

**[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 SENTINEL INSURANCE COMPANY  
NAIC # 17965 CDI # 5695-2**

**AS OF APRIL 30, 2014**

**ADOPTED MARCH 17, 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



March 17, 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:

**American Sentinel Insurance Company  
NAIC # 17965**

**Group NAIC # 0313**

Hereinafter, the Company listed above also will be referred to as ASIC 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](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 Company on Private Passenger Automobile claims closed during the period from May 1, 2013 through April 30, 2014. The examination was made to discover, in general, if these and other operating procedures of the Company conform to the contractual obligations in the policy forms, the California Insurance Code (CIC), the California Code of Regulations (CCR) and case law.

The report is written in a “report by exception” format. The report does not present a comprehensive overview of the subject insurer’s practices. The report contains a summary of pertinent information about the lines of business examined, details of the non-compliant or problematic activities that were discovered during the course of the examination and the insurer’s proposals for correcting the deficiencies. When a violation that reflects an underpayment to the claimant is discovered and the insurer corrects the underpayment, the additional amount paid is identified as a recovery in this report. While this report contains alleged violations of the law that were cited by the examiners, additional violations of CIC Section 790.03, or other laws, not cited in this report may also apply to any or all of the non-compliant or problematic activities that are described herein.

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

Alleged violations identified in this report, any criticisms of practices and the Company’s responses, if any, have not undergone a formal administrative or judicial process.

## **SCOPE OF THE EXAMINATION**

To accomplish the foregoing, the examination included:

1. A review of the guidelines, procedures, training plans and forms adopted by the Company for use in California including any documentation maintained by the Company in support of positions or interpretations of the California Insurance Code, Fair Claims Settlement Practices Regulations, and other related statutes, regulations and case law used by the Company to ensure fair claims settlement practices.

2. A review of the application of such guidelines, procedures, and forms, by means of an examination of a sample of individual claims files and related records.

3. A review of the California Department of Insurance's (CDI) market analysis results and a review of consumer complaints and inquiries about this Company closed by the CDI during the period May 1, 2013 through April 30, 2014.

The review of the sample of individual claims files was conducted at the offices of the California Department of Insurance in Los Angeles, California.

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

The Private Passenger Automobile claims reviewed were closed from May 1, 2013 through April 30, 2014, referred to as the “review period”. The examiners randomly selected 163 ASIC claims files for examination. The examiners cited 37 alleged claims handling violations of the California Insurance Code and other specified codes from this sample file review.

Findings of this examination included a failure to properly advise the insured of their right to reconsideration of the determination of liability; a failure to advise that the driver of the insured vehicle was principally at fault for an accident; and a failure to explain in writing the determination of the cost of a comparable vehicle at the time a settlement offer was made on a total loss vehicle.

## **RESULTS OF REVIEW OF MARKET ANALYSIS, AND CONSUMER COMPLAINTS AND INQUIRIES**

The Company was the subject of four California consumer complaints and inquiries closed from May 1, 2013 through April 30, 2014, in regard to the lines of business reviewed in this examination. Of the complaints and inquiries, the CDI determined none of the complaints were justified. There was no specific area of concern identified in the complaint review.

This Company has not previously been the subject of a CDI claims examination.

## DETAILS OF THE CURRENT EXAMINATION

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

<b>ASIC 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>
Private Passenger Automobile / Liability	3,926	70	19
Private Passenger Automobile / Physical Damage	254	67	16
Private Passenger Automobile / Uninsured Motorist	85	20	2
Private Passenger Automobile / Medical Payment	21	6	0
<b>TOTALS</b>	4,286	163	37

## TABLE OF TOTAL ALLEGED VIOLATIONS

Citation	Description of Allegation	ASIC Number of Alleged Violations
CCR §2632.13(e)(1) *[CIC §790.03(h)(3)]	The Company failed to properly advise the insured that the driver of the insured vehicle was principally at fault for an accident. The insured was not advised of their right to reconsideration of the determination of liability.	9
CCR §2632.13(e)(1) *[CIC §790.03(h)(3)]	The Company failed to properly advise the insured that the driver of the insured vehicle was principally at fault for an accident. The determination of fault letter was not sent.	4
CCR §2695.8(b)(4) *[CIC §790.03(h)(3)]	The Company failed to explain in writing the determination of the cost of a comparable vehicle at the time the settlement offer was made. Determination of the actual cash value (ACV) was not explained.	4
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.	3
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.	3
CIC §11580.011(e) *[CIC §790.03(h)(5)]	The Company failed to replace the child passenger restraint system that was in use by a child during the accident or if it sustained a covered loss while in the vehicle.	3
CVC §11515(b) *[CIC §790.03(h)(3)]	The Company failed to notify the insured or owner of his or her responsibility to comply with CVC §11515(b).	2
CIC §790.03(h)(5)	The Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear.	2
CCR §2695.7(h) *[CIC §790.03(h)(5)]	The Company failed, upon acceptance of the claim, to tender payment within 30 calendar days.	1
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
CCR §2695.8(b)(1) *[CIC §790.03(h)(5)]	The Company failed to include, in the settlement, the license fee and other annual fees computed based upon the remaining term of the current registration.	1

