[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

ELECTRIC INSURANCE COMPANY
NAIC # 21261 CDI # 2047-9

AS OF APRIL 30, 2014

ADOPTED JUNE 19, 2015

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.

TABLE OF CONTENTS

SALUTATION 1
FOREWORD 2
SCOPE OF THE EXAMINATION 3
EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED 4
RESULTS OF REVIEWS OF MARKET ANALYSIS, CONSUMER COMPLAINTS AND INQUIRIES, AND PREVIOUS EXAMINATIONS, AND PRIOR ENFORCEMENT ACTIONS 5
DETAILS OF THE CURRENT EXAMINATION 6
TABLE OF ALLEGED VIOLATIONS 7
TABLE OF ALLEGED VIOLATIONS BY LINE OF BUSINESS 10
SUMMARY OF EXAMINATION RESULTS 12

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

June 19, 2015

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:

Electric Insurance Company
NAIC # 21261

Hereinafter, the Company listed above also will be referred to as EIC 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 May 1, 2013 through April 30, 2014. 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.

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. While this report contains violations of law that were cited by the examiner, additional violations of CIC § 790.03, or other laws, not cited in this report may also apply to any or all of the non-compliant or problematic activities that are described herein.

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 May 1, 2013 through April 30, 2014; 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 California Department of Insurance in Sacramento, California.

EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED

The private passenger automobile and homeowner claims reviewed were closed from May 1, 2013 through April 30, 2014, referred to as the “review period”. The examiner randomly selected 187 EIC claim files for examination. The examiner cited 130 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: the failure to properly advise the insured of the method in which a request for reconsideration of fault can be made; the 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; the failure to advise the insured that the accident resulted in bodily injury or death; the failure to document the basis of depreciation applied to property; the failure to fully explain the basis of depreciation to the claimant in writing, and the failure to document a comparable vehicle.

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

The results of the market analysis review revealed that during 2011, an enforcement action was taken in the state of Missouri. This action alleged failure to complete the investigation of a claim within 30 calendar days and the failure to provide the claimant with a status letter within 45 days from the date of notice. The examiner focused on these issues during the course of the file review. These issues were not reflected in the results of this examination.

The Company was the subject of three California consumer complaints and inquiries closed from May 1, 2013 through April 30, 2014, in regard to the lines of business reviewed in this examination. Of the complaints and inquiries, the CDI determined one complaint was justified; it involved the Company's failure to accept or deny a claim within 40 calendar days of receiving proof of claim. The examiner focused on this issue during the course of the file review.

The previous claims examination reviewed a period from July 1, 1999, through September 3, 1999. The most significant non-compliant issues identified in the previous examination report were the Company's failure to properly document claim files, the failure to include the Department of Insurance address on denial letters, and the failure to issue at-fault letters to insureds. These issues were not identified as problematic in the current examination.

EIC was the subject of a CDI enforcement action on March 29, 2000, which resulted in a Cease and Desist and a penalty of $10,000. Significant noncompliant issues identified in the enforcement action were failure to include fees in the settlement of automobile total losses and failure to properly document depreciation in homeowner claims.

DETAILS OF THE CURRENT EXAMINATION

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

EIC SAMPLE FILES REVIEW			
LINE OF BUSINESS / CATEGORY	**CLAIMS IN REVIEW PERIOD**	**SAMPLE FILES REVIEWED**	**NUMBER OF ALLEGED VIOLATIONS**
Private Passenger Automobile / Physical Damage (Collision and Comprehensive)	313	56	55
Private Passenger Automobile / Liability (Bodily injury and Property Damage)	246	53	44
Private Passenger Automobile / Uninsured Motorist (Uninsured Motorist Bodily Injury and Uninsured Motorist Property Damage)	7	6	4
Private Passenger Automobile / Medical Payment	47	28	0
Homeowner / Property	85	38	25
Homeowner / Liability	246	6	2
TOTALS	**944**	**187**	**130**

