

PUBLIC REPORT OF EXAMINATION OF THE CLAIMS

PRACTICES OF THE

**GREAT AMERICAN ALLIANCE INSURANCE COMPANY**

**NAIC# 26832 CDI# 1313-6**

**SEVEN HILLS INSURANCE COMPANY**

**NAIC#24899 CDI# 2977-7**

**AMERICAN SPIRIT INSURANCE COMPANY**

**NAIC#33723 CDI# 3758-0**

**AMERICAN NATIONAL FIRE INSURANCE COMPANY**

**NAIC#22136 CDI# 0651-0**

**AMERICAN EMPIRE INSURANCE COMPANY**

**NAIC#37990 CDI# 2970-2**

**GREAT AMERICAN ASSURANCE COMPANY**

**NAIC#26344 CDI# 1472-0**

AS OF JUNE 30, 1999

**STATE OF CALIFORNIA**



**DEPARTMENT OF INSURANCE**

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**CALIFORNIA DEPARTMENT OF INSURANCE**

Consumer Services and Market Conduct Branch  
Market Conduct Bureau, 11th Floor  
Ronald Reagan State Office Building  
300 South Spring Street  
Los Angeles, CA 90013



August 13, 2001

The Honorable Harry W. Low  
Insurance Commissioner  
State of California  
45 Fremont Street  
San Francisco, California 94105

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 practices and procedures in California of:

**Great American Alliance Insurance Company**  
**NAIC#26832**  
**Seven Hills Insurance Company**  
**NAIC#24899**  
**American Spirit Insurance Company**  
**NAIC#33723**  
**American National Fire Insurance Company**  
**NAIC#22136**  
**American Empire Insurance Company**  
**NAIC#37990**  
**Great American Assurance Insurance Company**  
**NAIC#26344**

Hereinafter referred to as Great American Insurance Companies collectively, or as the Companies.

This report is made available for public inspection and is published on the California Department of Insurance web site ([www.insurance.ca.gov](http://www.insurance.ca.gov)) pursuant to California Insurance Code section 12938.

## **SCOPE OF THE EXAMINATION**

The examination covered the claims handling practices of the aforementioned Companies during the period July 1, 1998 through June 30, 1999. The examination was made to discover, in general, if these and other operating procedures of the Companies conform with the contractual obligations in the policy forms, to provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR) and case law. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al.

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 fair claims settlement practices.
2. A review of the application of such guidelines, procedures, and forms, by means of an examination of claims files and related records.
3. A review of consumer complaints received by the California Department of Insurance (CDI) in the most recent year prior to the start of the examination.

The examination was primarily conducted at the Companies' claims office in Cincinnati, Ohio.

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 only a summary of pertinent information about the lines of business examined and details of the non-compliant or problematic activities or results that were discovered during the course of the examination along with the insurer's proposals for correcting the deficiencies. When a violation is discovered that results in an underpayment to the claimant, the insurer corrects the underpayment and the additional amount paid is identified as a recovery in this report. All unacceptable or non-compliant activities may not have been discovered, however, and failure to identify, comment on or criticize activities does not constitute acceptance of such activities.

The alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process.

## CLAIM SAMPLE REVIEWED AND OVERVIEW OF FINDINGS

The Market Conduct examiners reviewed files drawn from the category of Closed Claims for the period July 1, 1998 through June 30, 1999, commonly referred to as the “review period”. The examiners reviewed 153 Great American Alliance Insurance Company personal automobile (PA) files, 69 Seven Hills Insurance Company commercial automobile (CA) files, 20 American Spirit Insurance Company homeowners (HO) files, 6 American National Fire Insurance Company homeowners files, 4 American Empire Insurance commercial liability (CL) files and 3 Great American Assurance Company personal automobile files. The Market Conduct examiners cited 49 claims handling violations of the Fair Claims Practices Regulations and/or the California Insurance Code.

