

MARKET CONDUCT EXAMINATION

**PEMCO MUTUAL INSURANCE COMPANY
PEMCO INSURANCE COMPANY**

**325 EASTLAKE AVENUE EAST
SEATTLE, WASHINGTON 98109**

JANUARY 1, 2006 – DECEMBER 31, 2006



Order No. 08-0077
PEMCO Mutual Insurance Company
PEMCO Insurance Company
Exhibit A

TABLE OF CONTENTS

Section	Page
Table of Contents	2
Salutation	3
Chief Examiner's Report Certification & Acknowledgements	4
Foreword and Scope	5
Sampling Standards	6
Company History and Operations	7
Operations and Management	7
General Examination Practices	8
Agent Activities	8
Complaints	9
Underwriting and Rating	10
Rate and Form Filing	13
Renewals, Cancellations and Non-Renewals	14
Claim Settlement Practices	15
Summary of Standards	18
Instructions	22
Appendices	23

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:

PEMCO Insurance Company, NAIC #18805
PEMCO Mutual Insurance Company, NAIC #24341

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 Eastman, AIE, AIC and Juanita Labosier 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 Companies during the course of this market conduct examination, including those 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.



Sally Anne Eastman, AIE, AIC
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 Companies was in 2003. The Companies subject to that exam were PEMCO Insurance Company and PEMCO Mutual Insurance Company. Based on the examination findings, six instructions were issued to the Companies.

Findings in the prior examination included:

- Failure to ensure all correspondence and claim settlement checks correctly identify the insuring Company.
- Failure to ensure that all advertisements contain the full name of the Company and home office location.
- Failure to ensure accurate representation of policy provisions in the claims handling process.
- Failure to ensure that checks are accompanied by a statement that indicates under which coverage a payment to an insured or beneficiary is made.
- Failure to fully disclose all coverage or benefits applicable to a claim that is presented by the insured.
- Failure to establish and document market values of the first party total loss vehicles according to the methods allowed by law.

The fine imposed for the findings was \$25,000. No compliance plan was required. Recurring findings, if any, are identified in the appropriate section of this examination.

SCOPE

Time Frame

This examination covered the Companies' operations from January 1, 2006 through December 31, 2006, except where otherwise noted. The examination was performed in the Companies' home office in Seattle, Washington and in the Seattle office of the OIC.

Matters Examined

The examination included the following areas:

Company Operations and Management
General Examination Practices

PEMCO Mutual Insurance Company
PEMCO Insurance Company
Market Conduct Examination as of December 31, 2006

Agent Licensing
Complaints
Underwriting and Rating
Rate and Form Filing
Renewal, Cancellation and Non-Renewal
Claim 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 and the Market Regulation Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the OIC. 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 less than 5%, the standard will be considered as 'met'. The standards in the area of agent licensing and appointment will not be met if any violation is identified. The standards 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 AND OPERATIONS

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
PEMCO Mutual Insurance Company	Washington	10-05-1948	02-08-1949
PEMCO Insurance Company	Washington	05-04-1972	08-22-1972

PEMCO Mutual Insurance Company (PMIC) is authorized to write insurance in Washington and Oregon. During the examination period the Company was authorized to write casualty, marine, property, surety and vehicle coverage in Washington. In 2006 all direct premiums written were from Washington business.

PMIC issued policies in the following lines of business during the exam period:

Home Owners	Mariners (Boat Owners)
Dwelling Fire	Personal Inland Marine
Private Passenger Auto	Personal Excess

PEMCO Insurance Company (PIC) is authorized to write insurance in Washington and Oregon. PIC services members with affiliations in the public or private school sector. During the examination period the Company was authorized to write casualty, property, surety, and vehicle coverage in Washington. In 2006 all direct premiums written were from Washington.

PIC issued policies in the following line of business during the exam period:

Private Passenger Auto

The Companies operate under combined management. Business for both Companies is obtained through direct writing, sales by PEMCO Insurance Agency (a subsidiary of PEMCO Mutual Insurance Company which also places risks with other carriers for coverage not offered by the PEMCO companies), or through independent agents. Neither Company sold any commercial insurance products during the exam period.

Stan W. McNaughton is the Chairman of the Board, President, and CEO of both PEMCO Mutual Insurance Company and PEMCO Insurance Company.

