[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 PET INSURANCE COMPANY
NAIC # 12190 CDI # 4705-0

AS OF AUGUST 31, 2013

ADOPTED SEPTEMBER 29, 2014

STATE OF CALIFORNIA

CALIFORNIA DEPARTMENT OF INSURANCE

MARKET CONDUCT DIVISION

FIELD CLAIMS BUREAU

NOTICE

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

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

September 29, 2014

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

Honorable Commissioner:

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

American Pet Insurance Company
NAIC # 12190

Hereinafter, the Company listed above also will be referred to as APIC 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 pet insurance claims closed during the period from September 1, 2012 through August 31, 2013. 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 September 1, 2012 through August 31, 2013.

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

EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED

The Pet Insurance claims reviewed were closed from September 1, 2012 through August 31, 2013, referred to as the “review period”. The examiners randomly selected 70 American Pet Insurance Company claim files for examination. The examiners cited 87 alleged claims handling violations of the California Insurance Code and other specified codes from this sample file review.

Findings of this examination included the Company’s failure to conduct business in its own name; a failure to include the California Department of Insurance (CDI) referral information should a claimant believe her/his claim has been wrongfully denied; a failure to effectuate prompt, fair and equitable settlement of claims in which liability had become reasonably clear; failure to accept or deny a claim in whole or in part within 40 calendar days; and misrepresenting to claimants pertinent facts or insurance policy provisions relating to any coverage at issue.

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

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

The Company was the subject of three California consumer complaints and inquiries closed from September 12, 2012 through August 31, 2013, in regard to Pet Insurance. Of the complaints and inquiries, the CDI identified two justified complaints for failure to include the California Department of Insurance address and phone number on claim denial correspondence. The examiners focused on this issue during the course of the file review.

There have been no prior claims examinations conducted upon this Company.

DETAILS OF THE CURRENT EXAMINATION

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

APIC SAMPLE FILES REVIEW			
LINE OF BUSINESS / CATEGORY	**CLAIMS IN REVIEW PERIOD**	**SAMPLE FILES REVIEWED**	**NUMBER OF ALLEGED CITATIONS**
Inland Marine / Pet Insurance (Paid)	28,862	53	79
Inland Marine / Pet Insurance (Denied)	3,314	9	3
Inland Marine/ Pet Insurance (Ineligible)	4,550	8	5
TOTALS	36,726	70	87

TABLE OF TOTAL CITATIONS

Citation	Description of Allegation	APIC Number of Alleged Citations
CIC §880 CIC §790.03(h)(3)	The Company failed to conduct its business in its own name.	41
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.	27
CIC §790.03(h)(5)	The Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear.	9
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.	8
CIC §790.03(h)(1)	The Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverage at issue.	2
Total Number of Citations		**87**

*DESCRIPTONS OF APPLICABLE UNFAIR CLAIMS SETTLEMENT PRACTICES

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

TABLE OF CITATIONS BY LINE OF BUSINESS

Inland Marine/Pet Insurance **2012 Written Premium: $10,230,067** **AMOUNT OF RECOVERIES $ $8,129.89**	**NUMBER OF CITATIONS**
CIC §880 [CIC §790.03(h)(3])	41
CCR §2695.7(b)(3) [CIC §790.03(h)(3)]	27
CIC §790.03(h)(5)	9
CCR §2695.7(b) [CIC §790.03(h)(4)]	8
CIC §790.03(h)(1)	2
SUBTOTAL	**87**

TOTAL	**87**

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

Following the findings of the examination, a closed claims survey as described in section 5 below has been completed by the Company resulting in additional payments to 157 claimants of $8,129.89 as documented in number 5 below.

Inland Marine (Pet Insurance)

1. In 41 instances, the Company failed to conduct its business in its own name. The Company failed to specify the insurer of record on claim correspondence, status letters and electronic mail. The Department alleges these acts are in violation of CIC §880 and are unfair practices under CIC §790.03(h) (3).

Summary of the Company's Response: The Company agrees with the findings. As of the 4th quarter of 2013, the Company's underwriting name has been included in all correspondence, letters and electronic mail along with the Company's agency name, "Trupanion".

