Uninsured Motorist (includes uninsured-underinsured motorist bodily injury and uninsured motorist property damage)	188	70	30
Private Passenger Automobile / Medical Payment	601	25	13
Homeowner / First Party Property	2,400	70	94
Homeowner / Third Party Liability	165	25	22
TOTALS	10,318	330	321

TABLE OF TOTAL CITATIONS

Citation	Description of Allegation	KIIC Number of Alleged Citations
CIC §11580.011(e) *[CIC §790.03(h)(3)]	The Company failed to ask if a child passenger restraint system was in use by a child during an accident or was in the vehicle at the time of a covered loss.	88
CCR §2695.7(c)(1) *[CIC §790.03(h)(3)]	The Company failed to provide written notice of the need for additional time or information every 30 calendar days.	34
CCR §2695.8(f) *[CIC §790.03(h)(3)]	The Company failed to supply the claimant with a copy of the estimate upon which the settlement was based.	22
CCR §2695.7(g) *[CIC §790.03(h)(5)]	The Company attempted to settle a claim by making a settlement offer that was unreasonably low.	21
CCR §2695.9(f) *[CIC §790.03(h)(3)]	The Company failed to fully explain the basis for any adjustment to the claimant in writing.	18
CCR §2695.7(b) *[CIC §790.03(h)(3)] *Third Party* *[CIC §790.03(h)(4)] *First Party*	The Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days.	17
CCR §2695.9(f) *[CIC §790.03(h)(3)]	The Company failed to document the basis of betterment, depreciation, or salvage.	16
CCR §2695.7(d) *[CIC §790.03(h)(3)]	The Company failed to conduct and diligently pursue a thorough, fair and objective investigation.	10
	The Company persisted in seeking information not reasonably required for or material to the resolution of a claims dispute.	3
CIC §790.03(h)(1)	The Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverages at issue.	10
CCR §2695.7(b)(3) *[CIC §790.03(h)(3)]	The Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance.	9
CCR §2695.9(f) *[CIC §790.03(h)(5)]	The Company improperly applied betterment or depreciation to property not normally subject to repair and replacement during the useful life of the property.	9

Citation	Description of Allegation	KIIC Number of Alleged Citations
CCR §2695.3(a) *[CIC §790.03(h)(3)]	The Company failed to maintain all documents, notes and work papers which reasonably pertain to each claim in such detail that pertinent events and the dates of the events can be reconstructed.	8
CCR §2695.8(b)(4) *[CIC §790.03(h)(3)]	The Company failed to explain in writing the determination of the cost of a comparable vehicle at the time the settlement offer was made. Determination of the actual cash value (ACV) was not explained.	6
	The Company failed to fully itemize in writing the determination of the cost of a comparable vehicle at the time the settlement offer was made. Itemization of all components of the settlement was not provided.	2
CCR §2695.4(a) *[CIC §790.03(h)(1)]	The Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy.	6
CCR §2695.8(e)(2) *[CIC §790.03(h)(3)]	The Company suggested or recommended that an automobile be repaired at a specific repair shop without informing the claimant in writing of the right to select the repair facility, pursuant to CIC §758.5.	6
CIC §2051.5(b)(1) *[CIC §790.03(h)(1)]	The Company improperly imposed upon an insured a time limit to collect the full replacement cost of the loss. No time limit of less than 12 months from the date that the first payment toward the actual cash value is made shall be placed upon an insured in order to collect the full replacement cost of the loss, subject to the policy limit.	5
CCR §2695.7(f) *[CIC §790.03(h)(3)]	The Company failed to provide written notice of any statute of limitation or other time period requirement upon which the insurer may rely to deny a claim.	5
CIC §758.6 *[CIC §790.03(h)(5)]	The Company failed to honor the methodology used in determining paint and material charges by offering or paying an amount unrelated to the particular methodology.	4
CCR §2632.13(e)(1) *[CIC §790.03(h)(3)]	The Company failed to properly advise the insured that the driver of the insured vehicle was principally at-fault for an accident. Specifically, the determination of fault letter was not sent.	4
CCR §2695.5(e)(2) *[CIC §790.03(h)(3)]	The Company failed to provide necessary forms, instructions, and reasonable assistance within 15 calendar days.	3
CCR §2695.9(f)(1) *[CIC §790.03(h)(5)]	The Company improperly applied depreciation or betterment to the expense of labor necessary to repair, rebuild or replace covered property.	3

Citation	Description of Allegation	KIIC Number of Alleged Citations
CCR §2695.7(b)(1) *[CIC §790.03(h)(3)]	The Company failed to deny, dispute or reject a third party claim in writing.	2
CCR §2695.8(c) *[CIC §790.03(h)(3)]	The Company failed to notify the insured that the file will be reopened if the Company is notified within 35 days that the insured cannot purchase a comparable automobile for the settlement amount offered or paid.	2
CIC §1871.3(a) *[CIC §790.03(h)(3)]	The Company failed to secure a theft affidavit from the insured.	1
CIC §1871.3(a)(1) *[CIC §790.03(h)(3)]	The Company failed to include the penalty of perjury warning on its theft affidavit.	1
CIC §2060 *[CIC §790.03(h)(3)]	The Company failed to provide the insured with a list of items that the insurer believes may be covered under the policy as additional living expenses.	1
CCR §2695.5(b) *[CIC §790.03(h)(2)]	The Company failed to respond to communications within 15 calendar days.	1
CCR §2695.5(e)(2) *[CIC §790.03(h)(3)]	The Company failed to provide necessary forms, instructions, and reasonable assistance within 15 calendar days.	1
CCR §2695.7(p) *[CIC §790.03(h)(3)]	The Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation.	1
CCR §2695.8(k) *[CIC §790.03(h)(5)]	The Company failed to provide reasonable notice to a claimant before terminating payment for storage charges.	1
CCR §2695.9(d) *[CIC §790.03(h)(3)]	The Company settled the claim on the basis of a written scope and/or estimate without supplying the insured with a copy of each document upon which the settlement was based.	1
Total Number of Citations		**3211**