Citation	Description of Allegation	ASIC Number of Alleged Violations
CCR §2695.8(b)(1)(A) *[CIC §790.03(h)(5)]	The Company failed to include, in the settlement, fees incident to the transfer of the vehicle to salvage status.	1
CCR §2695.8(f) *[CIC §790.03(h)(3)]	The Company failed to supply the claimant with a copy of the estimate upon which the settlement was based.	1
CCR §2695.8(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
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
<b>Total Number of Alleged Violations</b>		<b>37</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.

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"><b>PRIVATE PASSENGER AUTOMOBILE</b>                      2013 Written Premium: \$8,741,949</p> <p><b>AMOUNT OF RECOVERIES                      \$11, 243.15</b></p>	<p align="center"><b>NUMBER OF ALLEGED VIOLATIONS</b></p>
CCR §2632.13(e)(1) [CIC §790.03(h)(3)]	13
CCR §2695.8(b)(4) [CIC §790.03(h)(3)]	4
CCR §2695.7(q) [CIC §790.03(h)(5)]	3
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	3
CIC §11580.011(e) [CIC §790.03(h)(5)]	3
CVC §11515(b) [CIC §790.03(h)(3)]	2
CIC §790.03(h)(5)	2
CCR §2695.8(b)(1) [CIC §790.03(h)(5)]	2
CCR §2695.7(h) [CIC §790.03(h)(5)]	1
CCR §2695.8(b)(1)(A) [CIC §790.03(h)(5)]	1
CCR §2695.8(f) [CIC §790.03(h)(3)]	1
CCR §2695.8(g)(3) [CIC §790.03(h)(3)]	1
CCR §2695.8(g)(5) [CIC §790.03(h)(3)]	1
<b>TOTAL</b>	<b>37</b>

## 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 indicates that these practices are not applicable in other jurisdictions because the practices are not conducted elsewhere by American Sentinel.

Money recovered within the scope of this report was \$2,519.31 as described in sections number 3, 5, 7, 9, 10 and 11 below. Following the findings of the examination, a closed claims survey as described in section 7 below was conducted by the Company resulting in additional payments of \$8,723.84. As a result of the examination, the total amount of money returned to claimants within the scope of this report was \$11,243.15.

### **PRIVATE PASSENGER AUTOMOBILE**

1. **In 13 instances, the Company failed to properly advise the insured that the driver of the insured vehicle was principally at-fault for an accident.** In nine instances, the Company failed to advise the insured of their right to reconsideration; in four instances, the Company failed to send the determination of fault notices. The Department alleges these acts are in violation of CCR §2632.13(e)(1) and are unfair practices under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company agrees to the findings and indicates it is their standard claims handling practice to provide the determination of fault notice which includes the right to reconsideration language. As a result of the examination, the Company revised its determination of fault letter to ensure the required

right to reconsideration language was included in the revised template letter. Additionally, the Company prepared formal and confidential training communication for its third party administrator (TPA) to ensure proper understanding of and compliance with this regulation. This confidential training communication was utilized by the Company to re-train its TPA and to ensure the TPA appropriately transmits the correct determination of fault letters to the insureds.

**2. In four instances, the Company failed to explain in writing the determination of the cost of a comparable vehicle at the time the settlement offer was made. Determination of the actual cash value (ACV) was not explained.** In these instances, the Company did not provide a written itemized statement of the total loss settlement to the claimants. 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 Company's Response:** The Company agrees to the findings and indicates it is a routine claims handling practice of the Company to provide a written itemized statement of the total loss settlement to claimants with its cover letters. The Company agrees that in these four instances, it did not provide a copy of the itemized total loss statement of the total loss settlement to the claimants, and/or it did not clearly show that the itemized total loss statement was attached to the cover letters. As a result of the examination, the Company revised the template cover letters to reflect that the total loss itemized statement is attached. Additionally, the Company prepared a formal and confidential training communication for the TPA. This confidential training communication was utilized by the Company to re-train its TPA and to ensure proper understanding of and compliance with the requirement to provide written itemized statements of total loss settlements to the claimants.

**3. In three instances, the Company failed to share subrogation recoveries on a proportionate basis with the first party Claimant.** In these instances, the Company received partial recoveries on their subrogation demands but failed to share the subrogation recoveries with the first party claimants. The Department alleges these acts are in violation of CCR §2695.7(q) and are unfair practices under CIC §790.03(h)(5).