<b>Great American Alliance Insurance Company</b>			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
PA Bodily Injury	76	40	5
PA Collision	100	52	16
PA Property	80	41	9
PA Comprehensive	51	20	0
<b>TOTALS</b>	307	153	30

<b>Seven Hills Insurance Company</b>			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
CA Bodily Injury	62	34	6
CA Uninsured Motorist Bodily Injury	2	2	0
CA Collision	42	33	10
<b>TOTALS</b>	106	69	16

<b>American Spirit Insurance Company</b>			
<b>CATEGORY</b>	<b>CLAIMS FOR REVIEW PERIOD</b>	<b>REVIEWED</b>	<b>CITATIONS</b>
HO Liability	79	20	3
<b>TOTALS</b>	79	20	3

<b>American National Fire Insurance Company</b>			
<b>CATEGORY</b>	<b>CLAIMS FOR REVIEW PERIOD</b>	<b>REVIEWED</b>	<b>CITATIONS</b>
HO Liability	34	6	0
<b>TOTALS</b>	34	6	0

<b>American Empire Insurance Company</b>			
<b>CATEGORY</b>	<b>CLAIMS FOR REVIEW PERIOD</b>	<b>REVIEWED</b>	<b>CITATIONS</b>
CL Liability	4	4	0
<b>TOTALS</b>	4	4	0

<b>Great American Assurance Company</b>			
<b>CATEGORY</b>	<b>CLAIMS FOR REVIEW PERIOD</b>	<b>REVIEWED</b>	<b>CITATIONS</b>
PA Bodily Injury	1	1	0
PA Comprehensive	1	1	0
PA Collision	1	1	0
<b>TOTALS</b>	3	3	0

<b>TABLE OF TOTAL CITATIONS</b>				
<b>Citation</b>	<b>Description</b>	<b>A</b>	<b>B</b>	<b>C</b>
CCR §2695.4(a)	The Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy.	8	4	0
CCR §2695.3(b)(1)	The Company failed to maintain claim data that are accessible, legible and retrievable for examination.	5	0	1
CCR §2695.8 (b)(1)	The Company failed to explain in writing for the claimant the basis of the fully itemized cost of the comparable automobile.	0	5	0
CCR §2695.8(f)	The Company failed to supply the claimant with a copy of the estimate upon which the settlement is based.	4	0	0
CCR §2695.7(b)(3)	The Company failed to include a statement in their claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance.	2	2	0
CCR §2695.5(e)(3)	The Company failed to begin investigation of the claim within fifteen calendar days.	4	0	0
CCR §2695.8(i)	The Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation.	3	0	0
CCR §2695.7 (f)	The Company failed to provide written notice of any statute of limitation or other time period requirement not less than sixty days prior to the expiration date.	1	2	0
CCR §2695.5(e)(1)	The Company failed to acknowledge notice of claim within fifteen calendar days.	2	0	0
CCR §2695.7 (b)(1)	The Company failed to provide written basis for denial of the claim.	1	0	1
CCR §2695.5(e)(2)	The Company failed to provide necessary forms, instructions, and reasonable assistance within fifteen calendar days.	0	2	0
CCR §2695.8 (b)(1)	The Company failed to include in the settlement all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable automobile.	0	1	0
CCR §2695.7(c)(1)	The Company failed to provide written notice of the need for additional time every thirty calendar days.	0	0	1
<b>Total Citations by Company</b>		<b>30</b>	<b>16</b>	<b>3</b>
<b>Total Citations</b>		<b>49</b>		

Key- Company A-Great American Alliance Insurance Company  
Company B-Seven Hills Insurance Company  
Company C-American Spirit Insurance Company

## SUMMARY OF CRITICISMS, INSURER

## COMPLIANCE ACTIONS AND TOTAL RECOVERIES

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 actions that have or will be taken to correct the deficiency. Regardless of the remedial actions taken or proposed by the Companies, it is the Companies' obligation to ensure that compliance is achieved. There were no recoveries resulting from the criticisms cited in this report.

The Companies offered the following information:

“In response to the citations that follow, the Company immediately conducted a special session to review the examination findings. Follow-up training included review of the current California regulations and the California Fair Checklist. The Checklist, which was provided to the examiners on site, addresses each file-handling requirement as dictated by the regulations (including coverage and benefit explanations, timeliness standards, handling of billings and estimates and denials/partial denials). Required communications (i.e. at fault letters) and language was also reviewed. Recovery requirements, specifically written notice of intent to pursue subrogation, were reviewed with the Recovery Supervisor.

Annual “certification meetings” are held for adjusters handling California claims. Periodic audits have and will be conducted to monitor training implementation and compliance success.

The Company points out that the number of instances cited in each substantive area was generally low and in some areas consisted of only one or two errors in the policies sampled. The Company appreciates the time and consideration of the examination team throughout the process.”

