

**MARKET CONDUCT EXAMINATION**  
**GRANGE INSURANCE ASSOCIATION**  
**AND**  
**ROCKY MOUNTAIN FIRE AND CASUALTY**  
**COMPANY**

**200 CEDAR STREET**  
**SEATTLE, WA 98104**

**JANUARY 1, 2006 – DECEMBER 31, 2006**



Order No. G 07-0355  
Grange Insurance Association  
Rocky Mountain Fire and Casualty Company  
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:

Grange Insurance Association, NAIC #22101  
Rocky Mountain Fire and Casualty Company, NAIC #22128

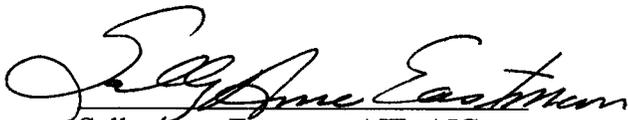
In this report, the above entities are collectively referred to as "the Companies". This examination is respectfully submitted.

## 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 Jeanette M. Plitt, CLU 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 Grange Insurance Group during the course of this market conduct examination, including those people assigned to provide 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 2002. The Companies subject to that exam were the Grange Insurance Association and Rocky Mountain Fire and Casualty Company. Based on the examination findings ten instructions were issued to the Companies. The disciplinary order included a compliance plan and fine of \$75,000.

Findings in the prior examination included:

- Failure to conduct business in the legal name of the Companies
- Failure to identify the Companies' home office or principal office on advertising
- Failure to correctly identify the insurer on binders
- Binders issued beyond that time frame allowed by statute
- Failure to issue policies according to the filed rates or failure to follow the underwriting rules
- Failing to apply schedule rating plans appropriately or failure to document rationale for decisions made regarding schedule rating as required
- Failure to advise insureds of an increase in rates because of a rate change on the renewal offers
- Failure to document "a" rate rationale
- Insufficient detail on cancellation or non-renewal notices to satisfy the requirements of the code
- Failure to comply with the WACs governing the evaluation of total loss vehicles

All recurring findings are identified in the appropriate section of this examination.

## SCOPE

### Time Frame

The examination covered the Companies' operations from January 1, 2006 through December 31, 2006. The examination was performed in the Companies' home office in Seattle, Washington.

## Matters Examined

This exam is a follow-up to the previous exam and targeted those areas found to be in violation in that exam. The examination included the following areas:

Company Operations and Management  
General Examination Practices  
Agent Licensing  
Complaints  
Rate and Form Filing  
Underwriting and Rating  
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.

### 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 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 Companies follow 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
Grange Insurance Association*	Washington	April 4, 1894	April 26, 1922
Rocky Mountain Fire and Casualty Company**	Washington	1911	July 1, 1959

\*Originally named Washington Fire Relief Association. The name changed to Grange Fire Insurance Association on June 4, 1936, and then to its current title on June 16, 1943.

\*\*Originally known as Rocky Mountain Fire Insurance Company of Great Falls, Montana.

Both Companies wrote the following lines of business during the examination period:

### Personal lines

- Auto
- Homeowners
- Dwelling Fire
- Inland Marine
- Umbrella

### Commercial Lines

- Commercial Package
- Property
- General Liability
- Inland Marine
- Business owners including grange halls
- Auto
- Farm
- Excess Liability

## 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 insurance in the State of Washington.	RCW 48.05.030(1), RCW 48.36A.100
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, RCW 48.36A.110

## GENERAL EXAMINATION STANDARDS

### Findings

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION	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), RCW 48.36A.280
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 the Insurance Commissioner and filed annual anti-fraud reports with the OIC.	RCW 48.30A.045 RCW 48.30A.060

The following General Examination Standard Failed:

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

#### Standard #2:

- One (1) letter in a claim file identified Grange Insurance Group instead of the actual insurer in the signature block.
- Two hundred three (203) letters were sent to policyholders with their renewal policies. The letters identified the company as Grange Insurance Company. The Company's legal name is Grange Insurance Association. This situation appeared to be isolated to only this specific letter template.

*Subsequent event: The template was corrected while the examiners were on site.*

This was a finding in the prior examination.

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. A sample of the records from the list of active agents provided by the Companies was also reviewed. As part of the review the examiners compared the Companies' agency appointment 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.

The examiners also reviewed records of terminated agents to ensure that policies were not being cancelled or non-renewed because the agent-company relationship had terminated.

### 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)
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
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

**Standard #2:**

- One (1) agent was not appointed with the Grange Insurance Association however he was appointed with the Rocky Mountain Fire and Casualty Company. The Companies provided copies of the appointment notices which were both submitted on June 15, 2000. The Certificate of Appointment was received from the OIC on June 21, 2000 for the Rocky Mountain appointment. The Companies failed to notice that the Certificate of Appointment for the Grange Insurance Association was not received from the OIC. The Companies issued 3,462 new or renewed policies for this un-appointed agent since that time.

See Appendix 2 for detail.

*Subsequent event: The Company submitted the appropriate appointment paperwork to the OIC while the examiners were on site.*

## COMPLAINTS

The examiners reviewed the Companies' complaint log, procedures and the complaints filed in the OIC database. There were 71 complaints filed between January 2004 and December 2006. The examiners selected 25 files from this group to review.

Complaints were evenly distributed between claims, underwriting and customer services issues.

There were no trends identified.

### Findings

The following Complaint Standard Passed without Comment:

#	COMPLAINT STANDARD	REFERENCE
1	<b>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.</b>	<b>WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4</b>

## UNDERWRITING AND RATING

The examiners reviewed 165 of 98,700 personal policies that were either new or renewed during the exam period. The examiners also reviewed 71 of 8,575 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 law

### Findings

The following Underwriting and Rating Standards Passed without Comment:

#	UNDERWRITING AND RATING STANDARD	REFERENCE
1	<b>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.</b>	<b>RCW 48.18.230(1), WAC 284-30-560</b>
2	<b>The Companies require an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.</b>	<b>RCW 48.22.030 (3) and (4)</b>
3	<b>The Companies require an insured to reject Personal Injury Protection (PIP) coverage in writing.</b>	<b>RCW 48.22.085(2)</b>
4	<b>During underwriting, the Companies use only the personal</b>	<b>RCW 48.30.310,</b>

#	UNDERWRITING AND RATING STANDARD	REFERENCE
	driving record for personal insurance and only the employment driving record for commercial insurance.	RCW 46.52.130, WAC 308-104-145, Bulletin 79-3
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)
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 the total available line of credit. <i>Effective 06/30/03</i>	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. <i>Effective 06/30/03</i>	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

The following Underwriting and Rating Standard Passed with Comment:

#	UNDERWRITING AND RATING STANDARD	REFERENCE
5	The Companies apply schedule rating plans to all policies as applicable in its filings.	WAC 284-24-100

**Standard #5:**

- One (1) farm package policy was rated with a 20% debit. The underwriting documentation and analysis did not support the decision for all the debits that were applied. There was support for some of the debits. The policy was re-rated and a refund of \$200 sent to the insured. Although this violation appeared in the prior exam, this appeared to be a training issue for an individual underwriter as there were no other violations in the sample.

