

**[THIS VERSION OF THE REPORT IS MADE AVAILABLE
IN ACCORDANCE WITH CIC SECTION 12938]**

**REPORT OF THE MARKET CONDUCT EXAMINATION
OF THE CLAIMS PRACTICES OF THE
LINCOLN GENERAL INSURANCE COMPANY
NAIC # 33855 CDI # 4679-7**

AS OF JUNE 30, 2006

ADOPTED ON SEPTEMBER 19, 2008

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.

TABLE OF CONTENTS

SALUTATION.....1

FOREWORD.....2

SCOPE OF THE EXAMINATION.....3

EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED.....4

RESULTS OF REVIEWS OF CONSUMER COMPLAINTS AND INQUIRIES,
PREVIOUS EXAMINATIONS, AND PRIOR ENFORCEMENT ACTIONS.....5

DETAILS OF THE CURRENT EXAMINATION.....6

TABLE OF TOTAL CITATIONS.....9

TABLE OF CITATIONS BY LINE OF BUSINESS.....12

SUMMARY OF EXAMINATION RESULTS.....15

DEPARTMENT OF INSURANCE

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



September 19, 2008

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:

Lincoln General Insurance Company

NAIC # 33855

Group NAIC # 1326

Hereinafter, the Company listed above also will be referred to as LGIC 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 during the period July 1, 2005, through June 30, 2006. 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, to provisions of the California Insurance Code (CIC) and the California Code of Regulations (CCR), and to case law. This report contains alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al. The alleged violations of other relevant laws which resulted from this examination are included in a separate report.

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 resulted in 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’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 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 California Department of Insurance's (CDI) consumer complaints and inquiries about the Company handled by the California Department of Insurance (CDI) during the calendar year 2005, a review of prior CDI market conduct claims examination reports on the Company, and a review of prior CDI enforcement actions.
4. A review of the available electronic claims data.

The review of the sample of individual claims files was conducted at the offices of Lincoln General Insurance Company in Phoenix, Arizona. Prior to the file examination, a review of electronic claims data was conducted within the office of the Department of Insurance in Los Angeles, California.

EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED

The claims reviewed were closed between July 1, 2005 and June 30, 2006, commonly referred to as the “review period”. Using a computer analysis program, the examiners initially reviewed 27,868 LGIC electronic claims records. The electronic data available allowed only a review of the number of claims closed without payment compared to the number of claims closed with payment. The results of the electronic review indicated that in both the Commercial Automobile and Private Passenger Automobile lines of business, there were more claims closed without payment than were paid in the Collision, Comprehensive, Uninsured Motorist Property Damage and Uninsured Motorist Bodily Injury categories. The electronic review resulted in no alleged claims handling violations of the Fair Claims Settlement Practices Regulations and/or California Insurance Code Section 790.03.

Following this electronic review, 543 samples of LGIC claims were selected randomly for additional examination. The claims population for the sample file review was reduced to 27,442. Claims derived from the Company’s lists of claims in the Accessory, Equipment, Platinum Package, Rental and Commercial Automobile Uninsured Motorist Property Damage coverages were omitted from the claims population for the file review period.

The examiners cited 776 claim 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 failure to effectuate fair settlements, failure to implement reasonable standards for investigation, failure to provide accurate communications, failure to respond timely, and failure to maintain documentation. Some of the violations also were identified in the previous market conduct claims examination as of October 31, 2002.

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

The Company was the subject of 130 California consumer complaints and inquiries closed from July 1, 2005 through June 30, 2006, in regard to the lines of business reviewed in this examination. Of the complaints and inquiries, 56 alleged claim handling delays, 41 alleged improper denial of claims, 28 alleged unsatisfactory settlement offers and 5 alleged miscellaneous complaints and inquiries. The examiner focused on these issues during the course of the file review.

The previous California claims examination reviewed a period from August 20, 2001, through October 31, 2002. The most significant noncompliance issues identified in the previous examination report were a failure to effectuate fair settlements, a failure to respond timely, and a failure to conduct adequate claims investigations. These issues also were identified as problematic in the current examination.

The Company was the subject of a CDI enforcement action on May 24, 2004, which resulted in an order to cease and desist from engaging in unfair claims practices and in a monetary penalty and cost in the amount of \$64,279. The action identified 56 claims handling violations. Significant noncompliance issues identified in the enforcement action were a failure to effectuate fair settlements and a failure to respond timely. These issues also were identified in the current examination.

DETAILS OF THE CURRENT EXAMINATION

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

LGIC ELECTRONIC RECORDS REVIEW			
LINE OF BUSINESS / CATEGORY	CLAIMS IN REVIEW PERIOD	ELECTRONIC RECORDS REVIEWED	CITATIONS
Private Passenger Automobile / Collision	4,124	4,124	0
Private Passenger Automobile / Comprehensive	783	783	0
Private Passenger Automobile / Medical Payment	132	132	0
Private Passenger Automobile / Property Damage	7,104	7,104	0
Private Passenger Automobile / Bodily Injury	1,858	1,858	0
Private Passenger Automobile / Uninsured Motorist Bodily Injury	141	141	0
Private Passenger Automobile / Uninsured Motorist Property Damage	178	178	0
Private Passenger Automobile / Collision Deductible Waiver	19	19	0
Private Passenger Automobile / Rental	263	263	0
Private Passenger Automobile / Accessory-Equipment	85	85	0
Private Passenger Automobile / Platinum Package	13	13	0
Commercial Automobile / Collision	2,588	2,588	0
Commercial Automobile / Comprehensive	480	480	0
Commercial Automobile / Medical Payment	52	52	0
Commercial Automobile / Property Damage	6,547	6,547	0
Commercial Automobile / Bodily Injury	3,035	3,035	0
Commercial Automobile / Uninsured Motorist Bodily Injury	174	174	0
Commercial Automobile / Uninsured Motorist Property Damage	19	19	0

LGIC ELECTRONIC RECORDS REVIEW

LINE OF BUSINESS / CATEGORY	CLAIMS IN REVIEW PERIOD	ELECTRONIC RECORDS REVIEWED	CITATIONS
Commercial Automobile / On-Hook	246	246	0
Commercial Automobile / Accessory-Equipment	1	1	0
Commercial Automobile / Platinum Package	26	26	0
TOTALS	27,868	27,868	0

LGIC SAMPLE FILES REVIEW

LINE OF BUSINESS / CATEGORY	CLAIMS IN REVIEW PERIOD	SAMPLE FILES REVIEWED	CITATIONS
Private Passenger Automobile / Collision	4,124	67	136
Private Passenger Automobile / Comprehensive	783	63	124
Private Passenger Automobile / Medical Payment	132	45	82
Private Passenger Automobile / Property Damage	7,104	67	53
Private Passenger Automobile / Bodily Injury	1,858	66	58
Private Passenger Automobile / Uninsured Motorist Bodily Injury	141	46	60
Private Passenger Automobile / Uninsured Motorist Property Damage	178	49	91
Commercial Automobile / Collision	2,588	20	29
Commercial Automobile / Comprehensive	480	20	29
Commercial Automobile / Medical Payment	52	20	17
Commercial Automobile / Property Damage	6,547	20	26
Commercial Automobile / Bodily Injury	3,035	20	24
Commercial Automobile / Uninsured Motorist Bodily Injury	174	20	21
Commercial Automobile / On-Hook	246	20	26
TOTALS	27,442	543	776

TABLE OF TOTAL CITATIONS

Citation	Description	LGIC
CCR §2695.5(e)(2)	The Company failed to provide necessary forms, instructions, and reasonable assistance within 15 calendar days.	80
CCR §2695.85	The Company failed to provide the insured with the Auto Body Repair Consumer Bill of Rights.	69
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.	57
CCR §2695.4(a)	The Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy.	50
CCR §2695.7(b)	The Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days.	50
CCR §2695.3(a)	The Company failed to maintain all documents, notes and work papers in the claim file.	45
CCR §2695.7(b)(1)	The Company failed to provide the written basis for the denial of the claim.	34
CIC §790.03(h)(5)	The Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear.	31
CCR §2695.5(e)(3)	The Company failed to begin investigation of the claim within 15 calendar days.	31
CCR §2695.7(c)(1)	The Company failed to provide written notice of the need for additional time every 30 calendar days.	30
CIC §790.03(h)(1)	The Company failed to represent correctly to claimants, pertinent facts or insurance policy provisions relating to coverage at issue.	29
CCR §2695.5(e)(1)	The Company failed to acknowledge notice of claim within 15 calendar days.	26
CCR §2695.8(c)	The Company failed to notify the insured that the file will be reopened if the Company is notified within 35 days that the insured cannot purchase a comparable automobile for the settlement amount offered or paid.	25
CCR §2695.7(f)	The Company failed to provide written notice of any statute of limitation or other time period requirement not less than 60 days prior to the expiration date.	23
CCR §2695.7(h)	The Company failed, upon acceptance of the claim, to tender payment within 30 calendar days.	20
CCR §2695.5(b)	The Company failed to respond to communications within 15 calendar days.	19
CCR §2695.7(d)	The Company failed to conduct and diligently pursue a thorough, fair and objective investigation of a claim, or persisted in seeking information not reasonably required for or material to the resolution of a claim dispute.	15
CCR §2695.7(g)	The Company attempted to settle a claim by making a settlement offer that was unreasonably low.	15
CCR §2695.8(b)(3)	The Company failed to fully itemize and explain in writing the determination of the cost of a comparable vehicle at the time the settlement offer is made.	15