*DESCRIPTIONS OF APPLICABLE UNFAIR CLAIMS SETTLEMENT PRACTICES

CIC §790.03(h)(1)	The Company misrepresented pertinent facts or insurance policy provisions relating to relating to any coverages at issue.
CIC §790.03(h)(2)	The Company failed to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.
CIC §790.03(h)(3)	The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under insurance policies.
CIC §790.03(h)(4)	The Company failed to affirm or deny coverage of claims within a reasonable time after proof of loss requirements had been completed and submitted by the insured.
CIC §790.03(h)(5)	The Company failed to effectuate prompt, fair, and equitable settlements of claims in which liability had become reasonably clear.

TABLE OF CITATIONS BY LINE OF BUSINESS

PRIVATE PASSENGER AUTOMOBILE **2011 Written Premium: $48,976,913** **2012 Written Premium: $48,227,152** **AMOUNT OF RECOVERIES: $10,855.53**	**NUMBER OF CITATIONS**
CIC §11580.011(e) [CIC §790.03(h)(3)]	88
CCR §2695.8(f) [CIC §790.03(h)(3)]	22
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	20
CCR §2695.7(g) [CIC §790.03(h)(5)]	17
CCR §2695.7(b) [CIC §790.03(h)(3) or CIC §790.03(h)(4)]	9
CCR §2695.7(d) [CIC §790.03(h)(3)]	8
CCR §2695.8(b)(4) [CIC §790.03(h)(3)]	8
CCR §2695.8(e)(2) [CIC §790.03(h)(3)]	6
CCR §2695.7(b)(3) [CIC §790.03(h)(3)]	5
CCR §2632.13(e)(1) [CIC §790.03(h)(3)]	4
CIC §758.6 [CIC §790.03(h)(5)]	3
CCR §2695.4(a) [CIC §790.03(h)(1)]	2
CCR §2695.5(e)(2) [CIC §790.03(h)(3)]	2
CCR §2695.7(b)(1) [CIC §790.03(h)(3)]	2
CCR §2695.8(c) [CIC §790.03(h)(3)]	2
CIC §790.03(h)(1)	1
CIC §1871.3(a) [CIC §790.03(h)(3)]	1
CIC §1871.3(a)(1) [CIC §790.03(h)(3)]	1
CCR §2695.5(b) [CIC §790.03(h)(2)]	1
CCR §2695.7(p) [CIC §790.03(h)(3)]	1
CCR §2695.8(k) [CIC §790.03(h)(5)]	1
SUBTOTAL	**204**

HOMEOWNER **2011 Written Premium: $56,919,071** **2012 Written Premium: $57,289,614** **AMOUNT OF RECOVERIES: $2,744.00**	**NIMBER OF CITATIONS**
CCR §2695.9(f) [CIC §790.03(h)(3)]	18
CCR §2695.9(f) [CIC §790.03(h)(3)]	16
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	14
CIC §790.03(h)(1)	9
CCR §2695.9(f) [CIC §790.03(h)(5)]	9
CCR §2695.3(a) [CIC §790.03(h)(3)]	8
CCR §2695.7(b) [CIC §790.03(h)(3) or CIC §790.03(h)(4)]	8
CIC §2051.5(b)(1) [CIC §790.03(h)(1)]	5
CCR §2695.7(d) [CIC §790.03(h)(3)]	5
CCR §2695.7(f) [CIC §790.03(h)(3)]	5
CCR §2695.4(a) [CIC §790.03(h)(1)]	4
CCR §2695.7(b)(3) [CIC §790.03(h)(3)]	4
CCR §2695.7(g) [CIC §790.03(h)(5)]	4
CCR §2695.9(f)(1) [CIC §790.03(h)(5)]	3
CIC §2060 [CIC §790.03(h)(3)]	1
CCR §2695.5(e)(1) [CIC §790.03(h)(2)]	1
CCR §2695.5(e)(2) [CIC §790.03(h)(3)]	1
CCR §2695.9(d) [CIC §790.03(h)(3)]	1
SUBTOTAL	**116**

TOTAL	**320**

SUMMARY OF EXAMINATION RESULTS

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.

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. The Company is obligated to ensure that compliance is achieved.

Any noncompliant practices identified in this report may extend to other jurisdictions. The Company was asked if it intends to take appropriate corrective action in all jurisdictions where applicable. The Company intends to implement corrective actions in all jurisdictions.

Money recovered within the scope of this report was $4,794.07 as described in section numbers 1, 4(a), 4(b), 4(c), 4(d), 11, 26, 34(b), 34(c), 34(d) and 35 below. Following the findings of the examination, a closed claims survey as described in section number 4(b) below was conducted by the Company resulting in additional payments of $8,805.46. As a result of the examination, the total amount of money returned to claimants within the scope of this report was $13,599.53.