TABLE OF TOTAL ALLEGED VIOLATIONS

Citation	Description of Allegation	EIC Number of Alleged Violations
CCR §2632.13(e)(2) *[CIC §790.03(h)(1)]	The Company failed to properly advise the insured of the method in which a request for reconsideration of fault can be made.	34
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 loss that was covered by the policy.	25
CCR §2632.13(e)(1) *[CIC §790.03(h)(3)]	The Company failed to specify in its principally at-fault notice the basis for the determination that the accident resulted in bodily injury or death.	13
CCR §2695.8(b)(2) *[CIC §790.03(h)(3)]	The Company failed to document a comparable vehicle. The Company did not provide the vehicle identification number, the stock or order number of the vehicle from a licensed dealer, or the license plate number of the vehicles used to calculate the cost of a comparable vehicle.	9
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.	9
CCR §2695.9(f) *[CIC §790.03(h)(3)]	The Company failed to document in the claim file all justification for the adjustment of the amount claimed because of betterment, depreciation, or salvage. Any adjustment for betterment or depreciation shall reflect a measurable difference in market value attributable to the condition and age of the property.	9
CCR §2695.8(g)(3) *[CIC §790.03(h)(3)]	The Company required the use of non-original equipment manufacturer replacement crash parts and failed to disclose in writing, in any estimate prepared by or for the insurer that it warrants such parts are at least equal to the original equipment manufacturer parts in terms of kind, quality, safety, fit, and performance.	7
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.	5
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.	4
CCR §2695.8(i) *[CIC §790.03(h)(3)]	The Company failed to fully explain the basis for any adjustment to the claimant in writing.	3

CCR §2695.8(b)(1)(A) *[CIC §790.03(h)(3)]	The Company failed to inform the claimant of his or her right to seek a refund of the unused license fees from the Department of Motor Vehicles.	2
CIC §790.03(h)(1)	The Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverages at issue.	1
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.	1
CCR §2632.13(e)(2) *[CIC §790.03(h)(2)]	The Company failed to respond, within 30 days, to the insured's request for reconsideration of the Company's determination that the driver was principally at–fault.	1
CCR §2695.7(b) *[CIC §790.03(h)(3)]	The Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days.	1
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.	1
CCR §2695.7(c)(1) *[CIC §790.03(h)(3)]	The Company failed to specify, in the written notice, any additional information the insurer requires to make a claim determination and to state any continuing reasons for the Company's inability to make a determination.	1
CCR §2695.7(d) *[CIC §790.03(h)(3)]	The Company failed to conduct and diligently pursue a thorough, fair and objective investigation.	1
CCR §2695.8(b)(1)(A) *[CIC §790.03(h)(3)]	The Company failed to disclose in writing to the claimant that notice of the salvage retention by the claimant must be provided to the Department of Motor Vehicles and that this notice may affect the loss vehicle's future resale and/or insured value.	1
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.	1
CCR §2695.9(f)(1) *[CIC §790.03(h)(3)]	The Company improperly applied depreciation or betterment to the expense of labor necessary to repair, rebuild or replace covered property.	1
Total Number of Alleged Violations		**130**

*DESCRIPTONS OF APPLICABLE UNFAIR CLAIMS SETTLEMENT PRACTICES

CIC §790.03(h)(1)	The Company misrepresented to claimants pertinent facts or insurance policy provisions 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)(5)	The Company failed to effectuate prompt, fair, and equitable settlements of claims in which liability had become reasonably clear.

TABLE OF ALLEGED VIOLATIONS BY LINE OF BUSINESS

PRIVATE PASSENGER AUTOMOBILE **2013 Written Premium: $3,261,979** **AMOUNT OF RECOVERIES $00.00**	**NUMBER OF ALLEGED VIOLATIONS**
CCR §2632.13(e)(2) [CIC §790.03(h)(1)]	34
CIC §11580.011(e) [CIC §790.03(h)(3)]	25
CCR §2632.13(e)(1) [CIC §790.03(h)(3)]	13
CCR §2695.8(b)(2) [CIC §790.03(h)(3)]	9
CCR §2695.8(g)(3) [CIC §790.03(h)(3)]	7
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	4
CCR §2695.8(i) [CIC §790.03(h)(3)]	3
CCR §2695.8(b)(1)(A) [CIC §790.03(h)(3)]	2
CCR §2632.13(e)(1) [CIC §790.03(h)(1)]	1
CCR §2632.13(e)(2) [CIC §790.03(h)(2)]	1
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	1
CCR §2695.7(d) [CIC §790.03(h)(3)]	1
CCR §2695.8(b)(1)(A) [CIC §790.03(h)(3)]	1
CCR §2695.8(f) [CIC §790.03(h)(3)]	1
SUBTOTAL	**103**

