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THIS REPORT WILL BE MADE PUBLIC AND PUBLISHED ON THE CDI WEBSITE]**

**WEBSITE PUBLISHED REPORT OF THE MARKET CONDUCT
EXAMINATION OF**

**AMERICAN HOME SHIELD OF CALIFORNIA
CDI # 3353-0**

AS OF OCTOBER 31, 2007

ADOPTED ON NOVEMBER 19, 2009

STATE OF CALIFORNIA



**DEPARTMENT OF INSURANCE
MARKET CONDUCT DIVISION
FIELD CLAIMS BUREAU**

NOTICE REGARDING CONFIDENTIALITY

The provisions of Section 735.5(a) (b) and (c) of the California Insurance Code 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. Section 12938 of the California Insurance Code requires the publication of certain legal documents and examination reports.

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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



November 19, 2009

The Honorable Steve Poizner
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:

**American Home Shield of California
NAIC # H3353**

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

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.

FOREWORD

The examination covered the claims handling practices of the aforementioned Company on claims closed during the period from November 1, 2006, through October 31, 2007. 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. This report contains alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al. Violations of other relevant laws were not found in this examination.

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. 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 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 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) California consumer complaints and inquiries about this Company closed by the CDI during the period November 1, 2006 through October 31, 2007.

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

EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED

The claims reviewed were closed from November 1, 2006 through October 31, 2007, referred to as the “review period. Claims paid within 30 days of receipt were removed from the paid population. The examiners randomly selected 70 AHS claims files for examination. The examiners cited 63 alleged claims handling violations of the Fair Claims Settlement Practices Regulations and/or California Insurance Code Section 790.03 from this sample file review.

Within the scope of this report, findings of this examination included delays in claims handling and failure to follow up when AHS contractors did not comply with the service agreement between AHS and themselves.

RESULTS OF REVIEWS OF CONSUMER COMPLAINTS AND INQUIRIES

The Company was the subject of 216 California consumer complaints and inquiries closed from November 1, 2006 through October 31, 2007, in regard to the line of business reviewed in this examination. The CDI alleged 15 violations of law including three instances of failure to conduct and/or diligently pursue a thorough, fair and objective investigation of a claim; three instances of failure to adopt and implement reasonable standards for the prompt investigation and processing of claims; and three instances of failure to represent correctly to claimants, pertinent facts or insurance policy provisions relating to a coverage at issue. These issues were identified as problematic in the current examination.

Of the complaints and inquiries, the CDI determined eight complaints were justified.

In 90 of the 216 California consumer complaints, AHS overturned its original decision and reimbursed an additional \$27,082.62 to consumers.

DETAILS OF THE CURRENT EXAMINATION

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

AHS SAMPLE FILES REVIEW			
LINE OF BUSINESS / CATEGORY	CLAIMS IN REVIEW PERIOD	SAMPLE FILES REVIEWED	CITATIONS
Home Protection / Paid	11,438	10	4
Home Protection / Denied	7,152	25	21
Home Protection / Partial Denial	36,861	10	3
Home Protection / Complaints	13,547	25	35
TOTALS	68,998	70	63

TABLE OF TOTAL CITATIONS		
Citation	Description of Allegation	AHS
CIC §790.03(h)(3)	The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under its insurance policies.	33
CCR §2695.3(a)	The Company's claims file failed to contain all documents, notes and work papers that pertain to the claim.	14
CCR §2695.7(b)(1)	The Company failed to provide the written basis for the denial of the claim.	6
CIC §790.03(h)(1)	The Company failed to represent correctly to claimants, pertinent facts or insurance policy provisions relating to a coverage at issue.	3
CCR §2695.3(b)(2)	The Company failed to record in the file the date the Company received, date the Company processed and date the Company transmitted or mailed every relevant document in the file.	2
CIC §790.03(h)(5)	The Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear.	2
CCR §2695.3(b)(3)	The Company failed to maintain hard copy claims files or maintain claims files that are accessible, legible and capable of duplication to hard copy for five years.	1
CCR §2695.5(b)	The Company failed to respond to communications within 15 calendar days.	1
CCR §2695.7(c)(1)	The Company failed to provide written notice of the need for additional time or information every 30 calendar days.	1
Total Citations		63