OPERATIONS AND MANAGEMENT

The following Operations and Management Standards 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	RCW 48.05.030(1)

	insurance in the State of Washington.	
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

GENERAL EXAMINATION PRACTICES

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)
2	The Companies do business in their own legal name.	RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06
3	The Companies maintain full and accurate records and accounts.	RCW 48.05.280
4	The Companies filed antifraud plans with the Office of Insurance Commissioner and filed annual anti-fraud reports with the OIC.	RCW 48.30A.045 RCW 48.30A.060

AGENT ACTIVITIES

The agent of record for policies selected for the Underwriting and Rating sample were also used as the sample for Agent Activities. The examiners compared the agent of record for these policies with the OIC records to ensure that agents 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
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)
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

#	AGENT ACTIVITY STANDARD	REFERENCE
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 agent or agency with a written agency contract at least 120 days notice of its intent to terminate the contract.	RCW 48.17.591(2)

COMPLAINTS

The examiners selected 25 complaint files from a population of 1,221 complaints received by the Companies between January 1, 2004 and December 31, 2006 for review. The complaints were either filed with the OIC or received directly by the Companies from the complainant. Complaints that were reviewed were distributed between claims, underwriting or policy service issues.

Files were reviewed to determine if the Companies followed the policies and timeframes stated in their procedures, and that the Companies responded to complaints filed with the OIC within time frames required by Washington law. Files were also reviewed for adverse trends.

Findings

The examiner referred one complaint file on a loss that occurred in 2003 (outside the exam period) to the Companies for review. The complaint was filed in 2004. The examiners were not able to reconstruct the file from the information presented in the log notes. Reasons for delays in file activity which included a 3 month gap between the initial claim submission and the next communication with the insured were undocumented. The final settlement was not supported in the file documentation. The Companies agreed that the claim handling did not meet the Companies' claim investigation and documentation standards.

During a review of the complaints on the OIC database the examiners also noted that two complaints contained information about three issues stemming from the migration of underwriting products to a new system that began in March 2005. These issues are discussed in the Underwriting and Rating section of the exam.

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 140 policies from a population of 287,443 policies which were either new or renewed during the exam period. The samples included policies with the following coverage: Homeowners, Mobile Home, Dwelling Fire, Private Passenger Auto, Mariners (boat), or Excess Liability.

Files were reviewed to determine if the Companies:

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

The examiners also manually rated policies in the underwriting sample to ensure that the Companies' automated rating programs processed policies according to the filed rates and to verify that the Companies' underwriting rules were followed.

Beginning in March 2005, the Companies moved most underwriting products and claims processing from a mainframe system to a network based processing system called "Exceed". The system migration began with auto policies. Homeowner policy migration commenced approximately one year later. Claims processing began in the new system as each line of business was migrated. The Exceed system links customer information between multiple policies and also links the claim history to the policies. The new system provides representatives in customer service and claims more rapid access to policy account and claim information, and ensures that updated insured information is linked to multiple policies where appropriate. Boat owners, dwelling fire and excess liability products remain on the mainframe computer system. The Companies did not have a plan in place to migrate these policies to the Exceed system at the time of the examination.

As referenced in the Complaint section of the exam, there were three system errors that surfaced because of complaints. All errors were corrected prior to the examination.

- The order of named insureds was reversed on some policy declaration pages when the policy migrated. This did not cause rating errors.
- Auto/homeowners discount failed to migrate on some policies causing rating errors
- Traffic accident or ticket surcharges were duplicated on policies causing rating errors

Order of the named insureds reversed:

23 policies contained the same type of error. The order of the named insured was reversed on the declarations page after migrating policies to the new system. The Companies corrected their system to reflect the original order of the named insureds prior to the examination. The Companies were questioned about the effect of this because part of the rating formula is based on the insured's insurance score. The Companies' policy was to use the score of the first insured named on the policy. The system's rating link between the insured who had been the first insured prior to migration did not change, therefore the insurance score used to rate the policy was still the score used after migration. There was no impact on premiums because of this issue.

PEMCO Mutual Insurance Company

PEMCO Insurance Company

Market Conduct Examination as of December 31, 2006

Auto/homeowners discount failed to migrate to new policy:

The Companies had discovered that the multi-policy (auto/homeowners) discount was not consistently applied by the rating system. The Companies reviewed the application of the Auto/Homeowners Plus discount on all the migrated policies and corrected all policies where the discount failed to be applied. At the time of the examination, the problem had not been corrected in the system. The Companies continue to manually review new policies and apply the discount if it was not successfully applied when processed.