TABLE OF TOTAL CITATIONS

Citation	Description	LGIC
CCR §2695.8(f)	The Company failed to supply the claimant with a copy of the estimate upon which the settlement is based.	15
CCR §2695.8(b)(1)(A)	The Company failed to either disclose in writing to the claimant that notice of the salvage retention by the claimant must be provided to the Department of Motor Vehicles and that this notice may affect the future resale and/or insured value of the loss vehicle, or it failed to inform the claimant of his or her right to seek a refund of the unused vehicle fees from the Department of Motor Vehicles or the Company failed to include, in the settlement, all applicable taxes and fees incident to transfer of the claimant's vehicle to salvage status, or it failed to disclose in writing to the insured that a notice of salvage retention must be provided to the California Department of Motor Vehicles.	13
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.	12
CCR §2695.8(b)(1)	The Company failed to include, in the settlement, all applicable taxes and one-time fees incident to transfer of evidence of ownership of a comparable automobile.	11
CCR §2695.8(i)	The Company failed to document the basis of betterment, depreciation, or salvage. The basis for any adjustment shall be fully explained to the claimant in writing.	11
CCR §2695.7(p)	The Company failed to provide written notification to a first party claimant of its decision to discontinue subrogation, or the Company failed to provide written notification to a first party claimant as to whether it intended to pursue subrogation.	10
CCR §2695.8(g)(5)	The Company required the use of non-original equipment manufacturer (OEM) replacement crash parts without the use of such parts disclosed in accordance with §9875 of the California Business and Professions Code.	8
CCR §2695.7(b)(3)	The Company failed to include a statement in its 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.	6
CCR §2695.4(d)	The Company improperly required a claimant to give notification of a claim or proof of claim within a specified time.	4
CCR §2695.5(d)	The Company's claims agent failed to immediately transmit notice of claim to the insurer.	4
CCR §2695.8(i)(1)(2)	The Company failed to document the basis of betterment, depreciation, or salvage. The basis for any adjustment shall fully document the measurable difference in market value attributable to the condition and age of the vehicle, and apply only to parts normally subject to repair and replacement during the useful life of the vehicle.	4
CCR §2695.8(b)(2)	The Company failed to document the determination of value. Any adjustments from the cost of a comparable automobile must be discernible, measurable, itemized, and specified as well as be appropriate in dollar amount and so documented in the file.	3
CIC §790.03(h)(15)	The Company misled a claimant as to the applicable statute of limitations.	3

TABLE OF TOTAL CITATIONS		
Citation	Description	LGIC
CCR §2695.3(b)(1)	The Company failed to maintain claim data that are accessible, legible and retrievable for examination.	2
CCR §2695.6(b)(4)	The Company failed to maintain a copy of the certification required by CCR §2695.6(b)(1), (2) or (3) at the principal place of business.	2
CCR §2695.8(j)	The Company failed to provide reasonable notice to a claimant before terminating payment for storage charges.	2
CCR §2695.8(b)(3)(A)	The Company failed to base its total loss offer on the cost of two or more comparable automobiles in the claimant's local market area that were available for sale during the preceding 90 days.	1
CCR §2695.8(b)(3)(D)	The Company failed to document and to fully explain the cost of a comparable automobile. Any adjustments to the cost of a comparable automobile shall be discernible, measurable, itemized and specified, as well as appropriate.	1
Total Citations		776

TABLE OF CITATIONS BY LINE OF BUSINESS

PRIVATE PASSENGER AUTOMOBILE 2004 Written Premium: \$49,333,746 AMOUNT OF RECOVERIES \$12,919.60	NUMBER OF CITATIONS		
	Electronic Review	Sample Review	Total
CCR §2695.85	0	68	68
CCR §2695.5(e)(2)	0	57	57
CIC §790.03(h)(3)	0	42	42
CCR §2695.3(a)	0	39	39
CCR §2695.4(a)	0	38	38
CCR §2695.7(b)	0	33	33
CIC §790.03(h)(5)	0	24	24
CIC §790.03(h)(1)	0	27	27
CCR §2695.7(b)(1)	0	25	25
CCR §2695.5(e)(3)	0	24	24
CCR §2695.7(c)(1)	0	23	23
CCR §2695.8(c)	0	22	22
CCR §2695.7(h)	0	18	18
CCR §2695.5(e)(1)	0	18	18
CCR §2695.7(f)	0	16	16
CCR §2695.5(b)	0	15	15
CCR §2695.7(g)	0	13	13
CCR §2695.8(b)(3)	0	13	13
CCR §2695.8(f)	0	11	11
CCR §2695.7(d)	0	9	9
CCR §2695.8(b)(1)	0	9	9
CCR §2695.7(p)	0	8	8
CCR §2695.8(i)	0	8	8
CCR §2695.8(b)(1)(A)	0	7	7
CCR §2695.8(g)(5)	0	7	7
CCR §2695.3(b)(2)	0	6	6
CCR §2695.7(b)(3)	0	5	5
CCR §2695.4(d)	0	4	4
CCR §2695.8(i)(1)(2)	0	3	3

TABLE OF CITATIONS BY LINE OF BUSINESS

PRIVATE PASSENGER AUTOMOBILE 2004 Written Premium: \$49,333,746	NUMBER OF CITATIONS		
	Electronic Review	Sample Review	Total
CIC §790.03(h)(15)	0	3	3
CCR §2695.8(b)(2)	0	3	3
CCR §2695.6(b)(4)	0	2	2
CCR §2695.3(b)(1)	0	1	1
CCR §2695.5(d)	0	1	1
CCR §2695.8(b)(3)(D)	0	1	1
CCR §2695.8(j)	0	1	1
SUBTOTAL	0	604	604

COMMERCIAL AUTOMOBILE 2004 Written Premium: \$87,809,870	NUMBER OF CITATIONS		
	Electronic Review	Sample Review	Total
AMOUNT OF RECOVERIES \$10,103.59			
CCR §2695.5(e)(2)	0	23	23
CCR §2695.7(b)	0	17	17
CIC §790.03(h)(3)	0	15	15
CCR §2695.4(a)	0	12	12
CCR §2695.7(b)(1)	0	9	9
CCR §2695.5(e)(1)	0	8	8
CIC §790.03(h)(5)	0	7	7
CCR §2695.5(e)(3)	0	7	7
CCR §2695.7(c)(1)	0	7	7
CCR §2695.7(f)	0	7	7
CCR §2695.3(a)	0	6	6
CCR §2695.3(b)(2)	0	6	6
CCR §2695.7(d)	0	6	6
CCR §2695.8(b)(1)(A)	0	6	6
CCR §2695.5(b)	0	4	4
CCR §2695.8(f)	0	4	4
CCR §2695.5(d)	0	3	3

COMMERCIAL AUTOMOBILE 2004 Written Premium: \$87,809,870	NUMBER OF CITATIONS		
	Electronic Review	Sample Review	Total
CCR §2695.8(c)	0	3	3
CCR §2695.8(i)	0	3	3
CIC §790.03(h)(1)	0	2	2
CCR §2695.7(g)	0	2	2
CCR §2695.7(h)	0	2	2
CCR §2695.7(p)	0	2	2
CCR §2695.8(b)(1)	0	2	2
CCR §2695.8(b)(3)	0	2	2
CCR §2695.3(b)(1)	0	1	1
CCR §2695.7(b)(3)	0	1	1
CCR §2695.8(b)(3)(A)	0	1	1
CCR §2695.8(g)(5)	0	1	1
CCR §2695.8(i)(1)(2)	0	1	1
CCR §2695.8(j)	0	1	1
CCR §2695.85	0	1	1
SUBTOTAL	0	172	172
TOTAL	0	776	776

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.

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.

Money recovered within the scope of this report was \$23,891.19 as described in sections numbered 5(c), 9, 17, 21(a), 24(c), 24(d), 29, 31, 36, 43, 49(c), 50(d), 57(b), and 60 below. Pursuant to the findings of the examination as referenced in sections 9(a), 31, 43(a) and 56(a) below, the Company conducted closed claim surveys resulting in additional payments to its insureds and claimants of \$216,621.00 in. As a result of the examination, the total amount of money returned to claimants within the scope of this report was \$240,512.19.

PRIVATE PASSENGER AUTOMOBILE

1. In 68 instances, the Company failed to provide the insured with the Auto Body Repair Bill of Rights, either at the time of application for automobile insurance, at the time a policy is issued, or following an accident. Specifically, in 50 of these instances the Auto Body Repair Bill of Rights was not sent. In 18 instances, the Company sent an Auto Body Repair Bill of Rights letter containing incorrect language. The Department alleges these acts are in violation of CCR §2695.85.

Summary of Company Response: The Company revised its Auto Body Repair Bill of Rights (BOR) letter to comply with CCR §2695.85. It also changed its procedure in how and when it sends the BOR letter. As of April 3, 2007, the Company includes the BOR letter as an attachment to its acknowledgement letter. The acknowledgement letter is sent to every claimant upon receipt of a new claim.

2. In 57 instances, the Company failed to provide necessary forms, instructions, and reasonable assistance within 15 calendar days. The Department alleges these acts are in violation of CCR §2695.5(e)(2).

Summary of Company Response: Subsequent to the review period, the Company's procedure was changed to immediately acknowledge and provide the insured with all documents needed to process a claim, but in no event more than 15 days after the loss is reported. Claim supervisors conduct file reviews to confirm adherence to Company standards and procedures. When an adjuster is found to be out of compliance, corrective action is taken which includes training and counseling to ensure this procedure is followed.

This issue was identified in the previous market conduct examination report as of October 31, 2002.

3. In 42 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).

3(a). In 10 instances, the Company failed to conduct a prompt, reasonable investigation.

Summary of Company Response to 3(a): These are isolated instances and are contrary to the Company's procedure. The Company requires claim status reviews every 30 days, unless the file is properly documented as to the grounds for a longer diary date. Currently, claim supervisors conduct file reviews every 30 days. The Company will include in its review process a listing of all files in which official reports have been ordered to ensure that the report has been received or the file documented with the reason why it is still pending. The Company has not provided the Department with a date of when it will implement the change in its review process.

3(b). In 10 instances, the Company failed to conduct vehicle inspections in a timely manner.

Summary of Company Response to 3(b): Subsequent to the review period the Company changed its appraisal vendors to improve the timeliness of the inspection process. Inspections are now completed within 24-48 hours of assignment.

3(c). In six instances, the Company failed to settle a total loss claim in a timely manner.

Summary of Company Response to 3(c): Subsequent to the review period the Company revised its total loss process to include a dedicated team to handle total losses. Once a total loss is determined, the handling of the total loss is turned over to this team to ensure timely handling of the total loss. Total losses are generally identified with total loss reports being generated and received within 48-72 hours.

3(d). In five instances, the Company failed to investigate and resolve coverage issues promptly.

Summary of Company Response to 3(d): As a result of this finding, the Company changed its procedure and has one person who acts as the coverage coordinator for all claims containing coverage issues. The coverage coordinator monitors claims with known coverage issues and follows up with the handling adjusters to ensure that coverage issues are resolved timely. In addition, claims supervisors have been instructed to look for unresolved coverage issues in their quality reviews. The Company's claims handlers are now required to immediately notify management of any coverage question upon recognition. The Company will monitor the handling of the claims and if an adjuster is not compliant with this procedure, it will take the necessary corrective action, including training and counseling, to ensure that adjusters are following this procedure.