TABLE OF CITATIONS BY LINE OF BUSINESS

<p align="center">HOME PROTECTION 2007 Written Premium: \$93,600,674</p> <p>AMOUNT OF RECOVERIES \$119.00</p>	<p align="center">NUMBER OF CITATIONS</p>
CIC §790.03(h)(3)	33
CCR §2695.3(a)	14
CCR §2695.7(b)(1)	6
CIC §790.03(h)(1)	3
CCR §2695.3(b)(2)	2
CIC §790.03(h)(5)	2
CCR §2695.3(b)(3)	1
CCR §2695.5(b)	1
CCR §2695.7(c)(1)	1
TOTAL	63

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. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al. Violations of other relevant laws were not found in this examination.

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. AHS responded that in general, it plans to implement corrective actions in all jurisdictions to be consistent in its service delivery. Exceptions may apply when there is a valid business reason to implement actions only in California.

Money recovered within the scope of this report was \$119.00, as described in sections number 5 below.

HOME PROTECTION

1. In 33 instances, the Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under its insurance policies. The Department alleges these acts are in violation of CIC §790.03(h)(3).

1(a). In nine instances, the Company failed to investigate promptly.

1(a)(1). In five of the nine instances, for periods of 30 days or more, AHS was not actively working to finalize the claim.

1(a)(2). In two of the nine instances, the Plan Holder contacted AHS and requested a call back which did not occur. Specifically, in one file there

are two instances in which the Plan Holder contacted AHS and was informed that AHS would follow up within one week. AHS did not follow-up as promised. In the second file, there are two instances in which, after contact by the Plan Holder, AHS either did not follow up or contacted the Plan Holder after the Plan Holder had made contact with AHS.

1(a)(3). In one instance, the technician promised AHS information related to the claim by a certain date but did not provide the information on the date promised. AHS did not follow up with the technician.

1(a)(4). In one instance, AHS denied the Plan Holder's claim based on a root problem without documentation to support such a denial. Specifically, the second technician sent to the home confirmed that there was no root problem. The file notes conflicted with the information on the invoice. AHS, without further investigation, denied the claim based upon a root problem.

Summary of Company Response to 1(a):

In regard to **1(a)1, 1(a)2 and 1(a)3**, AHS has claims handling procedures in place but the handling of these claims did not meet its guidelines. AHS ensures each year that its associates have received the claims handling guidelines. The supervisor of those Associates who do not follow the guidelines coaches the individuals to help them meet these guidelines. AHS has determined that it needs to change its internal procedures. New procedures will require Associates to review the status of open files every 20 days. These new procedures will be implemented by December 31, 2009.

1(a)(4). AHS agrees that its computer records do not reflect what is in the invoice. With respect to the contradicting invoices and computer records, AHS requires its Associates to correctly type in computer records. AHS routinely audits its Associates and the Associates' supervisors to address any issues found regarding improper entry of computer records. These audits are conducted regularly and will now include a specific area of inquiry designed to identify any failure to resolve conflicting contractor statements. In addition, the individual responsible for this particular claim has been counseled.

1(b). In 10 instances, at the beginning of the contract period, AHS denied claims for repairs to items that, by outward appearance to the Plan Holder, would seem to be in good working order. AHS has an internal procedure definition of how a Plan Holder could determine if a product is in "good working order". At the time the technician was at the residence, a visual or simple mechanical test was not conducted or reported to AHS. AHS failed to inquire about the test prior to finalizing the claim.

Summary of Company Response to 1(b): If a technician advises AHS that an item that has failed at the start of the contract is not in good working order, then AHS asks the technician if the failure would have been detectable by visual or simple mechanical test. AHS agrees that it did not document in these files that the visual or mechanical tests were performed. In September 2009, AHS sent a written communication to all its California Associates stressing the importance, in cases of claims received within 30 days of the inception of new business, of ensuring that Associates who speak to contractors confirm and document confirmation of such tests.