Traffic accident or ticket surcharges were duplicated:

The Companies had found an error in the system used to map data from the old to the new system. This sometimes caused accident loss data or ticket data to include erroneous dates in the policy rating system causing a rating error. The system migrated ticket or accident data accurately, and then added the same ticket or accident with a different date of occurrence. Of the 47 policies that were affected by this error, 26 required adjustments or premium credit and 21 did not require adjustment. The policies were corrected prior to the examination.

Based on concerns following discussions with the Companies about the migration of data and the accurate placement of insureds in PIC or PMIC the examiners requested the Companies review sample policies processed in the "Exceed" system. The purpose was to verify accuracy of placement within the appropriate underwriting Company based on affiliation with the private or public school sector. This affiliation is the primary qualifier for PIC. The premium difference between PMIC and PIC averages about 5%. The Companies advised that based on the initial findings it appeared that some of the policyholders that may have qualified for PIC were placed in PMIC in error.

The Companies then went on to review all their book of business and identified 226 new business customers and 798 renewal customers who might have been placed in the wrong company based on the occupation code that was listed in the system. (This represents less than one percent of the Companies automobile business.) An occupation code is required to process business in the Exceed system. It was not required in the prior processing system. The underwriting data for these files is currently being reviewed and verified by the Companies. The Companies state that it appears that erroneous occupation qualifiers were added as a work-around to process policies, and not, necessarily an indication that the policyholder was placed in the wrong company. The Companies are contacting all 1024 customers to verify the accuracy of occupation codes. Those policies, if any, that should have been written in PIC will be corrected and refunds processed. A report of the outcome will be provided to the OIC by June 30, 2008.

Subsequent event:

The Companies issued a training memo November 13, 2007 to all agents, sales supervisors and managers, customer service representatives and their supervisors and managers regarding PIC eligibility and rating. The Companies also added a system edit that requires the occupation field be entered on the processing system.

Findings

The Companies did not write commercial lines during the exam period therefore Underwriting and Rating Standards #5 and #6 did not apply to this examination.

The following Underwriting and Rating Standards Passed without Comment:

#	UNDERWRITING AND RATING 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) & (4)
3	The Companies require an insured to reject Personal Injury Protection (PIP) coverage in writing.	RCW 48.22.085(2)
4	During underwriting, the Companies obtain and 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
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)
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 use total available line of credit to set rates or deny coverage or insurer cannot use total available line of credit to set rates or deny coverage.	WAC 284-24A-065 (1) through (6)
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), T2005-06
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)
12	No insurer may alter an application for insurance without the insured's written permission.	RCW 48.18.070

RATE AND FORM FILING

The examiners selected forms that were attached to the new and renewal policies in the underwriting sample to determine compliance with laws regarding form filing.

Policies from the new and renewal sample were also manually rated to ensure that the Companies' automated rating programs processed policies using the appropriate filed rates, and that underwriting rules were followed.

Findings

The Companies did not write commercial coverage during the exam period therefore Rate and Form Filing Standards #5 and #7 did not apply to this exam.

During the course of the examination, it was determined that the boat owners (Mariner) rate filing contained a typographical error on the amount for Emergency Service (ES) coverage as shown in the following rate table. In the filing, effective May 1, 2000, the coverage for the \$500 Emergency Service limit was shown as \$100.

Emergency Service	
\$100 Disablement	\$2
\$250 Disablement	\$5
\$100 Disablement (should have been \$500)	\$10

At the request of the examiners, the Companies reviewed the in-force book of business to determine if the correct coverage and premium were applied to policies with \$500 ES coverage. The Companies identified 3,729 policies that have Emergency Service Coverage with a limit of \$500. The Companies confirmed that the policyholder's declaration page correctly reflected the limit of \$500 and the appropriate rate was charged.

Subsequent event:

The Companies submitted a correction to its rate filing on July 20, 2007.