See Appendix 3 for detail.

## RATE AND FORM FILING

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

Policies from the new and renewal sample were also manually rated to ensure that the Companies rating programs were processing policies according to the filed rates and that underwriting rules were being followed.

### Findings

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
5	Policy forms for commercial policies are filed within 30 days of use.	RCW 48.18.103(2)
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
7	Rates for commercial policies must be filed within 30 days of use.	RCW 48.19.043(2)

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 does not issue any policies that are not in accord with the filing in effect.	RCW 48.19.040(1) and (6)

#### **Standard #2:**

- One (1) policy was rated in the wrong protection class resulting in undercharging the insured.
- One (1) policy was mis-rated as a result of a problem in an agent's rating tool. The Companies had corrected this problem prior to the examination and waived the \$41 in undercharged premium.
- One (1) commercial auto policy was rated incorrectly because the physical damage coverage was rated using the wrong territory factor. The rating system automatically

defaulted to territory 28 and required manual correction by the underwriter to change the territory. The examiners requested that the Companies identify all commercial policies with physical damage coverage that were erroneously rated in territory 28 when they should have been manually corrected to another territory factor. The Companies identified 14 policies that should have been corrected by the underwriter. These files were re-rated while the examiners were on site. One resulted in an overcharge of \$10.37, which was refunded to the insured. The other 13 were undercharged. The Companies waived the undercharged premium.

### RENEWAL, CANCELLATION AND NON-RENEWAL

The examiners selected 90 of 11,237 personal policies and 50 of 886 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 the state laws governing policy non-renewal or cancellation. Renewal policies selected in the Underwriting sample of the examination were also considered in this section.

#### 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

The examiners selected 200 claim files for review from a population of 14,175 claims closed during the examination period. The examiners also selected an additional sample of 20 claims from 404 files with first party total loss claims.

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

### Findings

Two (2) claims errors were returned to management for correction.

- One (1) claim check had been coded as property damage. It should have been collision.
- One (1) claim had been underpaid by \$10. This appeared to be an arithmetic error. The Company sent a letter of apology and the additional amount to the insured.

The following Claim Settlement Standards Passed without Comment:

#	CLAIM SETTLEMENT 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 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)
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 Standards Passed with Comment:

#	CLAIM SETTLEMENT STANDARD	REFERENCE
2	The Companies claim files contain detailed log notes and work papers to allow reconstruction of the claim file.	WAC 284-30-340
5	The Companies comply with requirement for prompt investigation of claims.	WAC 284-30-370

**Standard #2:**

- Four (4) files did not contain sufficient documentation in the log notes to explain the sources of information, or to document the sequence of events that occurred.

**Standard # 5:**

- Two (2) files had delays in investigation without documentation to support the reasons there were delays.

See Appendix 5 for detail.

The following Claim Settlement Failed:

#	CLAIM SETTLEMENT STANDARD	REFERENCE
7	<b>The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.</b>	<b>WAC 284-30-390, WAC 284-30-3901- 3916</b>

**Standard #7:**

- Four (4) files did not contain sufficient documentation in the evaluation materials supplied by a vendor to determine if the market values for total loss vehicles were based on data that was compliant with WAC 284-30-3901. The vehicles that were used as comparables did not contain all the required criteria. Comparables are required to be the same make and model, same or newer year, similar options and mileage. The vehicles identified as comparable did not identify mileage in all cases.
- One (1) file did not contain the source of the salvage quote as required by WAC 284-30-3908.

This was a finding in the prior examination. See Appendix 5 for detail.

## SUMMARY OF STANDARDS

### Company 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), RCW 48.36A.100)	8	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, RCW 48.36A.110)	8	X	

### 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), RCW 48.36A.280)	9	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)	9		X
3	The Companies maintain full and accurate records and accounts. (RCW 48.05.280)	9	X	
4	The Companies filed an antifraud plan with the Office of Insurance Commissioner and filed annual anti-fraud reports with the OIC. (RCW 48.30A.045, RCW 48.30A.060)	9	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))	10	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)	10		X
3	The Companies must notify the OIC when an agent's appointment is revoked. (RCW 48.17.160(3))	10	X	

#	STANDARD	PAGE	PASS	FAIL
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))	10	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)	11	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)	11	X	
2	The Companies require an insured to reject or request lower limits for underinsured motorist coverage (UIM) coverage in writing. (RCW 48.22.030(3) and (4))	11	X	
3	The Companies require an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	11	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, WAC 308-104-145, Bulletin 79-3)	11	X	
5	The Companies apply schedule rating plans to all policies as applicable in its filings. (WAC 284-24-100)	12	X	
6	The Companies retain all documentation related to the development and use of (a) rates. (WAC 284-24-070)	12	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)	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	

#	STANDARD	PAGE	PASS	FAIL
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); total available line of credit. (WAC 284-24A-065(1) through (6)) <i>Effective 06/30/03</i>	12	X	
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)). <i>Effective 06/30/03 and T2005-06 issued October 10, 2005.</i>	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 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)	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 does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040(1) and (6))	13		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))	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))	13	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)	13	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	13	X	

**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)	14	X	
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)	14	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)	14	X	

**Claim Settlements:**

#	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 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 responds to all communications on a claim file within the time frames prescribed. (WAC 284-30-360(1),(3) and (4))	15	X	
5	The Companies comply with requirements 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)	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))	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 and RECOMMENDATIONS

	<b>INSTRUCTION</b>	<b>PAGE NUMBER</b>
1	The Companies are instructed to comply with RCW 48.05.190(1) to ensure all documents and correspondence identifies the legal name of the insuring Company accurately. (repeat violation)	9
2	The Companies are instructed to comply with RCW 48.17.160 to ensure that agents are appointed with the Company prior to soliciting business for the Companies.	10
3	The Companies are instructed to comply with RCW 48.19.040(1) and (6) to ensure policies are rated according to the filings that apply. (repeat violation)	13
4	The Companies are instructed to comply with WAC 284-30-3901-3916 to ensure that total losses are evaluated according to the standards set forth in regulation. The Companies are further instructed to document the source of salvage quotes. (repeat violation)	16