2. In 27 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 and shall include the address and telephone number of the unit of the Department which reviews claim practices. In 25 instances, the Company did not include the California Department of Insurance (CDI) referral information on claims

which had been partially denied. In two instances, the denial notices did not provide contact information for the CDI's unit which handles consumer complaints. 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 agrees to the findings. As a result of this examination, the Company has created a template to include the CDI referral information on its denial notices. This template has now been utilized for all pertinent claims, whether they are denied in whole or in part, as of the 4th Quarter of 2013.

3. In eight instances, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days. These instances pertain to invoices which included charges for pet medication and pet food. The Company failed to pay the full invoice amount, and specifically failed to address the non-payment of California sales taxes on pet food and medication. The Company did not accept or deny the unpaid portion of the invoice within regulatory timelines. The Department alleges these acts are in violation of CCR §2695.7(b) and are unfair practices under CIC §790.03(h)(4)

Summary of the Company's Response: The Company agrees to the findings. As a result of the examination, the Company indicates that it will comply with regulatory timelines to accept or deny a claim, whether in whole or in part. As a result of the examination, the Company has revised its template denial letter to include reference to amounts or charges not paid, including federal/state/provincial/local taxes.

4. In eight instances the Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear. In these instances, the insureds submitted invoices to the Company on pet food, drugs and medicine which included California sales taxes as required by California's state tax laws for tangible property. The Company declined to pay sales taxes as it does not believe it has to adjust its settlement claims practices to California's state tax laws. Further, the Company did not abide by the Insuring Agreement that the Company pays the actual cost of veterinary treatment. The Company's policy forms also include a standard conformity to statute provision, so that the Company can issue these policies without running in conflict of any particular state's minimum statutory requirements. The Conformity to Statute provision of the Company's policies affirms that if the policy provisions are in conflict with the statutes of the state or province in which the policy is issued, the provisions are amended to conform to such statutes.

The Department alleges these acts are in violation of CIC §790.03(h)(5).

Summary of the Company's Response: The Company states that it does not believe that excluding "federal/State/provincial/local taxes" violates California laws or statutes. However, the Company understands the Department's position that sales tax should be considered a part of the cost of veterinary care and therefore, the Company

has removed the sales tax exclusion from the APIC/Trupanion policy. On July 17, 2014, the Company held an official meeting to communicate the change in its policy. Effective immediately, the Company will factor sales tax into the claim adjudication process and will begin reimbursing policyholders for any applicable sales tax amount included in the cost of their pet's veterinary care. Further, APIC has filed an amendment to its rate, rule and form filing to eliminate the sales tax exclusion. The Company has submitted this revised California Amendatory Endorsement with the California Department of Insurance on July 17, 2014. The Company has also provided the Department with a copy of an electronic communication to its claims staff (July 17, 2014) reiterating the change in its benefit adjudication to include all applicable California sales taxes.

5. In two instances, the Company misrepresented to claimants pertinent facts or insurance policy provisions relating to coverages at issue. The Company represented to claimants that claims received more than 90 days from the date of treatment would not qualify for benefits under the policy of pet insurance. There is no policy restriction, exclusion or limitation to support this statement. The Company used the "90- day timeline" under its "proof of loss" to decline benefits under the policy. The Department alleges these acts are in violation of CIC §790.03(h)(1).

Summary of the Company's Response: The Company acknowledges that the application of the 90-day proof of loss language is not in compliance and has taken immediate corrective action to bring the Company into compliance. The Company has revised its procedures to correct the template wording on this issue, and to ensure that the Company will not utilize timelines to deny claims.

As a result of the examination, the Company completed a survey of closed claim files to cover a three-year window period from August 1, 2010 to July 1, 2013. The Company has identified, reviewed, and reimbursed compensable claims which were denied due to the application of the 90-day proof of loss deadline. The Company has reimbursed 157 qualified claimants for a total of $8,129.89. The Department conducted a sample verification review on the accuracy of the survey results as provided by the Company.

6. In one instance, the Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear. The Company relied upon a policy provision regarding pre-existing condition to deny benefits on a claim. The policy definition of a preexisting condition was general in nature, allowing for a perpetual period of time to deny a claim for treatment of a condition with similar symptoms prior to the effective date of the coverage. The Department alleges this act is in violation of CIC §790.03(h)(5).

Summary of the Company's Response: The Company believes that all claims denied due to pre-existing conditions were correctly denied in compliance with its policy language. However, the Company has recently submitted a rate filing with the Department which incorporated an update to its policy language so that it will now

specify an 18-month pre-existing condition period. A copy of the latest policy and rate approval form has been provided to the Department examiner.