The following Rate and Form Filing Standards Passed without Comment:

#	RATE AND FORM FILING 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
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)
4	The policy must contain all endorsements and forms.	RCW 48.18.190
6	Personal Injury Protections forms issued by the Companies contain coverage definitions and limits that conform to	RCW 48.22.095 RCW 48.22.005

#	RATE AND FORM FILING STANDARD	REFERENCE
	Washington law.	

The following Rate and Form Filing Standard Failed:

#	RATE AND FORM FILING STANDARD	REFERENCE
2	Where required, the Companies have 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, and do not issue any policies that are not in accord with the filing in effect.	RCW 48.19.040(1) and (6)

Rate and Form Standard # 2:

- Dual ownership surcharge should have been applied when a boat was co-owned by those not subject to community property law. One (1) Mariner policy was rated appropriately with a dual ownership surcharge when the application was originally submitted. The surcharge was in place through multiple renewal periods. The Companies had information in companion policies to show the insureds were married during some of the policy periods. At that time the marriage was reported to the Companies and processed on the auto or homeowner policy the dual surcharge should have been removed from the boat policy. The Company determined that the error occurred throughout multiple policy periods beginning 5/25/2000. The Company issued a letter of explanation and reimbursement check to the insured for \$783.06.
- One (1) Mariner policy was erroneously rated without a dual surcharge. The Companies chose to waive the dual ownership surcharge that should have been applied.
- One (1) policy written with Excess Liability coverage was not rated according to filed rate rules which have a per vehicle charge. The Companies chose to waive the charge at the insureds request because one of the insured's vehicles was not on the policy throughout the year.
- One (1) auto policy was erroneously written in PMIC instead of PIC when the insured divorced and obtained a separate auto policy. The original policy was issued in PIC. The insured was eligible for PIC based on his occupation. The insured was charged a higher rate in PMIC than if he had been placed in PIC. The Company reimbursed the insured \$30.66. The Companies' new processing system includes a field to capture occupation information.

See Appendix 1 for detail.

RENEWALS, CANCELLATIONS AND NON-RENEWALS

The examiners reviewed files to determine if the Companies were in compliance with state laws governing policy renewals, cancellation and non-renewals. The examiners selected a sample of

PEMCO Mutual Insurance Company

PEMCO Insurance Company

Market Conduct Examination as of December 31, 2006

100 policies from a population of 44,122 policies that were either cancelled or non-renewed during the exam period and also reviewed those policies from the Underwriting and Rating sample subject to the renewal standards in this section of the examination.

Findings

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

#	RENEWAL CANCELLATION AND NON-RENEWAL STANDARD	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
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
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

CLAIM SETTLEMENT PRACTICES

The examiners selected 112 claim files for review from a population of 54,707 personal lines claims closed during the examination period. The examiners also selected a sample of 20 files from a population of 2,879 claim files that contain first party automobile total losses.

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 loss vehicles.
- Documentation of claim files.

The claims were handled in the regional claim office in Seattle, Washington or by field staff in satellite locations in Washington.

Findings

In the prior examination, the examiners found that homeowner's contents claims with values of \$500 or less were not being settled according to the provisions of the policy as required in WAC 284-30-330(1). The Replacement Cost settlement clause in the policy stated that replacement cost (no deduction for depreciation) would be paid on claims of \$500 or less. The Companies had failed to include this topic in their claims training when the endorsement was added to their

policy forms. Supervisors reviewing these claims had also failed to identify the problem prior to the examination.

During the current review, the examiners found that homeowner's contents claims in the examination sample were settled at replacement cost when a claim was \$1500 or less. The Companies advised that the contents claims handling procedures had been changed in 2004 from the \$500 replacement cost required by the policy to the \$1500 standard, even though the policy language had not changed. According to the Companies the change was made to increase efficiencies and overall customer satisfaction.

In one claim, subrogation was not investigated. The file was returned to management for review.

The following Claim Settlement Practices Standards Passed without Comment:

#	CLAIM SETTLEMENT PRACTICES 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
4	The Companies acknowledge receipt of a claim within 10 days, and respond 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
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 Claim Settlement Practices Standards Failed:

#	CLAIM SETTLEMENT PRACTICES STANDARD	REFERENCE
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
7	The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.	WAC 284-30-3901-3916

Claim Standard # 2:

- Eighteen (18) claims (90% of the 20 first party loss automobile claims) did not contain documentation of the comparable vehicle information that would support the

recommended value for total losses. The Companies did not obtain the documentation for the claim files from the vendor. The vendor did not retain the information longer than 255 days therefore it was no longer available for review at the time of the examination.