**1. The Company failed to disclose all policy provisions:** In 8 instances, Great American Alliance Insurance Company and 4 instances, Seven Hills Insurance Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy. The Department alleges these acts are in violation of CCR §2695.4(a).

**Company Response:** The Company acknowledged the alleged violations and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**2. The Company failed to maintain claim data retrievable for examination:** In 5 instances, Great American Alliance Insurance Company and in 1 instance, American Spirit Insurance Company failed to maintain claim data that are accessible, legible and retrievable for examination. The Department alleges these acts are in violation of CCR §2695.3(b)(1).

**Company Response:** The Company acknowledged the alleged violations and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**3. The Company failed to explain in writing for the claimant the basis of the fully itemized cost of the comparable automobile:** In 5 instances, Seven Hills Insurance Company failed to explain in writing for the claimant the basis of the fully itemized cost of the comparable automobile. The Department alleges these acts are in violation CCR §2695.8(b)(1).

**Company Response:** The Company acknowledged the alleged violations and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**4. The Company failed to supply the claimant with a copy of the estimate upon which the settlement is based:** In 4 instances, Great American Alliance Insurance Company failed to supply the claimant with a copy of the estimate upon which the settlement is based. The Department alleges these acts are in violation of CCR §2695.8(f).

**Company Response:** The Company acknowledged the alleged violations and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**5. The Company failed to advise the claimant that he or she may have the claim denial reviewed by the California Department of Insurance:** In 2 instances, Great American Alliance Insurance Company and in 2 instances, Seven Hills Insurance Company failed to include a statement in their claim denial that if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. The Department alleges these acts are in violation of CCR §2695.7(b)(3).

**Company Response:** The Company acknowledged the alleged violations and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**6. The Company failed to begin investigation of the claim within fifteen calendar days:** In 4 instances, Great American Alliance Insurance Company failed to begin investigation of the claim within fifteen calendar days. The Department alleges these acts are in violation of CCR §2695.5 (e)(3).

**Company Response:** The Company acknowledged the alleged violations and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**7. The Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation:** In 3 instances, Great American Alliance Insurance Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation of the claim. These acts are violations in CCR §2695.8(i).

**Company Response:** The Company acknowledged the alleged violations and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**8. The Company failed to provide written notice of any statute of limitation sixty days prior to the expiration date:** In 1 instance, Great American Alliance Insurance Company and in 2 instances, Seven Hills Insurance Company failed to provide written notice of any statute of limitation or other time period requirement not less than sixty days prior to the expiration date. The Department alleges these acts are in violation of CCR §2695.7(f).

**Company Response:** The Company acknowledged the alleged violations and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**9. The Company failed to acknowledge notice of claim within fifteen calendar days:** In 2 instances, Great American Alliance Insurance Company failed to acknowledge notice of claim within fifteen calendar days. The Department alleges these acts are in violation of CCR §2695.5 (e)(1).

**Company Response:** The Company acknowledged the alleged violations and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**10. The Company failed to provide written basis for the denial of the claim:** In 1 instance, Great American Alliance Insurance Company and in 1 instance American Spirit Insurance Company failed to provide written basis for the denial of the claim. The Department alleges these acts are in violation of CCR §2695.7(b)(1).

**Company Response:** The Company acknowledged the alleged violation and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**11. The Company failed to provide necessary forms, instructions, and reasonable assistance within fifteen calendar days:** In 2 instances, Seven Hills Insurance Company failed to provide necessary forms, instructions, and reasonable assistance within fifteen calendar days. The Department alleges these acts are in violation of CCR §2695.5(e)(2).

**Company Response:** The Company acknowledged the alleged violations and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**12. The Company failed to include, in the settlement, all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable automobile:** In 1 instance, Seven Hills Insurance Company failed to include, in the settlement, all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable automobile. The Department alleges this act is in violation of CCR §2695.8(b)(1).

**Company Response:** The Company acknowledged the alleged violation and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.

**13. The Company failed to provide written notice of the need for additional time every thirty calendar days:** In 1 instance, American Spirit Insurance Company failed to provide written notice of the need for additional time every thirty calendar days. The Department alleges this act is in violation of CCR §2695.7(c)(1).

**Company Response:** The Company acknowledged the alleged violation and implemented appropriate training to address this issue as described above and conducts follow-up audits to measure progress and monitor compliance.