HOMEOWNER **2013 Written Premium: $1,933,915** **AMOUNT OF RECOVERIES: $1,692.46**	**NUMBER OF ALLEGED VIOLATIONS**
CCR §2695.9(f) [CIC §790.03(h)(3)]	9
CCR §2695.9(f) [CIC §790.03(h)(3)]	9
CCR §2695.9(f) [CIC §790.03(h)(5)]	4
CIC §790.03(h)(1)	1
CCR §2695.7(b) [CIC §790.03(h)(3)]	1
CCR §2695.7(b)(3) [CIC §790.03(h)(3)]	1
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	1
CCR §2695.9(f)(1) [CIC §790.03(h)(5)]	1
SUBTOTAL	**27**

TOTAL	**130**

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.

As a result of the examination, the total amount of money recovered within the scope of this report was $1,692.46 as described in section number 17 below.

PRIVATE PASSENGER AUTOMOBILE

1. In 34 instances, the Company failed to properly advise the insured of the method in which a request for reconsideration of fault can be made. The Company advised the insured that a request for reconsideration of the liability determination must be in writing. The Department alleges these acts are in violation of CCR §2632.13(e)(2) and are unfair practices under CIC §790.03(h)(1).

Summary of the Company's Response: The Company respectfully disagrees with this finding as the regulation is silent regarding how the insured should submit reconsideration of the liability determination. The Company's business process is to request the insured to submit a letter outlining the reasons the Company should reconsider; however, the Company does not limit the insured's request to written form. If the insured were to request reconsideration verbally, the Company would review and respond as if the request was submitted in writing. Nonetheless, on June 20, 2014, the Company expanded the language on the reconsideration letter to include written and verbal means of communication to ensure there is no confusion going forward.

2. <u>In 25 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.</u> The Department alleges these acts are in violation of CIC §11580.011(e) and are unfair practices under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company agrees it did not ask if a child restraint system was in use or was in the vehicle at the time of the loss. It is the Company's business process to inquire about car seat use during the intake of the first notice of loss. Additionally, the Company provides the statute language in a document that adjusters can reference at the time of a claim's intake. Unfortunately, this question was not asked on these claims. The Company has since contacted the each identified insured and confirmed there were no car seats in the vehicles when the losses occurred. On June 5, 2014, during a meeting with the Auto Damage adjusters, Team Leaders reinforced the requirement to inquire about the child restraint systems in use at the time of the loss. In addition, effective August 30, 2014, the Company addressed the issue of whether or not the CPRS was in the vehicle, either occupied or unoccupied, by adding the following language to the claims' acknowledgment correspondence:

> If a child restraint system was in the vehicle at the time of the accident, please notify your adjuster immediately.

The Company will continue to reinforce this requirement with the adjusters and will perform audits to ensure compliance.

3. <u>In 13 instances, the Company failed to specify in its principally at-fault notice the basis for the determination that the accident resulted in bodily injury or death.</u> 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 agrees that the principally at-fault letter does not inform the insured that the accident resulted in bodily injury. The Company revised the principally at-fault letter on June 24, 2014, to include language that the accident resulted in bodily injury. The adjusters have been informed to use this new letter going forward.