1(c). In 10 instances, contractors with AHS did not meet the requirements of the AHS contract. AHS failed to have a procedure to follow up with these contractors.

In 10 files, contractors did not contact AHS within 48 hours if they were unable to be at the Plan Holder's home within a 48-hour time period.

Within these 10 files, in two instances, AHS contacted the contractors and requested calls back that were not received.

Within these 10 files, in two instances, the files failed to specify why the contractor did not go out on the dispatched call within the time requirement.

Summary of Company Response to 1(c): Regarding the 48-hour contact time period, effective October 2009, when AHS becomes aware that a contractor has not complied with the 48-hour requirement in the Service Agreement, the Contractor Relations associate will call the contractor and talk about the situation with him or her. The Contractor Relations associate will advise the contractor that their account will be placed on hold and AHS will not send them any further service calls until they are scheduling within the AHS guidelines.

Regarding the contractor's failure to call back, effective October 2009, when a Contractor Relations associate becomes aware that a contractor has failed to call AHS back when it requests that they do so, the AHS associate will speak with the contractor to make them aware of their failure to comply with AHS' guidelines. AHS also will continue to monitor complaints from internal departments about a contractor not calling AHS back when it has request a callback. The contractor will be placed on scheduling hold until the requested information is provided.

Regarding the files in which the contractor did not go out on the dispatch call within the time requirement, AHS agrees that these files do not document why. AHS has circulated a memo to all its California claims handling personnel advising them of the importance of documenting the reason if a contractor fails to complete a dispatch call during the applicable 48-hour time frame.

1(d). In four instances, the Company failed to adopt reasonable standards for claims handling.

1(d)(1). In one file, the Plan Holder notified AHS that they had the work done. AHS informed the Plan Holder that a copy of the invoice from the technician was needed. The referenced invoice was received 101 days later. AHS failed to investigate the invoice delay.

1(d)(2). In one file, AHS denied a hot water heater claim due to sediment buildup. AHS' practice is to allow sediment buildup claims if the water heater is seven years or older, but only on appeal. AHS has not adopted a procedure that allows coverage for sediment build-up in older water heaters unless the Plan Holder appeals.

1(d)(3). In one file, the Plan Holder did not agree with the technician's diagnosis and requested a Second Opinion. AHS denied the request for a Second Opinion based on the lack of an available contractor at the time of the request. Twenty-two days later, after receiving a letter from the Plan Holder appealing the denial, AHS offered the Plan Holder a Second Opinion. AHS does not have a procedure for allowing Second Opinions unless the Plan Holder appeals.

1(d)(4). In one file, the AHS technician initially reported to AHS that there was a recall for the appliance and therefore there was no coverage. After this information was reported to AHS, the Plan Holder notified AHS that the recall did not apply to the Plan Holder's appliance. AHS does not have a procedure in place to verify recalled items.

Summary of Company Response to 1(d):

1(d)(1). AHS is in the process of implementing a procedure to address this criticism. When AHS requests that a Plan Holder forward an invoice from the technician, AHS will keep its request active and follow up every 30 days until completion. AHS will update its training manual accordingly.

1(d)(2). AHS agrees that its procedure was to deny all hot water heater claims if the technician reported sediment buildup. Additionally, its procedure was to allow payment of claims on hot water heaters seven years or older only if the Plan Holder appealed the denial. AHS reviewed its practice and has taken two action steps: 1) AHS covers water heater failure due to sediment build-up under a new product it offers and plans over the next two years to convert all contracts to cover water heater failure due to sediment build up. 2) AHS has revised its Customer Relations procedure to clarify that for all other contracts that do not cover water heater failure due to sediment build-up, AHS will not provide coverage for water heaters that fail due solely to sediment build up.

1(d)(3). AHS procedure is that when a Plan Holder requests a Second Opinion and no contractors are available at the time, AHS does not send a Second Opinion contractor to the home. AHS reserves the right to obtain a Second Opinion at its expense. In the future, when a Plan Holder requests a Second Opinion, and no contractors are available, AHS will inform the Plan Holder that it will schedule a Second Opinion contractor when a contractor becomes available. These procedures will be implemented by December 31, 2009.

