

PUBLIC REPORT OF EXAMINATION OF THE CLAIMS
PRACTICES OF THE

United Services Automobile Association
NAIC # 25941 CDI # 1350-8
USAA Casualty Insurance Company
NAIC # 25968 CDI # 3259-9
USAA Life Insurance Company
NAIC # 69663 CDI # 1946-3
USAA General Indemnity Company
NAIC # 18600 CDI # 2199-8

AS OF MARCH 31, 1999

STATE OF CALIFORNIA



DEPARTMENT OF INSURANCE
FIELD CLAIMS BUREAU

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CALIFORNIA DEPARTMENT OF INSURANCE

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



December 27, 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:

United Services Automobile Association
NAIC # 25941
USAA Casualty Insurance Company
NAIC # 25968
USAA Life Insurance Company
NAIC # 69663
USAA General Indemnity Company
NAIC # 18600

Hereinafter referred to as USAA, USAA Casualty, USAA Life and USAA Indemnity or collectively as The USAA Group or 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) 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 April 1, 1998 through March 31, 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 San Antonio, Texas.

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 examiners reviewed files drawn from the category of Closed Claims for the period April 1, 1998 through March 31, 1999 commonly referred to as the “review period”. The examiners reviewed 26 USAA Life Insurance Company (USAA Life) life insurance (LI) claim files, 96 USAA Casualty Insurance Company (USAA Casualty) personal auto (PA) claim files; 43 USAA Casualty Insurance Company (USAA Casualty) homeowners (HO) claim files; 72 United Services Automobile Association (USAA) personal auto (PA) claim files and 49 United Services Automobile Association (USAA) homeowners (HO) claim files. USAA Indemnity Company had no claims filed during the window period. The examiners cited 73 claims handling violations of the Fair Claims Settlement Practices Regulations and/or the California Insurance Code section 790.03 within the scope of this report.

USAA Life Insurance Company			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
LI Life	107	26	0
TOTALS	107	26	0

USAA Casualty Insurance Company			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
PA Collision	15,010	34	2
PA Comprehensive	10,569	30	14
PA Bodily Injury	2,361	14	17
PA Property Damage	9,882	18	3
HO Homeowners	9,373	43	2
TOTALS	47,195	139	38

United Services Automobile Association

CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
PA Collision	21,388	22	11
PA Comprehensive	17,171	40	22
PA Bodily Injury	3,060	10	0
HO Homeowners	17,341	49	2
TOTALS	58,960	121	35

TABLE OF TOTAL CITATIONS

Citation	Description	USAA	USAA Life	USAA Casualty
CCR § 2695.3(b)(2)	The Company failed to record the dates relevant documents were received in the file.	6	0	11
CCR §2695.8(e(1))(2)(A)(B)	The Company directed, suggested or recommended that an automobile be repaired at a specific repair shop, without, (A) the referral being expressly requested by the claimant; or, (B) the claimant being informed in writing of the right to select the repair facility	10	0	6
CCR § 2695.5(a)	The Company failed to respond to a Department of Insurance inquiry within twenty-one calendar days of the inquiry.	3	0	9
CCR § 2695.7(h)	Upon acceptance of the claim the Company failed to tender payment within thirty calendar days.	8	0	8
CCR § 2695.7(g)	The Company attempted to settle a claim by making an offer that was unreasonably low.	3	0	0
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.	3	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	0	2
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
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.	0	0	1
Total Citations		35	0	38

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 any remedial or corrective action that has been 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 within the scope of this report.

1. The Company failed to record claim data in the file. In six instances, by USAA and in 11 instances by USAA Casualty, the Companies failed to record the date the company received relevant documents in the file. The Department alleges these acts are in violation of CCR §2695.3(b)(2).

Companies' Response: The Companies have advised the Department that prior to August, 1998, mail was sorted and delivered to each individual claims handler and was to be date stamped as it was handled. In August 1998, a new procedure was implemented where the mailroom date stamps correspondence as it is sorted. As the mailroom staff is small in number, this new procedure was communicated to the staff on hand rather than through a formal documented procedural change. The 17 files cited were handled in the mailroom prior to the new procedure being implemented.

2. The company directed, suggested or recommended that an automobile be repaired at a specific repair shop. In 10 instances by USAA and in six instances by USAA Casualty, the Companies directed, suggested or recommended that an automobile be repaired at a specific repair shop, without, (A) the referral being expressly requested by the claimant; or, (B) the claimant being informed in writing of the right to select the repair facility. In five instances, Company action was taken without (A) and (B) referenced above. In 11 instances, Company action was taken without (B) referenced above. The Department alleges these acts are in violation of CCR § 2695.8(e)(1)(2)(A)(B).