4. <u>In nine instances, the Company failed to document a comparable vehicle. The Company did not provide the vehicle identification number, the stock or order number of the vehicle from a licensed dealer, or the license plate number of the vehicles used to calculate the cost of a comparable vehicle.</u> The Department alleges these acts are in violation of CCR §2695.8(b)(2) and are unfair practices under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company agrees the valuation report sent to the insured did not provide the vehicle identification number, the stock or order number of the vehicle from a licensed dealer, or the plate number of the vehicles used to calculate the cost of the comparable vehicle. As a result of the examination, the

Company contacted its vendor on June 26, 2014 regarding this regulatory requirement. The vendor informed the Company that the failure to include the VIN, stock or plate number on the total loss valuation report was an oversight on their part. On June 26, 2014, the vendor took corrective measures to update the form to include the required information. Additionally, the Company's Auto Damage Team leader has reviewed the regulatory requirement and process with the adjusters. The Company will also conduct regular audits to ensure adherence to the requirement.

5. In seven instances, the Company required the use of non-original equipment manufacturer replacement crash parts and failed to disclose in writing, in any estimate prepared by or for the insurer, that it warrants such parts are at least equal to the original equipment manufacturer parts in terms of kind, quality, safety, fit, and performance. The Department alleges these acts are in violation of CCR §2695.8(g)(3) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company agrees these estimates did not contain the proper disclosure regarding the use of non-original equipment manufacturer crash parts. Three of the estimates were produced by an independent adjuster and four were produced by the Company. In all cases, the non-compliant estimates were the result of estimating software that had not been updated since the change in the law effective March 30, 2013. On June 18, 2014, the independent adjusting company updated its version of the estimating software and, on June 23, 2014, the Company uploaded the most recent version of the software for its own use. The Company will conduct monthly audits to ensure adherence to the regulation and will continue to conduct these audits to confirm compliance by the independent adjusters.

6. In four 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: In four instances, the Company agrees it failed to send additional delay letters subsequent to the initial delay letter. These instances were isolated to one claim file handled by one adjuster. The Claims Team Leader reviewed the regulation requirement with the adjuster on October 22, 2013. The Company's business process is to send delay letters every 30 days as required by the regulation.

7. In three instances, the Company failed to fully explain the basis for any adjustment to the claimant in writing. The Department alleges these acts are in violation of CCR §2695.8(i) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: On July 17, 2014, the Company revised the guidelines for the Independent Appraisers concerning the explanation of

betterment in writing. As an example, the explanation that will appear on all appraisals will be shown as follows:

> Deducted 50% betterment on rear suspension axle housing
> Life expectancy is 100,000 miles, vehicle has 75,690 miles
> $1,071.14*50% = $535.57

Additionally, on July 17, 2014, the Company contacted its independent appraisal company and advised them of the requirement change. The Company will conduct monthly audits to confirm compliance by the independent appraisers.

8. <u>In two instances, the Company failed to inform the claimant of his or her right to seek a refund of the unused license fees from the Department of Motor Vehicles.</u> The Department alleges these acts are in violation of CCR §2695.8(b)(1)(A) and are unfair practices under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> In the noted instances, the Company agrees it did not provide written notice to the claimant disclosing his or her right to seek a refund or unused license fees from the DMV. This was an isolated issue due to an adjuster error in failing to send the California-specific disclosure notice at the same time payment was issued. On June 5, 2014, the Company revised this process to provide disclosure information as part of the Total Loss Offer letter. As an additional remedial measure, the Company sent a letter to the claimant advising of the right to seek a refund from the DMV for any unused fees.

9. <u>In one instance, the Company failed to properly advise the insured that the driver of the insured vehicle was principally at-fault for an accident.</u> This instance involved the Company's failure to send the determination of fault notice to the insured. The Department alleges this act is in violation of CCR §2632.13(e)(1) and is an unfair practice under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company agrees it did not send the principally at-fault letter to the insured. In this isolated incident the adjuster inadvertently sent the letter to the claimant instead of to the insured. It is the Company's business process to perform weekly audits to ensure this letter is being sent. Going forward, the Company will ensure the correct recipient has been selected. As a remedial measure, the Company sent the principally at-fault letter to the identified insured on June 25, 2014. Furthermore, the Company reinforced the importance of this requirement with the adjuster who made the error as well as with the rest of the team on June 25, 2014.