PRIVATE PASSENGER AUTOMOBILE

1. In 88 instances, the Company failed to ask if a child passenger restraint system was in use by a child during an accident or was in the vehicle at the time of a loss that was covered by the policy. Specifically, in all instances, the Company failed to ask whether a child passenger restraint system (CPRS) was in the vehicle at the time of the loss. Prior to January 1, 2010, an insurer was required to ask only if a CPRS was in use at the time of the loss. The additional requirement to ask if a CPRS was in the vehicle at the time of the loss, regardless of occupancy, was added to the law by California Assembly Bill 299 which became effective January 1, 2010.

It is noted the Company complied with the pre-2010 requirement to ask if a CPRS was in use. In some of these 88 instances, the response was noted to be

"unknown". In these instances, the Company failed to follow up by asking if a CPRS was in use or was in the vehicle at the time of the loss.

In one instance, the insured informed the Company she had just dropped off her two year old daughter at day care prior to the accident and the Company failed to inquire if a CPRS was in the vehicle and damaged at the time of the loss.

The Department alleges these acts are in violation of CIC §11580.011(e) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: In all instances, the Company acknowledges that it did not comply with the referenced insurance code. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013.

With regard to the one instance noted, the Company reopened the file, confirmed with the insured that a CPRS was present in the vehicle at the time of the accident, and issued payment in the amount of $50.00 for replacement.

The Company states its current procedure is to inquire if a CPRS was in use at the time of the accident. Effective January 2013, the Company modified its claims procedures such that the inquiry now uses the language specified in the insurance code and the complete response is documented in the claim file. The Company also implemented a program change in the second quarter of 2013 in which the FNOL representative questions not only whether a CRPS was in use, but whether a CPRS was in the vehicle and unoccupied at the time of the loss.

Effective February 4, 2013, for claims reported to the FNOL department with an unknown response to the question, the adjuster will be required to ask whether or not a CPRS was in use at the time of the accident as well as whether or not a CPRS was in the vehicle at the time of the loss. With respect to claims that are reported to the Company via the Internet, it will also be the adjuster's responsibility, effective February 4, 2013, to ask whether or not a CPRS was in use at the time of the accident as well as whether or not a CPRS was in the vehicle at the time of the loss. This will then be documented in the claim file and handled accordingly.

The Company also states the following:

> Since the date of the amended rule, the Company's First Notice of Loss has had an inquiry requesting a claimant provide a listing of all damaged property as warranted. This inquiry would include a listing of damage to a CPRS at the time of the accident. In addition, if for some reason, this damage is not brought up during the first notice of loss discussions, the adjuster assigned to the claim will also have discussions regarding

damages. Therefore, it is very unlikely that any claimant incurred uncompensated loss.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

2. In 22 instances, the Company failed to supply the claimant with a copy of the estimate upon which the settlement was based. The Department alleges these acts are in violation of CCR §2695.8(f) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to supply the claimant with a copy of the original estimate and any supplemental estimates, this was not done in all instances. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding the regulatory requirement to provide a copy of all estimates to vehicle owners.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

3. In 20 instances, the Company failed to provide written notice of the need for additional time or information every 30 calendar days. The Department alleges these acts are in violation of CCR §2695.7(c)(1) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to provide the additional time letter(s) within 40 days from receipt of proof of claim and every 30 days thereafter, the status letters were not sent in these instances. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding the regulatory requirement to send status letters.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

4. In 17 instances, the Company attempted to settle a claim by making a settlement offer that was unreasonably low. The Department alleges these acts are in violation of CCR §2695.7(g) and are unfair practices under CIC §790.03(h)(5).

4(a). In 10 instances involving Company-retained and owner-retained total loss vehicles, the Company based both the total loss settlement offer and the final

settlement on the high salvage quote (identified as High Quote) determined by the software (known as ProQuote) utilized by Copart Salvage Auto Auctions. Although the salvage amount offered and/or deducted from the total loss is an amount for which Copart will purchase the vehicle, the practice of deducting the High Quote salvage amount resulted in a low settlement offer or low final settlement.

Summary of the Company's Response to 4(a): The Company believes it is in complete compliance with the statutes and rules regarding salvage. The Company has demonstrated that ProQuote will purchase the salvage for the amount that is deducted pursuant to CCR §2695.8(b)(1)(A). However, in the interest of resolving this issue and to demonstrate the Company's willingness to cooperate with the Department, the Company has amended its procedure going forward to utilize the ProQuote bid, rather than the High Quote, when calculating deductions for owner-retained salvage. Of the 10 instances, two were owner-retained. As a result of the findings of the examination, the Company issued payment of $17.72 in one instance and payment for the other instance is reflected in 4(b) below.

4(b). In five instances, the Company deducted the salvage value plus sales tax from the total loss settlement. As sales tax is owed on the net amount of actual cash value (ACV) less the salvage value, this method resulted in a low settlement amount.

Summary of the Company's Response to 4(b): As a result of the findings of the examination, the Company issued payments totaling $637.25. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013.

While the Company does not agree that it made unreasonably low settlement offers, in response to the concern that the Company may have underpaid other claims by utilizing the method described, the Company conducted an internal survey of owner-retained salvage total loss claims settled between March 1, 2010 and December 15, 2012. The Company began calculating the owner-retained salvage in this manner in March 2010. In December 2012, the total loss unit was centralized and the Company began calculating the owner-retained salvage by deducting the salvage value without adding sales tax first. The Company completed the survey and reported the results to the Department on July 15, 2013. The Company identified 124 claims during the survey period in which the sales tax was added to the salvage value deduction resulting in underpaid settlements. As a result of the survey, the Company issued payments totaling $8,805.46.