	<b>RECOMMENDATIONS</b>	<b>PAGE NUMBER</b>
1	It is recommended that the Companies include specific review of compliance to WAC 284-30-340 that requires claim files to contain sufficient log notes and documentation of events and of WAC 284-30-370 that requires prompt investigation in its internal claim file audits.	14

**APPENDIX 1**

<b>GENERAL EXAMINATION STANDARD #2 RCW 48.05.190(1)</b>	<b>The Companies conduct business in their own legal name.</b>
<b>Policy or Claim #</b>	<b>Comments</b>
203 policies	Letter to policyholders included with renewal notices identified the insurer as Grange Insurance Company. The legal name is Grange Insurance Association. These letters were sent to customers between December 2006 and March 15, 2007.
PAS000009666404	Letter in the claim file had Grange Insurance Group in the signature block instead of Grange Insurance Association.

**APPENDIX 2**

<b>AGENT ACTIVITY STANDARD #2 RCW 48.17.160</b>	<b>The Companies must appoint agents to represent the Companies prior to allowing agents to solicit business on behalf of the Companies. RCW 48.17.160</b>
<b>Policy #</b>	<b>Comments</b>
3,462 policies	One agent was not appointed with Grange Insurance Association. 3,462 new and renewal policies were written by this agent since June 2000.

**APPENDIX 3**

<b>UNDERWRITING AND RATING STANDARD #5 WAC 284-24-100</b>	<b>The Companies apply schedule rating plans to all policies as applicable in its filings.</b>
<b>Policy #</b>	<b>Comments</b>
FP 01004413	One policy was debited 20%. There was no analysis or documentation to support some of the debits. The policy was re-rated based on the debits that were supported with file documentation. \$200 was refunded to the insured.

**APPENDIX 4**

<b>RATE AND FORM FILING STANDARD #2</b>	<b>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 does not issue policies that are not in accord with the filings.</b>
<b>Policy #</b>	<b>Comments</b>
1Z00160670	The policy was rated with Snohomish County rate factors, however the property was located in Spokane. This resulted in undercharging the insured. The policy will be corrected at renewal.
PAS 0002197051	Rates not charged as filed. Company waived \$41.00 due to Company error.
14 commercial auto policies	Fourteen policies were rated incorrectly because the wrong territory factor was applied to the physical damage coverage. When rated correctly 13 of the policies were undercharged and will be corrected at renewal. The additional premium was waived. One policy was overcharged \$10.37 that was refunded to the insured.

**APPENDIX 5**

<b>CLAIM SETTLEMENT PRACTICES STANDARD #2 WAC 284-30-340</b>	<b>The Companies claim files contain detailed log notes and work papers to allow reconstruction of the claim file.</b>
<b>Claim #</b>	<b>Comments</b>
PAS 000218411501	Source of salvage quote was not documented in the claim file.
PAS000038249402	Source of salvage quote was not documented in the claim file.
PAS000046603213	Source of salvage quote was not documented in the claim file.
PAS000006355403	Log notes in the file were incomplete and did not document activities that had occurred.
<b>CLAIM SETTLEMENT PRACTICES STANDARD #5 WAC 284-30-370</b>	<b>The Companies comply with requirements for prompt investigation of claims</b>
<b>Claim #</b>	<b>Comments</b>
PAS 000089546914	PIP payments delayed.
CAS 710512276004	Claim investigation delayed.
<b>CLAIM SETTLEMENT PRACTICES STANDARD #7 WAC 284-30-390, WAC 284-30-3901-3916</b>	<b>The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.</b>
<b>Claim #</b>	<b>Comments</b>
PAS 000218411501	Source of salvage quote was not documented.
PAS000038249402	Source of salvage quote was not documented.
PAS000215003501	Vehicles used as comparables did not have the mileage of the vehicles listed.
PAS000084659804	Vehicles used as comparables did not have the mileage of the vehicles listed.
PAS000086145601	Vehicles used as comparables did not have the mileage of the vehicles listed.



GRANGE INSURANCE ASSOCIATION



ROCKY MOUNTAIN FIRE & CASUALTY CO

**GRANGE INSURANCE ASSOCIATION**

**ROCKY MOUNTAIN FIRE & CASUALTY COMPANY**

**RECEIVED**

NOV 20 2007

INSURANCE COMMISSIONER  
COMPANY SUPERVISION

RESPONSE TO

WASHINGTON OFFICE OF INSURANCE COMMISSIONER

MARKET CONDUCT EXAMINATION

JANUARY 1, 2006 – DECEMBER 31, 2006

**Grange Insurance Group  
200 Cedar Street  
Seattle, WA 98121-1223**



**GRANGE INSURANCE ASSOCIATION  
ROCKY MOUNTAIN FIRE & CASUALTY COMPANY**

Mr. Odiorne,

Senior Management, the Board of Directors and Grange Insurance Association's Managers respectfully acknowledge the findings, instructions and recommendations identified and outlined in your draft of the referenced report of examination.

Our document is submitted as our response to your office regarding Grange Insurance Association's Market Conduct Examination encompassing our 2006 operations. The enclosed Response provides detailed actions designed to comply with all Instructions and Recommendations identified in the DOI's Market Conduct Examination.

We are continuing our commitment to maintain full compliance with respect to our obligations to the residents of Washington state, your Office and to the consumers of Grange Insurance Association and Rocky Mountain Fire and Casualty Company in all of our operating states.

Very truly yours,

**GRANGE INSURANCE ASSOCIATION  
ROCKY MOUNTAIN FIRE & CASUALTY COMPANY**

Mr. Rudy Werle  
Vice President, Claims

**WASHINGTON DOI  
MARKET CONDUCT EXAM  
2006**

**Instruction #1**

The Companies are instructed to comply with RCW 48.05.190(1) to ensure all documents and correspondence identify the legal name of the insuring Company accurately.

**Response**

As indicated in the findings, there was an isolated instance involving a specific letter template, which was corrected as soon as the error was found. A review of other letter templates showed that the company name was correctly shown. All operations and underwriting staff have been reminded of our responsibility to thoroughly review any and all correspondence. Subsequent to the identification of this error we instituted an additional operational review and sign-off requirement for future policy stuffers.

