

**[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 HANDLING, RATING, AND UNDERWRITING PRACTICES OF**

**ARMED FORCES INSURANCE EXCHANGE  
NAIC # 41459 CDI # 3069-2**

**AS OF AUGUST 31, 2015**

**ADOPTED DECEMBER 21, 2015**

**STATE OF CALIFORNIA**



**CALIFORNIA DEPARTMENT OF INSURANCE  
MARKET CONDUCT DIVISION**

## 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**

Market Conduct Division  
300 Capitol Mall  
Sacramento, CA 95814



December 21, 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 the California Insurance Code Part 2, Chapter 1, Article 4, Sections 730, 733, 736, and Article 6.5, Section 790.04; and California Code of Regulations Title 10, Chapter 5, Subchapter 7.5, Section 2695.3(a), a limited examination was made of the claims handling, rating, and underwriting practices and procedures in California of:

**Armed Forces Insurance Exchange  
NAIC # 41459**

Hereinafter, the Company listed above also will be referred to as AFIE 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

This limited desk examination covered the claims handling, rating, and underwriting practices of the aforementioned Company's homeowner line of business during the period September 1, 2014 through August 31, 2015. The limited 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 pertains to Section 790.03 and Title 10, California Code of Regulations, Section 2695.1 et seq. A separate report pertains to laws other than Section 790.03 and Title 10, California Code of Regulations, Section 2695.1 et seq.

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 identified violations result in payments by the Company to policyholders or claimants, those amounts paid are identified as recoveries 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 specified guidelines, procedures, and forms adopted by the Company for use in California.

2. 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, 2014 through August 31, 2015; and a review of reports on the previous CDI market conduct examination of this Company; and a review of prior CDI enforcement actions.

This limited examination was conducted at the offices of the California Department of Insurance in Sacramento, California.

## **EXECUTIVE SUMMARY**

This desk examination was limited in scope to market analysis information, including California consumer complaint information, to national enforcement activity and to information provided by the Company in response to the Department's data request. There was no review of underwriting or claims files during this examination.

There were no alleged violations or findings of non-compliance within the scope of this report.

Armed Forces Insurance Exchange reported \$4,134,772 in written premiums on homeowner insurance coverage in California during 2014. The Company closed 257 homeowner claims during 2014.

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

Except as noted below in the complaints, the results of the market analysis did not identify any specific issues of concern within the scope of this report

Within the scope of this report, the Company was the subject of one consumer complaint and inquiry closed from September 1, 2014 through August 31, 2014 in regard to the line of business reviewed in this examination. The complaint was determined not to be justified.

The previous examination was completed by the Field Claims Bureau and reviewed the period from January 1, 2009 through December 31, 2009. The most significant noncompliance issues identified in the previous examination report and within the scope of this exam was the Company's failure to communicate pertinent information, failure to document files, and failure to follow the Company's own procedures and guidelines. The examiner followed up with company management on these issues during the course of this examination.

## DETAILS OF THE CURRENT EXAMINATION

The following tables summarize the Company’s responses, within the scope of this report, to the Department’s data request and the alleged violations under Section 790.03 and title 10, California Code of Regulations, Section 2695.1 et seq., that resulted from the review of that data. All “NO” answers in the Areas of Review table are addressed in the Summary of Examination Results section of this report.

