

**[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**

**CORNERSTONE NATIONAL INSURANCE COMPANY  
NAIC # 10783 CDI # 5007-0**

**AS OF JANUARY 31, 2015**

**ADOPTED JUNE 29, 2016**

**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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## FOREWORD

This 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 Company’s responses, if any, have not undergone a formal administrative or judicial process.

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).

## **SCOPE OF THE EXAMINATION**

Under the authority granted in Part 2, Chapter 1, Article 4, Sections 730, 733, and 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 claim handling practices and procedures in California of:

**Cornerstone National Insurance Company  
NAIC # 10783**

**Group NAIC # 0000**

Hereinafter, the Company listed above also will be referred to individually as CNIC, or the Company.

The examination covered the claims handling practices of the aforementioned Company on Private Passenger Automobile claims closed during the period February 1, 2014 through January 31, 2015. 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.

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 claim files and related records.

3. A review of the California Department of Insurance's (CDI) market analysis results; and if any, a review of consumer complaints and inquiries about this Company closed by the CDI during the period February 1, 2014 through January 31, 2015, 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 claim files was conducted at the offices of the Department of Insurance in Los Angeles, California.

## EXECUTIVE SUMMARY

The Private Passenger Automobile claims reviewed were closed from February 1, 2014 through January 31, 2015, referred to as the “review period”. The examiners randomly selected 171 CNIC claims files for examination. The examiners cited 67 alleged claims handling violations of the California Insurance Code and other specified codes from this sample file review.

The Company’s private passenger automobile insurance is written through two separate managing general agencies (MGA): Freedom and Suncoast. As of September 30, 2012 Cornerstone ceased writing California personal automobile business through Freedom MGA. As of April 30, 2013 Cornerstone ceased writing California personal automobile business through Suncoast MGA. The Company has discontinued writing private passenger automobile insurance in the state of California.

Findings of this examination includes misrepresentation; failure to provide written notice of the need for additional time or information every 30 calendar days; failure to include in the settlement the license fee and other annual fees computed based upon the remaining term of the current registration; failure to reimburse vehicle license fees; failure to properly advise the insured that the driver of the insured vehicle was determined to be principally at fault for an accident; delays in claims handling; failure to ask whether a child restraint system was in use at the time of the loss; failure to replace child restraint seat in losses where it was known a system was in use at the time of the loss, and failure to index bodily injury information with a license insurance claims analysis bureau.

## DETAILS OF THE CURRENT EXAMINATION

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

<b>CNIC 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 / Collision	424	64	45
Private Passenger Automobile / Comprehensive	42	6	1
Private Passenger Automobile / Property Damage	955	48	10
Private Passenger Automobile / Bodily Injury	438	22	7
Private Passenger Automobile / Med Pay	6	6	0
Private Passenger Automobile / Uninsured Motorist	38	25	4
<b>TOTALS</b>	190303	171	67

## TABLE OF TOTAL ALLEGED VIOLATIONS

Violation	Description of Allegation	CNIC Number of Alleged Violations
CIC §790.03(h)(1)	The Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverages at issue.	14
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.	12
CCR §2695.8(b)(1) *[CIC §790.03(h)(5)]	The Company failed to include, in the settlement, all applicable taxes.	10
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	5
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.	4
CIC §11580.011(e) *[CIC §790.03(h)(3)]	The Company failed to ask if a child passenger restraint system was in use by a child during an accident or was in the vehicle at the time of a loss that was covered by the policy.	3
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.	3
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.	2
CIC §11580.011(e) *[CIC §790.03(h)(5)]	The Company failed to replace the child passenger restraint system or failed to reimburse the claimant for the cost of purchasing a new 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.	2