**Summary of the Company's Response:** The Company indicates it is routine claims handling practice for the Company to share subrogation recoveries on a proportionate basis with the first party claimant. The Company agrees that in these three instances, it failed to issue partial deductible payments in proportion to the amount of the recoveries. The Company prepared formal and confidential training communication for the TPA. This confidential training communication was utilized to re-train the TPA to ensure proper understanding of and compliance with requirements for issuing deductible payments to policyholders as recoveries are received from the responsible parties. As a result of the findings, the Company paid a total of \$824.97 to the first party claimants in these three instances.

**4. In three instances, the Company failed to provide written notice of the need for additional time or information every 30 calendar days.** In these instances, status letters were not provided while the claims were pending or in open status. 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 indicates it is the routine claims handling practice for the Company to send a written notice for the need of additional time or information every 30 days as required by this regulation. The Company agrees that in these three instances, it did not send the written notices as applicable every 30 days. The Company prepared formal and confidential training communication for the TPA. This confidential training communication was utilized to re-train the TPA and to ensure proper understanding of and compliance with requirements for issuing timely regulatory status letters.

**5. In three instances, the Company failed to replace the child passenger restraint system that was in use by a child during the accident.** The Department alleges these acts are in violation of CIC §11580.011(e) and are unfair practices under CIC §790.03(h)(5).

**Summary of the Company's Response:** The Company indicates it is the routine claims handling practice for the Company to replace a child passenger restraint system that is in use by a child during an accident. The Company agrees that in these three instances, it did not replace the child passenger restraint systems in use by a child as required by this regulation. The Company prepared formal and confidential training communication for its TPA. This confidential training communication was utilized to re-train the TPA and ensure proper understanding of and compliance with requirements for the replacement of the child passenger restraint systems. As a result of these findings, the Company contacted the claimants, determined the cost to replace the child passenger restraint systems, and issued additional payments to the three claimants in the amount of \$548.76.

**6. In two instances, the Company failed to notify the insured or owner of his or her responsibility to comply with CVC §11515(b).** The Department alleges these acts are in violation of CVC §11515(b) and are unfair practices under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company indicates it is the routine claims handling practice for the Company to properly notify the insured or owner who retains salvage of the vehicle, of his/her responsibility to comply with CVC §11515(b). The Company agrees that in these two instances, it did not properly notify the owners of their responsibility to comply with this requirement. The Company prepared formal and confidential training communication for the TPA. This confidential training communication was utilized to re-train the TPA and to ensure proper understanding of and compliance with salvage retention notification requirements to the vehicle owners.

**7. In two instances, the Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear.** These instances involved the Company's failure to settle claims involving insureds who were unable to schedule vehicle repairs immediately. The Company completed repair estimates and determined the amount of damages to the insureds' vehicle in both instances. In the first instance, the Company requested that the insured select a repair facility prior to a payment being issued. In the second instance, the Company requested that the insured pay first the policy deductible to a repair facility before the Company issues payment for the balance. The insured indicated at that time that he did not have the policy deductible amount to pay to the repair facility. The claims were prematurely closed by the Company without payment of its contractual portion of the claim. The Department alleges these acts are in violation of CIC §790.03(h)(5).

**Summary of the Company's Response:** The Company indicates it is the routine claims handling practice for the Company to determine whether a first party insured chooses to have his/her vehicle repaired by a repair facility that is on the Company's standard provider list, or to a repair facility of the insured's choice. The Company's Personal Automobile policy contains a "Co-Payment Provision" which requires the Company to pay, less the deductible, 80% of the reasonable cost incurred to repair and/or replace damage covered by the Company in the event a facility is selected by the insured that is not on the Company's standard provider list.

The Company agrees to revise its practices pertinent to these issues. When an insured does not select from the Company's standard provider list, the Company will issue payment to the insured and his/her selected repair facility pursuant to the "Co-Payment Provision" of the policy. The Company also agrees that when an insured obtains an estimate from a repair facility that is on the Company's standard provider list, it will not require the insured to pay the deductible upfront. The Company will issue payment to the insured and the selected repair facility and/or lienholder on the policy. If no repair facility has been selected, the standard provider estimate will be used and the Company will issue payment to the insured and his lienholder, if any. In the absence of a lienholder, the payment will be issued solely to the insured.

Further, when an insured obtains an estimate from an independent appraiser retained by the Company and no repair facility has been selected, the Company will also issue payment to the insured and lienholder, if any, and/or solely to the insured.

