[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 MERCURY INSURANCE COMPANY
NAIC # 16810 CDI # 2253-3

AS OF JUNE 15, 2014

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:

American Mercury Insurance Company
NAIC # 16810

Group NAIC # 0660

Hereinafter, the Company listed above also will be referred to as AMI 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 Mechanical Breakdown Insurance claims closed during the period from June 16, 2013 through June 15, 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 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 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 June 16, 2013 through June 15, 2014; and a review of previous CDI market conduct claims examination reports on this Company; and a review of prior CDI enforcement actions.

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

EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED

The Mechanical Breakdown Insurance claims reviewed were closed from June 16, 2013 through June 15, 2014, referred to as the “review period”. The examiners randomly selected 67 AMI claims files for examination. The examiners cited 19 alleged claims handling violations of the California Insurance Code from this sample file review.

Findings of this examination include a failure to disclose all benefits, coverage, time limits or other provisions of the insurance policy; a failure to provide in writing the reasons for the denial of the claim in whole or in part including the factual and legal bases for each reason given; and attempting to settle a claim by making a settlement offer that was unreasonably low.

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

The results of the market analysis review revealed that during 2011, an enforcement action was taken in the state of Oregon. The action alleges a failure to advise the claimant of a claim denial. The examiners focused on this issue during the course of the file review. This issue was also reflected in the results of this examination.

The Company was the subject of 10 California consumer complaints and inquiries closed from June 16, 2013 through June 15, 2014, in regard to the line of business reviewed in this examination. Of the complaints and inquiries, the CDI determined one complaint was justified for failure to deny a claim in writing. The examiners focused on this issue during the course of the file review.

The previous claims examination reviewed a period from February 1, 2002 through January 31, 2003. There was no specific area of concern identified in the previous 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:

AIM SAMPLE FILES REVIEW			
LINE OF BUSINESS / CATEGORY	**CLAIMS IN REVIEW PERIOD**	**SAMPLE FILES REVIEWED**	**NUMBER OF ALLEGED VIOLATIONS**
Other Liability / Mechanical Breakdown	5,548	67	19
TOTALS	5,548	67	19

TABLE OF TOTAL ALLEGED VIOLATIONS

Citation	Description of Allegation	AIM Number of Alleged Violations
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.	10
CCR §2695.7(b)(1) *[CIC §790.03(h)(13)]	The Company failed to provide in writing the reasons for the denial of the claim in whole or in part including the factual and legal bases for each reason given.	5
CCR §2695.7(d) *[CIC §790.03(h)(3)]	The Company failed to conduct and diligently pursue a thorough, fair and objective investigation.	2
CCR §2695.7(g) *[CIC §790.03(h)(5)]	The Company attempted to settle a claim by making a settlement offer that was unreasonably low.	2
Total Number of Alleged Violations		**19**

*DESCRIPTONS OF APPLICABLE UNFAIR CLAIMS SETTLEMENT PRACTICES

CIC §790.03(h)(1)	The Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverages at issue.
CIC §790.03(h)(3)	The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under insurance policies.
CIC §790.03(h)(5)	The Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear.
CIC §790.03(h)(13)	The Company failed to provide promptly a reasonable explanation of the basis relied upon in the insurance policy, in relation to the facts or applicable law, for the denial of a claim or for the offer of a compromise settlement.

TABLE OF VIOLATIONS BY LINE OF BUSINESS

OTHER LIABILITY **2013 Written Premium: $11,033,756** **AMOUNT OF RECOVERIES $128.87**	**NUMBER OF ALLEGED VIOLATIONS**
CCR §2695.4(a) [CIC §790.03(h)(1)]	10
CCR §2695.7(b)(1) [CIC §790.03(h)(13)]	5
CCR §2695.7(d) [CIC §790.03(h)(3)]	2
CCR §2695.7(g) [CIC §790.03(h)(5)]	2
TOTAL	**19**

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 where applicable.

Money recovered within the scope of this report was $128.87 as described in section number 4.

