

**[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**

**CIVIL SERVICE EMPLOYEES INSURANCE COMPANY
NAIC # 10693 CDI # 1398-7**

**CSE SAFEGUARD INSURANCE COMPANY
NAIC # 18953 CDI # 3008-0**

AS OF FEBRUARY 15, 2013

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.

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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 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:

**Civil Service Employees Insurance Company
NAIC # 10693**

**CSE Safeguard Insurance Company
NAIC # 18953**

Group NAIC # 0323

Hereinafter, the Companies listed above also will be referred to as CSEIC, CSE Safeguard or the Company or, collectively, as the Companies.

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 Companies on personal automobile, homeowners and commercial multiple peril claims closed during the period from February 16, 2012 through February 15, 2013. The examination was made to discover, in general, if these and other operating procedures of the Companies 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 in this report by the examiners, 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 Companies’ 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 Companies for use in California including any documentation maintained by the Companies 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 these Companies closed by the CDI during the period February 16, 2012 through February 15, 2013; and a review of previous CDI market conduct claims examination reports on these Companies; and a review of prior CDI enforcement actions.

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

EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED

The private passenger automobile, homeowners and commercial multiple peril claims reviewed were closed from February 16, 2012 through February 15, 2013, referred to as the “review period”. The examiners randomly selected 193 CSEIC claims files and 267 CSE Safeguard claims files for examination. The examiners cited 100 alleged violations of the California Insurance Code from this sample file review.

Findings of this examination included the failure to maintain hard copy files or files that are accessible, legible and capable of duplication to hard copy for five years; failure to deduct a salvage value from a total loss settlement that was determined by the amount for which a salvage pool or licensed salvage dealer, wholesale motor vehicle auction or dismantler will purchase the salvage; failure to take reasonable steps to verify that the determination of the cost of a comparable vehicle was accurate and representative of the market value in the local market area; failure to provide written notice of the need for additional time or information every 30 calendar days; and failure to respond to written communication within 15 days.

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

The market analysis review revealed that in addition to an enforcement action taken by the California Department of Insurance (details provided below), the Companies were the subject of an enforcement action taken by the Arizona Department of Insurance in 2010. The Arizona action alleged improper claim handling and resulted in a Penalty/Fine/Forfeiture in the amount of \$57,000.

The Companies were the subject of 27 California consumer complaints and inquiries closed during the review period in regard to the lines of business reviewed in this examination. The Department determined five of these complaints to be justified for failure to accept or deny a claim within 40 days of receiving proof of claim; failure to send a letter to the claimant advising of the need for additional time to investigate; and failure to reference the California Department of Insurance in a letter denying a claim. The examiners focused on these issues during the course of the file review.

The previous claims examination reviewed a period from May 1, 2005 through April 30, 2006, the findings of which served as the basis for a CDI enforcement action against the Companies, which resulted in a penalty of \$505,000. The issues identified in the previous examination report and addressed by the administrative action included the misrepresentation of pertinent facts or insurance policy provisions relating to coverages at issue; failure to acknowledge and act reasonably promptly upon communications with respect to claims; failure to adopt and implement reasonable standards for the prompt investigation and processing of claims; failure to affirm or deny coverage of claims within a reasonable time after proof of loss requirements had been completed and submitted; failure to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear; failure to promptly provide a reasonable explanation of the basis for the denial of a claim or for the offer of a compromise settlement; misleading a claimant as to the applicable statute of limitations. The examiners focused on these issues during the course of the current examination.

DETAILS OF THE CURRENT EXAMINATION

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

CSEIC SAMPLE FILES REVIEW			
LINE OF BUSINESS / CATEGORY	CLAIMS IN REVIEW PERIOD	SAMPLE FILES REVIEWED	NUMBER OF ALLEGED VIOLATIONS
Private Passenger Automobile / Collision	1021	30	17
Private Passenger Automobile / Comprehensive	328	37	13
Private Passenger Automobile / Medical Payments	148	11	1
Private Passenger Automobile / Property Damage	747	29	10
Private Passenger Automobile / Bodily Injury	176	30	1
Private Passenger Automobile / Uninsured Motorist Bodily Injury (UMBI)	37	9	1
Private Passenger Automobile / Uninsured Motorist Property Damage (UMPD)	41	10	0
Homeowners / Property	944	14	0
Homeowners / Liability	59	5	0
Dwelling Fire / Property	210	11	1
Dwelling Fire / Liability	26	5	6
Commercial Multiple Peril / Property	13	2	0
Commercial Multiple Peril / Liability	0	0	0
TOTALS	3750	193	50