3(e). In four instances, the Company delayed the investigation, processing and evaluation of bodily injury settlements.

Summary of Company Response to 3(e): The Company is currently working on staffing models to ensure that it is adequately staffed to handle the volume of claims it receives in California. Also, the Company increased the frequency of file reviews by its claims supervisors and included the monitoring of reserves in the file review process. If the reserves on a file indicate that a bodily injury claim is open and the file was assigned to an adjuster with limited experience, the supervisor will assist the adjuster in the handling for training purposes, or reassign the file to a more experienced adjuster. The Company has not provided the Department with a date when it expects to complete the review of its staffing model and when it will implement the changes to its file review process.

3(f). In three instances, the Company failed to extend uninsured motorist property damage coverage for a loss when it had sufficient information indicating the at-fault party was uninsured.

Summary of Company Response to 3(f): Coverage for uninsured motorist property damage is not triggered under the policy until it is proven that the tortfeasor did not maintain liability coverage. The Company's procedure is to secure either a Declaration of No Insurance directly from the tortfeasor, or a SR 19 from the California Department of Motor Vehicles.

Summary of the Department's Response to the Company Response: The Department maintains that a claim for uninsured motorist property damage coverage shall be promptly processed upon receipt of reasonable evidence indicating the at-fault party was uninsured at the time of loss.

This is an unresolved issue and may result in further administrative action.

3(g). In two instances, the Company failed to recognize that medical payments coverage applied to a loss when medical bills were submitted for a bodily injury claim.

Summary of Company Response to 3(g): The Company agrees with these findings and recognizes that this is an area in need of continued reinforcement and training. The Company will provide continued training to its staff on this issue in weekly unit meetings. More in-depth coverage training was provided by the Company's Home Office Coverage Coordinator during July 2008, and follow-up training will be provided during weekly staff meetings.

3(h). In one general instance in the Private Passenger Automobile line, the Company arbitrarily capped the amount it allowed for paint and materials at \$350.00.

Summary of Company Response to 3(h): The Company agrees not to use a "cap" or dollar amount limit on the cost of paint and material. On April 3, 2007, the Company changed its procedure for calculating the cost of paint and materials. It now calculates the cost of paint and material by multiplying the number of refinish hours on

an estimate by a specified hourly rate for paint. The calculation for paint and material will be prominently displayed in the totals section of the estimate.

3(i). In one general instance, in the Private Passenger Automobile line, the Company failed to warrant that non-original equipment (OEM) manufacturer parts are of as like kind, quality, safety, fit and performance as the original equipment manufacturer replacement crash parts, as required by CCR §2695.8(g)(3).

Summary of Company Response to 3(i): The Company recognizes that it did not state a warranty would be provided by the Company on non-OEM parts. The Company is undertaking efforts for the revision of the appraisal report with each vendor to include a statement that the Company agrees to warrant the use of all non-OEM parts in the repair process. The Company respectfully disagrees that this is a general business practice because the Company informed the claimant of the warranty provided by the manufacturer, distributor, and repair facility if the claimant elected to proceed with repairs by the facility of their choice.

In addition, the correspondence to the claimant California Auto Body Consumer Bill of Rights form is being revised to include a statement as follows: ‘Notice: In the event your vehicle is agreed to be repaired, Lincoln General Insurance Company shall warrant that non-original equipment manufacture replacement crash parts are of like kind, quality, safety, fit, and performance as original equipment manufacturer replacement crash parts.’ The Company has not provided the Department with a date when the revisions will be made to the correspondence that accompanies the California Auto Body Consumer Bill of Rights form.

4. In 39 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).

4(a). Specifically, in 26 instances inadequate or missing notes were found in files.

This issue was identified in the prior market conduct exam dated as of October 31, 2002

Summary of Company Response to 6(a): Subsequent to the review period, the Company trained its staff in the proper manner to document claim files with claim information, and the proper means of documenting the receipt of email, faxes, and correspondence. Claim supervisors now conduct monthly file audits to identify any documentation that is in the file that is not properly identified and request the adjuster to properly document the file. Claim files that are not properly documented are downgraded and the handling adjuster is subject to corrective action including training and counseling, up to performance probation and termination if the behavior is not corrected.

4(b). In 13 instances, the Company failed to document how it calculated vehicle registration fee refunds in total loss settlements.

Summary of Company Response to 4(b): The Company agrees that 13 files did not contain documentation to support how the unused license fee refund was calculated.

Going forward the Company will use a private vendor to determine the vehicle license fee refund amount. The statement provided by the vendor will illustrate the calculation of the actual amount of the registration fees attributed to the vehicle license, and the exact amount of refund owed based on information received from the California Department of Motor Vehicles. A copy of this document will be provided to the claimant and retained in the file.

5. In 38 instances, the 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).

5(a). In 20 instances, the Company failed to disclose to first party claimants pertinent benefits, coverage, and policy limits of the medical payments coverage.

Summary of Company Response to 5(a): Currently, the Company's procedure is to advise the insured of the potential availability of medical payments coverage in its Acknowledgement of Claim and Benefits Disclosure Statement. Since coverage amounts vary from policy holder to policy holder, the Company included generic language to the medical payments portion of the disclosure statement that informs the insured that they could be entitled to this coverage. However, they will need to refer to their policy to verify if it applies.

Summary of the Department's Response to the Company Response: The Department maintains that the Company should disclose the benefits, policy provisions and policy limits to injured first party claimants.

This is an unresolved issue and may result in further administrative action.

5(b). In nine instances, the Company failed to disclose to first party claimant's the applicable policy limits of the uninsured motorist bodily injury coverage.

Summary of Company Response to 5(b): As a result of this finding, the Company now sends first party claimants a comprehensive Acknowledgement of Claim and Benefits Disclosure Statement which provides a description of coverage, applicable limits and the relevant statute of limitations. This letter is generated by its clerical department at the time of new loss set-up and sent to every insured.

5(c). In six instances, the Company failed to provide a full disclosure of the transportation expense provisions of the comprehensive coverage.

Summary of Company Response to 5(c): As a result of this finding the Company issued a payment in the amount of \$35.00 to an insured. The Company's Acknowledgement of Claim and Benefits Disclosure Statement sent to every insured now contains a statement that informs the insured of the transportation expense coverage that is available for claims involving the total theft of a vehicle.

5(d). In three instances, the Company failed to disclose the uninsured motorist property damage (UMPD) policy limit to an insured.

Summary of Company Response to 5(d): As a result of this finding, the Company changed its procedure to include the applicable policy limit for UMPD coverage in the Acknowledgement of Claim and Policy Benefit Disclosure Statement it sends to every insured. In addition, it will provide a verbal disclosure of the available policy limits.

6. In 33 instances, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days. The Department alleges these acts are in violation of CCR §2695.7(b).

This issue was identified in the prior market conduct examination dated as of October 31, 2002.

Summary of Company Response: The Company maintains these instances were oversights by the handling adjuster and this is an area of constant reinforcement training to ensure compliance.

Summary of the Department's Response to the Company Response: The Company has not provided corrective remedies. Therefore, this is an unresolved issue and may result in further administrative action.

7. In 27 instances, the Company failed to represent correctly to claimants, pertinent facts or insurance policy provisions relating to a coverage at issue. Specifically, in 16 instances the Company sent an acknowledgement letter to an insured that misrepresented the time limit in which medical expenses have to be incurred in order for medical payments coverage to apply. In five instances, the Company misled an insured by failing to disclose that uninsured motorist coverage applied to a claim. In three instances, the Company cited an incorrect section of California Code of Regulations in its correspondence to an insured. In three instances, the Company sent correspondence that misrepresented pertinent facts regarding the settlement or status of a claim. The Department alleges these acts are in violation of CIC §790.03(h)(1).

Summary of Company Response: The Company is currently in the process of revising all letters used to notify insureds of policy provisions that will apply to their loss. The Company's procedure is to send a letter in conjunction with a verbal discussion of coverage so that the insured has the ability to discuss their coverage if they have any questions after they receive the letter. Adjusters have been directed to note the discussion of coverage and benefits in the file notes. Claim supervisors will review coverage documentation when performing periodic file reviews and will take corrective action to ensure that the adjusters are compliant with this procedure. The Company plans to eliminate this type of error in the future by providing additional training to its adjusters and supervisory oversight. The Company has not provided the Department with a completion date for training.

8. In 25 instances, the Company failed to provide the written basis for the denial of the claim. The Department alleges these acts are in violation of CCR §2695.7(b)(1).

This issue was identified in the prior market conduct exam dated as of October 31, 2002.

Summary of Company Response: This is an area of continued reinforcement training. The Company constantly reinforces the need for compliance with this regulation through file reviews and training.

Summary of the Department's Response to the Company Response: The Company has not provided a resolution beyond that which it was doing prior to this examination. Therefore, this is an unresolved issue and may result in further administrative action.

9. In 24 instances, the Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear. The Department alleges these acts are in violation of CIC §790.03(h)(5).

9(a). Specifically, in 15 instances the Company included in total loss settlements an arbitrary amount when it refunded vehicle license fees, thereby failing to pay an amount that is based upon the remaining term of the current registration, as required by CCR §2695.8(b)(1).

Summary of Company Response to 9(a): On April 17, 2007, the Company secured the services of a vendor to determine the vehicle license fees prior to settlement and will include that amount in the settlement. The vendor calculates the exact amount of refund owed based on information it receives from the California Department of Motor Vehicles. A copy of the vendor's calculation will be retained in the claim file. As a result of this finding the Company issued \$413.34 in payments to its claimants. The Company offered to conduct a survey of all total loss claims settled during the period from September 1, 2004, through September 30, 2007, to determine if any additional payments are owed to claimants. As a result of the survey, the Company issued an additional \$81,277.00 to claimants.

9(b). In two instances, the Company failed to pay an insured's medical expense under the medical payments coverage provisions.

Summary of Company Response to 9(b): As a result of these findings the Company issued reimbursement in the amount of \$1,906.24 to its insureds.

9(c). In one instance, the Company paid an arbitrary amount for settlement of an insured's property damage claim rather than basing the settlement on the cost to replace the missing items.

