

**[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**

**AMERICAN HOME SHIELD OF CALIFORNIA
NAIC # H3353 CDI # 3353-0**

AS OF DECEMBER 31, 2012

ADOPTED June 17, 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



June 17, 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:

**American Home Shield of California
NAIC # H3353**

Hereinafter, the Company listed above also will be referred to as AHS 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 home protection claims closed during the period from January 1, 2012 through December 31, 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 January 1, 2012 through December 31, 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 California Department of Insurance in Sacramento, California.

EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED

The home protection claims reviewed were closed from January 1, 2012 through December 31, 2012, referred to as the “review period”. The examiners randomly selected 70 AHS claim files for examination of which 25 were claims on which the insured filed a complaint filed with the Company regarding the claim. The examiners cited 25 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 delays in claims handling; failure to effectuate prompt settlement of claims; and failure to provide written notice of the need for additional time every 30 calendar days.

RESULTS OF REVIEWS OF MARKET ANALYSIS, CONSUMER COMPLAINTS AND INQUIRIES, AND 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 126 California consumer complaints and inquiries closed from January 1, 2012 through December 31, 2012, in regard to the line of business reviewed in this examination. The CDI alleged 31 violations of law including seven failures to deny claims in writing; five failures to conduct a thorough, fair and objective investigation of a claim; and five failures to disclose all applicable benefits to the insured. Of the complaints and inquiries, the CDI determined twelve complaints were justified. The examiner focused on these issues during the course of the file review.

The previous claims examination reviewed a period from November 1, 2006 through October 31, 2007. The most significant noncompliant issues identified in the previous examination report were the Company's failure to investigate claims promptly, the Company's failure to maintain claims documents and the failure to provide the written basis for the denial of a claim. These issues were not identified as problematic in the current examination. There have been no CDI enforcement actions on the Company in the previous five years.

DETAILS OF THE CURRENT EXAMINATION

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

AHS SAMPLE FILES REVIEW			
LINE OF BUSINESS / CATEGORY	CLAIMS IN REVIEW PERIOD	SAMPLE FILES REVIEWED	NUMBER OF ALLEGED CITATIONS
Home Protection / Paid	139,612	10	0
Home Protection / Denied	9,001	25	6
Home Protection / Partial Denied	15,090	10	0
Home Protection / Complaints	18,817	25	19
TOTALS	182,520	70	25

TABLE OF TOTAL CITATIONS

Citation	Description of Allegation	AHS Number of Alleged Citations
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.	15
CIC §790.03(h)(5)	The Company failed to effectuate prompt, fair, and equitable settlements of claims in which liability has become reasonably clear.	2
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.	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 §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.	1
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.	1
CCR §2695.7(b) *[CIC §790.03(h)(4)]	The Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days.	1
CCR §2695.7(b)(1) *[CIC §790.03(h)(13)]	The Company failed to provide in its written denial a reference to and explanation of the applications of specific statutes, applicable laws, and policy provisions, conditions or exclusions.	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
Total Number of Citations		25

***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)(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)(13) The Company failed to provide promptly a reasonable explanation of the bases relied upon in the insurance policy, in relation to the facts or applicable law, for the denial of a claim or for the offer of a compromise settlement.

TABLE OF CITATIONS BY LINE OF BUSINESS

HOME WARRANTY 2012 Written Premium: \$93,261,397 AMOUNT OF RECOVERIES \$00.00	NUMBER OF CITATIONS
CIC §790.03(h)(3)	15
CIC §790.03(h)(5)	2
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	2
CIC §790.03(h)(1)	1
CCR §2695.3(a) [CIC §790.03(h)(3)]	1
CCR §2695.4(a) [CIC §790.03(h)(1)]	1
CCR §2695.7(b) [CIC §790.03(h)(4)]	1
CCR §2695.7(b)(1) [CIC §790.03(h)(13)]	1
CCR §2695.7(d) [CIC §790.03(h)(3)]	1
TOTAL	25

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 practice 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.

There were no recoveries discovered within the scope of this report.

HOME PROTECTION

1. In 15 instances, the Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under insurance policies. The Department alleges these acts are in violation of CIC §790.03(h)(3).

1(a). In four of the 15 instances, the Company's service contractor failed to provide the Company with all service-related information within 3 business days as required by the service agreement.

Summary of the Company's Response to 1(a): The Company acknowledges the delays as a result of the service contractor's failure to comply with the service agreement. The Company will communicate to contractors the importance of providing important claim information. The Company already had an agreement in place prior to the examination. On or before March 1, 2014, the Company will send a reminder e-mail to the contractor network reminding them of the need to contact the Company within 3 business days when the Company requests information regarding services they performed.