4(c). In one instance, the Company failed to reimburse the insured for proceeds from the sale of salvage not to exceed the uninsured motorist property damage (UMPD) limit of $3,500.00.

Summary of the Company's Response to 4(c): As a result of the findings of the examination, the Company issued payment of $308.50.

4(d). In the remaining instance, the Company failed to consider the third party claimant's claim for loss of use.

Summary of the Company's Response to 4(d): As a result of this finding, the Company issued a payment of $525.00.

The Company states its acknowledgement of findings to 4(b), 4(c) and 4(d), above, do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

5. In nine instances, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days. Five of these instances involved first party claims and four of these instances involved third party claims. The Department alleges these acts are in violation of CCR §2695.7(b) and are unfair practices under CIC §790.03(h)(3) or CIC §790.03(h)(4).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to accept or deny all claims within 40 days after receipt of proof of claim, procedure was not followed in these instances. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding the regulatory requirement to accept or deny the claim within 40 days after receipt of proof of claim.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

6. In eight instances, the Company failed to comply with the requirements of CCR §2695.7(d). The Department alleges these acts are in violation of CCR §2695.7(d) and are unfair practices under CIC §790.03(h)(3).

6(a). In five instances, the Company failed to conduct and diligently pursue a thorough, fair and objective investigation. In four instances, the Company delayed the investigation resulting in either gaps between activity, late inspection or no inspection of a vehicle, and/or late payments. In the remaining instance, the Company failed to obtain the third party's insurance information in order to rule out uninsured motorist coverage when the Company spoke with the third party claimant. The insured was later told that since the accident was a word versus word situation, the insured would need to present a claim to the other carrier if pursuing any damages.

Summary of the Company's Response to 6(a): While it is the Company's best practice to conduct and diligently pursue a thorough, fair and objective investigation, the Company acknowledges the claim handling, follow up and investigation were not timely in three instances. In the fourth instance, the Company acknowledges initial delays regarding the inspection of the insured's vehicle. In the fifth instance, the Company acknowledges that while it is the Company's best practice to obtain the other party's

insurance information, there is no documentation to support that it was obtained in this instance. Once the insurance information is obtained, the Company provides the insured with this information. As a result of the findings of the examination, the Company reopened the file to obtain this information. The Company was able to obtain the third party's insurance information and provide it to the insured. The insured declined the carrier's information and informed the Company that the damage was so minor it was not worth going after the other party. To ensure future compliance, the Company also conducted remedial training with staff at the end of March 2013 regarding the regulatory requirement to conduct and diligently pursue a thorough, fair and objective investigation.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

6(b). In three instances, the Company persisted in seeking information not reasonably required for or material to the resolution of a claims dispute. In two instances, the Company required the signed medical authorization before the medical bills would be paid under the medical payment coverage. However, the bills were subsequently paid without the need for the signed authorizations. In the third instance, the Company persisted in seeking proof of insurance for the claimant's loss of use claim when it was not required for or material to the resolution of the claims dispute.

Summary of the Company's Response to 6(b): In the first two instances, the Company provides the following response to this issue:

> In general, the Company will, in accordance with the provisions in its policy forms, request a signed medical authorization form for the processing of Medical Payments claims.
>
> At the time the medical authorization was requested, the claim adjusters had made the reasonable determination that a medical authorization might be needed. However, the adjusters later concluded that a signed medical authorization was not needed in order to process the bills. The Company agrees that the signed authorization was not needed in these instances. It may be that in an effort to expedite the claim process, the adjusters were premature in requesting the medical authorizations. Therefore, we have provided remedial training to the staff on this issue.

In the third instance, the Company agrees a request for proof of insurance applies only to the consideration of a bodily injury claim and considers this an isolated incident which was addressed with the individual adjuster. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

7. <u>In eight instances, the Company failed to comply with the requirements of CCR §2695.8(b)(4) on total loss settlements.</u> The Department alleges these acts are in violation of CCR §2695.8(b)(4) and are unfair practices under CIC §790.03(h)(3).

7(a). <u>In six instances, the Company failed to explain in writing the determination of the cost of a comparable vehicle at the time the settlement offer was made. Determination of the actual cash value (ACV) was not explained.</u> Specifically, the Company failed to explain how it arrived at the ACV either by sending a copy of the computerized automobile valuation (CCC) or some other means of explaining the ACV in writing.

7(b). <u>In two instances, the Company failed to fully itemize in writing the determination of the cost of a comparable vehicle at the time the settlement offer was made. Itemization of all components of the settlement was not provided.</u> Specifically, the Company failed to provide a full disclosure in writing and failed to itemize how the total loss settlement amounts were calculated.

<u>Summary of the Company's Response to 7(a) and 7(b):</u> The Company acknowledges that, while its best practice is to provide a copy of the CCC valuation and to provide a settlement letter explaining the determination of the cost of a comparable vehicle including itemization of all settlement components and deductions/adjustments, this was not done in all instances. In order to accurately and consistently provide information, measures were implemented to provide detailed breakdowns of components in the total loss settlement letter to avoid confusion and ensure accurate itemizations. The Company also conducted remedial training with staff at the end of March 2013 regarding the regulatory requirement to explain, in writing, the determination of the ACV and to itemize all components in the total loss settlement letter.