CSE Safeguard SAMPLE FILES REVIEW			
LINE OF BUSINESS / CATEGORY	CLAIMS IN REVIEW PERIOD	SAMPLE FILES REVIEWED	NUMBER OF ALLEGED VIOLATIONS
Private Passenger Automobile / Collision	1373	40	15
Private Passenger Automobile / Comprehensive	355	33	6
Private Passenger Automobile / Medical Payments	170	14	0
Private Passenger Automobile / Property Damage	1068	41	12
Private Passenger Automobile / Bodily Injury	246	40	10
Private Passenger Automobile / Uninsured Motorist Bodily Injury	50	13	0
Private Passenger Automobile / Uninsured Motorist Property Damage	70	18	0
Homeowners / Property	1399	21	0
Homeowners / Liability	70	5	1
Dwelling Fire / Property	457	24	2
Dwelling Fire / Liability	35	5	0
Commercial Multiple Peril / Property	154	8	3
Commercial Multiple Peril / Liability	90	5	1
TOTALS	5537	267	50

TABLE OF TOTAL ALLEGED VIOLATIONS

Citation	Description of Allegation	CSEIC Number of Alleged Violations	CSE Safeguard Number of Alleged Violations
CCR §2695.3(b)(3) *[CIC §790.03(h)(3)]	The Company failed to maintain hard copy files or maintain claims files that are accessible, legible and capable of duplication to hard copy for five years.	21	23
CCR §2695.8(b)(1)(A) *[CIC §790.03(h)(3)]	The Company failed to deduct a salvage value from the settlement that was determined by the amount for which a salvage pool or a licensed salvage dealer, wholesale motor vehicle auction or dismantler will purchase the salvage.	5	3
CCR §2695.8(b)(4) *[CIC §790.03(h)(3)]	The Company failed to take reasonable steps to verify that the determination of the cost of a comparable vehicle was accurate and representative of the market value in the local market area	4	1
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.	1	4
CCR §2695.5(b) *[CIC §790.03(h)(2)]	The Company failed to respond to communications within 15 calendar days.	2	2
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.	2	1
CIC §790.03(h)(5)	The Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear	0	3
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	1
CIC§758.5(b)(1)(B)(3) *[CIC §790.03(h)(3)]	The Company failed to send the claimant a written disclosure in a separate and freestanding document of the Company's obligations and the claimant's rights with respect to the choice of the automobile repair shop.	1	1
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.	0	2

Citation	Description of Allegation	CSEIC Number of Alleged Violations	CSE Safeguard Number of Alleged Violations
CIC §1871.3(a)(1) *[CIC §790.03(h)(3)]	The Company failed to include the penalty of perjury warning on its theft affidavit.	2	0
CIC §1876 *[CIC §790.03(h)(3)]	The Company failed, within 20 days of receipt of a bodily injury, medical payment or uninsured motorist bodily injury claim, to deposit the claims information with a licensed insurance claims analysis bureau.	1	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.	0	2
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.	2	0
CCR §2695.7(b)(1) *[CIC §790.03(h)(3)]	The Company failed to deny, dispute or reject a third party claim in writing.	1	1
CCR §2695.8(g)(5) *[CIC §790.03(h)(3)]	The Company required the use of non-original equipment manufacturer replacement crash parts without the use of such parts disclosed in accordance with §9875 of the California Business and Professions Code.	1	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.	0	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	0
CIC §790.03(h)(1)	The Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverages at issue.	1	0
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.	0	1
CCR §2695.7(d) *[CIC §790.03(h)(3)]	The Company persisted in seeking information not reasonably required for or material to the resolution of a claims dispute.	0	1

Citation	Description of Allegation	CSEIC Number of Alleged Violations	CSE Safeguard Number of Alleged Violations
CCR §2695.7(q) *[CIC §790.03(h)(5)]	The Company failed to share subrogation recoveries on a proportionate basis with the first party claimant.	1	0
CCR §2695.8(b)(1) *[CIC §790.03(h)(5)]	The Company failed to include, in the settlement, the one-time fees incident to transfer of evidence of ownership of a comparable automobile	1	0
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	0	1
CCR §2695.8(g)(3) *[CIC §790.03(h)(3)]	The Company required the use of non-original equipment manufacturer replacement crash parts without warranting that such parts are of like kind, quality, safety, fitness and performance as original.	1	0
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.	1	0
Total Number of Alleged Violations		50	50