- The log notes in four (4) claims (4% of the 112 claims) did not sufficiently document the claim handler's activities to allow reconstruct of the file activity.

Claim Standard # 7:

- Eighteen (18) claims (90% of the 20 first party total loss automobile claims) did not contain sufficient documentation in the evaluation materials supplied by a vendor to the Companies to determine if the market values for total loss vehicles were based on data that was in compliance with WAC 284-30-3901(2). Some vehicles used by the vendor did not meet the definition of "comparable", as they did not have mileage information as required by WAC 284-30-3901(2). In addition, the evaluation materials did not contain adequate information to establish compliance with WAC 284-30-3907(d). The source documents did not adequately disclose or document comparable vehicles.

This was also a finding in the prior examination.

See Appendix 2 for detail.

Subsequent event:

The Companies verified that the vendor supplying total loss evaluations will include mileage and advertised equipment information on all vehicles identified as total loss comparables, effective October 7, 2007. The Companies provided additional training for claims handlers in October and November 2007 and have completed three self-audits to ensure ongoing compliance.

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)	8	X	

General Examination Practices:

#	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 their 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 antifraud plans with the Office of Insurance Commissioner (RCW 48.30A.045) and filed annual anti-fraud reports with the OIC. (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))	8	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)	8	X	
3	The Companies must notify the OIC when an agent's appointment is revoked. (RCW 48.17.160(3))	8	X	
4	The Companies must give an agent or 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)	12	X	
2	The Companies require an insured to reject or request lower limits for underinsured motorist coverage (UIM) in writing. (RCW 48.22.030(3) and (4))	12	X	
3	The Companies require an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	12	X	
4	During underwriting, the Companies obtain and 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, RCW 46.52.130, Bulletin 79-3, WAC 308-104-145)	12	X	
5	The Companies apply schedule rating plans to all policies as applicable in their filing. (WAC 284-24-100)	N/A	N/A	
6	The Companies retain all documentation related to the development and use of (a) rates. (WAC 284-24-070)	N/A	N/A	
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)	12	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))	12	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 use total	12	X	

#	STANDARD	PAGE	PASS	FAIL
	available line of credit to set rates or deny coverage. (WAC 284-24A-065)(1) through (6))			
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).	12	X	
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))	12	X	
12	No insurer may alter an application for insurance without the insured's written permission. (RCW 48.18.070)	12	X	

Rate and Form Filing:

#	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)	13	X	
2	Where required, the Companies have 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, and do not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040(1) and (6))	14		X
3	The policy identifies all forms that make up the policy. The policy will identify all coverage limits. (RCW 48.18.140(2)(a)-(f))	13	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	13	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	N/A	N/A	
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)	13	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	N/A	N/A	

Renewals, 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)	15	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)	15	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)	15	X	

Claims Settlement Practices:

#	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)	16	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)	16		X
3	The Companies provided an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	16	X	
4	The Companies acknowledge receipt of a claim within 10 days, and respond to all communications on a claim file within the time frames prescribed. (WAC 284-30-360(1),(3) and (4))	16	X	
5	The Companies comply with requirement for prompt investigation of claims. (WAC 284-30-370)	16	X	
6	The Companies must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	16	X	
7	The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-3901-3916)	16		X
8	The Companies comply with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395(1))	16	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)	16	X	

INSTRUCTIONS

	INSTRUCTION	PAGE NUMBER
1.	The Companies are instructed to comply with RCW 48.19.040(6) to ensure that all policies are issued in accordance with the filings that are in effect.	14
2.	The Companies are instructed to comply with WAC 284-30-340 to ensure that files contain all notes and work papers pertaining to the claim in such detail that pertinent events and dates of such events can be reconstructed, and must ensure that claim file audits and claim handler training focus on compliance.	16
3.	The Companies are instructed to comply with WAC 284-30-3901-3916 to ensure that total losses are evaluated according to standards set forth. When the Companies use vendor evaluations to determine market values of total loss vehicles the Companies must use only those evaluations that the Companies have determined and documented to be in compliance with the law.	17