Summary of Company Response to 9(c): As a result of this finding the Company issued a payment in the amount of \$935.81 to its insured.

9(d). In one instance, the Company failed to follow its own procedure to pay the salvage certificate fee to two claimants in the same loss who retained the total loss salvage vehicles.

Summary of Company Response to 9(d): As a result of this finding the Company issued \$32.00 in payments to claimants.

9(e). In one instance, the Company failed to include payment for a claimant's loss of income when an insured drove his vehicle into the claimant's peach orchard.

Summary of Company Response to 9(e): As a result of this finding, the Company reimbursed the claimant \$3,750.00 for the loss of income resulting from the damaged peach trees.

9(f). In one instance, the Company failed to recognize that Uninsured Motorist Bodily Injury coverage applied to a loss.

Summary of Company Response to 9(f): As a result of this finding the Company issued a \$1,250.00 payment to an insured. The Company is currently working on staffing models to ensure that it is adequately staffed to handle the volume of claims it receives in California. Also, the Company increased the frequency of file reviews by its claim supervisors and included the monitoring of reserves in the file review process. If the reserves on a file indicate that a bodily injury claim is open and the file was assigned to an adjuster with limited experience, the supervisor will assist the adjuster in the handling for training purposes, or reassign the file to a more experienced adjuster. The Company has not provided the Department with a date when it expects to complete the review of its staffing model and when it will implement the changes to its file review process.

9(g). In one instance, the Company failed to pay the cost to replace a claimant's bicycle when an insured motorist hit a bicyclist.

Summary of Company Response to 9(g): As a result of this finding the Company reimbursed the claimant \$235.94 for the cost to replace the bicycle.

9(h). In one instance, the Company failed to reimburse its insured their collision deductible when uninsured motorist coverage applied to a loss.

Summary of Company Response to 9(h): As a result of this finding the Company issued a \$1,000.00 payment to its insured.

9(i). In one general instance in the Private Passenger Automobile line, the Company's automobile policy (form number LGIC 12/04 CA) states the Company will pay a maximum of \$25.00 for tow expense following a covered loss. The Department alleges this policy language is inconsistent with CCR §2695.8(k) and CCR §2695.1(f). The Department alleges this act is in violation of CIC §790.03(h)(5).

Summary of Company Response to 9(i): The Company agrees to revise the specified edition of the Private Passenger Automobile policy to provide payment for reasonable towing expenses. The Company respectfully disagrees that this is a general business practice, as the examiner's observations identified the application of a specific filed version of a policy, which stated a limitation and claims were administered by only one office in contrast to the existing practices for adjusting and paying towing expenses by all Company offices.

The Company agrees not to establish a pre-determined limitation, and will issue payment for towing expenses as considered reasonable on each claim. The Company procedure implemented for all claims offices is to provide payment of full towing charges for “reasonable” towing from the scene of a loss to either the insured’s address or a body shop. The procedure would also cover “reasonable” towing cost from a storage facility to either the insured’s address or a body shop. The Company will not pay for multiple tows to more than one shop, unless the Company requested the additional tows.

10. In 24 instances, the Company failed to begin investigation of the claim within 15 calendar days. The Department alleges these acts are in violation of CCR §2695.5(e)(3).

This issue was identified in the prior market conduct exam dated as of October 31, 2002.

Summary of Company Response: Subsequent to the review period, the Company revised its procedure. Its current procedure requires its adjusters to begin their investigations immediately, but in no event more than 15 days after the loss is reported. Claim supervisors conduct file reviews to confirm adjusters are adhering to Company standards and procedures. When an adjuster is found to be out of compliance, corrective action is taken which includes training and counseling to ensure this procedure is followed.

11. In 23 instances, the Company failed to provide written notice of the need for additional time every 30 calendar days. The Department alleges these acts are in violation of CCR §2695.7(c)(1).

This issue was identified in the prior market conduct exam dated as of October 31, 2002.

Summary of Company Response: As a result of this finding, the Company revised its process to ensure timely compliance with this requirement which includes a system generated diary to alert the adjuster to send the status letter to the appropriate party advising what is needed to bring the file to a resolution. Claim supervisors will conduct comprehensive file reviews to ensure that if a claim is not resolved within 40 days, the adjuster has sent a status letter, and will continue sending status letters every 30 days until the issue is resolved. Training was increased in this area to be sure that adjusters understand this regulation and how it applies to claim handling. The Company believes that the increased effort in this area will prevent this type of error from happening in the future.

12. In 22 instances, the Company failed to notify the insured that the file will be reopened if a comparable automobile cannot be purchased for the amount offered or paid. The Department alleges these acts are in violation of CCR §2695.8(c).

Summary of Company Response: As a result of this finding, the Company revised its total loss letter to include language that informs the insured that if a comparable vehicle cannot be purchased within 35 days of receipt of the letter that the Company will reopen their claim.

13. In 18 instances, the Company failed, upon acceptance of the claim, to tender payment within 30 calendar days. The Department alleges these acts are in violation of CCR §2695.7(h).

This issue was identified in the prior market conduct exam dated as of October 31, 2002.

Summary of Company Response: The Company maintains that these instances were oversights by its adjusters and the issue is an area of constant reinforcement training. As a result of this finding, the Company increased and improved the monitoring of files by its claim supervisors and it believes that claims of this nature will be recognized and handled properly in the future.

14. In 18 instances, the Company failed to acknowledge notice of claim within 15 calendar days. The Department alleges these acts are in violation of CCR §2695.5(e)(1).

This issue was identified in the prior market conduct exam dated as of October 31, 2002.

Summary of Company Response: Subsequent to the review period, the Company revised its procedure and requires its adjusters to acknowledge claims immediately, but in no event more than 15 days after the loss is reported. Claim supervisors conduct file reviews to confirm adjusters are adhering to Company standards and procedures. When an adjuster is found to be out of compliance, corrective action is taken which includes training and counseling to ensure this procedure is followed.

15. In 16 instances, the Company failed to provide written notice of any statute of limitation or other time period requirement not less than 60 days prior to the expiration date. Specifically in 15 instances, the Company failed to send a written statute of limitation notification to claimants. In general, in the Uninsured Motorist Bodily Injury and Uninsured Property Damage categories, the Company failed to provide insureds with a clear and complete notification of the applicable statute of limitations in its correspondence. The Department alleges these acts are in violation of CCR §2695.7(f).

Summary of Company Response: Subsequent to the review period, the Company revised its procedure in regards to how it provides the applicable statute of limitation to insureds and claimants. The applicable statute of limitation is now included in its acknowledgement of claim, denial or closing letters, depending on the circumstances of the loss.

On April 24, 2007, the Company revised the statute language in its Acknowledgement of Claim and Policy Disclosure Statement letter that it sends to all insureds when a claim is set up. The statute language contained in this letter now clearly informs the reader of the applicable statute of limitations pertaining to Uninsured Motorist Bodily Injury claims and Uninsured Motorist Property Damage claims.

16. In 15 instances, the Company failed to respond to communications within 15 calendar days. The Department alleges these acts are in violation of CCR §2695.5(b).

This issue was identified in the prior market conduct exam dated as of October 31, 2002.

Summary of Company Response: The Company maintains that these instances were oversights by its adjusters. The Company's policy is to comply with all applicable requirements

and regulations. Subsequent to the review period, the Company began reinforcement of this policy through ongoing training and file reviews.

17. In 13 instances, the Company attempted to settle a claim by making a settlement offer that was unreasonably low. The Department alleges these acts are in violation of CCR §2695.7(g).

This issue was identified in the prior market conduct examination as of October 31, 2002.

17(a). In six instances, the Company made a total loss offer that was unreasonably low as a result of an inaccurate total loss valuation report.

Summary of Company Response to 17(a): As a result of these findings the Company re-evaluated its total loss settlements and issued payments totaling \$1,241.29 to its insureds. The Company changed its procedure and now uses specialized adjusters to handle claims involving total losses. The Company provided additional training to its staff to develop the skills necessary to adjust claims of this nature. The Company refined its parameters for its total loss valuation vendor, JD Power, so it will no longer provide vehicle evaluation reports containing deductions not authorized by LGIC, and/or that are not fully explained and documented. A completion date for the training has not been provided to the Department.

17(b). In two instances the Company failed to include payment for tow charges in its comprehensive and collision claim settlements.

Summary of Company Response to 17(b): As a result of this finding the Company reimbursed its insureds \$172.30.

17(c). In two instances the Company under-paid subrogation claims made by another carrier.

Summary of Company Response to 17(c): As a result of this finding the Company reimbursed claimants or their carriers \$508.25.

17(d). In one instance, the Company attempted to settle a bodily injury claim for an amount that was less than the Company's agreed settlement value of the claim.

Summary of Company Response to 17(d): The Company maintains that in this instance the handling adjuster did not follow procedure. The Company's procedure at the time was to price a claim using a settlement range. Unless the file documents appropriate reasons, settlement offers should never be lower than the lowest amount of the settlement range. This is an area that is down-graded on an adjuster's end of the year performance evaluation. Continual poor performance in this area may result in a corrective action or possible termination, if the behavior cannot be corrected.

17(e). In one instance the Company settled an insured's Uninsured Motorist Bodily injury claim for an amount that was less than the insured's medical bills, prescription expense, wage loss, and did not include compensation for pain and suffering. In this

situation, an insured was on her way to work when she was rear ended by an uninsured motorist. As a result, the insured went to the hospital where she was examined and prescribed medication. The exam cost \$949 and the cost of the prescription is unknown. She missed some work and sustained a wage loss. The Company did not disclose to the insured that she was entitled to reimbursement for her wage loss, prescription expense, and compensation for pain and suffering. After several months elapsed, the insured contacted the Company to inquire if it would pay for her unpaid medical bill. The Company settled her claim for \$1,000 and noted the file that she will contact the hospital to see if they will reduce her the bill.

Summary of Company Response to 17(e): As a result of the Department's inquiry, the Company completed additional investigation on this claim. It contacted the claimant to learn that all of the out of pocket expenses were paid except for two days of wage loss at \$268. A new offer was made and accepted for \$868.

17(f). In one instance, the Company failed to reimburse an insured for their collision deductible when Uninsured Motorist Property Damage (UMPD) coverage was applicable to the loss.

