MARKET CONDUCT EXAMINATION

FINANCIAL INDEMNITY COMPANY
21650 OXNARD ST. SUITE 1800
WOODLAND HILLS, CALIFORNIA 98367

ALPHA PROPERTY AND CASUALTY INSURANCE COMPANY
400 S. EXECUTIVE DR. SUITE #200
BROOKFIELD, WI 53301

JULY 1, 2004 through JUNE 30, 2005

Order No. G 06-47
Exhibit A

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The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following Companies:

Financial Indemnity Company	NAIC #19852
Alpha Property and Casualty Insurance Company	NAIC #38156

In this report, the above entities are collectively referred to as "the Companies". This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the Financial Indemnity Company and the Alpha Property and Casualty Company during the course of this market conduct examination, including those contact people assigned to us that provided daily support to the examiners.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

Prior Examination Summary

The prior examination of the Financial Indemnity Company was in 1995. The report was adopted in 1996. Any findings from the prior examination that were repeated in this examination are discussed in the appropriate section of this report.

SCOPE

Time Frame

The examination covered the Companies' operations from July 1, 2004 through June 30, 2005. The examination was performed in the home office of Financial Indemnity Company in Woodland Hills, CA, the claims office in Salem, OR and the Seattle Office of the Insurance Commissioner.

Matters Examined

The examination included the following areas:

- Company Operations and Management
- General Examination Standards
- Agent Licensing
- Complaints
- Rate & Form Filings
- Underwriting and Rating
- Renewals, Cancellations and Non-Renewals
- Claims Settlement Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

	92%	Confidence Level
+/-	5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as 'met'. The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed (without comment), Passed with Comment or Failed. The definition of each category follows.

Passed	There were no adverse findings for this standard.
Passed with Comment	The records reviewed fell within the tolerance level for that standard.
Failed	The records reviewed fell outside of the tolerance level established for the standard.

COMPANY HISTORY

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
Financial Indemnity Company	CA	December 19, 1945	August 8, 1960
Alpha Property and Casualty Insurance Company	WI	December 19, 1979	August 29, 1995

The Financial Indemnity Company was incorporated under the laws of California on December 19, 1945 and commenced business in June of 1946 as the Associated Veterans Aircraft & Automobile Insurance Company. The current title was adopted October 15, 1951.

The Company was purchased by Trinity Universal Insurance Company in 1975. Trinity became a wholly owned subsidiary of Unitrin, Inc. in 1990. The Company's president is John W. Mullen.

The Alpha Property and Casualty Insurance Company was incorporated under the laws of Wisconsin on December 19, 1979 and commenced operations December 21, 1979. The Company's parent group Milwaukee Insurance Group was acquired by Trinity Universal Insurance Company October 2, 1995. At that time Trinity was already a wholly owned subsidiary of Unitrin, Inc. The Company's president is John W. Mullen.

The Companies wrote the following lines of business during the exam period:

- Personal Auto
- Commercial Auto

OPERATIONS AND MANAGEMENT

Findings

Operations and Management Standard # 2 is not applicable to this examination as it applies only to domestic insurers.

The following Operations and Management Standard Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	**The Companies are required to hold a certificate of authority from the OIC prior to transacting insurance in the State of Washington.**	**RCW 48.05.030(1)**

GENERAL EXAMINATION FINDINGS

Findings

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	**The Companies made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner.**	**RCW 48.03.030(1)**
3	**The Companies maintain full and accurate records and accounts.**	**RCW 48.05.280**
4	**The Companies filed an antifraud plan with the Office of Insurance Commissioner and filed annual anti-fraud reports with OIC.**	**RCW 48.30A.045 RCW 48.30A.060**

The following General Examination Standard Failed:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	**The Companies do business in their own legal names.**	**RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06**

Standard#2:

- Fifty thousand seven hundred sixty one (50,761) auto policies were issued with the name of the Company incorrectly identified as Financial Indemnity Insurance Company on the cover sheet sent with the policy.
- Three (3) files in the claims sample contained correspondence that did not identify the insuring company correctly.
- Five (5) files in the complaint sample contained correspondence that did not identify the insuring company correctly.

See Appendix 1 for detail.