In addition to remedial training being provided to staff on this issue, the Company's total loss settlement letter template was hard-coded to outline all of the detailed amounts and calculations used to determine the settlement offer. The Company's total loss reference guides for California were also updated to indicate that the settlement letter, copy of repair estimate, and CCC total loss valuation should be sent to the customer when making a total loss settlement offer.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

8. <u>In six instances, the Company suggested or recommended that an automobile be repaired at a specific repair shop without informing the claimant in writing of the right to select the repair facility, pursuant to CIC §758.5.</u> The Department alleges these acts are in violation of CCR §2695.8(e)(2) and are unfair practices under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company acknowledges these findings. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

9. <u>In five instances, the Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance.</u> The Department alleges these acts are in violation of CCR §2695.7(b)(3) and are unfair practices under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company acknowledges that, while its best practice is to include a statement that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance; this was not done in all instances. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

10. <u>In four instances, the Company failed to properly advise the insured that the driver of the insured vehicle was principally at-fault for an accident.</u> All instances involved the failure to send the determination of fault notice. The Department alleges these acts are in violation of CCR §2632.13(e)(1) and are unfair practices under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company acknowledges that, while its best practice is to send the at-fault letters when appropriate, this was not done in these instances. As a result of these findings, the Company has sent an at-fault letter to the insured in all identified instances. Additionally, to ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding the regulatory requirement to send the principally at-fault notice. The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

11. <u>In three instances, the Company failed to honor the methodology used in determining paint and material charges by offering or paying an amount unrelated to the particular methodology.</u> Specifically, in all instances, the Company imposed limits of $450.00 or $550.00 for the cost of paint and material used in the repair of the vehicle. California Senate Bill 1371 added section 758.6 to the Insurance Code prior to the review period for this examination. The Bill stipulates that paint and material charges are to be calculated by multiplying the refinish unit times the refinish rate. Additional accepted industry methodologies that are available involve software programs, which calculate the paint and materials charges. "Capping" means offering or paying an amount that is unrelated to a methodology used in determining paint and materials charges accepted by automobile repair shops and insurers. "Capping" occurs when the cost of paint and related materials determined by any of these accepted industry methodologies is not utilized by the Company. The Department alleges these acts are in violation of CIC §758.6 and are unfair practices under CIC §790.03(h)(5).

<u>Summary of the Company's Response:</u> The Company believes it is clear that it does not impose any hard "cap" on painting and materials. The Company sets a threshold amount to begin negotiations with auto body dealers. The Company indicates the threshold amounts are better described as flags that note the issue for closer attention. The thresholds set fair and reasonable estimates of the cost of painting and materials, and this method is accepted in the industry and by repair shops. Further, the Company has paid higher than its threshold amounts in many claims, confirming that the Company does not cap what it will pay for paint and materials. Therefore, the Company does not believe its handling is in violation of the law. However, in order to resolve this issue and demonstrate cooperation, the Company has amended its procedure going forward by utilizing the formula noted above without any thresholds on those amounts. As a result of the findings of the examination, the Company issued payments totaling $511.60.

12. <u>In two instances, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy.</u> The Department alleges these acts are in violation of CCR §2695.4(a) and are unfair practices under CIC §790.03(h)(1).

<u>Summary of the Company's Response:</u> The Company acknowledges that, while its best practice is to review all benefits, coverage, time limits and other provisions with the insured at the time of contact, there is no documentation to support that it was done in both instances. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

13. <u>In two instances, the Company failed to provide necessary forms, instructions, and reasonable assistance within 15 calendar days.</u> The Department

alleges these acts are in violation of CCR §2695.5(e)(2) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to provide necessary forms, instructions and reasonable assistance within 15 days of receipt of claim, this was not done in both instances. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

14. In two instances, the Company failed to deny, dispute or reject a third party claim, in whole or in part, in writing. The Department alleges these acts are in violation of CCR §2695.7(b)(1) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to send partial denial letters, this was not done in both instances. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

15. In two instances, the Company failed to notify the insured that the file will be reopened if a comparable automobile cannot be purchased for the amount offered or paid. The Department alleges these acts are in violation of CCR §2695.8(c) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to include language in its total loss settlement letters advising the insured that the Company will reopen the claim if the insured cannot find a comparable car within 35 days, this was not done in both instances. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

16. In one instance, the Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverages at issue. Specifically, the Company's letter to the insured incorrectly stated that the State of California has a two

year statute of limitations (SOL) for Uninsured Motorist Property Damage (UMPD) claims. The Department alleges this act is in violation of CIC §790.03(h)(1).

Summary of the Company's Response: The Company acknowledges the letter incorrectly stated there was a two year SOL for UMPD claims. As a result of the findings of the examination, the Company reopened the claim to contact the insured's estate to follow up on the claim including addressing the misstated SOL. The Company attempted contact with the executor of the estate although the number is no longer valid. The Company also contacted the agent for assistance, but the agent telephone number now goes to a different party. The Company sent a letter to the estate and the letter was returned to sender. Additionally, the Company conducted public database searches and have been unable to locate any current contact information for the insured's estate. All efforts at contact have been exhausted.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

17. In one instance, the Company failed to secure a theft affidavit from the insured. The Department alleges this act is in violation of CIC §1871.3(a) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges the theft affidavit was not sent nor was it completed in this instance although it is its best practice to do so. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

18. In one instance, the Company failed to include a warning on its theft affidavit that false representations subject the insured to a penalty of perjury. The Department alleges this act is in violation of CIC §1871.3(a)(1) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges this finding and agrees the theft affidavit does not include the penalty of perjury warning. As a result of the findings of the examination, the Company modified the affidavit to satisfy this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

19. <u>In one instance, the Company failed to respond to communications within 15 calendar days.</u> The Department alleges this act is in violation of CCR §2695.5(b) and is an unfair practice under CIC §790.03(h)(2).

