

**[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**

**SURETEC INSURANCE COMPANY  
NAIC # 10916 CDI # 4914-8**

**SURETEC INDEMNITY COMPANY  
NAIC # 15099 CDI # 5835-4**

**AS OF MARCH 31, 2014**

**ADOPTED DECEMBER 22, 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.**

## TABLE OF CONTENTS

<b>SALUTATION .....</b>	<b>1</b>
<b>FOREWORD.....</b>	<b>2</b>
<b>SCOPE OF THE EXAMINATION.....</b>	<b>3</b>
<b>EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED.....</b>	<b>4</b>
<b>RESULTS OF REVIEWS OF MARKET ANALYSIS, CONSUMER COMPLAINTS AND INQUIRIES, AND PREVIOUS EXAMINATIONS, AND PRIOR ENFORCEMENT ACTIONS .....</b>	<b>5</b>
<b>DETAILS OF THE CURRENT EXAMINATION .....</b>	<b>6</b>
<b>TABLE OF TOTAL ALLEGED VIOLATIONS .....</b>	<b>7</b>
<b>TABLE OF ALLEGED VIOLATIONS BY LINE OF BUSINESS .....</b>	<b>8</b>
<b>SUMMARY OF EXAMINATION RESULTS .....</b>	<b>9</b>

**DEPARTMENT OF INSURANCE**

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



December 22, 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:

**Suretec Insurance Company  
NAIC # 10916**

**Suretec Indemnity Company  
NAIC # 15099**

**Group NAIC # 4779**

Hereinafter, the Companies listed above also will be referred to as Suretec Insurance Company, SIC, Suretec Indemnity Company, SID 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](http://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 Performance Bonds and Contractor License Bonds claims closed during the period from April 1, 2013 through March 31, 2014. 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 by the examiner, additional violations of CIC § 790.03, or other laws, not cited in this report may also apply to any or all of the non-compliant or problematic activities that are described herein.

All unacceptable or non-compliant activities may not have been discovered. Failure to identify, comment upon or criticize non-compliant practices in this state or other jurisdictions does not constitute acceptance of such practices.

Alleged violations identified in this report, any criticisms of practices and the 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 Companies 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 April 1, 2013 through March 31, 2014; and a review of previous CDI market conduct claim examination reports on these Companies.

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

## **EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED**

The performance bonds and contractor license bonds claims reviewed were closed from April 1, 2013 through March 31, 2014, referred to as the “review period”. The examiners randomly selected 70 Suretec Insurance Company claims files and 43 Suretec Indemnity Company claims files for examination. The examiners cited one alleged claims handling violation of the California Insurance Code and other specified codes from this sample file review.

Findings of this examination included failing to conduct its business in its own name.

## **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 Companies were the subject of 24 California consumer complaints and inquiries closed from April 1, 2013 through March 31, 2014, in regard to the lines of business reviewed in this examination. Of the complaints and inquiries, the CDI determined two complaints were justified for failing to respond to the Department timely upon receipt of a claims inquiry.

There have been no prior claims examinations conducted upon these Companies.

## DETAILS OF THE CURRENT EXAMINATION

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

<b>SURETEC INSURANCE COMPANY SAMPLE FILES REVIEW</b>			
<b>LINE OF BUSINESS / CATEGORY</b>	<b>CLAIMS IN REVIEW PERIOD</b>	<b>SAMPLE FILES REVIEWED</b>	<b>NUMBER OF ALLEGED VIOLATIONS</b>
Contractor License Bonds	1,150	66	0
Performance Bonds	120	43	0
<b>TOTALS</b>	1,270	109	0

<b>SURETEC INDEMNITY COMPANY SAMPLE FILES REVIEW</b>			
<b>LINE OF BUSINESS / CATEGORY</b>	<b>CLAIMS IN REVIEW PERIOD</b>	<b>SAMPLE FILES REVIEWED</b>	<b>NUMBER OF ALLEGED VIOLATIONS</b>
Contractor License Bonds	62	4	1
Performance Bonds	0	0	0
<b>TOTALS</b>	62	4	1

**TABLE OF TOTAL ALLEGED VIOLATIONS**

<b>Citation</b>	<b>Description of Allegation</b>	<b>Suretec Insurance Company Number of Alleged Violations</b>	<b>Suretec Indemnity Company Number of Alleged Violations</b>
CIC §880 [CIC §790.03(h)(3)]	The Company failed to conduct its business in its own name.	0	1
<b>Total Number of Citations</b>		<b>0</b>	<b>1</b>

**\*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.

**TABLE OF ALLEGED VIOLATIONS BY LINE OF BUSINESS**

<p align="center"><b>SURETY</b>                  2013 Written Premium                  Suretec Insurance Company: \$16,867,649                  Suretec Indemnty Company: \$4,465,318</p> <p><b>AMOUNT OF RECOVERIES            \$0.00</b></p>	<p align="center"><b>NUMBER OF ALLEGED VIOLATIONS</b></p>
<p>CIC §880 [CIC §790.03(h)(3)]</p>	<p align="center">1</p>
<p align="center"><b>SUBTOTAL</b></p>	<p align="center">1</p>
<p align="center"><b>TOTAL</b></p>	<p align="center">1</p>

## 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.

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

### **CONTRACTOR LICENSE BONDS**

1. **In one instance, the Company failed to conduct its business in its own name.** The name "Suretec Indemnity Company" did not appear on correspondence. The Department alleges this act is in violation of CIC §880 and is an unfair practices under CIC §790.03(h)(3).

**Summary of the Companies' Response:** Suretec Indemnity agrees with the findings. The Company states that it is in the process of moving the contractor license bonds from one company (SIC) to another company (SID). During this transition, both company names will appear on all letterheads. The proper underwriting company will be determined during the claims investigation process and will be referenced on correspondence. When the migration is complete, only the correct underwriting company name will appear on correspondence.