AGENT ACTIVITIES

Agent license and appointment records for agents who wrote the policies selected for the underwriting sample were reviewed by the examiners. The examiners also reviewed a sample of the records from the list of active agents provided by the Companies. As part of the review the examiners compared the Companies' agent licensing records with the OIC records to ensure that agents soliciting business for the Companies were licensed and appointed prior to soliciting business on behalf of the Companies as required by Washington law.

Findings

The following Agent Activity Standards Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
2	**The Companies require that agents are appointed to represent the Companies prior to allowing them to solicit business on behalf of the Companies.**	**RCW 48.17.160**
3	**The Companies must notify the OIC when an agent's appointment is revoked.**	**RCW 48.17.160(3)**
4	**The Companies must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract.**	**RCW 48.17.591(2)**

The following Agent Activity Standard Failed:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	**The Companies ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Companies in any way.**	**RCW 48.17.060(1) and (2)**

Standard #1:

- The Companies received notification from the OIC in May of 2003 that one agent had not renewed his license. The Companies did not act on this information and continued to process new and renewal business until May 2005. Two-hundred three (203) policies were either issued or renewed during this time frame.

See Appendix 2 for detail.

COMPLAINTS

The examiners reviewed 20 of 189 complaints filed with the OIC between January 1, 2003 and December 13, 2005. Files were reviewed to determine if the Companies responded to complaints filed with the OIC within time frames stated in its complaint procedures and those required by Washington regulation. Files outside the exam period were included and reviewed for adverse trends.

Findings

Five (5) of the 20 files reviewed contained violations of RCW 48.05.190 which requires insurers to conduct its business in their own legal name. These violations are discussed in the General Examination section of this report. The examiners did not find any violations of complaint handling statutes.

The following Complaint Standard Passed without Comment:

#	COMPLAINT STANDARD	REFERENCE
1	**Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication.**	**WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4**

UNDERWRITING AND RATING

The examiners selected 59 of 43,111 personal policies and 41 of 1,998 commercial policies that were either new or renewed during the exam period.

Files were reviewed to determine if the Companies:

- Followed the filed rating plans
- Followed the underwriting rules
- Were in compliance with Washington laws

Standards # 9, #10, and #11 were not applicable to this examination because the Companies did not use credit scoring during the exam period.

Findings

The following Underwriting and Rating Standards Passed without Comment:

#	UNDERWRITING STANDARD	REFERENCE
1	**Binders issued to temporarily secure coverage during underwriting are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates.**	**RCW 48.18.230(1), WAC 284-30-560**
2	**The Companies require an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.**	**RCW 48.22.030 (3) and (4)**
3	**The Companies require an insured to reject, in writing, when Personal Injury Protection (PIP) coverage is not wanted.**	**RCW 48.22.085(2)**
5	**The Companies apply schedule rating plans to all policies as applicable in its filing.**	**WAC 284-24-100**
6	**The Companies retain all documentation related to the development and use of (a) rates.**	**WAC 284-24-070**
7	**The Companies may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.**	**WAC 284-30-574**
8	**Binders must identify the insurer in which they are bound, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received.**	**WAC 284-30-560(2)(a)**

#	UNDERWRITING STANDARD	REFERENCE
12	**No insurer may alter an application for insurance without the insured's written permission.**	**RCW 48.18.070**

The following Underwriting Standard and Rating Standard Failed:

#	UNDERWRITING STANDARD	REFERENCE
4	**During underwriting, the Companies use only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.**	**RCW 48.30.310, Bulletin 79-3, RCW 46.52.130 WAC 308-104-145**

Standard #4:

The Companies used a rating plan for their commercial auto policies that combined information derived from the MVRs (motor vehicle record) of all drivers on a policy to produce an average or blended point count. This point count was assigned to all vehicles on the policy. This means that the Companies were using personal MVRs for rating commercial policies.

Use of personal driving records is not permitted to rate commercial motor vehicles. It is only permissible to use personal auto records on commercial auto policies if the vehicles do not meet the definition of "commercial motor vehicle", as listed in RCW 46.25.010(6). This was not the case here.

The Companies identified 279 policies that had vehicles that met the definition of commercial motor vehicle and should not have been rated with personal driving records.

RATE AND FORM FILING

The examiners selected forms that were attached to new and renewal policies used in the underwriting sample for the rate and form filing review. The purpose was to determine if the Companies were complying with the laws regarding rate and form filing.