APPENDIX 1

RATE AND FORM FILING STANDARD #2	Where required, the Companies have 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, and do not issue any policies that are not in accord with the filing in effect. RCW 48.19.040 (1) and (6)
Policy Number	Comments
Mariners Rate Filing	There was a typographical error in the original filing for one option of the Emergency Services coverage. The coverage that should have displayed as \$500 showed as \$100 in the filing. The Companies submitted a correction to its rate filing on July 20, 2007.
MA 0043744	The Companies failed to remove a Mariners dual ownership surcharge when the Companies had information that policyholders were married. A refund check was sent to the policyholder in the amount of \$783.06 on September 7, 2007 after re-rating multiple policy periods without the dual owner surcharge.
MA 0046825	The Companies made an exception to the Mariners dual ownership surcharge rate filing rules and did not apply the surcharge to one policy.
EL 0006578	The Companies did not charge the policyholder for a second vehicle in their Excess Liability policy as required by the filing.
CA 1045185	The Companies failed to place the policyholder in the qualifying Company (PIC) based on his occupation. This resulted in an overcharge of \$30.66 which was refunded to the policyholder. At the time of the refund, the policy was already cancelled as the policyholder had moved out of state and was no longer eligible for PEMCO coverage.

APPENDIX 2

CLAIMS SETTLEMENT STANDARD #2	Claim file documentation must contain log notes and work papers in such detail that events can be reconstructed. WAC 284-30-340
Claim Number / Policy Number	Comments
51003238001	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003218167	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003199113	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003194426	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003243545	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003246212	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003238440	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003240154	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003238163	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003236318	The Companies did not have all the total loss documentation to support total

	loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003234294	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003236185	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003230218	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003206906	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003206018	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003216637	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003198337	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
51003171128	The Companies did not have all the total loss documentation to support total loss evaluation in the claim file. The total loss settlement was based on an evaluation and market survey that was performed by a vendor. The vendor did not retain information longer than 255 days.
MA 0052024	Log notes did not sufficiently document the claim handler's activities.
51003192867	Log notes did not sufficiently document the claim handler's activities.
HO 0310764	Log notes did not sufficiently document the claim handler's activities.
51003222590	Log notes did not sufficiently document the claim handler's activities.

CLAIMS SETTLEMENT STANDARD #7	The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. WAC 284-30-390 and WAC 284-30-3901-3916
Claim Number	Comments
5100328001	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901(2).
51003218167	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901(2).
51003199113	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901(2).
51003194426	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901(2).
51003243545	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901(2).
51003246212	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901(2).
51003238440	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901(2).
51003240154	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and market survey does not retain the data more than 255 days, therefore the data had been purged prior to the examination. The Companies were unable to prove compliance because of this.
51003238163	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and market survey does not retain the data more than 255 days, therefore it had been purged prior to the examination. The Companies were unable to prove compliance because of this.
51003236318	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and market survey does not retain the data more than 255 days, therefore it had been purged prior to the examination. The Companies were unable to prove compliance because of this.
51003234294	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and

	market survey does not retain the data more than 255 days, therefore it had been purged prior to the examination. The Companies were unable to prove compliance because of this.
51003236185	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and market survey does not retain the data more than 255 days, therefore it had been purged prior to the examination. The Companies were unable to prove compliance because of this.
51003230218	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and market survey does not retain the data more than 255 days, therefore it had been purged prior to the examination. The Companies were unable to prove compliance because of this.
51003206906	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and market survey does not retain the data more than 255 days, therefore it had been purged prior to the examination. The Companies were unable to prove compliance because of this.
51003206018	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and market survey does not retain the data more than 255 days, therefore it had been purged prior to the examination. The Companies were unable to prove compliance because of this.
51003216637	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and market survey does not retain the data more than 255 days, therefore it had been purged prior to the examination. The Companies were unable to prove compliance because of this.
51003198337	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and market survey does not retain the data more than 255 days, therefore it had been purged prior to the examination. The Companies were unable to

	prove compliance because of this.
51003171128	The Companies were unable to document that vehicles used in the total loss evaluation were "comparable" as defined in WAC 284-30-3901, when settling the claim under WAC 284-30-3907(d). The backup materials were not in the claim file. The vendor used to provide the market evaluation and market survey does not retain the data more than 255 days, therefore it had been purged prior to the examination. The Companies were unable to prove compliance because of this.