1(b). In four of the 15 instances, the Company's service contractors failed to comply with the service agreement by contacting the insured within one business day

upon receiving a service request from the Company and to initiate a service call within 48 hours of receipt of the service request.

Summary of the Company's Response to 1(b): The Company acknowledges the delays as a result of the service contractor's failure to comply with the service agreement. The Company's contractor Relations Department does address issues when a contractor does not comply with the terms of the service agreement. The Company already had an agreement in place with the service contractors prior to the examination. On or before March 1, 2014, the Company will send a reminder e-mail to the contractor network reminding them of the need to contact the customer within one business day and the need to initiate service within 48 hours of receipt of a service request.

1(c). In three instances, the service contractor either failed to initiate a service call within 48 hours of receipt of the service request or failed to show for a scheduled appointment. These failures violate the service agreement with the Company.

Summary of the Company's Response to 1(c): The Company acknowledges that the service contractor's failure to comply with the service agreement resulted in a delay of the claim. The Company's Contractor Relations Department will follow up with contractors who do not comply with the terms of their agreement in order to ensure that they are aware of the provisions of the agreement. When the Company becomes aware that a service contractor has missed an appointment, the Company will follow up with the service contractor and request that they reschedule the appointment. The Company already had an agreement in place with the service contractors prior to the examination. On or before March 1, 2014, the Company will send a reminder e-mail to the contractor network reminding them of the need to initiate service within 48 hours of receipt of a service request and the need to notify the Company immediately if a service contractor is unable to provide prompt service to an insured.

1(d). In one instance, the Company's service contractor failed to provide status information to the insured for a period of 26 days. This failure violates the service agreement with the Company.

Summary of the Company's Response to 1(d): The Company's Contractor Relations Department will follow up with contractors who do not comply with the terms of their agreement in order to ensure that they are aware of the provisions of the agreement. The Company will require all associates who work on California claims to take the e-course "American Home Shield California Claims Compliance Course" during the year 2014.

1(e). In one instance, the Company failed to follow its own procedure in verifying that the service contractor who was dispatched could perform the requested service.

Summary of the Company's Response to 1(e): The Company has a procedure in place to address this issue. If a service contractor is unable to perform the

requested service, the Company will transfer the service request to another contractor. As a remedial measure, on or before March 1, 2014, the Company will send a reminder copy of the procedure to all associates who work on California claims.

1(f). In one instance, the Company dispatched a service call to a service contractor who was unavailable to complete the call. The service contractor did not notify the Company for 32 days, which violates the service agreement with the Company.

Summary of the Company's Response to 1(f): The Company already had an agreement in place with the service contractors prior to the examination. On or before March 1, 2014, the Company will send a reminder e-mail to the contractor network reminding them to promptly notify the Company if they are unable to complete a service request.

1(g). In one instance, the Company failed to follow its own procedure in providing the insured with a status letter every 20 days.

Summary of the Company's Response to 1(g): The Company acknowledges a status letter was not sent to the insured within 20 days. As a remedial measure, all associates who work on California claims will be required to take the Company's e-course entitled "American Home Shield California Claims Compliance Course" during the year 2014.

2. In two instances, the Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear. Specifically in one instance, the Company required the insured to provide proof of repair before issuing a claims payment. The insured's policy contains no such condition or provision. In the remaining instance, the Company incorrectly issued a denial letter on the basis that the air conditioner would not have passed a simple visual mechanical inspection or test at the start date of the contract. The Company's service contractor reported to the Company that "there was no way to tell if this would have been detectable by a simple mechanical test or visual inspection." The Department alleges these acts are in violation of CIC §790.03(h)(5).

Summary of the Company's Response: Regarding the first instance, the Company states it does have warranty plans that are sold to California customers which include the language below:

In some instances, AHS may offer you the option of accepting cash in lieu of repair or replacement services. This offered amount is based on what AHS would expect to pay (which is substantially less than retail cost) for parts and labor for covered items less the incurred cost of the contractor's diagnosis. AHS is not obliged to extend such an offer and you are under no obligation to accept such an offer. If you accept such an offer, you are required to repair the item or provide a new

replacement and send the acceptable proof of your actual itemized costs to AHS before any reimbursement amount will be paid.

