

STATE OF WASHINGTON

Phone: (360) 725-7000
www.insurance.wa.gov

MIKE KREIDLER
STATE INSURANCE COMMISSIONER



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 08-0077
)	
The Market Conduct Examination of)	FINDINGS, CONCLUSIONS,
)	AND ORDER ADOPTING REPORT
PEMCO Mutual Insurance Company)	
PEMCO Insurance Company)	OF
)	MARKET CONDUCT EXAMINATION
)	
Authorized Domestic Mutual Insurer and)	
Authorized Insurer)	

BACKGROUND

An examination of the market conduct of **PEMCO Mutual Insurance Company and PEMCO Insurance Company** (the Companies) as of December 31, 2006 was conducted by examiners of the Washington Office of the Insurance Commissioner (OIC). The Companies, domiciled in the state of Washington, hold Washington certificates of authority as a mutual insurer and as a stock insurer respectively. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Companies for their comments on April 2, 2008. The Companies' response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and submissions by the Companies.

Subject to the right of the Companies to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 3 through 28 of the report.



CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the market conduct examination of **PEMCO Mutual Insurance Company and PEMCO Insurance Company** and to order the Companies to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Companies may have implemented the Instructions prior to the date of this order. The Instructions in the report are an appropriate response to the matters found in the examination.

ORDER

The market conduct examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Companies are ordered as follows, these being the Instructions contained in the examination report on page 22.

1. The Companies are ordered to comply with RCW 48.19.040(6) to ensure that all policies are issued in accordance with the filings that are in effect.
2. The Companies are ordered 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.
3. The Companies are ordered 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.

IT IS FURTHER ORDERED THAT, the Companies file with the Chief Market Conduct Examiner, within 90 days of the date of this order, a detailed report specifying how the Companies have addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 22nd day of May 2008.



MIKE KREIDLER
Insurance Commissioner



325 Eastlake Avenue East
PO Box 778
Seattle, WA 98111-0778

May 01, 2008

State of Washington
Office of Insurance Commissioner
Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
P.O. Box 40255
Olympia, WA 98504-0255

RE: PEMCO Market Conduct Examination
PEMCO Mutual Insurance Company NAIC #24341
PEMCO Insurance Company NAIC# 18805

Dear Mr. Odiorne:

We have received the draft report of the Market Conduct Examination of PEMCO Mutual Insurance Company and PEMCO Insurance Company (herein referred to as PEMCO, PMIC, the Company, or Companies).

The executives and senior management are committed to compliance with Washington State Insurance Codes and Regulations. We closely consider all market conduct examination findings, resulting instructions, and recommendations by your examiners as outlined and identified in the report.

The Compliance Department and the PEMCO team assigned to the examination commend your office and your examiners for their courteous professionalism and cooperation with us throughout the market conduct review process. The examiners consistently communicated probable findings and recommendations.

We would like to emphasize that these exchanges facilitated our proactive development of action plans designed to achieve compliance for each area where there may be a finding. The resulting self-audits demonstrate the Companies' achieved compliance to standards in areas where action plans were implemented.

The Companies appreciate the opportunity to respond and respectfully submit our reply to the examiners' report. This response will illustrate subsequent actions, including new and amended procedures, design edits to our processing system, increased vendor expectations, and additional employee training.

The response tracks sequentially to the order of findings in the draft report. We ask that further consideration be given to subsequent events and additional information included below in the course of drafting a final report.

Company Operations and Management (page 7, paragraph 5):

- The Companies operate under combined management. Business for both Companies is obtained through direct writing, telemarketing by PEMCO Insurance Agency (a subsidiary of PEMCO Mutual Insurance Company), or through independent agents.

Company Suggestion:

For your consideration, we offer further clarification. Public Employees Insurance Agency, Inc. (dba PEMCO Insurance Agency) is also appointed with other insurance carriers who underwrite additional risks and coverage. The agency focuses on PEMCO policyholders requiring coverages PEMCO does not offer, but they do not do any telemarketing.

Rate and Form Filing Standard 2 (page 14, paragraph 5):

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 accordance with the filing in effect. (RCW 48.19.040(1) and (6)).

- 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.

Company Response and Subsequent Action:

The Companies wish to validate that all customers who qualify for our PIC rate receive it. Prior to the implementation of our new processing system, occupation information was not captured in our system for either PMIC or PIC. An occupation field now exists in our new system.