Summary of Company Response to 17(f): The Company is unable to determine if its investigation was sufficient to determine if UMPD coverage would have applied in this instance. The trigger for the UMPD is dictated by the language contained in the policy. It states that the tortfeasor or their vehicle must be identified and deemed uninsured for UMPD to apply. Since the Company is unable to determine if this was done in this instance, it agreed to reimburse its insured their \$500.00 deductible.

18. In 13 instances, the Company failed to explain in writing the determination of the cost of a comparable vehicle. The Department alleges these acts are in violation of CCR §2695.8(b)(3).

Summary of Company Response: Subsequent to the review period, the Company changed its process and now uses specialized adjusters who handle total loss claims. It increased its training to include proper documentation that must be provided to an insured when the vehicle evaluation is done by a vendor.

19. In 11 instances, the 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).

Summary of Company Response: As a result of this finding, the Company revised its procedure and no longer relies on field appraisers to provide copies of the estimate to the claimant. The revised procedure requires the assigned adjuster to provide a copy of the estimate to the claimant and document the claim file how it was transmitted or sent. The procedure will be monitored by claim supervisors when file reviews are conducted.

20. In nine instances, the Company failed to conduct and pursue a thorough, fair and objective investigation of a claim or it persisted in seeking information not reasonably

required for or material to the resolution of a claim dispute. The Department alleges these acts are in violation of CCR §2695.7(d).

20(a). In six instances, the Company failed to conduct timely investigations of issues to move a claim to a prompt conclusion.

Summary of Company Response to 20(a): In instances in which there were delays in contacting claimants, the Company agrees that more than one attempt to contact the claimant should be made. Subsequent to the review period, the Company revised its procedure and it now requires its adjusters to set a 10 business day diary after the initial contact attempt. If there is no response after 10 business days, the adjuster is to send a second acknowledgement letter and attempt to contact the party by phone again. If this attempt is not successful, the adjuster is to set another 10 day diary for follow up.

20(b). In two instances the Company delayed settlement of a total loss by requiring the claimant to provide unnecessary documentation.

Summary of Company Response to 20(b): The Company agrees with the Department's findings in these instances and maintains that oversights were made by the handling adjusters. As a result of this finding, the Company provided training to its staff on August 6, 2007, on what is considered to be reasonable proof of claim and documentation of claimed damages.

20(c). In one instance, the Company delayed payment of a carrier's subrogation claim by requiring the carrier to provide unnecessary documentation.

Summary of Company Response to 20(c): The Company agrees with the Department's findings in this instance and maintains that an oversight was made by the handling adjuster. As a result of this finding, the Company provided training to its staff on August 6, 2007, on what is considered to be reasonable proof of claim and documentation of claimed damages.

21. In nine 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, or it failed to include in the settlement all applicable taxes and one-time fees incident to the transfer of ownership The Department alleges these acts are in violation of CCR §2695.8(b)(1).

This issue was identified in the prior market conduct exam dated as of October 31, 2002.

21(a). In seven 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.

Summary of Company Response to 21(a): As a result of this finding, the Company issued \$198.25 in payments to its insureds. In the future, the Company will use a private vendor to determine vehicle license fees prior to settlement and include that amount with the settlement. The information provided by the vendor will be a calculation of the actual amount of the registration fee attributed to the vehicle license fee

and of the exact amount of refund owed based on information received from the California Department of Motor Vehicles. This information will be provided to the insured and a copy will be retained in the claim file.

21(b). In one instance, the Company did not pay the unused license fees at the time the total loss settlement was made. Instead, it waited until it received reimbursement from the Department of Motor Vehicles for the unused license fees before it reimbursed the insured.

Summary of Company Response to 21(b): In this instance, the Company inadvertently failed to include payment for the unused license fees in the total loss settlement payment. The Company's procedure is to pay the unused license fees directly to the insured at the time of settlement.

21(c). In one instance the Company failed to include sales tax and unused license fees in the total loss settlement.

Summary of Company Response to 21(c): The Company maintains that since the insured vehicle was a total loss in a prior accident, the insured was paid for the full value of the vehicle in that loss. During the review period, the insured's vehicle was involved in a second accident and was consequently determined to be a total loss. The Company states the insured is only entitled to 50% of the vehicle value because the insured was paid the vehicle value in the first claim. The Company offered \$2,000.00 which it calculated to be 50% of \$4,025.00 (a value obtained from a valuation guidebook). The \$2,000.00 settlement included full consideration for sales tax and all fees.

Summary of the Department's Response to the Company Response: The Department maintains that the Company did not include in the settlement, unused license fees and other fees, all taxes, and one-time fees incident to the transfer of ownership. Therefore, this is an unresolved issue and may result in further administrative action.

22. In eight instances, the Company failed to provide written notification to a first party claimant of its decision to discontinue subrogation, or it failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation. The Department alleges these acts are in violation of CCR §2695.7(p).

22(a). In six instances, the Company failed to provide written notification to a first party claimant of its decision to discontinue subrogation.

Summary of Company Response to 22(a): Subsequent to the review period, the Company began reinforcing this requirement during its annual training and monthly file reviews performed by its claim supervisors. The Company believes this will ensure that adjusters are sending notification that subrogation was abandoned.

22(b). In two instances, the Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation.

Summary of Company Response to 22(b): Subsequent to the review period, the Company began reinforcing this requirement during its annual training and monthly file reviews performed by its claim supervisors. The Company believes this will ensure that adjusters are sending notification that subrogation will be pursued.

23. In eight instances, the Company failed to document the basis of betterment, depreciation, or salvage. The basis for any adjustment shall be fully explained to the claimant in writing. The Department alleges these acts are in violation of CCR §2695.8(i).

Summary of Company Response: The Company previously misinterpreted the regulations by assuming that a verbal explanation of the basis for the betterment reduction noted in its estimates was acceptable. On February 12, 2008, the Company altered its process to include language in a letter it sends with the repair estimate advising when depreciation was taken on any parts in the estimate. In support of the depreciation, the letter provides a description of the part, specifies the age or mileage and the average useful life of the part. Also, the Company worked with its appraisal vendor to add similar language in the comments section of the appraisal.

24. In seven instances, the Company failed to advise the insured that filing a salvage retention notice may affect future resale and/or insured value of a vehicle, or it failed to inform the claimant of his or her right to seek a refund of the unused vehicle fees from the Department of Motor Vehicles, or it failed to include, in the settlement, all applicable taxes and fees incident to transfer of the claimant's vehicle to salvage status. The Department alleges these acts are in violation of CCR §2695.8(b)(1)(A).

24(a). In three instances, the Company failed to advise the insured that filing a salvage retention notice may affect future resale and/or insured value of a vehicle.

Summary of Company Response to 24(a): Subsequent to the review period, the Company implemented a salvage processing unit which sends a letter to owners of all total losses advising that the salvage retention notice filed with the California Department of Motor Vehicles might affect future resale and/or insured value of their vehicle.

24(b). In two instances, the Company failed to inform the claimant of his or her right to seek a refund of the unused vehicle fees from the Department of Motor Vehicles.

Summary of Company Response to 24(b): It is the Company's standard practice and procedure to advise its insureds of this information; however, the adjusters sent in error an incorrect form letter which did not contain this information. As a result of this finding, the Company notified these two insureds of their right to seek a refund of the unused vehicle registration fees from the Department of Motor Vehicles.

24(c). In one instance, the Company failed to include, in the settlement, the applicable fees required to transfer a vehicle to salvage status.

Summary of Company Response to 24(c): As a result of this finding the Company reimbursed its insured \$16.00. Subsequent to the review period, the Company changed its process and now uses specialized adjusters who handle total loss claims. The

total loss adjusters received additional training pertaining to claims of this nature. The Company has not provided the Department with a date when it completed its training.

24(d). In one instance, the Company failed to include, in the settlement, the correct amount for fees required to transfer a vehicle to salvage status.

Summary of Company Response to 24(d): To the best of the Company's knowledge, the salvage certificate fee as prescribed by the California Department of Motor Vehicles, on the date of loss was still \$15.00. It was aware that the fee went up to \$16 in 2006 and is currently \$17. The Company's process is to review the California Department Motor Vehicle (DMV) website periodically to ensure it is using the correct and most current DMV fees. As a result of this finding the Company issued reimbursement for \$1.00 to its insured.

25. In seven instances, the Company required the use of non-original equipment manufacturer (OEM) replacement crash parts without the use of such parts disclosed in accordance with §9875 of the California Business and Professions Code. The Department alleges these acts are in violation of CCR §2695.8(g)(5).

Summary of Company Response: The Company's current procedure is to provide every claimant with a copy of a detailed repair estimate that identifies all non-OEM parts used in the repair process. As a result of this finding, the Company revised the format of its repair estimates by adding a disclosure that complies with §9875 of the California Business and Professions Code.

26. In six instances, the Company failed to record the date the Company received, date the Company processed and date the Company transmitted or mailed every relevant document in the file. Specifically, in four instances the Company failed to record the date relevant correspondence was received and processed. In two instances, the Company failed to record the date a police report was received from a vendor. The Department alleges these acts are in violation of CCR §2695.3(b)(2).

Summary of Company Response: As a result of this finding, the Company hired additional clerical staff and increased its training to emphasize the need for accuracy when documenting the date and time documents are received. The Company will implement a new procedure in regards to correspondence to date and time stamp the face of all correspondence received, with the exception of certain legal documents that cannot be changed or altered. When police reports are received via email the Company will print a copy of the cover email to document when the report was received. The Company has not provided a date when it will implement its new procedures.

27. In five instances, the Company failed to include a statement in its 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).

This issue was identified in the prior market conduct exam dated as of October 31, 2002.

Summary of Company Response: The Company agrees to revise its letters to include the necessary language in all denials, whether partial or full. It also increased the frequency and depth of its claim file reviews that are conducted by claim supervisors. The Company believes that these actions will prevent this type of error in the future.

28. In four instances, the Company improperly required an insured to give notification of a claim or proof of claim within a specified time. The Department alleges these acts are in violation of CCR §2695.4(d).

Summary of Company Response: The Company agrees that its adjusters sent the insureds incorrect letters. Subsequent to the review period, the Company provided training to its adjusters in the proper handling of claims of this nature. It developed letters that its adjusters can use to notify the insured of the need to provide proof of claim without a time limitation. The Company believes its continued training and development of proper tools will prevent this from happening in the future.