***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)(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 ALLEGED VIOLATIONS BY LINE OF BUSINESS

<p align="center">PRIVATE PASSENGER AUTOMOBILE 2012 Written Premium: \$27,895,000 AMOUNT OF RECOVERIES \$3,607.21</p>	<p align="center">NUMBER OF ALLEGED VIOLATIONS</p>
CCR §2695.3(b)(3) [CIC §790.03(h)(3)]	44
CCR §2695.8(b)(1)(A) [CIC §790.03(h)(3)]	8
CCR §2695.8(b)(4) [CIC §790.03(h)(3)]	5
CIC §790.03(h)(5)	3
CCR §2695.7(b)(3) [CIC §790.03(h)(3)]	2
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	2
CCR §2695.5(b) [CIC §790.03(h)(2)]	2
CCR §2695.7(f) [CIC §790.03(h)(3)]	2
CIC§758.5(b)(1)(B)(3) [CIC §790.03(h)(3)]	2
CIC §1871.3(a)(1) [CIC §790.03(h)(3)]	2
CIC §1876 [CIC §790.03(h)(3)]	2
CCR §2695.8(g)(5) [CIC §790.03(h)(3)]	2
CIC §790.03(h)(1)	1
CCR §2695.7(q) [CIC §790.03(h)(5)]	1
CCR §2695.8(b)(1) [CIC §790.03(h)(5)]	1
CCR §2695.3(a) [CIC §790.03(h)(3)]	1
CCR §2695.4(a) [CIC §790.03(h)(1)]	1
CCR §2695.7(d) [CIC §790.03(h)(3)]	1
CCR §2695.7(b)(1) [CIC §790.03(h)(3)]	1
CCR §2695.7(b) [CIC §790.03(h)(3)]	1
CCR §2695.8(f) [CIC §790.03(h)(3)]	1
CCR §2695.8(g)(3) [CIC §790.03(h)(3)]	1
SUBTOTAL	86

HOMEOWNERS/DWELLING FIRE 2012 Written Premium: \$57,321,824	NUMBER OF ALLEGED VIOLATIONS
AMOUNT OF RECOVERIES \$260.69	
CIC §790.03(h)(3)	2
CCR §2695.5(b) [CIC §790.03(h)(2)]	2
CCR §2695.9(f) [CIC §790.03(h)(3)]	1
CCR §2695.7(f) [CIC §790.03(h)(3)]	1
CCR §2695.7(b)(1) [CIC §790.03(h)(3)]	1
CCR §2695.7(b) [CIC §790.03(h)(4)]	1
CCR §2695.5(e)(2) [CIC §790.03(h)(3)]	1
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	1
SUBTOTAL	10

COMMERCIAL MULTI-PERIL 2012 Written Premium: \$14,180,076	NUMBER OF ALLEGED VIOLATIONS
AMOUNT OF RECOVERIES \$0.00	
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	2
CCR §2695.4(a) [CIC §790.03(h)(1)]	1
CCR §2695.7(b) [CIC §790.03(h)(4)]	1
SUBTOTAL	4

TOTAL	100
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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 Companies are required to identify remedial or corrective action that has been or will be taken to correct the deficiency. The Companies are obligated to ensure that compliance is achieved.

Any noncompliant practices identified in this report may extend to other jurisdictions. The Companies were asked if they intend to take appropriate corrective action in all jurisdictions where applicable. The Companies intend to implement corrective actions in all jurisdictions.

Money recovered within the scope of this report was \$1,504.82 as described in sections number 4, 14, 15 and 21 below. Following the findings of the examination, a closed claims survey as described in section 2 below was conducted by the Companies resulting in additional payments of \$2,363.08. As a result of the examination, the total amount of money returned to claimants within the scope of this report was \$3,867.90.