- In November 2007 the Companies implemented an action plan to decipher how, when and why the customer occupation came to be entered in the new system.
- Our plan addresses data accuracy of occupations coded into the new processing system.
- Our investigation supports the number of customers potentially affected is less than one percent (1%) of our entire book of automobile business.
- Current findings on customers contacted indicate a high percentage of the originally identified group are in fact correctly placed and rated accurately.

Subsequent and Ongoing Company Action:

Examiner Comments (page 11, paragraph 5):

“The Companies are contacting all 1,024 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.”

In addition to the Companies issuing a training memo on November 13, 2007 (as noted by the examiners on page 11 paragraph 6), we have taken the added steps below:

- The Companies successfully implemented a system edit to our front-end system. The edit stops users from moving ahead in the system unless they enter an occupation. Based on the occupation entered, the customer is quoted and aligned with the correct Company.
- The Companies continue to self-audit the system edit.

Subsequent and Ongoing Company Action Rate and Form Filing Standard 2 continued:

- Since all systems do not currently have a fail-proof edit, we have also added a quality assurance process to identify and correct any new business policy during the first 60 days where the occupation is not aligned with the correct company.

Claim Standard #2 (page 16, paragraph 2):

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

Company Response:

The Company requires all claims to be promptly and thoroughly investigated. At the time this claim was initiated the original claims adjuster was on performance review. The handling of this claim did not follow internal company procedures, and did not meet our standards. The file was reopened and sent to our Subrogation Department. After review, an appropriate compromise settlement was reached. The company reclaimed \$2,800.00 from the at-fault party and returned the \$500.00 deductible to our insured.

Claim Standard #2 (page 16, paragraph 5):

The Companies' claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file. (WAC 284-30-340)

- 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.

Claim Standard #7 (page 17, paragraph 2):

The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC-284-30-395(1))

- 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.

Company Response/subsequent events (addressing both Claim Standards # 2 and #7):

We reviewed the examiners' comments and recommendations for the eighteen (18) claims files reviewed above. The Companies proactively created and implemented a robust action plan to address both standards. The plan includes the following five (5) components:

1. **Letter to Vendor:** October 8, we wrote to the vendor we use to help ascertain the value of a total loss. We specifically requested that it include mileage on all comparable vehicles listed in valuations completed for the Companies. On October 9, 2007, our vendor assured us it will always include odometer and display all available advertised equipment information for vehicles listed as comparable vehicles on the valuation report.

Company Response/subsequent events (addressing both Claim Standards # 2and #7):
continued

2. **Training for Total Loss Adjusters:** The Total Loss Department completed training during the months of October and November and will continue this training.
 - Review and refresh all requirements for handling total losses.
 - Review and refresh on methods of settling total losses.
 - Review and refresh on the use of adjuster authorization and discretion on evaluation of total loss tools and information in deciding the most appropriate course of action.
 - Review and refresh on vendor expectations, tools, methodology, information, validity and when to use adjuster discretion.
3. **Training for all Claims Adjusters:** During October and November 2007, all claims adjusters received training. The Companies reiterated our standards and expectations that all claimants receive an explanation and options for settling a loss, and to document all settlement offers and advice about the claim process. Documentation includes setting appointments, making contact attempts, conducting investigation or evaluations, detailing comparable vehicles related to total loss evaluations and obtaining expert opinion.
4. **Self-Auditing:** Three (3) months of self-auditing was completed March 2008. Audit results reflect all vehicles used as comparables for total loss claims contained mileage. Reviews of selected claim files show increased documentation and compliance in accordance with standards.

In addition to the above action plan, we continue to utilize opportunities to discuss the importance of complete file documentation. During file review sessions with claims examiners and Claims Department meetings, the Companies' procedures and expectations are reiterated.

Our response addresses comments, findings and recommendations as outlined in your draft report. Through the successful implementation of proactive action plans for each area of examiner concern, we illustrate the Companies' ongoing commitment to compliance standards. We appreciate your consideration of our reply before issuing the final report.

Sincerely,



Cheryl Wall
Corporate Compliance Manager
PEMCO Mutual Insurance Company
PEMCO Insurance Company
(206) 628-7975