**WASHINGTON DOI  
MARKET CONDUCT EXAM  
2006**

**Instruction #2**

**Agent Activity Standard**

**Standard #2:** The companies require that agents are appointed to represent the companies prior to allowing them to solicit business on behalf of the Companies (RCW48.17.160)

One agent was not appointed with Grange Insurance Association. 3,462 new and renewal policies were written by this agent since June 2000.

Response:

1. On June 6, 2000, Appointment Certificates for Rush Insurance Financial Services, Inc. were submitted to the Washington Office of Insurance Commissioner for both Grange Insurance Association and Rocky Mountain Fire and Casualty Company. The effective date of the appointment was June 15, 2000.

On June 22, 2000, we received an Appointment Certificate from the OIC's office for the Rocky Mountain Fire & Casualty appointment but not for Grange Insurance Association. We believed both were returned. Subsequently, policies were issued and renewed for this agency in Grange Insurance Association. Unfortunately, the GIA appointment was overlooked.

Corrective Action:

We have implemented the following procedures to double check our agency appointment process:

1. We have added to our check list verification specifically for Grange Insurance Association and Rocky Mountain Fire & Casualty appointments, instead of just appointments confirmed by state (see attached).
2. When the renewal list is received from the state, we run a query against our database and compare the list of agents we have against the list of agents on the list.
3. We have met with staff and created the attached form for our internal control to ensure this oversight is not repeated.

**WASHINGTON DOI  
MARKET CONDUCT EXAM  
2006**

**Instruction #3**

The Companies are instructed to comply with RCW 48.19.040(1) and (6) to ensure policies are rated according to the filings that apply.

**Response**

There is a minor error in the explanatory comments included with the third bullet point, indicating that there were 14 incorrectly rated policies when, in fact, there was only one. After the Examiner discovered the incorrectly rated policy, the Companies reviewed the other 13 policies rated in Territory 28. All other policies were rated correctly. This correction should carry through to APPENDIX 4 of your report as well, where it is asserted that 14 commercial auto policies were rated incorrectly, when there was only one error.

We regret that any errors were made and take great pride in the actions we took subsequent to the 2002 Market Conduct Exam to remain 100% compliant. We have internal audits in place to verify that we follow all of our approved filings. Any errors that are found are quickly corrected and the person involved is provided additional training, as needed. We will continue to strengthen our business practices and internal audit procedures.

## **Instruction #4**

### **Claim Settlement Practices**

**Claim Settlement Practices Standard: The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements (WAC 284-30-390, WAC 284-30-391-3916)**

Four files did not contain sufficient documentation in the evaluation materials supplied by a vendor to determine if the market values for total loss vehicles were based on data that was compliant with WAC 284-30-3901. The vehicles that were used as comparables did not identify mileage in all cases.

Our vendor, ADP, has been inconsistent with data provided. At the time of the examination, we were piloting auto evaluation programs with CCC and Mitchell. We have now contracted with CCC. It was our company expectation that the adjuster go outside the scope of ADP to verify mileage on comparable vehicles.

We conducted training meetings with all adjusters who handle material damage/total losses as well as their supervisors on 8/10/07. During that meeting, the WAC Definitions for Settlement of Vehicle Claims was provided to each adjuster. As well, we provided information to the adjusters as to the need for using comparable vehicles on total loss evaluations on April 10, 2007, July 20, 2007 and August 10, 2007.

We have made it clear to the staff that there must be compliance with WAC 284-30-390. We did receive misleading information from our prior vendor and we are attaching various e-mails received from them wherein they informed us that Leslie Cryer from the DOI had approved the "typical vehicle" evaluation method.

**WASHINGTON DOI  
MARKET CONDUCT EXAM  
2006**

**Recommendations #1**

**Claim Settlement Practices**

**Washington DOI Recommendations:**

It is recommended that the companies include specific review of compliance to WAC 284-30-340 that requires claim files to contain sufficient log notes and documentation of events and of WAC 284-30-370 that requires prompt investigation in its internal claim file audits.

The adjusters were individually counseled while the examiners were on site as soon as the specific file issue was identified.

**Further Action:**

We have provided each adjuster with a Claims Guide that includes timelines as well as Definitions for Settlement of Vehicle Claims. Attached is a copy of the Claims Guide index and specifically, the timelines expectations. Additionally, it has been stressed that appropriate, detailed file notes are maintained to explain sources of information and to document the sequence of events that have occurred.

**INSTRUCTION #2**

**EXHIBIT**

# AGENCY CHANGE CHECKLIST

*Effective Date:* \_\_\_\_\_

**Current Agency #(s):**  
**Master #:** \_\_\_\_\_

**New Agency #'s**  
**Master #:** \_\_\_\_\_

**Current Agent Name** \_\_\_\_\_

**New Agent Name** \_\_\_\_\_

## Transaction:

### \*\*\*NEW APPTS\*\*\*

- Received complete Status Report
- Equifax ordered
- Equifax received
  
- Req CP (packet or node id)
- Add to CP list - rep
- Add to CP "Pending" list
- Rec'vd CP info from agent
- Fax to CP
- Confirmation from CP
  
- Assign new agency code(s)
  
- Appt(s) to state:  
     \_\_\_ GIA - CA, ID, WA, WY  
     \_\_\_ RM - ID, WA  
     \_\_\_ Non-appt - CO, OR
- Appt(s) confirmed by state  
     \_\_\_ GIA - CA ID WA WY  
     \_\_\_ RM - ID WA
- Manuals mailed
- Agency Agreements mailed
- Agency Agreements received
- Agency Agreements signed by VP
- Return copy to Agency
  
- Direct Deposit  
     \_\_\_ Req   \_\_\_ Rcvd
- W-9 to acct
- Notify TMP / Mailroom
- Website  
     \_\_\_ Admin  
     \_\_\_ OPS
- Xact Value  
     \_\_\_ Spreadsheet  
     \_\_\_ Website  
     \_\_\_ Ltr & Tips/tricks
  
- Add agency code to download  
     \_\_\_ ARS / ECS  
     \_\_\_ RLM  
     \_\_\_ add to spreadsheet  
     \_\_\_ submit help ticket  
     \_\_\_ e-mail agency