<u>Summary of the Company's Response:</u> The Company acknowledges that, while its best practice is to respond to communications within 15 days, this was not done in this instance. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

20. <u>In one instance, the Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation.</u> The Department alleges this act is in violation of CCR §2695.7(p) and is an unfair practice under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company acknowledges that, while its best practice is to send a subrogation intent letter, this was not done in this instance. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

21. <u>In one instance, the Company failed to provide reasonable notice to a claimant before terminating payment for storage charges.</u> Specifically, the insured was not provided any prior oral or written notification that storage would be terminated. The insured was notified that storage would terminate the same date that a letter was sent. The Department alleges this act is in violation of CCR §2695.8(k) and is an unfair practice under CIC §790.03(h)(5).

<u>Summary of the Company's Response:</u> The Company acknowledges that, while its best practice is to provide reasonable notice to the insured before terminating payment for storage, this was not done in this instance. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

HOMEOWNER

22. In 18 instances, the Company failed to fully explain the basis for any adjustment to the claimant in writing. Although a copy of the structural estimate was provided to the insured and a settlement letter was sent in most instances, the estimate and letter do not include an explanation for the basis of any adjustments/depreciation (e.g. age, condition, useful life) in writing. With regard to contents items, the percentages of depreciation taken were provided although the explanations for the adjustments were not. In three instances respectively, the basis for taking a flat 50% was not provided in writing, an estimate was not sent to the insured regarding the supplemental repairs, and depreciation was explained in a telephone call, not in writing. The Department alleges these acts are in violation of CCR §2695.9(f) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company depreciated structural components or the cost to replace/paint and/or install damaged areas based on the age of the home and on the age when the items were completed or installed. The property reports prepared by the adjusters included the information obtained by the adjuster during the investigation. The Company completed inspections of the properties and photographs were secured to document the condition of the property and provide justification for the application of depreciation. Photographs are the documented basis for the application of depreciation. Additionally, the physical depreciation applied was based on information provided by the insured, along with the age and pre-loss condition of the materials observed during the inspection.

In most instances, the application of deprecation was communicated to the insured either in person or on the telephone. Additionally, the settlement letter and estimate were provided to the insured. The estimates were descriptive, detailed and provided a clear and accurate summation of all the depreciation applied. It was itemized and broken out on a line item basis and identified the items that were depreciated as well as the amount of depreciation applied. The written estimate that was presented to the insured was a very valuable depreciation explanation tool and served as the Company's written correspondence/explanation to the insured.

Generally, depreciation was determined by the adjuster using the broad evidence rule. Both age and condition were determined through the use of the adjuster's experience, knowledge, skills, visual observations and discussions with the insured and any contractors, if applicable. The Company's software estimating program, Xactimate, calculates depreciation on the basis of the age and condition entered by the adjuster. The program then calculates depreciation against useful life expectancies of the product or material.

In the absence of age and condition, the Company takes the position that an item is in mid-life expectancy of its use value. If the customer chooses to make a replacement cost claim, the Company will pay the recoverable depreciation. Otherwise,

if a customer determines an age at a later date, the Company has the ability to update its system so as to address the percent of depreciation either upward or downward.

As a remedial measure, the Company updated its estimating software in the first quarter of 2013 to display the age, condition and useful life descriptions that were hidden from view. As an additional remedial measure, insureds were sent letters providing details of how the Company determined the depreciated amounts. To ensure future compliance in all instances, the Company conducted remedial training with staff at the end of March 2013 regarding the regulatory requirement to provide the basis of any depreciation in writing.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

23. In 16 instances, the Company failed to document the basis of betterment, depreciation, or salvage. In these instances, the basis of depreciation was not explained in the file notes or in the estimate. The estimate identified the material subject to depreciation and the amount of depreciation by line item; however, the basis for depreciation (age, condition, useful life) was not documented. The Department alleges these acts are in violation of CCR §2695.9(f) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges the allegation that it failed to document the basis of betterment, depreciation or salvage. In the first quarter of 2013, the Company updated its estimating software to display the age, condition and useful life descriptions that were hidden from view. As an additional remedial measure, insureds were sent letters providing details regarding the basis of the depreciation. To ensure future compliance in all instances, the Company conducted remedial training with staff at the end of March 2013 regarding this regulatory requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

24. In 14 instances, the Company failed to provide written notice of the need for additional time or information every 30 calendar days. The Department alleges these acts are in violation of CCR §2695.7(c)(1) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to provide the additional time letter(s) within 40 days from receipt of proof of claim, and every 30 days thereafter, the status letters were not sent in these instances. To ensure future compliance, the Company conducted remedial

training with staff at the end of March 2013 regarding the regulatory requirement to send status letters.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