1(d)(4). AHS currently has a process in place to communicate known recalls to its Authorizations Department. AHS recognizes the need to create a more structured process to proactively search for recalls on systems covered by AHS, properly educate and communicate to the Authorizations Department all known recalls that may impact coverage, and define a process for the Authorizations Department to validate an unknown recall brought to its attention by a technician. These procedures will be implemented by December 31, 2009.

2. In 14 instances, the Company failed to maintain all documents, notes and work papers in the claim file. The Department alleges these acts are in violation of CCR §2695.3(a).

2(a). In 12 of the 14 instances, contractors did not provide copies of invoices to be placed in the AHS claims files and/or did not supply the date that the technician completed the job. AHS did not follow up to obtain this information.

2(b). In one instance, the file notes do not reflect how AHS determined that incorrect information was recorded regarding the Cash in Lieu amount.

2(c). In one instance, the contractor's office relayed to AHS that the repair work was not successful, but the file does not reflect what the repair was and why it was not a success.

Summary of Company Response:

2(a). Regarding the contractor invoices, effective October 1, 2009, when it is determined that a contractor cannot locate a copy of an invoice, the Contractor Relations associate will have a conversation with the contractor to remind them of the AHS requirement to retain copies of their invoices. AHS will send the contractor a copy of that portion of the agreement which addresses the invoice retention procedure. AHS will ask that the contractor to initial and date that portion and send the agreement back to AHS. AHS will advise the contractor that AHS will audit that contractor's invoices in one month from the incident date to see if they are currently complying with the retention procedure. If the audit indicates that the contractor is in compliance, no further action will be taken. If the audit indicates that the contractor is not in compliance, AHS will take disciplinary action which could include reduction or removal of call commitment,

placing the contractor on hold for a period of time based on further non-compliance or any other action that AHS would deem appropriate.

Regarding the files which did not contain the date the job was completed, as of April 1, 2008, AHS requests all contractors to notify AHS by means of its automated phone system or the web of the date the job was completed.

2(b). AHS associates are expected to document fully all information in the Plan Holder's computer file. AHS supervisors monitor its associates and when an error in procedures is discovered, the supervisor coaches the associates on the correct procedure to use. In this case, the Company failed to retain the information on the Cash in Lieu (CIL) amounts that supported the correct amount. AHS will revise its document retention policies to ensure that pricing information used to determine CIL amounts is retained for the appropriate period. The system upgrades will be completed no later than December 31, 2009.

2(c). All associates handling California claims were advised by memo in September 2009, that when a repair is not successful, the file documentation must specify the repair performed and the reason the repair did not address the problem.

3. In six instances, the Company failed to provide the written basis for the denial of the claim. In four of the six instances, denial letters were sent but either lacked complete information or did not accurately reflect the reason for the denials. In the remaining two instances, in one file there were two separate instances in which a denial letter should have been sent, but was not. In the other file, a denial letter was not sent. The Department alleges these acts are in violation of CCR §2695.7(b)(1).

Summary of Company Response: In June 2008, all denial letters were revised to include the contract's full section and item number that contained the exclusion and all the verbiage. In addition, if the section contained multiple items that could be not be covered, the associates sending the letters were instructed to add the specific item/area affected by the denial.

It is AHS' practice to send denial letters and it appears that the two instances cited were due to employee error. AHS routinely audits its Associates and the Associates' supervisors to address any issues found regarding deficiencies in use of denial letters. These audits are conducted regularly and will now include a specific area of inquiry designed to identify any failure to send a denial letter.

4. In three instances, the Company failed to represent correctly to claimants, pertinent facts or insurance policy provisions relating to a coverage at issue. The Department alleges these acts are in violation of CIC §790.03(h)(1).

Specifically, in one instance, the Plan Holder was not notified that proof of repair was required.