PRIVATE PASSENGER AUTOMOBILE

1. In 44 instances, the Companies failed to maintain hard copy files or maintain claims files that are accessible, legible and capable of duplication to hard copy for five years. In 28 instances, claim files were missing information, or had incomplete information pertaining to the comparable vehicles' valuation reports. The Companies were unable to reconstruct their records and/or retrieve the information on their system for duplication to hard copy. In 16 instances, the Companies also failed to maintain or produce the salvage vendor's database documentation which was used to establish the salvage value of the total loss vehicle. The Department alleges these acts are in violation of CCR §2695.3(b)(3) and are unfair practices under CIC §790.03(h)(3).

Summary of the Companies' Response: The Companies state they do not believe they violated CIC § 790.03(h)(3). However, the Companies acknowledge that in all instances, they were unable to reproduce or retrieve their complete records on their

system. In 28 of these instances, the Companies indicate that they relied on their vendor's representations that the complete valuation reports were available from them at any time upon the Companies' request. As a result of this examination, the Companies are now retaining the complete valuation report including the full vehicle listings in the claim files. In the remaining 16 instances, the Companies agree that their files retained only the summary pages of the salvage value determination. As a result of the Department's examination, the Companies will retain all pertinent documentation related to salvage determination.

2. In eight instances, the Companies failed to deduct a salvage value from the settlement that was determined by the amount for which a salvage pool or a licensed salvage dealer, wholesale motor vehicle auction or dismantler will purchase the salvage. The Companies did not have actual bids for which a salvage pool or a licensed salvage dealer, wholesale motor vehicle auction or dismantler would purchase the salvage. 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).

Summary of the Companies' Response: The Companies state they do not believe they violated CIC § 790.03(h)(3). However, the Companies acknowledge the findings and indicate that they have revised the process of salvage determination to utilize guaranteed bids. The Companies have updated their owner-retained settlement procedures to include an explanation of the salvage bid process to claimants in the written settlement offers. The adjuster will provide the claimant with a Bid Statement form which states that the vendor guarantees payment to the titled owner of the full bid amount, without any deductions for towing or disposal costs. The claimant has 21 days to activate the bid statement. The Companies indicate the salvage amount offer is guaranteed.

As a result of the examination, the Companies also conducted a closed claim survey of total losses from the prior three- year period June 1, 2010 through May 31, 2013 and provided the results of the survey to the Department on November 25, 2013. The Companies reviewed 177 claims and issued additional benefits to nine policyholders in the amount of \$2,363.08.

3. In five instances, the Companies failed to take reasonable steps to verify that the determination of the cost of a comparable vehicle was accurate and representative of the market value in the local market area. The Companies did not secure comparable vehicles within the local market area. The Companies included vehicles which were outside of the total loss vehicle's garaged location. Comparable vehicles were included in the valuation report on vehicles which were 145 miles to 242 miles outside the local market. The Companies utilize a vendor and there is no documentation as to the basis for its determination of the primary local market area. The Department alleges these acts are in violation of CCR §2695.8(b)(4) and are unfair practices under CIC §790.03(h)(3).

Summary of the Companies' Response: The Companies state they do not believe they violated CIC § 790.03(h)(3). However, the Companies acknowledge the findings and indicate that they have revised their internal procedures. The amended procedure is for the total loss adjusters to specify vehicles from the valuation report which are in the "local extent" or geographical local market area based on its vendor program. If the search for comparable vehicles goes beyond the local market area, the file will document the reasons and justification for extending the search. The Companies sent a directive to its staff on this revised process on June 20, 2014 and have provided a copy to the Department.

4. In three instances, the Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear. In the first instance, the Company [CSE Safeguard] improperly closed the claim and failed to reissue payment when the insured decided to have his vehicle repairs done at another facility. In the second instance, the Company did not pay an invoice for duplicated copies of medical records which it required for a bodily injury claim. In the third instance, the Company failed to evaluate a bodily injury claim for consideration of a compromise offer of settlement. The Department alleges these acts are in violation of CIC §790.03(h)(5).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(5). However, the Company acknowledges that payment should have been made without any condition for choosing a co-payee repairer in the first instance; and that receipt of a medical bill was overlooked for payment in the second instance. The Company acknowledges that a settlement offer was not made in the third instance as it received the medical bills without the medical records. The Company indicates it made multiple efforts to contact and work with the claimant in the resolution of this matter, but was concerned about missing medical billings, reasonableness of treatment, injury causation, and other intervening factors. The Company did not have sufficient supporting documentation to make a full, fair and good faith settlement offer. As a result of the examination however, the Company reopened the claims and issued additional payment in the amount of \$1,093.05.