29. In three instances, the Company failed to document the basis of betterment, depreciation, or salvage. The basis for any adjustment shall reflect a measurable difference in market value attributable to the condition, age of the vehicle, and apply only to parts normally subject to repair and replacement. Specifically, the Company failed to document the basis of an adjustment for betterment when it estimated the cost to repair an insured vehicle. The Department alleges these acts are in violation of CCR §2695.8(i)(1)(2).

Summary of Company Response: As a result of this finding, the Company issued \$64.41 in payments to its insureds. On February 12, 2008, the Company altered its process to include language in a letter it sends with the repair estimate advising when depreciation is taken on any parts in the estimate. In support of the depreciation, the letter provides a description of the part, specifies the age or mileage and the average useful life of the part. Also, the Company worked with its appraisal vendor to add similar language in the comments section of the appraisal.

30. In three instances, the Company mislead a claimant as to the applicable statute of limitations. Specifically, in three instances the Company misinformed an insured that a statute of limitation applied to a first party physical damage claim. The Department alleges these acts are in violation of CIC §790.03(h)(15).

Summary of Company Response: The Company agrees that it sent statute letters to the insured when a statute of limitation did not apply to first party physical damage claims. The Company's prior management incorrectly believed that the notification of the Bodily Injury and Property Damage statute of limitations had to be provided to all parties on a loss. As a result of this finding, the Company corrected this procedure and statute notifications are sent only on claims when warranted.

31. In three instances, the Company failed to document the determination of value. Any adjustments from the cost of a comparable automobile must be discernible, measurable, itemized, specified, and appropriate in dollar amount. Specifically in three instances, the Company reduced the total loss settlement value of claims by applying

unsupported deductions for “ad age” and depreciation to vehicle values. The Department alleges these acts are in violation of CCR §2695.8(b)(2).

Summary of Company Response: As a result of this finding, the Company issued \$234.77 in payments to its insureds. The Company refined the parameters for its total loss valuation vendor, JD Power, so that vehicle evaluations contain neither deductions not authorized by the Company nor deductions not fully explained and documented. The Company offered to conduct a survey of all total loss settlements that were based on a JD Power valuation report to determine if an adjustment was applied to the vehicle’s value and to refund the difference to the respective claimants. As a result of the survey, the Company refunded \$101,844.00 to claimants.

32. In two instance, the Company failed to maintain a copy of the certification required by §2695.6(b)(1), (2) or (3) at the principal place of business. The Department alleges this act is a violation of CCR §2695.6(b)(4).

Summary of Company Response: The Company erroneously interpreted the statute to mean that it would provide confirmation of the certification of its claim adjusters when the Department of Insurance inquired about certification. Thus, the Company did not maintain the annual certification as required by subsection 2695.6(b)(4) for the years 2004 and 2005. The Company on a going forth basis, will maintain a copy of the certification required by sections 2695.6(b)(1),(2) or (3) at the principal place of business.

33. In general, the Company failed to maintain claim data that is accessible, legible and retrievable for examination. Specifically, in the Private Passenger Automobile category, the Company failed to provide the Department with an accurate listing of its Private Passenger Automobile claims for the review period. The Company provided a list to the Department containing 28 claims that were miscoded by line of coverage. The Department alleges this act is in violation of CCR §2695.3(b)(1).

Summary of Company Response: The Company agrees that 28 claims were coded incorrectly. The Company explained that the errors resulted from several factors including incorrect coding at set-up and the Company providing the Department with incorrect descriptions of some coverage coding information for claim files being examined. Additional emphasis has been communicated to the Company clerical and technical staff to continually review data quality for completeness and accuracy.

34. In one instance, the Company’s claims agent failed to immediately transmit notice of claim to the insurer. The Department alleges this act is in violation of CCR §2695.5(d).

Summary of Company Response: The Company maintains it provides continuous education to its brokers regarding the importance of promptly notifying the Company of any and all losses.

Summary of the Department’s Response to the Company Response: The Company has not provided a remedial action plan to the Department. Therefore, this is an unresolved issue and may result in further administrative action.

35. In one instance, the Company failed to document and to fully explain the cost of a comparable automobile. The Company failed to provide a first party claimant with a copy of the total loss valuation report documenting the cost of a comparable vehicle. The Department alleges this act is in violation of CCR §2695.8(b)(3)(D).

Summary of Company Response: The Company agrees that the file did not contain documentation whether or not the insured was provided a copy of the vehicle evaluation report. The Company will contact the insured to determine if a copy was provided, if not, the Company will provide a copy to the insured.

36. In one instance, the Company failed to provide reasonable notice to a claimant before terminating payment for storage charges. The Department alleges this act is in violation of CCR §2695.8(j).

Summary of Company Response: The Company agrees that it did not provide reasonable notice to its insured prior to terminating payment for storage charges. As a result of this finding the Company reimbursed the insured \$425.00.

COMMERCIAL AUTOMOBILE

37. In 23 instances, the Company failed to provide necessary forms, instructions, and reasonable assistance within 15 calendar days. The Department alleges these acts are in violation of CCR §2695.5(e)(2).

Summary of Company Response: It is the Company's practice to provide the necessary assistance to all claimants to make a claim. Mandatory diaries were implemented for its claims staff and training provided to all adjusters on California compliance requirements. The Company has not provided the Department with the date it completed its training.

38. In 17 instances, the Company failed, upon receiving proof of claim, to accept or deny a claim within 40 calendar days. The Department alleges these acts are in violation of CCR §2695.7(b).

Summary of Company Response: The Company agrees that in these instances the claim was not accepted or rejected within 40 days of receipt of the claim. As a result of this finding, the Company revised its procedure and now requires that all claims be accepted or rejected within 40 days of receipt. The Company provided training to its staff in regards to the proper handling of claims within the California Department of Insurance guidelines. Supervisors are now required to review files randomly to ensure that regulatory guidelines are followed. The Company has not provided the Department with the completion date for its training and when it implemented its procedural changes.

39. In 15 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).

39(a). Specifically in six instances, the Company failed to conduct a prompt or reasonable investigation of a claim.

Summary of Company Response to 39(a): As a result of this finding, the Company implemented and re-iterated timely diary requirements for its adjusters. Also, claim supervisors are required to review the claim within 45 days of the adjuster's receipt of a new claim. Additionally, claim data reports are now provided to adjusters, supervisors and managers to identify claims that do not appear to be actively investigated and to be moving towards a resolution. The Company has not provided the Department with a date when the procedure was implemented.

39(b). In three instances, the Company failed to use reasonable standards to promptly set-up and process new claims.

Summary of Company Response to 39(b): The Company agrees that in these instances it failed to promptly set-up and assign new claims to its adjusters. The Company's normal procedure is to assign new losses to adjusters immediately upon receiving the new claim. As a result of this finding, the Company added staff and instructed its clerical supervisors to assist the Claim Operations Manager with the review of claims intake and monitor claims set-ups to ensure they are assigned to adjusters timely. To ensure that this does not happen again, the clerical supervisors will review all new assignments on a daily basis.

39(c). In two instances, the Company failed to implement reasonable standards for the direction and supervision of a claim investigation.

Summary of Company Response to 39(c): The Company instructed all adjusters to complete thorough, timely investigations and to properly document the resolution of all claims in the file. Also, mandatory diaries for adjusters have been implemented for no greater timeframe than every 30 days. Supervisors are required to review files for follow-up no later than 45 days following receipt of the claim. The Company has not provided the Department with a date when it implemented these procedural changes.

39(d). In two instances, the Company failed to implement reasonable standards for inspecting vehicles promptly.

Summary of Company Response to 39(d): The Company terminated the claims handling authority of underperforming third party administrators.

39(e). In one instance, the Company failed to follow its own procedure in determining whether a vehicle was a total loss or repairable.

Summary of Company Response to 39(e): The Company terminated the claims handling authority of underperforming third party administrators.

39(f). In general in the Commercial Automobile line, the Company failed to warrant its use of non-original equipment manufacturer (OEM) parts are of like kind, quality, safety,

fit and performance as the original equipment manufacturer replacement crash parts in accordance to CCR §2695.8(g)(3).

Summary of Company Response to 39(f): The Company recognizes that it did not state a warranty would be provided by the Company on non-OEM parts. The Company is undertaking efforts for the revision of the appraisal report with each vendor to include a statement that the Company agrees to warrant the use of all non-OEM parts in the repair process. The Company respectfully disagrees that this is a general business practice, as the Company informed the claimant of the warranty availability that would be provided by the manufacturer, distributor, and repair facility if the claimant elected to proceed with repairs by the facility of their choice.

In addition to undertaking efforts for revision of the appraisal report with each vendor, the correspondence to the claimant that accompanies the California Auto Body Consumer Bill of Rights form is being revised to include a statement as follows: “Notice: In the event your vehicle is agreed to be repaired, Lincoln General Insurance Company shall warrant that non-original equipment manufacture replacement crash parts are of like kind, quality, safety, fit, and performance as original equipment manufacturer replacement crash parts.”

40. In 12 instances, the 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).

Summary of Company Response: The Company provided additional training to its adjusters handling California claims in order to assure that it is in compliance with the regulations. Areas of training included regulatory timeline requirements and disclosure of policy benefits. The Company has not provided the Department with a completion date for the additional training it provided to its adjusters.

41. In nine instances, the Company failed to provide the written basis for the denial of the claim. The Department alleges these acts are in violation of CCR §2695.7(b)(1).

Summary of Company Response: The Company is continuing to review the form, format, and content of its regulatory form letters. The Company will reinforce adherence to its compliance standards through Quality Assessment Reviews. Additional training that will address the content of denial letters will be provided to its staff. As a result of this finding, the Company now employs a full-time Coverage Coordinator and terminated the claims handling authority of its under-performing third party administrators. The Company has not provided the Department with a completion date for the training it provided to its staff and when it began employment of the Coverage Coordinator.

42. In eight instances, the Company failed to acknowledge notice of claim within 15 calendar days. The Department alleges these acts are in violation of CCR §2695.5(e)(1).

Summary of Company Response: The Company provided additional training to its adjusters handling California claims in order to insure that they are in compliance with the regulations. Areas of training included regulatory timeline requirements and disclosure of policy

benefits. The Company has not provided the Department with a completion date for the training it provided to its adjusters.

43. In seven instances, the Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear. The Department alleges these acts are in violation of CIC §790.03(h)(5).

43(a). In two instances, the Company failed to waive a comprehensive deductible for claims resulting from fire when the policy provisions state no deductible would apply to losses caused by fire.