The examiners also manually rated policies in the underwriting sample to ensure that the Companies rating programs were processing policies according to the filed rates and that the underwriting rate rules were being followed.

Findings

The Companies listed notices to policyholders on the policy declarations page of both the commercial and personal policies. These notices were not intended to become part of the policy; they were for information only. The Companies wanted to be able to prove that notices such as a notice on terrorism had been provided to the insured. The Companies were advised that these

could be listed on the policy declaration page or forms page as long as it was clear that they were notices only, and not included in the area of the declarations page that identifies those forms or endorsements that made up the policy.

The following Rate and Form Filing Standards Passed without Comment:

#	POLICY PROVISION STANDARD	REFERENCE
1	**Policy forms and applications, where required, have been filed with and approved by the OIC prior to use.**	**RCW 48.18.100**
4	**The policy must contain all endorsements and forms.**	**RCW 48.18.190**
5	**Policy forms for commercial policies are filed within 30 days of use.**	**RCW 48.18.103(2)**
6	**Personal Injury Protections forms issued by the Companies contain coverage definitions and limits that conform to Washington law.**	**RCW 48.22.095 RCW 48.22.005**
7	**Rates for commercial policies must be filed within 30 days of use.**	**RCW 48.19.043 (2)**

The following Rate and Form Filing Standards Passed with Comment:

#	POLICY PROVISION STANDARD	REFERENCE
2	**Where required, the Companies had filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect.**	**RCW 48.19.040 (1) and (6)**
3	**The policy must identify all forms that make up the policy. The policy will identify all coverage limits.**	**RCW 48.18.140(2)(a)-(f)**

Standard #2:

The Companies had filed and received OIC approval for a rate change with an implementation date of November 15, 2004. The Information Systems (IS) team was provided and implemented the rates from the product manager. The rates provided to IS were those included as part of the original submission. However, the rates implemented were not the final approved rates. The Companies discovered this error and implemented a process in May 2005, prior to the exam, to isolate those policies that had been rated incorrectly and refund any overcharged premium.

Standard #3:

The Companies issued a declarations page for commercial policies between May of 2004 and May of 2005 that listed the amount of the uninsured motorist property damage (UMPD) deductible incorrectly. The amounts identified in the policy forms were correct. These amounts are set by statute. The automated system that fed coverage information to the claims department was programmed to provide the correct deductibles. The Companies reviewed all UMPD claims

and confirmed the appropriate deductibles were applied. There was no harm to consumers from this error.

RENEWALS, CANCELLATIONS AND NON-RENEWALS

The examiners selected 75 of 23,264 personal policies and 50 of 531 commercial policies that were either cancelled or non-renewed during the exam period. The files were reviewed to determine if the Companies were in compliance with state laws governing policy renewal, non-renewal or cancellation. Renewal policies selected in the Underwriting section of the examination were considered in this section of the examination.

Findings

The Companies agreed to re-word the Notice of Cancellation by removing or rewording the reference to "the state" at the recommendation of the examiners. The notice read "We want to keep you as a customer. However, the state requires us to send this notice. You are hearby notified that your insurance will cease at and from the hour and date stated above." The next paragraph of the notice stated "Reason for cancellation --- non payment of premiums." This gave the impression that the State, not the Companies, was issuing the cancellation.

The following Renewal, Cancellation and Non-renewal Standard Passed without Comment:

#	RENEWAL, CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
2	**The Companies send offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination.**	**RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292**

The following Renewal, Cancellation and Non-renewal Standards Failed:

#	RENEWAL, CANCELLATION AND NON-RENEWAL STANDA	REFERENCE
1	**The Companies do not cancel or refuse to renew policies because the agent is no longer affiliated with the Companies.**	**RCW 48.17.591**
3	**The Companies include the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.**	**WAC 284-30-570 Bulletin 96-2**

Standard #1:

Twenty seven (27) policies in the initial sample were non-renewed because the agent who wrote the policies was no longer affiliated with the Companies. The Companies identified a total of one hundred sixty-seven (167) policies that had been non-renewed for this reason.