As a result of these findings, the Company reopened the two claims and issued payments totaling \$1,016.83. In addition, the Company conducted a self-survey to ensure claims were paid as appropriate during the past three years from May 1, 2011 to April 30, 2014. The Company reported the outcome of its self-survey to the Department which resulted in additional payments to 129 claimants totaling \$8,723.84.

**8. In one instance, the Company failed, upon acceptance of the claim, to tender payment within 30 calendar days.** In this instance, the Company did not tender payment within regulatory guidelines. The Company issued payment 37 calendar days

after acceptance of the claim. The Department alleges this act is in violation of CCR §2695.7(h) and is an unfair practice under CIC §790.03(h)(5).

**Summary of the Company's Response:** The Company indicates it is the routine claims handling practice for the Company to tender payment within 30 calendar days in compliance with regulatory timelines. The Company agrees that in one instance, it did not issue payment within the required time frame. The Company prepared formal and confidential training communication for its TPA. This confidential training communication was utilized to re-train the Company's TPA and to ensure proper understanding of and compliance with requirements for timely payment of claims.

**9. 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.** In this instance, the total loss settlement failed to include the one-time transfer fee. The Department alleges this act is in violation of CCR §2695.8(b)(1) and is an unfair practice under CIC §790.03(h)(5).

**Summary of the Company's Response:** The Company indicates it is the routine claims handling practice for the Company to tender payment of a one-time ownership transfer fee. The Company agrees that in one instance, it did not issue payment for the \$15.00 transfer fee. The Company reopened the claim and issued an additional \$15.00 to the claimant as a result of this examination. The Company also prepared formal and confidential training communication for its TPA. This confidential training communication was utilized to re-train the Company's TPA and to ensure proper understanding of and compliance with requirements for payment of one-time fees incident to the transfer of evidence of ownership of a comparable vehicle.

**10. In one instance, the Company failed to include, in the settlement, the license fee and other annual fees computed based upon the remaining term of the registration.** In this instance, the Company failed to include the pro-rated vehicle registration fee in the total loss settlement. The Department alleges this act is in violation of CCR §2695.8(b)(1) and is an unfair practice under CIC §790.03(h)(5).

**Summary of the Company's Response:** The Company indicates it is the routine claims handling practice for the Company to tender payment for the pro-rata vehicle registration fee in total loss settlements. The Company agrees that in one instance, it did not issue payment for the pro-rata vehicle registration fee. The Company reopened the claim and issued \$95.75 to the claimant as a result of this examination. The Company also prepared formal and confidential training communication for its TPA. This confidential training communication was utilized to re-train the Company's TPA and to ensure proper understanding of and compliance with requirements for pro-rata DMV license fee payments.

**11. In one instance, the Company failed to include, in the settlement, fees incident to the transfer of the vehicle to salvage status.** In this instance in which the owner retained the salvaged vehicle the total loss settlement failed to include the salvage

certificate fee. The Department alleges this act is in violation of CCR §2695.8(b)(1)(A) and is an unfair practice under CIC §790.03(h)(5).

**Summary of the Company's Response:** The Company indicates it is the routine claims handling practice for the Company to tender payment for the salvage certificate fee in total loss settlements when the owners retain the salvage vehicle. The Company agrees that in one instance, it did not issue payment for the required salvage certificate fee. The Company reopened the claim and issued \$18.00 to the claimant as a result of this examination. The Company also prepared formal and confidential training communication for its TPA. This confidential training communication was utilized to re-train the Company's TPA to ensure proper understanding of and compliance with requirements for salvage certificate fee payments.

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

**Summary of the Company's Response:** The Company agrees to the finding and indicates it is the routine claims handling practice for the Company to supply the claimant with a copy of the estimate upon which the settlement was based. As a result of the examination, the Company prepared formal and confidential training communication for its TPA. This confidential training communication was utilized to re-train the Company's TPA and to ensure proper understanding of and compliance with requirements for supplying copies of estimates to claimants.

**13. In one instance, 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 manufacturer replacement crash parts.** The Department alleges this act is in violation of CCR §2695.8(g)(3) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company indicates it is the routine claims handling practice for the Company to include the warranty language for the use of non-original manufacturer replacement parts. The Company agrees that in this instance, it did not properly include the warranty language in the estimate or its cover letter. As a result of the examination, the Company prepared formal and confidential training communication for its TPA. This confidential training communication was utilized to re-train the Company's TPA and to ensure proper understanding of and compliance with this regulation.

**14. In one instance, 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.** The Department alleges this act is in violation of CCR §2695.8(g)(5) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company agrees to the finding and indicates it is their standard claims handling practice to include the requisite language disclosing the use of non-original equipment. As a result of the examination, the Company prepared a formal and confidential training communication for its TPA to utilize for training, and to ensure compliance with proper disclosure of the use of non-original equipment as required under CCR §2695.8(g)(5).