Violation	Description of Allegation	CNIC Number of Alleged Violations
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.	2
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.	1
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 §2695.4(a) *[CIC §790.03(h)(1)]	The Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy that may apply to the claim presented by the claimant. When additional benefits might reasonably be payable under an insured's policy upon receipt of additional proofs of claim, the insurer shall immediately communicate this fact to the insured and cooperate with and assist the insured in determining the extent of the insurer's additional liability.	1
CCR §2695.5(e)(1) *[CIC §790.03(h)(2)]	The Company failed to acknowledge notice of claim within 15 calendar days.	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
CCR §2695.5(b) *[CIC §790.03(h)(2)]	The Company failed to respond to communications within 15 calendar days.	1
CCR §2695.7(p) *[CIC §790.03(h)(3)]	The Company failed to provide written notification to a first party claimant of its decision to discontinue pursuit of subrogation.	1
CIC §1872.4(a) *[CIC §790.03(h)(3)]	The Company failed to report a claim that appeared to be fraudulent to the Department of Insurance Fraud Division within 60 days after determination by the insurer that the claim appears to be fraudulent.	1
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.	1

Violation	Description of Allegation	CNIC Number of Alleged Violations
CCR §2695.8(k) *[CIC §790.03(h)(5)]	The Company failed to pay the reasonable towing charges incurred by the claimant	1
<b>Total Number of Alleged Violations</b>		<b>67</b>

**\*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)(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>  <b>CNIC Written Premium: \$6,486,404</b></p> <p><b>AMOUNT OF RECOVERIES                      \$868.42</b></p>	<p align="center"><b>NUMBER OF ALLEGED VIOLATIONS</b></p>
CIC §790.03(h)(1)	14
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	12
CCR §2695.8(b)(1) [CIC §790.03(h)(5)]	10
CCR §2632.13(e)(1) [CIC §790.03(h)(3)]	5
CIC §1876 [CIC §790.03(h)(3)]	4
CIC §11580.011(e) [CIC §790.03(h)(3)]	3
CCR §2695.7(f) [CIC §790.03(h)(3)]	3
CIC §11580.011(e) [CIC §790.03(h)(5)]	2
CCR §2695.3(a) [CIC §790.03(h)(3)]	2
CIC §790.03(h)(3)	2
CCR §2695.4(a) [CIC §790.03(h)(1)]	1
CCR §2695.5(e)(1) [CIC §790.03(h)(2)]	1
CCR §2695.5(e)(2) [CIC §790.03(h)(3)]	1
CCR §2695. 5(b) [CIC §790.03(h)(2)]	1
CCR §2695.7(b) [CIC §790.03(h)(3)]	1
CCR §2695.7(h) [CIC §790.03(h)(5)]	1
CCR §2695.7(p) [CIC §790.03(h)(3)]	1
CIC §1872.4(a) [CIC §790.03(h)(3)]	1
CCR §2695.7(g) [CIC §790.03(h)(5)]	1
CCR §2695.8(k) [CIC §790.03(h)(5)]	1
<b>SUBTOTAL</b>	<b>67</b>
<b>TOTAL</b>	<b>134</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 should address corrective action for other jurisdictions when applicable.

Money recovered within the scope of this report was \$3,745.82 as described in section numbers 3, 8, 18, and 19 below. Following the findings of the examination, a closed claims survey as described in section 3 below was conducted by the Company resulting in additional payments of \$102,600.98.

### **PRIVATE PASSENGER AUTO**

**1. In 14 instances, the Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverages at issue.** In 14 instances insureds were instructed that in order to receive payment for all fees related to their total loss, a replacement vehicle must be purchased and proof of replacement must be submitted. These claims were administered by Suncoast MGA for the Company. The Department alleges these acts are in violation of CIC §790.03(h)(1).

**Summary of the Company's Response:** The Company agrees with the findings and instructed Suncoast claims administrator to include taxes and fees in total loss settlements regardless of whether or not a replacement vehicle is purchased. Additionally, the Company conducted a self-survey as detailed in item number three of this report.