Standard #3:

Twenty-one (21) policies in the sample were cancelled or non-renewed for "underwriting reasons". At the request of the examiners the Companies identified a total of two hundred seventy five (275) policies including those in the sample that were cancelled or non-renewed for "underwriting reasons." This language is specifically prohibited by WAC 284-30-570 unless the specific reasons why the underwriting standards aren't met are included in the notice.

This violation issue was identified in the prior exam of Financial Indemnity Company.

See Appendix 3 for detail.

CLAIM SETTLEMENT PRACTICES

The examiners reviewed 125 of 8,062 claims that were closed during the exam period. They also reviewed 20 of 264 claims that contained settlements of first party total losses. The primary claims department for Washington claims is in Salem, Oregon.

Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of applicable coverage
- Procedures for establishing actual cash value of total losses
- Documentation of claim files

Findings

The following claims were returned to the claims manager for review and correction if necessary:

- One (1) file with a potential subrogation recovery of $6200 had been closed without subrogation activity. The Company re-opened the file to pursue subrogation.

- One (1) file was coded as an at-fault accident because the claim handler mis-read the notes and paid the liability claim. There was no liability against the insured.. The Company corrected all internal records and notified CLUE to correct their records. The Company also provided a letter to the insured for future reference.

- One (1) file was incorrectly coded as an at-fault because the Company failed to respond to inter-company arbitration. This means that the Company automatically lost the case and had to pay the liability claim against their insured. The insured should not be held as at-fault on a questionable liability claim because the Company failed to respond to the arbitration. The Company corrected all internal records and notified CLUE. A letter explaining the situation was also provided to the insured.

- Three (3) files contained violations of RCW 48.05.190 which requires insurers to conduct business in their own legal names. The findings are further identified in the General Examination section of this report.

The following Claims Standards Passed without Comment:

#	CLAIM STANDARD	REFERENCE
1	**The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.**	**WAC 284-30-330**
3	**The Companies provided an explanation of all pertinent coverage to first party claimants.**	**WAC 284-30-350**
6	**The Companies must accept or deny coverage within 15 days after receiving proof of claim.**	**WAC 284-30-380**
8	**The Companies comply with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.**	**WAC 284-30-395 (1)**
9	**The Companies surrender titles for total loss vehicles to the Department of Licensing or provide other authorized documentation as required.**	**RCW 46.12.070, WAC 308-56A-460**

The following Claims Standards Passed with Comment:

#	CLAIM STANDARD	REFERENCE
2	**The Companies claim files contain detailed log notes and work papers so as to allow reconstruction the claim file.**	**WAC 284-30-340**
4	**The Companies acknowledged receipt of a claim within 10 days, and responded to all communications on a claim file within the time frames prescribed.**	**WAC 284-30-360(1) (3) and (4)**
5	**The Companies comply with requirement for prompt investigation of claims.**	**WAC 284-30-370**
7	**The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.**	**WAC 284-30-390, WAC 284-30-3901-3916**

Standard #2:

Two (2) files did not contain sufficient log notes to explain the claim handler activities. One (1) file was closed without payment or explanation for the closure without payment. One (1) file had unexplained gaps in the documentation of claim handling activity. It appeared that the claim handler was working on the file but was not documenting activity.

Standard #4:

One (1) file did not meet the time-frames required to respond to communications. A windshield bill had been submitted for payment. The bill was not addressed until approximately one year later when the vendor sent a follow-up inquiry. The claim had originally been closed

without payment. There was no explanation for the file closure. The file was re-opened and the claim paid.

Standard #5:

Five (5) claims contained evidence of investigation delays.

Standard #7:

- One (1) claim had been paid with betterment deducted from the settlement. The deduction was for depreciation on a stolen radio. This deduction is not allowed as this part is normally not replaced during the life of a vehicle. An additional payment of $164.84 was made to the insured.
- Two (2) total loss vehicles were evaluated without using the mileage on the insured's vehicle. Re-evaluation resulted in no change on one of the claims, and an additional payment of $607 to the insured on one claim.

See Appendix 4 for detail.