### \*\*\*TERMINATIONS\*\*\*

- Letter of Resignation received
- Copy of buy/sell agreement
  
- Cancel Choicepoint
- Strike-through on CP rep's list
- Copy of p/h list to Rod
- Appt(s) Cancel from state  
     \_\_\_ GIA - CA, ID, WA, WY  
     \_\_\_ RM - ID, WA  
     \_\_\_ Non-appt - CO, OR
- Appt(s) Cancel confirmed:  
     \_\_\_ GIA - CA, ID, WA, WY  
     \_\_\_ RM - ID, WA
  
- Cancel speed dial-HelpDesk
- Notify U/W & TMP of term
  
- \*\*\*IF APPLICABLE\*\*\***
- Term payout choice rec'd
- notes owing
- Prepare final valuation
- Val. and cvr. ltr. -Acctg.
- Term chk./val. to agent
- Copy of term. chk to rep
  
- Req for rtmt. plaque rcv'd
- Rtmt. plaque mailed
- Rtmt. option ltr. to agt.
- Rtmt. option rcv'd
- Rtmt. option, cvr. ltr., copy of frozen val. of agency-Acct
- 1<sup>st</sup> rtmt. check rcv'd
- 1<sup>st</sup> rtmt, check mailed to agent
- P/H ltr. prepared
- P/H ltr. Mail out confm'd
- Copy of P/H ltr. to CSU
- 1 copy of P/H list (duplex) to rep/agent/file
  
- \*\*\*VALUATIONS\*\*\***
- Prepare new valuation
- 2 notes, ltr., pmt sch-agent
- 2 notes to VP
- 1 signed orig note to agent
- 1 signed orig note to Accounting with cvr ltr, pmt sch, valuation

- Agency Change Notice prepared
- Agent Change Notice sent
  
- Encore/TFG/Diamond entered
- Encore/TFG/Diamond verified
  
- Request speed dial
- Speed dial received \_\_\_\_\_
  
- Enter database - Access  
     \_\_\_ Master   \_\_\_ Numeric   \_\_\_ E&O  
     \_\_\_ Addr2   \_\_\_ Comm.   \_\_\_ Status  
     \_\_\_ License   \_\_\_ Termination
- Contacts: PLUW \_\_\_\_\_  
           CLUW \_\_\_\_\_  
           Rep \_\_\_\_\_

### \*\*\*TRANSFER'S\*\*\*

- PART I**  
     \_\_\_ Numeric to I  
     \_\_\_ Status to I  
     \_\_\_ add Term Date  
     \_\_\_ Let Tala know
  
- PART II**  
     \_\_\_ Numeric transfer  
     \_\_\_ Mocha transfer  
     \_\_\_ Download (add/delete)
  
- PART III**  
     \_\_\_ Verify agents website policies transferred

### \*\*\*FILED CLOSED\*\*\*

- Dead / New Files Prepared  
     Date: \_\_\_\_\_  
     Closed By: \_\_\_\_\_
  
- Date: \_\_\_\_\_
- Reviewed By: \_\_\_\_\_

**From:** Steve Watson  
**Sent:** Monday, July 23, 2007 3:04 PM  
**To:** Todd Merkley  
**Subject:** Agent Appointment & Licensing Process Changes  
**Importance:** High

Todd, as a result of our DOI audit this past spring, we made two significant changes to our Agency Appointment & Appointment Renewal processes. They were:

New Agency Appointments:  
DOI's audit in April, 2007.

Please let me know if you have any questions.

Steve Watson  
Director of Marketing  
Grange Insurance Association  
office - 206.448.4911, ext. 2295  
cell - 206.459.5778  
email - [Steve.Watson@Grange.com](mailto:Steve.Watson@Grange.com)

**INSTRUCTION #4**

**RECOMMENDATION #1**

**EXHIBITS**

**Sent:** Wednesday, November 14, 2007 1:43 PM

**To:** Claims

**Subject:** Market Conduct Exam

During the recent Washington State Market Conduct examination we discussed various findings with individuals as they came up. As well we had a training session regarding Total loss settlement requirements. As a reminder it is important that you document and explain the sequence of events as well as the source of information. Also, there were a couple files that a delay was noted in the investigation without supporting a reason for the delay. It is important that the file speak for itself and your activities are noted within the file.

Douglas M. England  
Regional Claim Manager  
Grange Insurance Group  
200 Cedar Street  
Seattle, Wa. 98121  
206-448-4911 xt. 2435

11/14/2007

**Dotti Beard**

**From:** Larry Kagele  
**Sent:** Friday, April 20, 2007 8:11 AM  
**To:** Rudy Werle; Dotti Beard  
**Subject:** FW: Invoice numbers

Here's the latest from the Audatex side. They couldn't identify their evaluations from the info I sent initially so I have provided them with their invoice numbers for that purpose.

From the beginning, Diane Klund from Audatex has been adamant that Leslie Cryer from the DOI had approved the "typical vehicle" evaluation method. Last time I talked to her, however, she revealed she just found out the Leslie no longer is the head of the Market Conduct group. She's not sure who is but thinks it now may be Sally. After she reviews these evaluations, Diane is going to contact Leslie to discuss and/or find out whom she needs to talk to.

Diane also confirmed that a "couple of years ago" she communicated with Rudy on this "typical vehicle" issue and assured us their methodology met the requirements of the WAC. She indicated there was an email stream (probably) on those communications.

I also received a voice mail from Peter Herlan and I believe he will be stopping by next week.

**From:** Larry Kagele  
**Sent:** Friday, April 20, 2007 7:55 AM  
**To:** 'diane.klund@audatex.com'  
**Subject:** Invoice numbers

Diane, here are your invoice numbers relative to the DOI inquiries. I have provided you a copy of SC#14 and SC#17 previously. The language contained in inquiries SC#16 – SC#22 is identical. Only #14 has separate language.

As far as I could tell, all of these evaluations used the "typical vehicle" analysis. Exact mileage on comparison vehicles was not given and that seems to be the focus of the DOI.

DOI #'s	INUSRED	AUDATEX INVOICE #
SC#14	Staley	18116506
SC#16	DeRose	15958780
SC#17	Mitchell	17122630
SC#18	Michaelson	17865375
SC#20	Tibbetts	17169928
SC#21	West	17246120
SC#22	Boucher	18165008

Hope this helps. Let me know if you need further info and please keep me informed from your end.