The original procedure was designed to address home warranty plans that contained this language; however, in the first instance, it was applied to a product that did not contain the customer-option cash-in-lieu language. With respect to the insured's home warranty plan, the Company does believe that the cash-in-lieu reimbursement check should have been sent within 40 days of the offer. The Company will modify the procedure to clarify that it applies only to contracts with the cash-in-lieu contract language above, when the customer makes the specified cash in lieu election. The Company stated it would send an e-mail communication, no later than December 31, 2013, to all associates who offer cash in lieu of repair or replacement to advise them that they must ensure the proper procedure is followed depending on which version of cash-in-lieu language is contained in the plan. If the customer's plan does not contain the customer option cash-in-lieu language, the Company will issue a check to the insured within 30 days of the offer.

In the second instance, a decision was made to approve coverage based on the report of the first service contractor and the report of a second service contractor. A denial letter should not have been sent to the insured. The Company already had a procedure in place prior to the examination entitled "Support Operations Standard Operating Procedures for Non-Covered Letter Coordinators". On or before March 1, 2014, the Company will send a copy of the procedure to the Denial Letter Coordinators as a reminder to follow the correct procedure.

3. In two 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 status letters were not sent to the insured in these instances and were the result of employee errors. As a remedial measure, the claims supervisor will provide coaching to their claims associates regarding the need to provide the insured with status letters every 30 calendar days. Additionally, all associates who work on California claims will be required to take the Company's e-course entitled "American Home Shield California Claims Compliance Course" during the year 2014.

4. In one instance, the Company misrepresented to claimants pertinent facts or insurance policy provisions relating to coverages at issue. Specifically, Company denied coverage for mold/mildew. However, the denial letter incorrectly informed the insured that plumbing leaks due to mold/mildew are not covered. The letter should have stated that plumbing leaks are covered but the removal of mold/mildew is not covered. The Department alleges this act is in violation of CIC §790.03(h)(1).

Summary of the Company's Response: The Company will reinforce to the claims staff the importance of clear communications as it relates to denial letters. The Company already had a procedure in place prior to the examination on this issue. The Company will send a copy of this procedure to the Denial Letter Coordinators on or before March 1, 2014, as a reminder to follow the correct procedure.

5. In one instance, 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, the Company failed to maintain a fax sent by the insured. The Department alleges this act is in violation of CCR §2695.3(a) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company already had a procedure in place prior to the examination to address this issue. As a remedial measure, all associates who work on California claims will be required to take the Company's e-course entitled "American Home Shield California Claims Compliance Course" during the year 2014.

6. In one instance, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy. Specifically, the insured disputed the service contractor's diagnosis. The insured was not fully informed of their right to a second opinion with regard to the cause of the malfunction. The Department alleges this act is in violation of CCR §2695.4(a) and is an unfair practice under CIC §790.03(h)(1).

Summary of the Company's Response: The Company already had a procedure in place prior to the examination. The Company will send a copy of its procedure, entitled "Second Opinion Definition and Criteria", to all service claims associates on or before March 1, 2014, to remind them of the procedure.

7. In one instance, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days. The Department alleges this act is in violation of CCR §2695.7(b) and is an unfair practice under CIC §790.03(h)(4).

Summary of the Company's Response: The Company states it agrees it failed to accept or deny the claim within 40 calendar days of receiving proof of claim. The Company already had procedures in place for compliance with this requirement prior to the examination. The Company will require all associates who work on California claims to take an e-course entitled "American Home Shield California Claims Compliance Course" during the year 2014.

8. In one instance, the Company failed to provide in its written denial a reference to and explanation of the applications of specific statutes, applicable laws, and policy provisions, conditions or exclusions. The Department alleges this act is in violation of CCR §2695.7(b)(1) and is an unfair practice under CIC §790.03(h)(13).

Summary of the Company's Response: The claims associate who composed the denial letter referenced the wrong plan section of the policy. The Company already had a procedure in place prior to the examination on this issue. A copy of the procedure will be sent to the Denial Letter Coordinators on or before March 1, 2014, as a reminder to follow the correct procedure.

9. In one instance, the Company failed to conduct and diligently pursue a thorough, fair and objective investigation. Specifically, the Company dispatched a service contractor to the insured's home on September 4, 2012, who provided the Company with a loss statement on February 6, 2013. During this time period, the file was void of any investigative activity in an effort to resolve the claim. 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 service contractor should have notified the Company that the service call was not completed. The Company was not aware that the service request was incomplete until February 6, 2013, when the service contractor called in the diagnosis. The Company will continue to communicate to the service contractors the importance of calling the Company with important claim information. The Company had a procedure in place prior to the examination to address this issue. The Company will send a copy of its procedure on or before March 1, 2014, to all associates who work on California claims, as a reminder of the procedure.