SUMMARY OF STANDARDS

Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies are required to hold a certificate of authority from the OIC prior to transacting insurance in the State of Washington. (RCW 48.05.030(1))	7	X	
2	The Companies are required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding Companies. (RCW 48.07.070)	N/A		

General Examination Standards:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	8	X	
2	The Companies do business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06)	8		X
3	The Companies maintain full and accurate records and accounts. (RCW 48.05.280)	8	X	
4	The Companies filed an antifraud plan with the OIC and filed annual anti-fraud reports with the OIC. (RCW 48.30A.045), (RCW 48.30A.060)	8	X	

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Companies in any way. (RCW 48.17.060(1) and (2))	9		X
2	The Companies require that agents are appointed to represent the Companies prior to allowing them to solicit business on behalf of the Companies. (RCW 48.17.160)	9	X	
3	The Companies must notify the OIC when an agent's appointment is revoked. (RCW 48.17.160 (3))	9	X	
4	The Companies must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract, (RCW 48.17.591(2))	9	X	

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4)	9	X	

Underwriting and Rating:

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage during underwriting are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates. (RCW 48.18.230(1), WAC 284-30-560)	10	X	
2	The Companies require an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing. (RCW 48.22.030(3) and (4))	10	X	
3	The companies require an insured to reject, in writing, when Personal Injury Protection (PIP) coverage is not wanted. (RCW 48.22.085(2)	10	X	
4	During underwriting, the Companies use only the personal driving record for personal insurance and only the employment driving record for commercial insurance. (RCW 48.30.310, RCW 46.52.130, Bulletin 79-3 WAC 308-104-145)	11		X
5	The Companies apply schedule rating plans to all policies as applicable in its filing. (WAC 284-24-100)	10	X	
6	The Companies retain all documentation related to the development and use of (a) rates. (WAC 284-24-070)	10	X	
7	The Companies may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	10	X	
8	Binders must identify the insurer in which they are bound, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received. (WAC 284-30-560(2)(a))	10	X	
9	An insurer, when using credit scoring to underwrite, may not use the following factors: the number of credit inquiries; collections identified with medical industry code; the purchase of a new vehicle or home (some exceptions); or insurer cannot	N/A		

#	STANDARD	PAGE	PASS	FAIL
	use total available line of credit to set rates or deny coverage. (WAC 284-24A-065)(1) through (6)) *Effective 06/30/03*			
10	The insurer informs the consumer of the significant factors adversely affecting the credit history or insurance score and explains significant factors that lead to adverse action in clear and simple language. (WAC 284-24A-010(1) and (2)) *Effective 06/30/03*	N/A		
11	The insurer filed the credit scoring model by January 1, 2003. Related rates, risk classification plans, rating factors and rating plans were filed and approved by June 30, 2003. (WAC 284-24A-015(1))	N/A		
12	No insurer may alter an application for insurance without the insured's written permission. (RCW 48.18.070)	11	X	

Rate and Form Filings:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100)	12	X	
2	Where required, the Companies had filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040(1) and (6))	12	X	
3	The policy must identify all forms that make up the policy. The policy will identify all coverage limits. (RCW 48.18.140(2)(a)-(f))	12	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	12	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	12	X	
6	Personal Injury Protection forms issued by the Companies contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	12	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	12	X	

Cancellations and Non-Renewals:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies do not cancel or refuse to renew policies because the agent is no longer affiliated with the Companies. (RCW 48.17.591)	13		X

#	STANDARD	PAGE	PASS	FAIL
2	The Companies send offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	13	X	
3	The Companies include the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570, Bulletin 96-2)	13		X

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	15	X	
2	The Companies' claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file. (WAC 284-30-340)	15	X	
3	The Companies provided an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	15	X	
4	The Companies acknowledge receipt of a claim within 10 days, and respond to all communication on a claim file within the time frames prescribed. (WAC 284-30-360(1),(3) and (4))	15	X	
5	The Companies comply with requirement for prompt investigation of claims. (WAC 284-30-370)	15	X	
6	The Companies must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	15	X	
7	The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390, WAC 284-30-3901-3916)	15	X	
8	The Companies comply with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395 (1))	15	X	
9	The Companies surrender titles for total loss vehicles to the Department of Licensing or provide other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	15	X	