25. <u>In nine instances, the Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverages at issue.</u> In eight instances, the Company's settlement letter to the insured indicated that the insured must notify the Company in writing prior to a certain date of the insured's intent to complete repairs if the repairs are to be completed. There is no specific provision in the policy requiring the notice to be in writing. In one of these eight instances, in addition to informing the insured that the notice must be in writing, the letter further advised the insured that to recover the withheld depreciation, the items need to be replaced within 180 days. This additional language in the letter leads the insured to understand that the contents must be replaced within 180 days; whereas, the policy allows the insured to notify the Company within 180 days. In the final instance, the Company's settlement letter inaccurately represented the replacement cost policy provision. The referenced settlement letter leads the insured to understand that the repairs must be completed within 180 days; whereas, the policy allows the insured to notify the Company within 12 months of the intent to complete the repairs or replace the property. The Department alleges these acts are in violation of CIC §790.03(h)(1).

<u>Summary of the Company's Response:</u> The Company acknowledges these findings. In instances in which the insured did not pursue recoverable depreciation, the Company sent a revised letter with accurate policy language. Letter templates were updated with appropriate language. In the final instance, the Company reopened the claim and attempted contact with the insured. A letter was also mailed advising the insured of the error and providing him with additional time to replace the personal property. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding the noted issues.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

26. <u>In nine instances, the Company improperly applied betterment or depreciation to property not normally subject to repair and replacement during the useful life of the property.</u> In each instance, the Company applied depreciation to one or more structural components not normally subject to repair and replacement during the useful life of the structure. The structural components in the instances noted are not normally subject to repair or replacement during the items' lifespan absent some known reason to do so, such as damage sustained in an insurance loss. Additionally, the files notes at issue were void of any specific documentation regarding the condition of the items that would warrant betterment or depreciation. The Department alleges

these acts are in violation of CCR §2695.9(f) and are unfair practices under CIC §790.03(h)(5).

Summary of the Company's Response: The Company does not agree that it has acted in violation of CCR §2695.9(f) and believes that the rule as implemented is ambiguous such that it does not provide notice to regulated entities as to the specific conduct that violates the regulation. Nonetheless, the Company amended its procedures so that depreciation on items that have a particularly long useful life will only be applied when there is observed prior damage, wear or tear. A specific notation as to the observed condition and corresponding judgment of applicable depreciation of the item will be entered in the file. In addition, the Company conducted training with the adjusting staff to support the change in procedure. As an accommodation and without waiving any legal position, the Company reviewed files identified in the examination and refunded depreciated amounts as noted in the exam. In four of the nine instances, the insured presented a replacement cost claim and all previously withheld depreciation was paid. In the remaining five instances, the Company issued payments totaling $1,402.51.

27. In eight instances, the Company failed to maintain all documents, notes and work papers which reasonably pertain to each claim in such detail that pertinent events and the dates of the events can be reconstructed. Specifically, in three instances, the Company is unable to locate the settlement letter sent to the insured. In the remaining five instances respectively, the Company is unable to locate the letter sent to the named insured pursuant to CIC §790.034(b)(1); the Company is unable to produce the documents associated with the claim file such as settlement letters and estimates; the Company is unable to locate the list of stolen items in the claim file; the Company is unable to locate its written response to a subrogation demand; and the Company failed to record file notes documenting the inspection, loss evaluation and settlement in a claim file. The Department alleges these acts are in violation of CCR §2695.3(a) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges these findings. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding proper document preservation guidelines, records retention, and records management.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

28. In eight instances, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days. The Department alleges these acts are in violation of CCR §2695.7(b) and are unfair practices under CIC §790.03(h)(3) or CIC §790.03(h)(4).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to accept or deny all claims within 40 days after receipt of proof of claim, procedure was not followed in these instances. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding the regulatory requirement to accept or deny claims within 40 days of receipt of proof of claim.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

29. In five instances, the Company improperly imposed upon an insured a time limit to collect the full replacement cost of the loss. No time limit of less than 12 months from the date that the first payment toward the actual cash value is made shall be placed upon an insured in order to collect the full replacement cost of the loss, subject to the policy limit. In each instance, the Company's settlement letter stated the insured must attempt to complete the repairs within 180 days after loss, which is not in compliance with the referenced code. The Department alleges these acts are in violation of CIC §2051.5(b)(1) and are unfair practices under CIC §790.03(h)(1).

Summary of the Company's Response: The Company acknowledges these findings. As a result of the examination, revised letters were sent to the insureds in all instances. Letter templates were updated with appropriate language. Additionally, the Company conducted remedial training with staff at the end of March 2013 to ensure future compliance with the California Insurance Code.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

30. In five instances, the Company failed to conduct and diligently pursue a thorough, fair and objective investigation. The Department alleges these acts are in violation of CCR §2695.7(d) and are unfair practices under CIC §790.03(h)(3).

30(a). In four instances, the Company did not conduct a timely investigation resulting in delays.

Summary of the Company's Response to 30(a): The Company acknowledges these findings. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding the regulatory requirement to conduct and diligently pursue a thorough, fair and objective investigation.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

30(b). In the remaining instance, the Company failed to follow up with the insured upon receipt of the contents list from a vendor for necessary details about the items prior to pricing and depreciating the items for a flat 50%.

Summary of the Company's Response to 30(b): The Company believes its investigation was thorough, fair and objective; however, in the interest of resolving this issue, the Company provided remedial training to staff in support of CCR §2695.7(d).