MECHANICAL BREAKDOWN INSURANCE

1. In ten instances, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy The Company failed to disclose and explain the pertinent coverage benefits to its insureds such as Roadside Assistance, Towing, Lockout Service, Rental Vehicle Reimbursement, and Emergency Trip Interruption. The Department alleges these acts are in violation of CCR §2695.4(a) and are unfair practices under CIC §790.03(h)(1).

Summary of the Company's Response: The Company agrees to the findings that the insureds were not provided with a full explanation of all available coverage benefits. As a result of the examination, the Company will automatically generate explanation letters on Mechanical Breakdown claims disclosing the coverages that are, or may be available to the insureds. A copy of the template benefit letter was provided to the Department on July 20, 2014.

2. In five instances, the Company failed to provide in writing the reasons for the denial of the claim in whole or in part including the factual and legal bases for each reason given. Following approval of covered repairs, the Company made

adjustments to parts and/or labor costs on vehicle repair invoices submitted by repair shops, and paid the adjusted amount without treating such adjustments as partially denied claims, and therefore not providing any written notice of partial denial. The Department alleges these acts are in violation of CCR §2695.7(b)(1) and are unfair practices under CIC §790.03(h)(13).

Summary of the Company's Response: The Company agrees that it made adjustments to repair invoices in accordance with the accepted course of dealing and with the consent of the repair shops. However, the Company does not agree that such adjustments constitute claim "denials" or that written notice of partial denial is required under such circumstances. The Company indicates that the amount authorized for repairs is communicated verbally to the repair facility. While the Company does not agree that its practices constituted violations of the Insurance Code or the Regulations, the Company has modified its current claim handling process so that the Company's payment authorizations will contain instructions for the repair facility to contact the Company if there is any dispute in the approved invoice. The Company will also conduct a quality review of the invoice to identify if additional service costs or items should be part of the covered repairs upon initial approval.

3. In two instances, the Company failed to conduct and diligently pursue a thorough, fair and objective investigation. In these instances, the Company failed to investigate and determine the insured's car rental reimbursement and towing expense. The Department alleges these acts are in violation of CCR §2695.7(d) and are unfair practices under CIC §790.03(h)(3).

Summary of the Companies' Response: In both instances, the Company agrees that these additional expenses were not diligently investigated. The Company does not agree however, that these two instances constitute a violation of CIC § 790.03(h)(3). The Company states that it has adopted and implemented such standards. However, the standards were not followed in these two instances due to isolated human errors. As a result of the examination, the Company has made several follow-up attempts to confirm and secure documentation from the insureds. In the first instance, the Company was advised that the rental expense was absorbed by the repair facility so no additional reimbursement is owed. In the second instance, the Company was unable to obtain a towing invoice from either the insured or the repair facility therefore no additional payment has been issued. Additionally, the Company reminded claims staff to follow-up as appropriate for reimbursable towing or rental expenses.

4. In two instances, the Company attempted to settle a claim by making a settlement offer that was unreasonably low. In two instances, the Company did not pay for parts that were necessary to complete a covered repair. The Company failed to pay for five sealing rings, transmission oil, metal glue, an O-ring, and an engine roll stop bracket. The Department alleges these acts are in violation of CCR §2695.7(g) and are unfair practices under CIC §790.03(h)(5).

Summary of the Company's Response: The Company agrees that it did not approve new charges that were not included when the claims were initially presented

and the repairs were authorized. However, the Company does not agree that its reconciliation of the amount due represents an “unreasonably low settlement offer” within the meaning of the cited regulation, or a violation of the Insurance Code or the Regulations. These components were not requested at the time the claim was initially reviewed therefore claim payment was authorized excluding these items. The amount due was reconciled with the repair facility without any additional expense to the insured. As a result of the examination, the Company contacted the repair facility and confirmed that the repair facility had adjusted the billing for the items so that the insured did not incur additional costs. In the second instance, the Company issued a supplemental payment in the amount of $128.87 for the engine roll stop bracket. Additionally, the Company has amended its claims process to review invoices and determine all parts and services necessary to complete vehicle repairs under its contract.