INSTRUCTIONS

INSTRUCTIONS

#	INSTRUCTIONS	PAGE NUMBER
1	The Companies are instructed to comply with RCW 48.05.190(1) and ensure that all checks and correspondence identify the full name of the insurer.	8
2	The Companies are instructed to comply with RCW 48.17.060(1) and (2) and ensure that all agents are licensed for the appropriate line of business in Washington prior to allowing them to solicit business or represent the Companies in any way.	9
3	The Companies are instructed to comply with RCW 48.30.310, RCW 46.52.130, and WAC 308-104-145 to ensure that information derived from personal driver's license MVRs are not used in rating situations where the commercial driving record is required. The Companies are instructed to file a rating plan within 90 days of adoption of this report that meets these requirements. The Companies are further instructed to re-rate all policies where commercial MVRs should have been used for rating the commercial motor vehicles on the policy and refund any overcharged premium within 90 days of the adoption of the report.	11
4	The Companies are instructed to comply with RCW 48.17.591 and ensure that no policies are cancelled or non-renewed because the relationship between the Companies and the agent have terminated.	13
5	The Companies are instructed to comply with WAC 284-30-570 and ensure that all cancellation or non-renewal notices give sufficient information so that the insured does not need to do additional research to understand the Company's decision.	13

APPENDIX 1

GENERAL EXAMINATION STANDARD #2: The Companies do business in its own legal name. Reference: RCW 48.05.190(1)	
Policy or Claim Number	**Comments**
50,761 policies	The Company issued 50,761 Family Car policies that identified the insuring company as Financial Indemnity Insurance Company on the cover sheet that was sent with the policy instead of the correct name Financial Indemnity Company.
50010320	Correspondence in the file did not identify the insuring Company correctly either because the stationary used was generic, or Financial Indemnity Company was identified as Financial Indemnity Insurance Company.
770760	Correspondence in the file did not identify the insuring Company correctly either because the stationary used was generic, or Financial Indemnity Company was identified as Financial Indemnity Insurance Company.
683423	Correspondence in the file did not identify the insuring Company correctly either because the stationary used was generic, or Financial Indemnity Company was identified as Financial Indemnity Insurance Company.
500005883	Correspondence in the file did not identify the insuring Company correctly either because the stationary used was generic, or Financial Indemnity Company was identified as Financial Indemnity Insurance Company.
500059942	Correspondence in the file did not identify the insuring Company correctly either because the stationary used was generic, or Financial Indemnity Company was identified as Financial Indemnity Insurance Company.
500067709	Correspondence in the file did not identify the insuring Company correctly either because the stationary used was generic, or Financial Indemnity Company was identified as Financial Indemnity Insurance Company.
500033648	Correspondence in the file did not identify the insuring Company correctly either because the stationary used was generic, or Financial Indemnity Company was identified as Financial Indemnity Insurance Company.
500040214	Correspondence in the file did not identify the insuring Company correctly either because the stationary used was generic, or Financial Indemnity Company was identified as Financial Indemnity Insurance Company.

APPENDIX 2

AGENT ACTIVITY STANDARD #1: The Companies ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Companies in any way. Reference: RCW 48.17.060(1) and (2)	
Policy or Claim Number	**Comments**
Policy list contained in the examiners work papers	Two hundred three (203) policies were either issued or renewed by the Companies after receiving notification that the agent's license had not been renewed.

APPENDIX 3

RENEWALS, CANCELLATION AND NON-RENEWAL STANDARD #1: The Companies do not cancel or refuse to renew policies because the agent is no longer affiliated with Companies. Reference: RCW 48.17.591	
Policy or Claim Number	**Comments**
Policy list contained in the examiners work papers	One hundred sixty-seven policies were either canceled or non-renewed. The reason given was "your agent or agency no longer represents the company."

RENEWALS, CANCELLATION AND NON-RENEWAL STANDARD #3: The company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. Reference: WAC 284-30-570, Bulletin 96-2	
Policy or Claim Number	**Comments**
Policy list contained in the examiners work papers.	Two hundred seventy five policies were non- renewed for "Underwriting reasons".
C7720745	The Company obtained an MVR as part of the pre-renewal underwriting process. The MVR revealed that the insured's license would expire prior to the renewal date of the policy. The Company requested a copy of the renewed license. When that was not received, the policy was non-renewed. The reason given was because the insured had "an invalid license". The Company did not rerun the MVR to verify that the license was expired.
C 7859995	The reason for non-renewing the policy was not on the non-renewal notice. The notice indicated how the policy could be reinstated and the amount of premium and fees that needed to be paid.
1058669-00	The Company had requested the insured either add or exclude a specific person and later non-renewed the policy. The reason given was that the company did not get a response to its request for the name(s), date(s) of birth & drivers' license number(s).
1247340-00	The cancellation notice sent to the insured says the reason for the Company's action was: "This policy has been voided and no coverage applies for any period of time." The Company had issued two policies for the same insured risk. The Company cancelled one of them. The true and actual reason was not given.