In the second instance, AHS denied a claim, sent a denial letter and left a voicemail informing the Plan Holder of the denial. The denial letter was returned by the Post Office as non-deliverable. The Plan Holder contacted AHS 22 days after the denial letter was sent and requested a Second Opinion. AHS denied the Plan Holder's request for a Second Opinion stating that the request was made too late (22 days after the denial). AHS had not advised the Plan Holder of a time limit to request a Second Opinion. AHS reversed its decision only after it received a written appeal from the Plan Holder.

In the final instance, the denial letter included an item as not covered, when in fact it was a covered benefit.

Summary of Company Response: In the first instance, a denial letter should have been sent that contained the proof of repair wording. The unit that sends the denial letters has been advised of this error.

AHS will revise its California contract language to clarify its policy on second opinions. The revised contract language will address the circumstances under which the Plan Holder will be able to obtain a Second Opinion on whether or not a repair is needed. The application of the 48 hour limitation will be referenced as well. The revised contracts will be filed with the Department by the end of 2009. Once the contracts are in place, the denial letters will also refer to this contract language.

In the final instance, AHS denial letter coordinators should have included the facts in the denial letters. AHS denial letter coordinators have been advised to include all information in the body of their denial letters in the future.

5. In two instances, the Company failed to record the date the Company received every relevant document in the file. In one instance, a fax did not contain the date AHS received the fax. In the second instance, the contractor invoice did not contain the date it was received by AHS. The Department alleges these acts are in violation of CCR §2695.3(b)(2).

Summary of Company Response: The documents at issue were faxed and AHS believes that the top "signature line" of the faxes was inadvertently cut off when the document was imaged. A training request has been entered to communicate to all AHS Associates who receive a fax that they must be certain to capture all information on the document, including the date of receipt, and that all Associates should verify that the fax signature line is included when imaging hard copies into the system.

6. In two instances, the Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear. In one instance, AHS reduced the payable amount by \$119.00 when two technicians were needed for the job. In another instance, the denial letter included denial of a covered repair that was paid by the Plan Holder. The Department alleges these acts are in violation of CIC §790.03(h)(5).

Summary of Company Response: AHS agrees that the benefit payment was incorrect and has paid the Plan Holder the \$119.00. AHS agrees that the repair of the dishwasher hinges was payable. AHS sent a letter to the Plan Holder asking them to send information regarding the repair. The letter was returned by the Post Office; therefore AHS was unable to reimburse the Plan Holder the amount paid for the repair.

7. In one instance, the Company failed to maintain hard copy files or claims files that are accessible, legible and capable of duplication to hard copy for five years. AHS is unable to document how it determined the Cash in Lieu (CIL) amount offered to the Plan Holder. The Department alleges this act is in violation of CCR §2695.3(b)(3).

Summary of Company Response: AHS will revise its document retention policies to ensure that pricing information used to determine CIL amounts is retained for the appropriate period. The system upgrades will be completed no later than December 31, 2009.

8. In one instance, the Company failed to respond to communications within 15 calendar days. The Plan Holder sent a letter to AHS stating they did not agree with the claim denial for improper installation and code violation. The Plan Holder provided a specific reason for the disagreement and requested that AHS provide a copy of the specific code violated that it referenced in the denial. AHS did not respond to the request for a copy of the code. The Department alleges this act is in violation of CCR §2695.5(b).

Summary of Company Response: AHS responded to the Plan Holder's letter. AHS agrees, however, that a copy of the code section was not provided to the Plan Holder. AHS procedure is to respond to Plan Holder questions. AHS routinely monitors its Associates and the Associates' supervisors to address any issues found regarding incomplete responses to Plan Holders' requests. These audits are conducted on a regular basis and will now include a specific area of inquiry designed to identify any failure to respond to direct questions from Plan Holders.

9. In one instance, the Company failed to provide written notice of the need for additional time or information every 30 calendar days. The AHS letter dated December 14, 2006, informed the Plan Holder that several attempts had been made to schedule an appointment to complete the work and left the claim status as open. A letter closing the file was not sent. The Department alleges this act is in violation of CCR §2695.7(c)(1).

Summary of Company Response: AHS agrees with this statement. The Company has determined that it will require a change to its operating system to be in compliance. The system upgrades will be completed no later than December 31, 2009.