<b>AREAS OF REVIEW</b>		
<b>SPECIFIC ISSUE REVIEWED</b>	<b>INDICATION OF COMPLIANCE (YES/NO)</b>	<b>SUMMARY OF RESULTS ITEM #</b>
Certification of claims training by a principal – CCR §2695.6(b) [CIC §790.03(h)(3)]	YES	--
Copy of written standards for claims – CCR §2695.6(a) [CIC §790.03(h)(3)]	YES	--
Compliance with Special Investigative Unit Regulations – CIC §1875.20 and CCR §§2698.30-2698.43 [CIC §790.03(h)(3)]	YES	--
Compliance of letters and forms – CCR §2695.7(b)(3) CIC §880 [CIC §790.03(h)(3)]	YES	--
Compliance with requirements for acknowledgement of claims CCR §2695.5(e)(1) [CIC §790.03(h)(2)]	YES	--
Compliance with requirements for reasonable assistance – CCR §2695.5(e)(2) [CIC §790.03(h)(3)]	YES	--
Compliance with requirements to begin investigation – CCR §2695.5(e)(3) [CIC §790.03(h)(3)]	YES	--
Compliance with requirements to provide insured with a copy of the unfair claims settlement practices in CIC §790.03(h) and the insurer’s right to cancel in CIC §790.03(i)–CIC §790.034(b)(1) [CIC §790.03(h)(3)]	YES	--
Compliance with the requirements for providing the Fair Claims Settlement Practices Regulations upon request from the insured – CIC §790.034(b)(2) [CIC §790.03(h)(3)]	YES	--

<b>AREAS OF REVIEW</b>		
<b>SPECIFIC ISSUE REVIEWED</b>	<b>INDICATION OF COMPLIANCE (YES/NO)</b>	<b>SUMMARY OF RESULTS ITEM #</b>
Compliance with requirement to disclose benefits – CCR §2695.4(a) [CIC §790.03(h)(1)]	YES	--
Compliance with requirements to respond to communication – CCR §2695.5(b) [CIC §790.03(h)(2)]	YES	--
Compliance with requirements to accept or deny in 40 days – CCR §2695.7(b) [CIC §790.03(h)(3) and/or CIC §790.03(h)(4)]	YES	--
Compliance with requirements to send additional time letters every 30 days – CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	YES	--
Compliance with no requirement to use a specific vendor— CCR §2695.9(b) [CIC §790.03(h)(3)]	YES	--
Compliance with requirement to suggest a specific vendor only upon request by insured— CCR §2695.9(c)(1) [CIC §790.03(h)(3)]	N/A*	--
Compliance with requirement to inform insured in writing of right to select vendor— CCR §2695.9(c)(2) [CIC §790.03(h)(3)]	N/A*	--
Compliance with requirement to supply insured with a copy of the written scope and/or estimate prepared by Company— CCR §2695.9(d) [CIC §790.03(h)(3)]	YES	--
Compliance with requirements to include sales tax – CCR §2695.7(g) [CIC §790.03(h)(5)]	YES	--
Compliance with requirement not to apply betterment to the expense of labor— CCR §2695.9(f)(1) [CIC §790.03(h)(5)]	YES	--
Compliance with requirement to note adjustments in the claim file that are discernable, measurable, itemized, and specified as to dollar amount— CCR §2695.9(f) [CIC §790.03(h)(3)]	YES	--
Compliance with requirement not to apply betterment to property not normally subject to repair or replacement— CCR §2695.9(f) [CIC §790.03(h)(5)]	YES	--

<b>AREAS OF REVIEW</b>		
<b>SPECIFIC ISSUE REVIEWED</b>	<b>INDICATION OF COMPLIANCE (YES/NO)</b>	<b>SUMMARY OF RESULTS ITEM #</b>
Compliance with requirements to tender payment within 30 days – CCR §2695.7(h) [CIC §790.03(h)(5)]	YES	--
Compliance with requirements to issue all first party denials in writing – CCR §2695.7(b)(1) [CIC §790.03(h)(3)]	YES	--
Compliance with requirements to reference in written denials the statute, law or policy provision applicable – CCR §2695.7(b)(1) [CIC §790.03(h)(13)]	YES	--
Compliance with requirements to issue all third party denials in writing – CCR §2695.7(b)(3) [CIC §790.03(h)(3)]	YES	--
Compliance with requirements to reference the California Department of Insurance in denials – CCR §2695.7(b)(3) [CIC §790.03(h)(3)]	YES	--

\*N/A – Not applicable; the Company indicates that this law is not relevant to its particular rating, underwriting or claims practices.

## **SUMMARY OF EXAMINATION RESULTS**

There were no alleged violations or criticisms of the Company's practices made within the scope of this report. There were no recoveries discovered within the scope of this report.