Thanks, lk

**Dotti Beard**

**From:** Rudy Werle  
**Sent:** Monday, April 16, 2007 12:58 PM  
**To:** Larry Kagele  
**Cc:** Dotti Beard  
**Subject:** RE: Total Loss Mileage

Thanks larry

*Rudy Werle*

Vice President, Claims  
Grange Insurance Association  
200 Cedar Street  
Seattle WA. 98121  
Phone 206-448-4911  
ext, 2372

**From:** Larry Kagele  
**Sent:** Monday, April 16, 2007 12:38 PM  
**To:** Rudy Werle  
**Subject:** FW: Total Loss Mileage

fyi

**From:** Roger Pursell  
**Sent:** Monday, April 16, 2007 9:57 AM  
**To:** Larry Kagele  
**Subject:** RE: Total Loss Mileage

Her name is Diane Klund. Two numbers to reach her: work (775) 824-0502 and cellphone # (775) 771-6734.  
Roger

**From:** Larry Kagele  
**Sent:** Monday, April 16, 2007 9:21 AM  
**To:** Donna Silver; Roger Pursell  
**Subject:** FW: Total Loss Mileage

Would you find out who this rep is? Thanks, lk.

He said their rep was just interfacing with DOI a few months ago and they are in compliance.

**From:** Rudy Werle  
**Sent:** Friday, April 13, 2007 12:36 PM  
**To:** Larry Kagele; Dotti Beard  
**Subject:** RE: Total Loss Mileage

We need to quickly move to another vendor. Get a little more detail regarding DOI who did they speak to when etc. I am sure Sally would like to know.

04/16/2007

*Rudy Werle*

Vice President, Claims

Grange Insurance Group

To: Rudy Werle; Dotu Beara

**Subject:** Total Loss Mileage

Interesting to note that Audatex still maintains the "typical" vehicle evaluation is sufficient for DOI purposes.

04/13/2007 12:05:38 PM - RPURSELL-Roger Pursell

CLMS - PAS000200004205

I called Audatex and advised them I need comps with miles shown, not a "typical vehicle". They put me through to a "Richard" and I explained our situation. We have to have comps with miles shown or we are not in compliance with the DOI. He said their rep was just interfacing with DOI a few months ago and they are in compliance. I said we just had an auditor from DOI and we were told to provide actual vehicle that have actual miles showing on our ACV report. This is going to happen with every Grange/Rocky Mountain total loss evaluation they run for us and Audatex should do what needs to be done to provide that product for us so we are in compliance. He said he will have their representative look into it. I will wait for their exception report. We will have to pay the difference between the standard \$30.00 Washington ttl loss eval and the exception report cost of \$35, (so each ttl loss eval we get from them will probably be done on an exception report basis at an increased expense of \$5.00 per evaluation). WRP

04/16/2007

## TOTAL LOSS TRAINING ATTENDEES

Rudy Werle  
Dorthy Beard  
Douglas Rial  
Gail Tuomi  
Catherine Borstad  
Jeremy Smith  
Roger Pursell  
Nyssa Kittell  
Lizzy Adkins  
Lisa VanPay  
Ernie Mamallo  
Julie Benedict  
Bob MacCracken  
Sondra Gallagher  
Hanna Oh  
Donna Silver  
Candace White

**Dotti Beard**

**From:** Rudy Werle  
**Sent:** Friday, July 20, 2007 10:01 AM  
**To:** Larry Kagele; Donna Silver; Liezel Adkins  
**Cc:** Dotti Beard; Jack Barker; Ryan Dudley; Douglas Rial  
**Subject:** WAC 284-30-3901- 3907 Definitions for Settlement of Vehicle claims  
**Importance:** High

You will be receiving hard copies of the above subject to discuss and distribute to your staff and any one who settles a total loss vehicle. Please let me know when the distribution and training has taken place.

Under **284-30-3901** pay special attention to section **(2) Comparable Vehicle. WAC 284-30-3907** special attention should be paid to (a) thru (c) and (c) (iii) & (vi).

We have not received the final report for the WA. DOI market Conduct Examination, the Chief Examiner did relay an exception will be taken for 4 improper total loss vehicles as mileage was missing on one or more comparables or the evaluations did not meet the definition for settlement of vehicle claims. As this is a repeat violation of our previous exam GIA is exposed to action by the WA. DOI.

Also noted in the total loss category by the state were files not detailing the support for salvage values. As you know we must note the file on how the salvage Value was established, i.e. "we secured salvage value from ProQuote, 3 salvor bids etc.

Thank you.

*Rudy Werle*

Vice President, Claims  
Grange Insurance Association  
200 Cedar Street  
Seattle WA. 98121  
Phone 206-448-4911  
ext, 2372

## **WAC 284-30-3901**

### **Definitions for settlement of vehicle claims.**

In addition to the definitions in WAC 284-30-320, the following definitions apply to WAC 284-30-3901 through 284-30-3916.

(1) "Actual cash value" means the cost to you to replace your vehicle with a comparable vehicle.

(2) "Comparable vehicle" means a vehicle that is the same make and model, same or newer year, similar body style, similar options and mileage as your vehicle and in as good or better overall condition as established by current data. To achieve comparability, any deductions or additions for options, mileage or condition can only be made if they are itemized and appropriate in dollar amount. An insurer must consider information supplied by you when determining deductions or additions.

(3) "Current data" means data no older than ninety days from the date of loss.

(4) "Principally garaged" means the zip code where the vehicle is normally kept.

(5) "Settlement" means when the payment is actually made to you and/or your lien holder.

## **WAC 284-30-3907**

### **How can my insurer settle my vehicle total loss claim?**

Your insurer can adjust and settle vehicle total losses by one of the following methods:

(1) Replacing your vehicle: Your insurer can settle your claim by offering to replace your vehicle with a comparable vehicle that is available for inspection within a reasonable distance from where your vehicle is principally garaged. Your insurer must advise you by phone or in writing of their settlement offer. This communication must be documented in the claim file. If it is a phone call, the documentation must include the date, time, and name of the person in your household they spoke with.

(2) Cash settlement: Your insurer can settle your claim by offering a cash settlement based on the actual cash value to purchase a comparable vehicle. Only vehicles identified as comparable may be used to arrive at the actual cash value. You can request a copy of the "valuation report" that notes the information used to determine the amount of the cash settlement. The offer of a cash settlement must use one of the following methods:

(a) The actual cash value of a comparable vehicle based on current data obtained from the principally garaged area. If a comparable vehicle cannot be found within the principally garaged area, the search area may be expanded only in increasing circles of twenty-five mile increments until a comparable vehicle is identified.

(b) Quotations for the actual cash value of a comparable vehicle obtained from two or more licensed dealers located within the principally garaged area. If two or more licensed dealers cannot be found within the principally garaged area, the search area may be expanded only in increasing circles of twenty-five mile increments until two or more quotes for comparable vehicles are obtained.