Summary of Company Response to 43(a): As a result of this finding, the Company refunded \$2,000.00 to its insureds. Also, the Company offered to conduct a survey of all comprehensive fire claims that were settled from September 1, 2004 through September 30, 2007, to ensure the waiver of deductible provision was applied. As a result of the survey, the Company refunded \$33,500.00 to its insureds.

43(b). In one instance, the Company failed to pay loss of use and administrative fees for a claim involving a damaged rental car.

Summary of Company Response to 43(b): The Company agrees that in third party claims, loss of use and administrative charges for claims involving damage to a rental car are not excluded under the policy. As a result of this finding, the Company reimbursed a claimant \$259.96.

43(c). In one instance, the Company did not attempt in good faith to effectuate an equitable settlement of a claim in which liability was reasonably clear. Specifically in this situation, the insured agreed to tow a claimant's vehicle to a repair shop to have brake and clutch repairs performed. The tow truck driver released the claimant's vehicle from the tow hitch, he walked away, and the car rolled down a hill and collided with two parked cars. In the course of the Company's investigation, statements were obtained from the claimant and the mechanic at the shop. The claimant testified that he informed the tow company of the brake and clutch issues when he contacted the tow company for its services. The mechanic testified that when the tow truck driver released the claimant's vehicle from the tow hitch, the driver failed to properly secure the vehicle from rolling down the hill. The Company paid to repair the two parked vehicles but denied payment for the damage to claimant vehicle. The Company based its denial on the insured's allegation that the claimant failed to inform the tow truck driver of the vehicle's brake and clutch problems.

Summary of Company Response to 43(c): The Company will reinforce to its staff the need to conduct a thorough investigation before making a liability decision. It agrees that it failed to obtain a statement from the tow truck driver or obtain a copy of the tow bill which is routine procedure when investigating claims such as this.

As a result of the Department's inquiry, the Company offered to reopen its file to determine if any additional investigation could be conducted. The Company reviewed

the existing documents in the file and concluded that its insured was not liable for the damage to the claimant's vehicle.

Summary of the Department's Response to the Company Response: The Company failed to consider the testimony of the claimant and mechanic when it determined liability. In addition, the Company accepted liability by its insured for the parked and unattended vehicle damage but ignored the same logic when setting the claimant's damages. The Department maintains that the Company shall consider all evidence in its investigation prior to making a determination of fault.

Therefore, this is an unresolved issue and may result in further administrative action.

43(d). In one instance, the Company failed to pay storage charges for a claimant's vehicle when liability was reasonably clear.

Summary of Company Response to 43(d): As a result of this finding the Company reimbursed the claimant \$400.00.

43(e). In one instance, the Company failed to reimburse the insured for a shipping cost associated with the claim by claiming that the insured did not provide an invoice when one was provided and found to be in the Company's possession.

Summary of Company Response to 43(e): As a result of this finding the Company reimbursed the insured \$110.08.

43(f). In one instance, the Company failed to include the cost of a salvage certificate in a third party total loss settlement.

Summary of Company Response to 43(f): The Company agrees with this finding and maintains that an oversight occurred by its adjuster. As a result of this finding, the Company reimbursed the claimant \$31.00 for the salvage certificate fee.

44. In seven instances, the Company failed to begin investigation of the claim within 15 calendar days. The Department alleges these acts are in violation of CCR §2695.5(e)(3).

Summary of Company Response: The Company has instructed all its adjusters to commence a full investigation timely and to properly document the resolution of all claims. Also it implemented mandatory diaries and provided training to all adjusters on California compliance requirements. The Company has not provided the Department with a completion date for the training it provided to its adjusters.

45. In seven instances, the Company failed to provide written notice of the need for additional time every 30 calendar days. The Department alleges these acts are in violation of CCR §2695.7(c)(1).

Summary of Company Response: Although a completion date has not been provided, the Company provided additional training to its adjusters handling California claims in order to

insure that they are in compliance with the regulations. Areas of training included regulatory timeline requirements and disclosure of policy benefits.

46. In seven instances, the Company failed to provide written notice of any statute of limitation or other time period requirement not less than 60 days prior to the expiration date. The Department alleges these acts are in violation of CCR §2695.7(f).

Summary of Company Response: The Company provided additional training to its adjusters handling California claims in order to insure that it is in compliance with the regulations. Areas of training included regulatory timeline requirements and disclosure of policy benefits. The Company has not provided the Department with a completion date for the training it provided to its adjusters.

47. In six 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).

47(a). In five instances, the Company failed to document how it calculated registration fee refunds on total loss settlements.

Summary of Company response to 47(a): The Company secured a vendor to calculate private passenger vehicles license fee refund's and is actively pursuing a partnership with a vendor that is proficient in the calculation of commercial vehicle license fees. The Company will retain a copy of the vendor's calculations in its claim file. The Company will reinforce compliance through quality assessment reviews and will provide additional training to its staff that will include the requirements of calculating unused registration fee refunds and necessary file documentation. The Company has not provided the Department with its anticipated date of when it will secure an additional vendor to calculate commercial license fee refunds, when it will complete its quality assessment review, or the completion date for training.

47(b). In one instance, the Company failed to retain copies of the settlement checks it issued to an insured.

Summary of Company response to 47(b): The Company cannot explain why copies of the checks are not in the file. It is the Company's practice to attach copies of all checks to its files. The Company provided a word document showing the disbursements were issued.

48. In six instances, the Company failed to record the date the Company received, date the Company processed and date the Company transmitted or mailed every relevant document in the file. The Department alleges these acts are in violation of CCR §2695.3(b)(2).

Summary of Company Response: The Company implemented date stamping requirements for all documents. The Company provided training to all clerical staff and adjusters in regards to recording the date documents are received. The Company has not provided the Department with the date the training was completed.

49. In six instances, the Company failed to conduct and pursue a thorough, fair and objective investigation of a claim, or it persisted in seeking information not reasonably required for or material to the resolution of a claim dispute. The Department alleges these acts are in violation of CCR §2695.7(d).

49(a). In three instances, the Company failed to obtain statements from all interested and non-interested parties to a loss.

Summary of Company Response to 49(a): The Company will reinforce adherence to its compliance standards through quality assessment reviews and additional training for its staff that will include how to determine what information is necessary in an investigation and how to move a claim towards resolution. The Company has not provided the Department with its anticipated completion date for training.

49(b). In one instance, the Company delayed settlement of a claim when it failed to follow up with interested parties for proof of loss in a timely manner.

Summary of Company Response to 49(b): The Company will reinforce adherence to its compliance standards through quality assessment reviews and additional training for its staff that will include how to determine what information is necessary in an investigation and how to move a claim towards resolution. The Company has not provided the Department with its anticipated completion date for training.

49(c). In one instance, the Company required an insured to have a proof of loss form notarized before it would settle a collision claim.

Summary of Company Response to 49(c): As a result of this finding, the Company reimbursed its insured \$10.00.

49(d). In one instance, the Company required a claimant to provide auto insurance information for subrogation purposes without proof that the claimant was at fault for the loss.

Summary of Company Response to 49(d): The Company will discuss with its staff the importance of not persisting in requesting insurance information from claimants without proof they are liable for the loss.

50. In six instances, the Company failed to inform the claimant of his or her right to seek a refund of the unused vehicle fees from the Department of Motor Vehicles, or it failed to advise the insured that filing a salvage retention notice may affect future resale and/or insured value of a vehicle, or it failed to disclose in writing to the insured that a notice of salvage retention must be provided to the California Department of Motor Vehicles, or it failed to include, in the settlement, all applicable taxes and fees incident to transfer of the claimant's vehicle to salvage status. The Department alleges these acts are in violation of CCR §2695.8(b)(1)(A).

50(a). In two instances, the Company failed to inform the claimant of his or her right to seek a refund of the unused vehicle fees from the Department of Motor Vehicles.

Summary of Company Response to 50(a): The Company is reviewing the form, format and content of the form letters and forms required by the California regulations. The Company will reinforce adherence to the regulations through quality assessment reviews and additional training that will include the requirements of disclosing to first party owners retaining total losses the necessary information of sales tax and salvage certificate fees. The Company has not provided the Department with a completion date for the correspondence review, quality assessment review and training.

50(b). In two instances, the Company failed to advise the insured that filing a salvage retention notice may affect future resale and/or insured value of a vehicle.

Summary of Company Response to 50(b): The Company is reviewing the form, format and content of the form letters and forms required by the California regulations. The Company will reinforce adherence to the regulations through quality assessment reviews and additional training that will include the requirements of disclosing to first party owners retaining total losses the necessary information of sales tax and salvage certificate fees. The Company has not provided the Department with a completion date for the correspondence review, quality assessment review and training.

50(c). In one instance, the Company failed to disclose in writing to the insured that a notice of salvage retention must be provided to the California Department of Motor Vehicles.

Summary of Company Response to 50(c): The Company's procedure is to verbally inform any party retaining a total loss vehicle of this requirement and note the file when it was done.

Summary of the Department's Response to the Company Response: The Company has not provided the Department with a plan for its remedial action. Therefore, this is an unresolved issue and may result in further administrative action.

50(d). In one instance, the Company failed to include, in the settlement, all applicable taxes and fees incident to transfer of the claimant's vehicle to salvage status.

Summary of Company Response to 50(d): The Company agrees that its settlement did not include the salvage title fee owed to the insured. A payment of \$16.00 was issued to the insured as a result of this finding. The Company's regular procedure for settlement of a total loss vehicle normally includes the fees owed for a salvage certificate. However, Company procedure was not followed in this instance.

51. In four instances, the Company failed to respond to communications within 15 calendar days. Specifically in three instances, the Company failed to respond to a legal representative's request for a statement of the insured's coverage. In one instance, the Company failed to respond to an insured's legal representative's request for copies of the insured's vehicle inspection and statement. The Department alleges these acts are in violation of CCR §2695.5(b).

Summary of Company Response: The Company completed additional training for all adjusters handling California claims to insure compliance with all the appropriate regulations, however a completion date has not been provided to the Department.