It is the Company's practice to respond timely to communications and settlement demands and the Company has reaffirmed this practice with its adjusters. The Company will document its claim activities to address these types of issues.

5. In two 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 states it does not believe it violated CIC § 790.03(h)(3). However, the Company agrees that the denial letters did

not contain the required language referencing the claimant's right to have the matter reviewed by the California Department of Insurance. As a result of the examination, the Company counseled its claims staff for compliance reinforcement. It is the Company's practice to inform claimants, in writing, of the right to have the matter reviewed by the Department of Insurance, as well as to provide the claimants with the Department's contact information.

6. In two instances, the Companies 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 Companies' Response: The Companies state they do not believe they violated CIC § 790.03(h)(3). However, the Companies acknowledge that regulatory letters were not sent timely. It is the Companies' regular practice and procedure to comply with CCR §2695.7(c)(1), and the Companies have reinforced these requirements with all claims staff for compliance.

7. In two instances, the Company failed to respond to communications within 15 calendar days. The Department alleges these acts are in violation of CCR §2695.5(b) and are unfair practices under CIC §790.03(h)(2).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(2). However, the Company acknowledges that it failed to respond to communications in a timely manner. It is the Company's regular procedure to comply with CCR §2695.5(b) and the Company has reaffirmed this practice with all adjusters.

8. In two instances, the Companies 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. In both instances, the Companies were aware that the claimants had sustained bodily injuries as a result of an accident. Prior to the official closure of the files, the Companies failed to provide the bodily injury (BI) statute of limitations notices to unrepresented claimants. The Companies did not have a procedure in place, or documentation in the file of their intent to reopen the claim in the future. 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 Companies' Response: The Companies state they do not believe they violated CIC § 790.03(h)(3). However, the Companies acknowledge that written notices of the statute of limitations for Uninsured Motorist Bodily Injury (UMBI) were not provided to the claimants. As a result of the examination, the Companies reopened the claims and sent the statute of limitation (SOL) notices. The Companies indicate it is their practice to send statute of limitation notices to all claimants when applicable and has reaffirmed this practice with their staff.

9. In two instances, the Companies failed to send the claimant a written disclosure in a separate and freestanding document of the Company's obligations and the claimant's rights with respect to the choice of the automobile repair shop. In two instances, the claimants' vehicles were repaired by the Companies' preferred body shops. The Companies' communications to these claimants who had their vehicles repaired at the Companies' DRP shops contained incomplete anti-steering disclosure language. The notice was not provided in a separate and freestanding document as required by statute. The Department alleges these acts are in violation of CIC§758.5(b)(1)(B)(3) and are unfair practices under CIC §790.03(h)(3).

Summary of the Companies' Response: The Companies state they do not believe they violated CIC § 790.03(h)(3). The Companies indicate they do not have a procedure to suggest, steer, or otherwise recommend the repair of the automobile to a specific automotive repair dealer. However, the Companies acknowledge that in these two instances, the claimants took the Companies' recommendation for their choice of shop. Upon realizing this potential issue, the Companies have now updated the template freestanding letter to include all of the required language when applicable.

10. In two instances, the Company failed to include a warning on the theft affidavit that false representations subject the insured to a penalty of perjury. The Department alleges these acts are in violation of CIC §1871.3(a)(1) and are unfair practices under CIC §790.03(h)(3).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(3). The Company acknowledges that in both instances, the Affidavit of Vehicle Theft form (CA 9-2009) provided to the insureds did not include a perjury warning. The Company has reinforced the requirement to all adjusters to utilize the appropriate theft form.

11. In two instances, the Companies failed, within 20 days of receipt of a bodily injury, medical payment or uninsured motorist bodily injury claim, to deposit the claims information with a licensed insurance claims analysis bureau. The Department alleges these acts are in violation of CIC §1876 and are unfair practices under CIC §790.03(h)(3).

Summary of the Companies' Response: The Companies state they do not believe they violated CIC § 790.03(h)(3). However, the Companies acknowledge that the bodily injury claims were not reported to a licensed insurance claims analysis bureau within statutory guidelines. It is the Companies' practice to index all injury claims within twenty (20) days of notice. The Companies have reinforced this procedure with their claims staff. The Companies are currently working to implement a fully automated process in the Companies' claims operating system to ensure reporting compliance.