10. <u>In one instance, the Company failed to respond, within 30 days, to the insured's request for reconsideration of the Company's determination that the driver was principally at–fault.</u> The Department alleges this act is in violation of CCR §2632.13(e)(2) and is an unfair practice under CIC §790.03(h)(2).

Summary of the Company's Response: The Company agrees it did not respond to the insured's request to reconsider the determination of liability. This was an isolated issue due to an adjuster error. The Company's business process provides that the adjuster advise a Senior Adjuster or Team Leader when a request for reconsideration is received and that a written response is made within the required time frame. The Company reviewed the regulation with the adjuster on October 23, 2014, and will monitor adherence to the regulation through regular correspondence reviews. Additionally, as a result of this finding, the Company contacted the insured on June 19, 2014, regarding the liability decision.

11. In one instance, the Company failed to specify, in the written notice, any additional information the insurer requires to make a claim determination and to state any continuing reasons for the Company's inability to make a determination. The Department alleges this act is in violation of CCR §2695.7(c)(1) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company agrees the notice did not specify the additional information the Company required to make a determination of the claim. This matter was an isolated issue due to an adjuster error. The Claims Team Leader reviewed the regulation requirement with the adjuster on July 21, 2014.

12. In one instance, the Company failed to conduct and diligently pursue a thorough, fair and objective investigation. The Department alleges this act is in violation of CCR §2695.7(d) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company agrees there was a delay in the evaluation of the subrogation demand. The Company's business process is to review a subrogation demand within eight business days of receipt of the demand. This matter was an isolated issue due to an appraiser and adjuster error. The Claims Team Leader reviewed the regulation requirement and business process with the appraiser and adjuster on July 21, 2014.

13. In one instance, the Company failed to disclose in writing to the claimant that notice of the salvage retention by the claimant must be provided to the Department of Motor Vehicles and that this notice may affect the loss vehicle's future resale and/or insured value. The Department alleges this act is in violation of CCR §2695.8(b)(1)(A) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company agrees it did not provide a written disclosure to the claimant that such notice may affect the vehicle's future resale value. This was an isolated instance of an adjuster error in failing to send the California-specific disclosure notice at the same time payment was issued. On June 5, 2014, the Company revised this process to provide disclosure information as part of the Total Loss Offer letter. As an additional remedial measure, the Company sent a letter to the identified claimant advising that the salvage retention notice sent to the DMV may affect the vehicle's future resale value.

14. <u>In one instance, the Company failed to supply the claimant with a copy of the estimate upon which the settlement was based.</u> The Department alleges this act is in violation of CCR §2695.8(f) and is an unfair practice under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company agrees a copy of the supplement was not provided to the insured. This was an isolated instance due to an adjuster error. The Company's business process is to mail a copy of all estimates to the customer along with payment. As a remedial measure, the Company sent a copy to the customer on June 19, 2014. Furthermore, the Auto Damage Team Leader reviewed the regulation requirement and process with the adjuster on June 23, 2014, and will monitor adherence to the regulation through regular audits.

<u>HOMEOWNER</u>

15. <u>In nine instances, the Company failed to document in the claim file all justification for the adjustment of the amount claimed because of betterment, depreciation, or salvage.</u> <u>Any adjustment for betterment or depreciation shall reflect a measurable difference in market value attributable to the condition and age of the property.</u> The Department alleges these acts are in violation of CCR §2695.9(f) and are unfair practices under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company disagrees that the depreciation applied was not supported in the claim files to include both age and condition pursuant to the referenced regulation. In the interest of resolving this matter, however, the Company agrees to expand its explanation of depreciation to specifically reference condition. The Company has contacted its vendor, which has advised that they will be updating their estimating software to specifically include a column for condition. They anticipate this programming to be completed by the end of the first quarter of 2015. In the interim, the Company will direct its independent and staff adjusters to specifically note the claim file regarding the condition of the damaged property.