(c) The actual cash value of two or more comparable vehicles advertised for sale in the local media if the advertisements are no older than ninety days. The vehicle must be located within the principally garaged area. If two or more comparable vehicles cannot be found within the principally garaged area, the search area may be expanded only in increasing circles of twenty-five mile increments until two or more comparable vehicles are identified.

(d) Any source for determining statistically valid actual cash values within your vehicle's principally garaged area that meets all of the following criteria:

(i) The source must give primary consideration to the values of vehicles in the zip code where your vehicle was principally garaged.

(ii) The source's data base must produce values for at least eighty-five percent of all makes and models for a minimum of fifteen years taking into account the values of all major options for such vehicles.

(iii) The source must produce actual cash values based on current data available from the principally garaged area. If comparable vehicles cannot be found within the principally garaged area, the search area may be expanded until comparable vehicles are identified to assure statistical validity.

(iv) The source must rely upon the actual cash value of comparable vehicles that are currently available or were available in the market place within ninety days from the date of loss.

(v) Any adjustments for betterment or depreciation must be in compliance with WAC 284-30-3908.

(vi) The source must provide a list of the comparable vehicles used to determine the actual cash value. If more than thirty comparable vehicles are used, only thirty must be listed.

(e) When you and your insurer both agree, an evaluation that varies from the methods described in (a) through (d) of this subsection may be used. The determination of value must be supported by documentation. Your insurer must take reasonable steps to validate that the value so determined is accurate and representative of what the actual cash value would be of a comparable vehicle in the principally garaged area.

(f) Insurers remain responsible for the accuracy of evaluations based on outside sources used to establish actual cash values.

(3) Appraisal: If you and your insurer fail to agree on the actual cash value of your vehicle and your policy has an appraisal provision, you or your insurer may request that the appraisal provision of your policy be used as a method to resolve disputes concerning the actual cash value.

(4) Applicable taxes, license fees, and other fees incidental to transfer of evidence of ownership must be added to the actual cash value.

**Dotti Beard****From:** Larry Kagele**Sent:** Tuesday, April 10, 2007 7:48 AM**To:** Blake Howard (E-mail); Bob MacCracken; Brian Curry; Catherine Borstad; David Nelson (E-mail); Deborah Chaney; Donna Mogelgaard (E-mail); Donna Silver (E-mail); Douglas Rial; Elton Belts (E-mail); Eric Clark (E-mail); Ernie Mamallo; Fred Biehl (E-mail); Gail Tuomi; Georgie Anderson; Hanna Oh; Inger Kjosnes (E-mail); Janell Roberts; Jeff Thieme; Jennifer Van Matre; Jeremy Smith (E-mail); Julie Benedict; Justun Chang; Lisa-Anne Glenn; Lizzy Adkins (E-mail); Lynn Gettle (E-mail); Lynn Perry; mari laundroche; Mark Jensen; Marsha Miller (E-mail); Nyssa Kittell; Roger Pursell; Scott Ference; Scott Santos; Sheryl Johns; Sondra Gallagher (E-mail); Stefani Searles (E-mail); Stephanie Modkins**Cc:** Rudy Werle; Dotti Beard**Subject:** Total loss evaluations

Vehicle total loss evaluations are to be performed by using comparable vehicles. A comparable vehicle means a vehicle that is the same make and model, same or newer year, similar body style, similar options and mileage as the subject totaled vehicle. A comparable vehicle should be in as good or better overall condition than the totaled vehicle. The comparisons should be located as close as possible to the zip code where the totaled vehicle was garaged.

Be aware that the Audatex Autosource Valuation sometimes does not include mileage on the comparison vehicles. Part of your adjusting duties is to ensure mileage is properly noted on comparison vehicles. You can not accept evaluations that don't have the mileage properly recorded. There are a variety of options available if that occurs. You can request Audatex to rerun the evaluation, this time using proper comparisons with the mileage correctly recorded and inform Audatex we will not pay for missing mileage on comparable vehicles. There are various publications that can be utilized where mileage is recorded. If the mileage isn't given in those sources then a phone call to verify mileage must be made. Contacting dealerships for comparison purposes is always a good option.

As we've discussed before, remember to review all your total loss documentation to ensure that proper comparison vehicles are being used. If mileage isn't being properly recorded, you must take the necessary steps to correct that. In those events you do go beyond Audatex, make sure your activity is accurately and properly recorded in your file notes.

Please contact myself, Lizzy or Donna S if you have any questions. WAC's 384-30-3901 & 284-30-3907 are attached below. For those of you dealing with totals on a daily basis, placing a copy of these WAC's on your cubicle wall would be a good idea.

**WAC 284-30-3901 Definitions for settlement of vehicle claims.**

(1) "Actual cash value" means the cost to you to replace your vehicle with a comparable vehicle.

(2) "Comparable vehicle" means a vehicle that is the same make and model, same or newer year, similar body style, similar options and mileage as your vehicle and in as good or better overall condition as established by current data. To achieve comparability, any deductions or additions for options, mileage or condition can only be made if they are itemized and appropriate in dollar amount. An insurer must consider information supplied by you when determining deductions or additions.

(3) "Current data" means data no older than ninety days from the date of loss.

(4) "Principally garaged" means the zip code where the vehicle is normally kept.

(5) "Settlement" means when the payment is actually made to you and/or your lien holder.

**WAC 284-30-3907**

Your insurer can adjust and settle vehicle total losses by one of the following methods:

(1) **Replacing your vehicle:** Your insurer can settle your claim by offering to replace your vehicle with a comparable vehicle that is available for inspection within a reasonable distance from where your vehicle is principally garaged. Your insurer must advise you by phone or in writing of their settlement offer. This communication must be documented in the claim file. If it is a phone call, the documentation must include the date, time, and name of the person in your household they spoke with.

(2) **Cash settlement:** Your insurer can settle your claim by offering a cash settlement based on the actual cash value to purchase a comparable vehicle. Only vehicles identified as comparable may be used to arrive at the actual cash value. You can request a copy of the "valuation report" that notes the information used to determine the amount of the cash settlement. The offer of a cash settlement must use one of the following methods:

(a) The actual cash value of a comparable vehicle based on current data obtained from the principally garaged area. If a comparable vehicle cannot be found within the principally garaged area, the search area may be expanded only in increasing circles of twenty-five mile increments until a comparable vehicle is identified.