12. In two instances, the Companies required the use of non-original equipment manufacturer replacement crash parts without the use of such parts disclosed in accordance with §9875 of the California Business and Professions

Code. In these instances, the repair estimate specified the use of non-original equipment manufacturer replacement crash parts. In the first instance, the Companies failed to attach the “disclosure” language with the claimant’s repair estimate. In the second instance, the estimate dated August 27, 2012 which was provided to the claimant, failed to identify the manufacturer or distributor of the parts being used as a non-original equipment replacement crash parts. The Department alleges these acts are in violation of CCR §2695.8(g)(5) and are unfair practices under CIC §790.03(h)(3).

Summary of the Companies’ Response: The Companies state they do not believe they violated CIC § 790.03(h)(3). However, the Companies acknowledge that the vendor who prepared the estimate did not include the full disclosure language in the first instance. In the second instance, the Companies indicate that the Appraisal Report on file included the disclosure language and may have been provided to the claimant. However, the Companies agree that its repair estimate failed to identify all of the items which were reflected as Alternative Parts. These items were for the front bumper face bar, right fender panel, and right fender liner. The Companies have reinforced procedures to review estimates for regulatory compliance.

13. In one instance, the Company misrepresented to claimants pertinent facts or insurance policy provisions relating to coverages at issue. The Company sent the insured a three-year statute of limitations letter for a collision first-party claim. The Department alleges this act is in violation of CIC §790.03(h)(1).

Summary of the Company’s Response: The Company states it does not believe it violated CIC § 790.03(h)(1). However, the Company acknowledges that a three-year statute of limitations notice was improperly sent on a first party collision coverage claim. To avoid confusion, the Company sent a correction letter to the insured and clarified that the statute was intended for a third party claim against the responsible party.

14. In one instance, the Company failed to share subrogation recoveries on a proportionate basis with the first party claimant. The Company collected the undisputed rental reimbursement from the adverse carrier which included payment for the insured’s out-of-pocket rental expense. The Company failed to share this recovery, and to refund the amount due to the insured upon collection. The Department alleges this act is in violation of CCR §2695.7(q) and is an unfair practice under CIC §790.03(h)(5).

Summary of the Company’s Response: The Company states it does not believe it violated CIC § 790.03(h)(5). However, the Company acknowledges that a portion of the subrogation recovery was payment for the claimant’s out-of-pocket expenses. As a result of the examination, a prorated payment in the amount of \$136.08 was made to the insured on May 7, 2013.

15. In one instance, the Company failed to include, in the settlement, the one-time fees incident to transfer of evidence of ownership of a comparable vehicle.

The Department of Motor Vehicles transfer fee was not included in the total loss settlement. The Department alleges these acts are in violation of CCR §2695.8(b)(1) and are unfair practices under CIC §790.03(h)(5).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(5). However, the Company agrees with this finding and issued an additional payment of \$15.00 to the claimant. This requirement has been reinforced with staff for compliance.

16. 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. The Company's total loss evaluation included vehicles which were beyond the primary local market area for comparable vehicles. The claim file failed to document the basis for expanding the search to other states including Arizona, Nevada, Utah, Ohio and Pennsylvania. These vehicles were thousands of miles outside of the insured's garaged location and area. 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 states it does not believe it violated CIC § 790.03(h)(3). However, the Company agrees that its claim file is missing information and/or explanation for extending the total loss valuation to include out-of-state vehicles. The Company has revised its procedures to include documentation in the claim files that explains the reasons for expanding the comparable vehicle search area to include vehicles outside of the local market.

17. In one instance, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy. The Company failed to disclose the medical payment (MP) coverage to two injured occupants on the insured's vehicle who were not legally represented by counsel. 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 states it does not believe it violated CIC § 790.03(h)(1). However, the Company acknowledges the findings that it should have disclosed first party coverage for the injured passengers to access benefits under the MP coverage of the policy. The Company indicates that the injured parties were ultimately able to resolve their medical claims with the third party adverse carrier. It is the Company's practice to explain all benefits and coverage available under a policy and will reinforce this procedure with staff.