31. In five instances, the Company failed to provide written notice of any statute of limitation or other time period requirement upon which the insurer may rely to deny a claim. Each instance involved a homeowner liability claim in which the file was closed. The Department alleges these acts are in violation of CCR §2695.7(f) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges these findings. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding the regulatory requirement to include written notice of any statute of limitations either when the file is closed or not less than 60 days prior to the expiration date.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

32. In four instances, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy. Each instance involved either the failure to disclose that depreciation was recoverable or the failure to notify the insured of how to make a claim for recoverable depreciation. The Department alleges these acts are in violation of CCR §2695.4(a) and are unfair practices under CIC §790.03(h)(1).

Summary of the Company's Response: The Company acknowledges these findings. As a result of the findings of the examination, the Company contacted each identified insured to discuss recoverable depreciation, and/or it sent a letter to the insured disclosing that depreciation is recoverable and how to make a claim for recoverable depreciation. Additionally, the Company conducted remedial training with staff at the end of March 2013 to ensure future compliance with this regulatory requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

33. In four instances, the Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or

rejected, he or she may have the matter reviewed by the California Department of Insurance. The Department alleges these acts are in violation of CCR §2695.7(b)(3) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to include the statement, it was not included in these instances. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this regulatory requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

34. In four instances, the Company attempted to settle a claim by making a settlement offer that was unreasonably low. The Department alleges these acts are in violation of CCR §2695.7(g) and are unfair practices under CIC §790.03(h)(5).

34(a). In one instance, the Company issued a claim payment for $540.00 less than the amount stated in its settlement letter.

Summary of the Company's Response to 34(a): The Company acknowledges this finding. The adjuster made an error when issuing the payment and inadvertently underpaid the claim by $540.00. This did not result in a supplemental payment because the error had been discovered after being contacted by the insured pertaining to this discrepancy and remedied prior to this examination. The Company discussed this issue with the handling adjuster as a coaching opportunity to ensure future compliance.

34(b). In one instance, the Company's initial settlement improperly included $800.00 of stolen gift cards within the cash limit of $200.00. The gift cards should have been considered under the $1,000.00 limit on securities.

Summary of the Company's Response to 34(b): As a result of the findings of the examination, the Company issued payment of $800.00. Additionally, the Company discussed this misapplication of the cash limit with the insured and advised of the supplemental payment.

34(c). In one instance, a clothing receipt was overlooked when evaluating recoverable depreciation for the insured.

Summary of the Company's Response to 34(c): As a result of the findings of the examination, the Company issued payment of $503.86 and sent a letter explaining the payment. Additionally, the handling adjuster was counseled regarding recoverable depreciation to ensure future compliance.

34(d). In the remaining instance, the Company deducted the salvage value plus sales tax from the total loss settlement regarding a homeowner liability claim. As sales

tax is owed on the ACV amount less the salvage value, this method resulted in an underpayment.

Summary of the Company's Response to 34(d): Although the Company does not agree that it made an unreasonably low settlement offer in this claim, the Company issued payment of $27.30 as a result of the findings of the examination.

The Company states its acknowledgement of findings to 34(a), 34(b), 34(c) and 34(d) above do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

35. In three instances, the Company improperly applied depreciation or betterment to the expense of labor necessary to repair, rebuild or replace covered property. The Company improperly applied depreciation to the labor component of repair estimates. The Department alleges these acts are in violation of CCR §2695.9(f)(1) and are unfair practices under CIC §790.03(h)(5).

Summary of the Company's Response: As a result of the findings of the examination, the Company issued payments totaling $10.33. These were unintentional mistakes and are not representative of Company policy and procedure. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013. Additionally, all of the appraiser profiles in Xactimate were updated to ensure depreciation cannot be applied to labor.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

36. In one instance, the Company failed to provide the insured with a list of items that the insurer believes may be covered under the policy as additional living expenses. The Department alleges this act is in violation of CIC §2060 and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges this finding. The Company conducted remedial training with staff at the end of March 2013 to ensure this information is provided in written form to an insured on every claim that has a potential for an additional living expenses claim.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

37. In one instance, the Company failed to acknowledge notice of claim within 15 calendar days. The Department alleges this act is in violation of CCR §2695.5(e)(1) and is an unfair practice under CIC §790.03(h)(2).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to acknowledge claims within the regulatory timeframes, this was not done in this instance. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding the requirement to acknowledge claims within regulatory timeframes.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

38. In one instance, the Company failed to provide necessary forms, instructions, and reasonable assistance within 15 calendar days. The Department alleges this act is in violation of CCR §2695.5(e)(2) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges that, while its best practice is to provide necessary forms, instructions and reasonable assistance to the claimant within 15 calendar days of receipt of claim, this was not done in this instance. To ensure future compliance, the Company conducted remedial training with staff at the end of March 2013 regarding this regulatory requirement.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.

39. In one instance, the Company settled the claim on the basis of a written scope and/or estimate without supplying the insured with a copy of each document upon which the settlement was based. The Department alleges this act is in violation of CCR §2695.9(d) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company acknowledges this finding. It is the Company's standard practice to send a copy of the estimate to the insured on every file, along with a written explanation of the settlement. The Company sent a copy of the estimate to the insured and provided remedial training to staff to address this issue.

The Company states its acknowledgement of findings do not constitute acceptance of the Department's allegations of a pattern and practice nor do they generally constitute an acknowledgement of a violation of law.