APPENDIX 4

CLAIM SETTLEMENT PRACTICES STANDARD# 2: Companies' claim files contain detailed log notes and work papers that allow reconstruction of the claim file. Reference WAC 284-30-340	
Claim number	**Comments**
500148426	The claim handler failed to document the file with the investigation or the reason the claim was closed without payment. The company has re-opened the file.
500114422	Unable to determine from the log notes when the claim handler worked on the file although there was evidence that there was some file activity. The Companies agreed that the documentation was incomplete .

CLAIM SETTLEMENT PRACTICES STANDARD# 4: The Companies acknowledged receipt of a claim within 10 days, responses to all communication on a claim file within the time frame prescribed and promptly provides reasonable assistance, forms and instruction to the first party claimants. Reference: WAC 284-30-360 (1) (3) and (4)	
Claim number	**Comments**
500074079	The Company failed to pay or acknowledge an invoice received for the windshield repair of an insured's vehicle, and originally closed the claim without payment. The payment was made approximately 1 year later.

CLAIM SETTLEMENT PRACTICES STANDARD #5: The Companies complied with requirement for prompt investigation of claims. Reference: WAC 284-30-370	
Claim number	**Comments**
500114422	This claim was opened in November. Approximately three months later the coverage is still under investigation. There was no apparent reason for the delay.
500105913	There was a delay in the investigation. The file was received Oct. 4th. It was referred to SIU for a coverage review. The coverage was not confirmed until Nov. 16th
67339	There was a three month delay in confirming information needed for the investigation. There was no apparent reason for the delay.

CLAIM SETTLEMENT PRACTICES STANDARD #5: The Companies complied with requirement for prompt investigation of claims.

Reference: WAC 284-30-370	
Claim number	**Comments**
500074079	The company failed to acknowledge receipt a bill for the windshield repair of an insured's vehicle, and originally closed the claim without payment. The payment was made approximately 1 year later.
CLAIM SETTLEMENT PRACTICES STANDARD# 7 : The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. Reference: WAC 284-30-390 and WAC 284-303901-3916	
Claim number	**Comments**
500096320	WAC 284-30-3902 betterment taken without meeting the requirements of the code. Refund to the insured $164.84.
500126391	WAC 284-30-3907 total loss evaluation run without actual mileage of insured vehicle. Re-evaluation resulted in an additional payment of $607.
500136219	WAC 284-30-3907 total loss evaluation run without actual mileage of insured vehicle. Re-evaluation resulted in no additional payment to the insured.

UNITRIN

Specialty Lines Insurance

Edward D. Cimini, Jr., ACAS, MAAA
Senior Vice President and Actuary

June 5, 2006

Sent Federal Express

RECEIVED
JUN 05 2006
INSURANCE COMMISSIONER
COMPANY SUPERVISION

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
State of Washington
500 Capitol Blvd.
Tumwater, WA 98501

Re: Financial Indemnity Company Market Conduct Examination

Dear Mr. Odiorne:

We are writing to you in response to your letter of May 18, 2006. We have two issues needing revision.

1. Under "AGENT ACTIVITIES", "Standard #1", on page 9, the report indicates 420 policies were either issued or renewed during this time frame. Our records indicate we provided the examiners with lists showing 203 policies were either issued or renewed during this time frame.

2. Under "UNDERWRITING AND RATING", "Standard #4", on page 11, the report indicates we estimated approximately 781 policies had vehicles that met the definition of commercial motor vehicle and should have not been rated with personal driving records. The final count is 279 polices. We will provide the exact amount refunded as soon as all transactions have been processed.

Please make these corrections to the report.

If you have any questions, or require any further information, I can be contacted at 1-800-777-4342, extension 5000 or by email at ecimini@unitrin.com.

Sincerely,

Edward D. Cimini, Jr.

Edward D. Cimini, Jr., ACAS, MAAA
Senior Vice President & Actuary

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