Companies' Response: According to a company response dated March 16, 2000, "Our reading of this regulation is that we are not required to give written notice unless we are suggesting or recommending a DRP (Direct Repair Program). "If the insured asks the appraiser for a shop recommendation, then under (A) above we are not required to give him written notice when recommending a shop since he has initiated the request." "However, to ensure that our claimants are fully aware, we are providing a notice regarding the right to choose a repair shop of the

insured's choice." "This is printed on each estimate given at our direct repair facilities."

3. The Company failed to respond to a Department of Insurance inquiry within twenty-one calendar days of the inquiry. In three instances by USAA and in nine instances by USAA Casualty, the Companies failed to respond to a Department of Insurance inquiry within twenty-one calendar days of the inquiry. The Department alleges these acts are in violation of CCR § 2695.5(a).

Companies' Response "We understand the importance of responding quickly to all CDI inquiries." "Our performance in this regard generally has been exemplary in California and other states over the years; however, in order to ensure no deviations in the future, we have taken stringent efforts to reduce and eliminate any complications or delaying factors in the process."

4. Upon acceptance of the claim the Company failed to tender payment within thirty calendar days. In eight instances by USAA and in eight instances by USAA Casualty, the Companies, upon acceptance of the claim, failed to tender payment within thirty calendar days to Direct Repair Facilities (DRP) and/or claimants. The Department alleges these acts are in violation of CCR § 2695.7(h).

Companies' Response: The Companies have advised the Department that all claim representatives, adjusters and appraisers are trained to issue payments to shops participating in the direct repair program immediately after confirmation of receipt of a signed work order from the customer and repairs have begun. If it is confirmed that a repair is not underway, the payment is to be issued and made co-payable to the shop, and the customer. This guidance has been incorporated into the Company's Western Region claim guidelines.

It should also be noted that the Companies have added four pay codes on estimates from DRP's in order to facilitate payments to the appropriate repair shops and/or claimants.

5. The Company attempted to settle a claim by making a settlement offer that was unreasonably low. In three instances, USAA attempted to settle a claim by making a settlement offer that was unreasonably low. In each case the Company failed to include the \$3 salvage certificate fee and the transfer fee in the settlement of an owner retained automobile total loss. The Department alleges these acts are in violation of CIC § 2695.7(g) CCR.

Companies' Response: The Companies advised the Department that it is standard procedure to include transfer fees and failure to do so was an oversight on the part of the adjusters in each instance. This deficiency has been addressed on a case specific basis. In the case of the \$3 salvage certificate fee, the Companies indicated that they were not aware of their obligation to include this fee in

settlements. The Companies has agreed, on a prospective basis, to include this fee in owner-retained salvage situations.

6. The Company failed to explain in writing for the claimant the basis of the fully itemized cost of the comparable automobile. In three instances, USAA 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 of CCR § 2695.8(b)(1).

Companies' Response The Companies will provide the claimant with a written explanation of the settlement, including the cost of the comparable automobile by means of a computer generated format. This format will include any applicable deductible, applicable taxes, license fees and other fees incident to the transfer of ownership of a comparable automobile. The Companies' existing system-generated letter has been modified to ensure compliance and a copy of this modification has been provided to the Department.

7. The Company failed to advise the claimant that he or she may have the claim denial reviewed by the California Department of Insurance. In two instances, USAA and in two instances, USAA Casualty 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).

Companies' Response: "USAA informs all claimants of their right to a CDI review with a form letter stating the appropriate reason for the denial." "Mandatory field documentation indicates which form letter is sent, by an identification number in the file." "The failure to include the language regarding the claimant's rights to a CDI review in the three instances cited were inadvertent oversights on the part of the claims representatives." "Our procedures have been reviewed and our claims representatives have been reminded of this requirement to ensure all third party rights to a CDI review have been communicated."

8. The Company failed to provide written notice of the need for additional time every thirty calendar days. In one instance, USAA Casualty 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). This appears to be an isolated incident and not an indication of a pattern or practice.

Companies' Response: The Companies' standard policy is to provide the required notification every 30 days. The instance cited reflects an oversight on the part of the adjuster and has been addressed on a case specific basis.

9. The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under insurance policies. In one instance USAA Casualty failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under insurance policies. The Department alleges this act is in violation of CIC § 790.03(h)(3). This appears to be an isolated incident and not an indication of a pattern or practice.

Companies' Response: The Companies advise that the Goup does have in place reasonable standards for the prompt investigation and processing of claims. However, in the instance cited, standards were not met and this has been addressed on a case-specific basis.