2. **In 12 instances, the Company 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 Company's Response:** The Company agrees with the finding and attributes the errors to adjuster oversight. As a result of the examination the Company reinforced the timeline requirements of CCR §2695.7(c)(1) with all claim handling personnel.

3. **In 10 instances, the Company failed to include, in the settlement, the license fee and other annual fees computed based upon the remaining term of the registration.** The Company withheld payment of all fees related to total loss settlements until a replacement vehicle was purchased and proof was submitted. 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 agrees with the findings. The Company reopened the ten claims and issued \$2,877.40 in fees owed. In order to correct past harm the Company conducted a self-survey of the examination period and the two years prior (February 1, 2012 through January 31, 2015). The self-survey identified 109 claims for reimbursement resulting in \$102,600.98 issued to insureds/claimants.

4. **In five instances, the Company failed to properly advise the insured of the method in which a request for reconsideration of fault can be made. The Company advised the insured that a request for reconsideration of the liability determination must be in writing.** The Department alleges these acts are in violation of CCR §2632.13(e)(2) and are unfair practices under CIC §790.03(h)(1).

**Summary of the Company Response:** The Company agrees with the findings. On June 5, 2015 the Company held a training session with staff to reinforce the requirements of this regulation.

5. **In four instances, 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.** The Department alleges these acts are in violation of CIC §1876 and are unfair practices under CIC §790.03(h)(3).

**Summary of the Company Response:** The Company agrees with the findings. On June 5, 2015 the Company held a training session with staff to emphasize compliance with the statute.

6. **In three instances, the Company failed to ask if a child passenger restraint system was in use by a child during an accident or was in the vehicle at the time of a loss that was covered by the policy.** The Department alleges these acts are in violation of CIC §11580.011(e) and are unfair practices under CIC §790.03(h)(3).

**Summary of the Company Response:** The Company agrees with the findings. On June 5, 2015 the Company held a training session with staff to emphasize compliance with the requirements of this statute.

7. **In three instances, 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 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 Company Response:** The Company agrees with the findings. On June 5, 2015 the Company held a training session with staff to reinforce the requirements of this regulation.

8. **In two instances, the Company failed to replace the child passenger restraint system or failed to reimburse the claimant for the cost of purchasing a new 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.** 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 Response:** The Company agrees with the findings. The Company re-opened both files and issued payments totaling \$133.14. On June 5, 2015 the Company held a training session with staff to reinforce compliance with the statute.

9. **In two instances, 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.** These instances occurred in the same claim file. The subrogation notice and estimate were not maintained in the file. Department alleges these acts are in violation of CCR §2695.3(a) and are unfair practices under CIC §790.03(h)(3).

**Summary of the Company Response:** The Company agrees with the findings and states although the subrogation notice was not in the file, there is evidence in their financial records that a payment was issued. In the other instance the Company states it undertook the appropriate due diligence to locate the actual estimate and unfortunately could not locate the estimate. To ensure future compliance the Company has moved to a paperless management system where claims are scanned into a digital claim file. The

Company states this system will decrease the potential of misplaced claim documentation.

**10. 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 one instance, the Company failed to solicit information required to pay the claim. In the second instance there was a six month gap in file activity. The Department alleges these acts are in violation of CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company agrees with the finding. As a corrective measure, the Company increased claims adjuster staff and management oversight. To ensure future compliance, weekly reports are produced that indicate each adjuster's opened, closed, and pending claims, and a monthly aging report is also produced to show how long each claim / feature has been open to ensure timely processing of claims. In addition, on June 5, 2015 the Company held a training session with staff to reinforce the requirements of this regulation.

**11. In one instance, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days.** In one instance the Company received the subrogation demand from a third party carrier on April 28, 2014 and did not respond or issue payment until June 20, 2014, more than 40 days later. The Department alleges this act is in violation of CCR §2695.7(b) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company agrees with the finding. On June 5, 2015 the Company held a training session with staff to reinforce the requirements of this regulation.