18. In one instance, the Company persisted in seeking information not reasonably required for or material to the resolution of a claims dispute. The Company received limited medical records and billing from the claimant's primary treating physician on February 6, 2012. On February 17, 2012, the Company sent the claimant a status letter advising of the need for additional time to investigate the claim. The Company sought additional medical records some of which were already in its

possession. The Company did not extend a settlement offer, based on the injury documentation in the file, prior to the expiration of the statute of limitations. 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 states it does not believe it violated CIC § 790.03(h)(3). However, the Company acknowledges the finding, although it believes it would not have handled it differently. In this case, the Company utilized the medical authorization form, but believed it needed better information to evaluate and resolve this claim. As a result of the examination, the Company has instituted a new procedure that in the event the statute of limitations is approaching and there is only partial or incomplete information on a pending injury claim, the claim will be evaluated based on the available information in order to make a good faith and reasonable settlement offer prior to the expiration of the statute.

19. In one instance, the Company failed to deny, dispute or reject a third party claim in writing. The Company failed to acknowledge and transmit a denial letter directly to the claimant for their unpaid out-of-pocket expenses that were included in a subrogation demand. The Department alleges this act is in violation of CCR §2695.7(b)(1) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(3). However, the Company acknowledges the finding that a separate denial letter was not sent to the claimant. The Company indicates that it sent an official denial on the adverse carrier's own subrogation claim, and that the Company was aware that the adverse carrier did not pay for the claimant's out-of-pocket expenses. The Company has reinforced regulatory compliance with its claims staff.

20. The Companies failed to comply with the Fair Claims Regulations Practices. In each single instance (for a total of three instances), the Company failed to comply with the following Fair Claims Regulation Practices: a) CCR §2695.7(b) for failure upon receiving proof of claim, to accept or deny the third-party claim within 40 calendar days; b) CCR §2695.8(f) for failure to supply the claimant with a copy of the supplemental estimate upon which a settlement was based; and c) CCR §2695.8(g)(3) for requiring the use of non-original equipment manufacturer replacement crash parts without warranting that such parts are of like kind, quality, safety, fitness and performance as original manufacturer replacement crash parts. The Department alleges these acts are in violation of Fair Claims Regulation Practices and are unfair practices under CIC §790.03(h)(3).

Summary of the Companies' Response: The Companies state they did not believe they violated CIC § 790.03(h)(3). However, the Companies collectively acknowledge these single instances and/or findings. The Companies have addressed these isolated instances with the pertinent claims staff for reminders and reinforcement. As a result of the examination, a copy of the supplemental estimate has been mailed to

the claimant. The Companies have also communicated this finding to their vendors for compliance pertinent to a warranty on its non-original equipment replacement crash parts.

HOMEOWNERS

21. In two instances, the Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under insurance policies. In the first instance, the Company failed to follow up on its request for an opinion from an independent appraiser which caused an unnecessary delay in resolving the claim. In the second instance, a homeowner's claim involving an injury to a resident part-time employee was not referred to the Company's workers' compensation (WC) claims unit. The Department alleges these acts are in violation of CIC §790.03(h)(3).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(3). However, the Company acknowledges the findings. It is the Company's practice to follow up on a timely basis with their vendors on any pending reports, and to refer a workers compensation claim to the appropriate unit. As a result of the examination, the Company contacted the claimant with a written update, and followed up with the vendor for the valuation of a supplemental estimate. This resulted in an additional payment with interest of \$260.69 to the insured. A claim for homeowner's workers' compensation was also referred to its third party administrator (TPA) on September 23, 2013. The Company has since advised the Department that its TPA had set up a claim for workers' compensation benefits, and concluded with a denial of the claim. Thus, no recoveries or payments have been made on this claim. The Company has reinforced compliance of its procedures with claim staff.

22. In two instances, the Company failed to respond to communications within 15 calendar days. The Department alleges these acts are in violation of CCR §2695.5(b) and are unfair practices under CIC §790.03(h)(2).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(2). However, the Company acknowledges that it failed to respond to communications in a timely manner, which is not in line with the Company's policy and procedure. The Company has reaffirmed this requirement with all adjusters.