(b) Quotations for the actual cash value of a comparable vehicle obtained from two or more licensed dealers located within the principally garaged area. If two or more licensed dealers cannot be found within the principally garaged area, the search area may be expanded only in increasing circles of twenty-five mile increments until two or more quotes for comparable vehicles are obtained.

(c) The actual cash value of two or more comparable vehicles advertised for sale in the local media if the advertisements are no older than ninety days. The vehicle must be located within the principally garaged area. If two or more comparable vehicles cannot be found within the principally garaged area, the search area may be expanded only in increasing circles of twenty-five mile increments until two or more comparable vehicles are identified.

(d) Any source for determining statistically valid actual cash values within your vehicle's principally garaged area that meets all of the following criteria:

(i) The source must give primary consideration to the values of vehicles in the zip code where your vehicle was principally garaged.

(ii) The source's data base must produce values for at least eighty-five percent of all makes and models for a minimum of fifteen years taking into account the values of all major options for such vehicles.

(iii) The source must produce actual cash values based on current data available from the principally garaged area. If comparable vehicles cannot be found within the principally garaged area, the search area may be expanded until comparable vehicles are identified to assure statistical validity.

(iv) The source must rely upon the actual cash value of comparable vehicles that are currently available or were available in the market place within ninety days from the date of loss.

(v) Any adjustments for betterment or depreciation must be in compliance with WAC 284-30-3908.

(vi) The source must provide a list of the comparable vehicles used to determine the actual cash value. If more than thirty comparable vehicles are used, only thirty must be listed.

(e) When you and your insurer both agree, an evaluation that varies from the methods described in (a) through (d) of this subsection may be used. The determination of value must be supported by documentation. Your insurer must take reasonable steps to validate that the value so determined is accurate and representative of what the actual cash value would be of a comparable vehicle in the principally garaged area.

(f) Insurers remain responsible for the accuracy of evaluations based on outside sources used to establish actual cash values.

(3) Appraisal: If you and your insurer fail to agree on the actual cash value of your vehicle and your policy has an appraisal provision, you or your insurer may request that the appraisal provision of your policy be used as a method to resolve disputes concerning the actual cash value.

(4) Applicable taxes, license fees, and other fees incidental to transfer of evidence of ownership must be added to the actual cash value.

## Dotti Beard

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**From:** Douglas England  
**Sent:** Wednesday, November 14, 2007 3:47 PM  
**To:** Claims  
**Subject:** Claim Settlement Practices

**Attachments:** Scan001.PDF



Scan001.PDF (185  
KB)

During the recent Washington State Market Conduct examination we discussed various findings with individuals as they came up. As well we had a training session regarding Total loss settlement requirements and the need for sufficient documentation as to how the amount of salvage value was established, i.e. Insurance Auto Auctions, Copart etc, comparison vehicles were listed but did not have mileage, we cannot use a vehicle for comparison without documented mileage. As a reminder it is important that you document and explain the sequence of events as well as the source of information. Also, there were a couple files that a delay was noted, one involving a delayed PIP payment, and a delay in the investigation without supporting a reason for the delay. It is important that the file speak for itself and your activities are noted within the file. Attached is the narrative of DOI to further clarify the issues.

Douglas England  
Regional Claim Manager

# CLAIMS GUIDE

1. Time Lines
2. File Standards
3. Investigation
4. Definitions for Settlement of Vehicle Claims
5. Statement Guides
  - Vehicle Accident – Insured Driver
  - Vehicle Accident – Claimant Driver
  - Vehicle Accident – Witness
  - Vehicle Accident – Investigating Officer
  - Vehicle Theft – Insured
  - Vehicle Fire – Insured
  - Slip & Fall – Insured
  - Dog Bite – Insured
  - Dog Bite – Claimant
  - Dog Bite – Witness
  - Structural Fire – Insured
  - Homeowner Theft – Insured
6. Residency Investigation Checklist

## CLAIMS GUIDE TIME LINES

All staff is expected to handle claims pursuant to the Fair Claims Regulations and must be familiar with the complete Claims Handling and Fair Claims Practices Laws and Regulations for the states we operate in.

The complete regulations are located on the Internet.

The following chart provides an overview of critical time lines. The first column (**GIG**) represents Grange Insurance Association's expectations.

# CLAIMS GUIDE

	GIG	WA	OR	CA	WY	CO	ID
Contact Insured/Claimants	Same day - 8 hours						
Acknowledge receipt of a claim	Same day	10 days	30 days	15 days	Reasonably promptly	Reasonable time	Reasonably promptly
Accept or deny claim upon receipt of proof of claim <sup>(1)</sup>	15 days	15 days	30 days	40 days	45 days	60 days <sup>(2)</sup>	30 days <sup>(3)</sup>
Advise 1st party insureds as to the expiration of benefits	30 days	30 days	30 days	30 days	Silent	Silent	Silent
Advise 3rd party claimants as to the expiration of the statute of limitations	60 days or no later than 30 days after first advance pay	60 days	60 days or no later than 30 days after first advance pay	60 days	Silent	Silent	Silent
Advance payment letter			30 days after first payment				
Complete Investigation	30 days	30 Days	45 days	40 Days	Reasonable time	Reasonable time	30 Days
Give notice more time is needed to investigate	15 days <sup>(4)</sup>	15 Days <sup>(4)</sup>	30 Days	Every 30 Days	Reasonable time	Every 30 days	30 Days
Respond to Communications	10 days	10 days	30 Days	15 Days	Promptly	Reasonable time	30 Days
Provide forms and specify the information the claimant must provide for proof of claim	10 days	10 days	30 days	15 days		Reasonable time	
Furnish a Release on a settled claim	20 days	20 Days	Silent	Silent	Silent	Reasonable time	Silent
Issue payment upon receipt of release	15 days	15 days		Immediately, no later than 30 days	45 days	Reasonable time	20 days
Respond to DOI (GIG)	Acknowledge same day; detailed response within 24 hours; 3 days if necessary	15 days	21 days	21 days			

Disclosure of all pertinent benefits to first party claimants - At first contact

(1) "Proof of Claim" means any evidence or documentation in the possession of the insurer or agent, whether as a result of its having been submitted by the claimant or obtained by the Insurer in the course of its investigation, that provides any evidence of the claim and that reasonably supports the magnitude or the amount of the claimed loss.

(2) If more time is needed, every 30 days thereafter.

(3) 30 days for E-claims, 45 days for paper claims

(4) Give notice more time is needed within 15 days, then every 30 days thereafter.