16. <u>In nine instances, the Company failed to fully explain the basis for any adjustment to the claimant in writing.</u> The Department alleges these acts are in violation of CCR §2695.9(f) and are unfair practices under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company disagrees that it failed to fully explain the basis of the adjustment in writing. The payment letters that were sent with the settlement checks explained the amount of recoverable depreciation and also included Frequently Asked Questions outlining how the Company arrived at Actual Cash Value. However, in the interest of resolving this matter, the Company immediately began including all details behind use, age and percentage of depreciation on the copy of the estimate that is sent to the insured. Additionally, the Company directed its independent and staff adjusters to specifically note the claim file regarding the condition

of the damaged property. The Company's vendor, Xactimate, will be updating its software to specifically include a column for condition. The anticipated implementation date of the updated software is March 31, 2015.

17. <u>In four 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> The Department alleges these acts are in violation of CCR §2695.9(f) and are unfair practices under CIC §790.03(h)(5).

<u>Summary of the Company's Response:</u> The Company disagrees that depreciation taken on dry wall and similar items is not in compliance with the referenced regulation. The Company believes that it has a normal life expectancy and, is therefore, subject to depreciation. However, in the interest of resolving this matter, the Company immediately instructed its independent and staff adjusters that depreciation should not be taken on drywall and similar items not normally subject to repair and replacement during their useful life absent a specific notation regarding the condition of the item. In three of the four instances, the insureds provided documentation indicating that repairs were completed and the Company paid recoverable depreciation accordingly. In the remaining instance, the insured did not file a claim for recoverable depreciation. As a remedial measure, the Company issued payment for recoverable depreciation in this instance in the amount of $1,692.46 on January 29, 2015.

18. <u>In one instance, the Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverages at issue.</u> Specifically, the Company informed the insured that it will calculate the amount that is owed for recoverable depreciation after the insured has replaced all the items and has provided the receipts. The Department alleges this act is in violation of CIC §790.03(h)(1).

<u>Summary of the Company's Response:</u> The Company typically does not require all items to be replaced before releasing depreciation. This is an isolated incident that has been addressed with the handling adjuster directly and has been addressed for consistency in Team Meetings conducted on November 5, 2014.

19. <u>In one instance, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days.</u> The Department alleges this act is in violation of CCR §2695.7(b) and is an unfair practice under CIC §790.03(h)(3).

<u>Summary of the Company's Response:</u> The Company agrees it failed to accept or deny the claim within 40 calendar days of receiving proof of claim. The Company's business process is to accept or deny the claim within 40 calendar days of receiving proof of claim. The Claims Team Leader completed one-on-one coaching with the adjuster regarding the regulation and claims handling requirements on August 8, 2014. The Company will complete audits to ensure future compliance.

20. <u>In one instance, the Company failed to include a statement in its claim denial that, if the claimant believes the claim has been wrongfully denied or</u>

rejected, he or she may have the matter reviewed by the California Department of Insurance. The Department alleges this act is in violation of CCR §2695.7(b)(3) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company agrees it did not include the state-mandated language on the denial. This was an isolated instance of adjuster error in failing to send the California state specific denial letter, which has the mandated language. The Claims Team Leader reviewed the regulation with the adjuster on October 6, 2014.

21. In one instance, the Company failed to specify, in the written notice, any additional information the insurer requires to make a claim determination and to state any continuing reasons for the Company's inability to make a determination. The Department alleges this act is in violation of CCR §2695.7(c)(1) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company agrees it failed to provide written notice to the claimant every 30 days advising of the need for other information or additional time. The Company's business process is to send delay letters every 30 days as required by the regulation. The Claims Team Leader completed one-on-one coaching with the claims adjuster regarding the regulation and claims handling requirements on August 8, 2014. The Company will complete audits to ensure future compliance.

22. In one instance, the Company improperly applied depreciation or betterment to the expense of labor necessary to repair, rebuild or replace covered property. The Department alleges this act is in violation of CCR §2695.9(f)(1) and is an unfair practice under CIC §790.03(h)(5).

Summary of the Company's Response: The Company agrees that depreciating labor in this instance is not in compliance with the referenced regulation. This was an isolated incident of adjuster error. The Company paid recoverable depreciation which included the amount that was depreciated for labor. This was discussed with the handling adjuster on October 6, 2014, and reviewed in a team meeting on October 8, 2014, to ensure future compliance.