**12. In one instance, the Company failed, upon acceptance of the claim, to tender payment within 30 calendar days.** In one instance the Company accepted the claim and mailed a copy of the repair estimate to the claimant offering to pay \$235.28 on January 2, 2013. The Company paid the claim on April 14, 2014. 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 agrees with the finding. On June 5, 2015 the Company held a training session with staff to reinforce the requirements of this regulation.

**13. In one instance, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy that may apply to the claim presented by the claimant. When additional benefits might reasonably be payable under an insured's policy upon receipt of additional proofs of claim, the insurer shall immediately communicate this fact to the insured and cooperate with and assist the insured in determining the extent of the insurer's additional liability.**

The Company did not explain the availability of UMBI coverage. 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 Response:** The Company agrees the adjuster did not explain the availability of the UMBI coverage and what was needed to perfect the claim. The Company recognized and corrected the error. A check for the deductible was issued prior to the examination. Further, on June 5, 2015, the Company held a training session with staff to reinforce the requirements of this regulation.

**14. In one instance, the Company failed to acknowledge notice of claim within 15 calendar days.** The Department alleges this act is in violation of CCR §2695.5(e)(1) and is an unfair practice under CIC §790.03(h)(2).

**Summary of the Company Response:** The Company agrees notice of claim was not acknowledged within the 15 day requirement of the regulation. On June 5, 2015, the Company held a training session with staff to reinforce this regulation.

**15. In one instance, the Company failed to provide necessary forms, instructions, and reasonable assistance within 15 calendar days.** The insured notified Cornerstone of the loss on December 13, 2013, the letter providing the insured with instructions on how to proceed with his claim was sent January 21, 2014. The Department alleges this act is in violation of CCR §2695.5(e)(2) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company Response:** The Company agrees with the finding. On June 5, 2015, the Company held a training session with staff to reinforce this regulation.

**16. In one instance, the Company failed to respond to communications within 15 calendar days.** The claimant inquired about a claim on December 16, 2013. The Company responded on January 21, 2014, 36 days later. The Department alleges this act is in violation of CCR §2695.5(b) and is an unfair practice under CIC §790.03(h)(2).

**Summary of the Company Response:** The Company agrees with the findings. On June 5, 2015, the Company held a training session with staff to reinforce this regulation.

**17. In one instance, the Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation.** The Department alleges this act is in violation of CCR §2695.7(p) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company Response:** The Company agrees with the findings. On June 5, 2015, the Company held a training session with staff to reinforce this regulation.

**18. In one instance, the Company failed to report a claim that appeared to be fraudulent to the Department of Insurance Fraud Division within 60 days after determination by the insurer that the claim appears to be fraudulent.** The Department alleges this act is in violation of CIC §1872.4(a) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company Response:** The Company agrees with the finding. As a result of the examination, the Company contacted its SIU unit for referral of the claim to the Department of Insurance Fraud Division. On June 5, 2015, the Company held a training session with staff to reinforce this regulation.

**19. In one instance, the Company attempted to settle a claim by making a settlement offer that was unreasonably low.** In one instance the UMBI settlement agreement was for \$8,500.00. The Company paid \$8,000.00. The Department alleges this act is in violation of CCR §2695.7(g) and is an unfair practice under CIC §790.03(h)(5).

**Summary of the Company Response:** The Company agrees with the finding. As a result of the examination, the Company issued a \$500.00 payment to the insured. Additionally, the Company counseled the adjuster.

**20. In one instance, the Company failed to pay the reasonable storage charges incurred by the claimant.** The Company's letter to the insured imposed limitations on towing and storage. The Department alleges this act is in violation of CCR §2695.8(k) and is an unfair practice under CIC §790.03(h)(5).

**Summary of the Company Response:** The Company agrees with the finding and removed the language from the template letter pertaining to towing/storage charges. A copy of the "new template letter" was submitted to the Department.