23. In one instance, the Company failed to fully explain the basis for any adjustment to the claimant in writing. The Company's estimate reflects the dollar amount of the depreciation but does not provide any information or basis as to how that amount was calculated. The Department alleges this act is in violation of CCR §2695.9(f) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(3). However, the Company acknowledges the finding that the depreciation values had not been itemized. The independent adjuster's report noted a 57-year old property that was in less than average repair and maintenance. The independent adjuster applied depreciation to wearable surfaces based on Xactimate formula for a 57-year old dwelling. The Company agrees that the manner in which the independent adjusters have their estimating program set up did not display the percentage on the finished estimate. It is the Company's practice to fully itemize all depreciable items. The Company has advised the adjusting staff that all estimates must reflect the percentage of depreciation being applied as well as the dollar amount for each depreciable item. This requirement will be reinforced through the Company's existing audit program.

24. In one instance, 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. The Company failed to advise the claimant in writing of the statute of limitations for his property damage claim. The Department alleges this act is in violation of CCR §2695.7(f) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(3). However, the Company acknowledges the finding and indicates that its practice is to send statute of limitation(SOL) notices to all claimants when applicable. The Company has reaffirmed this requirement with claims staff.

25. In one instance, the Company failed to deny, dispute or reject a third party claim in writing. The claimant sustained out-of-pocket expenses in the amount of \$610.02 on a disputed liability claim, which the claimant carrier submitted to the Company as a courtesy to its policyholder. The Company failed to send a written denial of claim directly to the claimant. The Department alleges this act is in violation of CCR §2695.7(b)(1) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(3). However, the Company acknowledges the finding that it failed to send a denial letter directly to the claimant. The Company indicates a denial on the adverse carrier's subrogation claim was sent, but the Company did not send a denial notice for the claimant's separate claim for out-of-pocket expenses. The Company has reinforced compliance with its claims staff to this regulatory requirement.

26. In one instance, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days. The Company did not accept or deny the claim within 40 days of receipt of a bid invoice for \$6,797.00. 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 does not believe it violated CIC § 790.03(h)(4). However, the Company acknowledges this finding. It is the Company's practice to accept or deny claims within forty (40) days of receipt of proof of loss. The Company has reinforced this requirement with its staff.

27. In one instance, the Company failed to provide necessary forms, instructions, and reasonable assistance within 15 calendar days. The Company failed to provide prompt assistance and instruction upon notice of claim. The Company delayed providing benefit information to the claimant for more than four months from the initial notice of claim. The Department alleges this act is 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 states it does not believe it violated CIC § 790.03(h)(3). However, the Company acknowledges the finding and agrees that the disclosure benefit information was delayed. The Company's practice is to provide assistance and explain the claims process during the initial handling of the claim. The Company has reinforced this requirement with its staff.

28. In one instance, the Company failed to provide written notice of the need for additional time or information every 30 calendar days. 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 states it does not believe it violated CIC § 790.03(h)(3). However, the Company acknowledges the finding and has reinforced this requirement with all claims staff for compliance.

COMMERCIAL MULTIPLE PERIL

29. In two instances, the Companies 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 Companies' Response: The Company states it does not believe it violated CIC § 790.03(h)(3). However, the Companies acknowledge that in these instances, regulatory letters were not sent timely. It is the Companies' practice to provide written notification every thirty (30) days if additional time will be needed to evaluate a claim, and to provide the reason why. The Companies have reinforced these requirements with all claims staff for compliance.

30. In one instance, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy. The claimant sustained injuries when she cut her finger on a shower door. The Company failed to disclose the \$5,000

premises medical payments limit available to the claimant, and the time period for which the benefit will be available to her. 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 states it does not believe it violated CIC § 790.03(h)(1). However, the Company acknowledges the finding that the \$5,000 premises medical payments limit and the time limitation for coverage were not disclosed to the claimant. The Company indicates that the medical payment coverage was in place at the time of the loss, and payments of medical bills had been made. The Company has reinforced timely disclosure of all benefits, coverage, time limits or other provisions of its policy with its claims staff.

31. In one instance, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days. The Company failed to deny or accept the claim within regulatory timelines. The Company denied the claim 51 days after the receipt of an invoice. The Department alleges this act is in violation of CCR §2695.7(b) and is unfair practice under CIC §790.03(h)(4).

Summary of the Company's Response: The Company states it does not believe it violated CIC § 790.03(h)(4). However, the Company acknowledges the finding. The Company indicates it has procedures to accept or deny claims within regulatory timelines and has reinforced this regulation with its staff.