52. In four instances, the 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).

Summary of Company Response: The Company agrees that in these instances it failed to provide the claimant with a copy of the repair estimate. It is the Company's practice to make sure the claimant always gets a copy of their repair estimate. It instructs all appraisers to provide a copy of the estimate to the owner of the vehicle, and the shop that was selected to complete the repairs. Also, when supervisors review files they confirm that a copy of the appraisal has been sent to the interested parties. As a result of this finding, the Company will remind adjusters to make sure all claimants receive a copy of the appraisal and to document this in the claim file.

53. In three instances, the Company's claims agent failed to immediately transmit notice of claim to the insurer. The Department alleges these acts are in violation of CCR §2695.5(d).

Summary of Company Response: The Company will continue the current practice of providing clear and concise claim reporting instructions to agents and will reinforce adherence to compliance standards during Company audits.

54. In three instances, the Company failed to notify the insured that the file will be reopened if a comparable automobile cannot be purchased for the amount offered or paid. The Department alleges these acts are in violation of CCR §2695.8(c).

Summary of Company Response: The Company trained its adjusters with regard to this requirement and has added language to its total loss correspondence which notifies the insured that the file will be reopened if a comparable automobile cannot be purchased for the amount of the settlement. The Company has not provided the Department with a completion date for the training it provided.

55. In three instances, the Company failed to document the basis of betterment, depreciation, or salvage. The basis for any adjustment shall be fully explained to the claimant in writing. Specifically in three instances, the Company failed to provide claimants with a written explanation of adjustments for betterment and depreciation. The Department alleges these acts are in violation of CCR §2695.8(i).

Summary of Company Response: The Company is providing training to its staff regarding the explanation of depreciation to include the affecting factors of decay, corrosion, metal fatigue, chemical change, and simple wear and tear. The Company believes from its discussions with the Department and research that the details necessary for application of depreciation is to determine: the useful life expectancy from the manufacturer or industry of each component, the age of the component, the consideration of normal or abnormal condition of the component, and the reasonable deduction of the depreciation from the replacement cost to arrive

at the actual cash value. The basis of depreciation and calculations are to be provided on all estimates for each component.

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

56(a). In one instance, the Company misinformed an insured by stating a deductible applied to a loss caused by fire when policy provisions waived the deductible.

Summary of Company Response to 56(a): The Company agrees it failed to waive deductibles on claims that resulted from fire. The Company offered to perform a survey of all fire claims settled during the period from September 1, 2004, through September 30, 2007, to determine if additional refunds are owed to its insureds. The results of this survey are described in summary number 43(a) above.

56(b). In one instance, the Company misinformed an insured by stating their policy contained a three year time limit to complete a collision claim when there was no limit stated in the policy.

Summary of Company Response to 56(b): As a result of this finding, the Company removed the statute language from its insured acknowledgment letter to avoid any confusion by the insured.

57. In two instances, the Company attempted to settle a claim by making a settlement offer that was unreasonably low. The Department alleges these acts are in violation of CCR §2695.7(g).

57(a). In one instance, the Company attempted to settle a Bodily Injury claim for an amount that was substantially lower than the Company's settlement range of value.

Summary of Company Response to 57(a): The Company acknowledges that it attempted to settle a Bodily Injury claim for an amount that was below its expected settlement range.

Summary of the Department's Response to the Company Response: The Company has not provided the Department with a plan for its remedial action. Therefore, this is an unresolved issue and may result in further administrative action.

57(b). In one instance, the Company reduced the amount of an insured's property damage claim by applying unsupported deductions in the amount of \$6,297.90 for "upgrading/wear" to the actual cost of repair. An internal report from the appraiser to the Company stated that the \$6,297.90 reduction for "upgrade/wear" was part of an effort to save the Company money on their claim cost.

Summary of Company Response to 57(b): The statement contained in the appraiser's report was in reference to the appraiser reducing his charge to complete the appraisal by not doing a line item schedule of depreciation. The Company believes the

insured and adjuster arrived at a mutual agreement on the actual cash value of the claim. The Company agrees that the basis and amount of depreciation were not clearly detailed and documented to support the amount it deducted. As a result of this finding, the Company refunded \$6,297.90 to its insured.

58. In two instances, the Company failed, upon acceptance of the claim, to tender payment within 30 calendar days. Specifically in one instance, the Company failed to tender payment within 30 days of the inspection of a claimant's vehicle. In the other instance, the Company failed to tender payment within 30 days of receipt of an insured's medical bill. The Department alleges these acts are in violation of CCR §2695.7(h).

Summary of Company Response: The Company will reinforce adherence to compliance standards through analysis of a quality assessment reviews and additional training for its staff. Quality assessment reviews will be conducted and analyzed monthly. Additional training was provided to its staff on May 19, 2008.

59. In two instances, the Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation. The Department alleges these acts are in violation of CCR §2695.7(p).

Summary of Company Response: The Company could not find evidence in its files that it notified the insured of its intent to pursue subrogation in these instances. The Company's practice is to send a written notification to the insured when it intends to pursue subrogation.

Summary of the Department's Response to the Company Response: The Company has not provided the Department with a plan for its remedial action. Therefore, this is an unresolved issue and may result in further administrative action.

60. In two instances, the Company failed to include in the settlement all applicable taxes and one-time fees incident to the transfer of ownership, or it failed to include, in the settlement, the license fee and other annual fees computed based upon the remaining term of the registration. The Department alleges these acts are in violation of CCR §2695.8(b)(1).

60(a). In one instance, the Company failed to include payment for a title transfer fee and sales tax in an insured's total loss settlement.

Summary of Company Response to 60(a): The Company agrees that it made an oversight when it failed to include the title transfer fee and sales tax in the total loss settlement. The Company issued \$798.75 in payments to its insured as a result of this finding. Although it was missed in this instance, the Company's normal procedure for settlement of an insured's total loss vehicle does include fees owed for transferring the title of a vehicle.

60(b). In one instance, the Company failed to include unused registration fees in an insured's total loss settlement.

Summary of Company Response 60(b): The Company agrees that it failed to include the unused registration fees in the insured's settlement amount. As a result of this finding the Company issued a \$179.90 payment to its insured.

61. In two instances, the Company failed to explain in writing the determination of the cost of a comparable vehicle. The Department alleges these acts are in violation of CCR §2695.8(b)(3).

Summary of Company Response: The Company was unaware that a letter explaining how the Company determined the cost of a comparable vehicle was required. The Company has since changed its procedure and a letter outlining its settlement offer is sent on all claims involving a total loss.

62. In general, the Company failed to maintain claim data that are accessible, legible and retrievable for examination. Specifically in the Commercial Automobile line, the Company failed to provide the Department with an accurate listing of its commercial claims for the review period. The list provided to the Department contained 43 claims that were incorrectly listed as commercial claims when they were actually personal lines claims. The Department alleges this act is in violation of CCR §2695.3(b)(1).

Summary of Company Response: The Company agrees that there were 43 claims originally identified to be Commercial lines claims that were found to be personal lines claims. The errors originated when the Company's personal lines department miscoded claims from one third party administrator (TPA). The transition period for personal lines claims in the commercial claims system was the result of the Company's discontinued relationship with the TPA. On August 21, 2007, the Company reviewed the necessity for verifying data being provided for an examination to ensure accuracy of the data population and descriptions of the data with its systems staff, administrative staff, and management staff participating in the examination.

63. In one instance, the Company failed to include a statement in its 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 this act is in violation of CCR §2695.7(b)(3).

Summary of Company Response: The Company agrees that its claim denial included the California Code of Regulations language but not the statement 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. As a result of this finding the Company has revised its letters to include this language.

64. In one instance, the Company failed to base its total loss offer on the cost of two or more comparable automobiles in the claimant's local market area that were available for sale during the preceding 90 days. The Department alleges this act is in violation of CCR §2695.8(b)(3)(A).

Summary of Company Response: Typically, the vendor the Company used to value total losses based its valuations on two or more comparable vehicles. It is unknown why it was

not done in this instance. However, since this loss the Company has ceased use of the vendor for commercial vehicles. It now utilizes other vendors who are more experienced with commercial vehicles.

65. In one instance, the Company required the use of non-original equipment manufacturer replacement crash parts without the use of such parts disclosed in accordance with §9875 of the California Business and Professions Code. The Department alleges this act is in violation of CCR §2695.8(g)(5).

Summary of Company Response: The Company acknowledges that the insured was not advised of the use of a non-original manufacturer equipment crash part without disclosing the use of such parts, in accordance with Section 9875 of the California Business and Professions Code. In this instance, the appraiser manually entered the parts price and labor costs. The Company addressed this matter with its adjusters. As a result of this finding all manually entered estimates will be reviewed individually by the claim supervisor.

66. In one instance, the Company failed to document the basis of betterment, depreciation, or salvage. The basis for any adjustment shall reflect a measurable difference in market value attributable to the condition and age of the vehicle and apply only to parts normally subject to repair and replacement. Specifically, in this situation the Company reduced the amount of an insured's claim by applying 35% "depreciation/wear" from the total cost of repairs to the insured's vehicle. The deduction for "depreciation/wear" was not supported in the file. Parts and items depreciated included a rear axle which is normally not subject to repair and replacement, as well as, the cost of labor, sales tax on parts, and the cost to ship parts. The Department alleges this act is in violation of CCR §2695.8(i)(1)(2).

Summary of Company Response: The Company advised its appraiser that it will not accept any completed appraisals in the future unless they are appropriately itemized and clearly detail the method used to determine the amount of depreciation taken based on the useful life of each item.

67. In one instance, the Company failed to provide reasonable notice to a claimant before terminating payment for storage charges. The Department alleges this act is in violation of CCR §2695.8(j).

Summary of Company Response: The Company agrees that it failed to provide reasonable notice to a claimant before terminating payment for storage in this instance. Currently, it is the Company's procedure to inform a claimant in a timely manner that their vehicle is incurring storage charges and inform them that it should be taken out of storage within a reasonable number of days, after which the Company would not pay any additional storage charges.

68. In one instance, the Company failed to provide the insured with the Auto Body Repair Bill of Rights, either at the time of application for automobile insurance, at the time a policy is issued, or following an accident. Specifically, the Company sent an Auto Body Repair Bill of Rights letter containing incorrect language. The Department alleges this act is in violation of CCR §2695.85.

Summary of Company Response: The Company agrees that the copy of the Auto Body Consumer Bill of Rights sent to the insured did not contain the Department of Insurance Reference. As a result of this finding the Company revised its Bill of Rights to include the California Department of Insurance contact information. And it removed all other copies of the Bill of Rights from its system.