

MARKET CONDUCT EXAMINATION

**WESTERN NATIONAL ASSURANCE
COMPANY**

**5350 West 78th
Minneapolis, MN 55435**

July 1, 2003 through June 30, 2004



Exhibit A
Order No. G 05-75
Western National Assurance Company

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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 Company:

Western National Assurance Company, NAIC # 24465

In this report, the above entity is also referred to as "the Company". This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

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

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

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



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

FOREWORD

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

Prior Examination Summary

The prior examination of the Western National Assurance Company was in 1995. The findings from that examination will not be discussed in this report due to the length of time between examinations.

SCOPE

Time Frame

The target examination covered the Company's operations from July 1, 2003 through June 30, 2004. The examination was performed in the Company's regional office in Seattle, Washington and in the Seattle Office of the Insurance Commissioner.

Matters Examined

The examination included the following areas:

- Agent Licensing
- Complaints
- Rate & Form Filings
- Underwriting and Rating
- Cancellations and Non-Renewals
- Claims Settlement Practices

SAMPLING STANDARDS

Methodology

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

92%	Confidence Level
+/- 5%	Mathematical Tolerance

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

Regulatory Standards

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

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

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

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

COMPANY HISTORY AND OPERATIONS

Western National Assurance Company was domiciled in Seattle, Washington until early 2005 when the Company re-domesticated to Minnesota. The Company is a wholly owned subsidiary of Western National Mutual Insurance Company of Minneapolis, Minnesota. Western National Mutual Insurance Company was originally known as the Mutual Creamery and Cheese Factory Fire Insurance Company of Minnesota. Cascade Insurance Company which was incorporated in Washington on June 28, 1957 was purchased by Western National in 1974. At that time the Company sold personal lines automobile, homeowners, and commercial lines in Washington and Oregon. The present name was adopted in January 1976.

The Company currently markets the following lines of business:

Personal Auto	Homeowner
Dwelling Fire	Personal Umbrella
General Liability	Commercial Fire
Commercial Package	Commercial Auto
Inland Marine	Crime
Commercial Umbrella	

Stuart C. Henderson is the Company's President and CEO.

Findings

The following Operations and Management Standards Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	The Company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington.	RCW 48.05.030(1)
2	The Company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding company.	RCW 48.07.070

GENERAL EXAMINATION FINDINGS

The following General Examination Standards Passed without Comment:

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

The following General Examination Standards Passed with Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	The Company does business in its own legal name.	RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06

Standard #2:

- One letter in the commercial underwriting sample did not contain the correct insurer's name. The Company acknowledged that this was a letter produced from a form letter that showed multiple insurers and was designed to allow free-form communication, however it was not used frequently. The form was immediately corrected by the Company upon discussion with the examiners.
- One letter and one Certificate of Insurance in a claim file did not identify the insuring Company's legal name.

See Appendix 1 for details.

AGENT ACTIVITIES

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

Findings

The following Agent Activity Standard Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	The Company ensures 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 Company in any way.	RCW 48.17.060(1) and (2)
2	The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company.	RCW 48.17.160
3	The Company must notify the OIC when an agent's appointment is revoked.	RCW 48.17.160(3)
4	The Company 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)

COMPLAINTS

The examiners reviewed 14 of the 23 complaints filed with the OIC between January 1, 2002 and December 31, 2004.

Files were reviewed to determine if the Company responded to complaints filed with the OIC within time frames stated in its procedures and those required by Washington regulation. Files were reviewed for adverse trends. The examiners also reviewed the Company's complaint handling procedures.

Findings

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 50 of 4,900 commercial policies and 50 of 5,399 personal policies that were either new or renewed during the examination period.

Files were reviewed to determine if the Company:

- followed the filed rating plans
- followed the underwriting rules
- were in compliance with Washington laws

The examiners manually rated policies to determine if there were any programmed errors in the Company's computer system and if the Company was using the filed and approved rates.

Findings

The following errors were identified by the examiners. The policies were returned to management for review and correction, if necessary.

- One policy was issued without a required form.

- The Company failed to order an audit on a risk after it was placed elsewhere. This was an error.
- The Company failed to advise an insured of a renewal offer in a timely manner and used credits on a policy in order to match prior term premium, as required by RCW 48.18.2901.

The examiners also identified one conflict between the Company's underwriting rules and two filed homeowner forms. The forms did not contain the same language regarding fully earned premium as was in the underwriting rules. The Company advised that it will re-file the underwriting rule to comply with the approved forms.

The following Underwriting Standards Passed without Comment:

#	UNDERWRITING STANDARD	REFERENCE
1	Binders issued to temporarily secure coverage 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 Company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.	RCW 48.22.030(3) and (4)
4	During underwriting, the Company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.	RCW 46.52.130, RCW 48.30.310, Bulletin 79-3
6	The Company retains all documentation related to the development and use of (a) rates.	WAC 284-24-070
7	The Company 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.	WAC 284-30-560(2)(a)
9	An insurer, when using credit scoring to underwrite, may not use the following factors. §(3) the number of credit inquires, §(4) collections identified with medical industry code, §(5) the purchase of a new vehicle or home (exceptions) or §(6) Insurer cannot use total available line of credit to set rate or deny coverage. The insurer is required to tell the consumer the significant factors that adversely affected the credit history or insurance score and explain significant factors that lead to adverse action in clear and simple language.	WAC 284-24A-065 WAC 284-24A-010 Effective 06-30-03
10	§(1)The insurer filed the credit scoring model by January 1, 2003. Related rates, risk classification plans, rating factors and	WAC 284-24A-015

#	UNDERWRITING STANDARD	REFERENCE
	rating plans were filed and approved by June 30, 2003.	

The following Underwriting Standards Failed:

#	UNDERWRITING STANDARD	REFERENCE
3	The Company requires an insured to reject Personal Injury Protection (PIP) coverage in writing.	RCW 48.22.085(2)
5	The Company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the Company's decision.	WAC 284-24-100
11	No insurer may alter an application for insurance without the insured's written permission.	RCW 48.18.070

Standard # 3:

- Two (2) commercial policies were written with an individual named in the policy as well as a Company name or a "doing business as" (dba). No PIP coverage was added to the policy although the Company did not obtain a signed PIP rejection as required. See Appendix 2 for details.

Standard #5:

- Five (5) commercial policies did not contain the underwriter's analysis for schedule rating decisions.
- Nine (9) commercial policies were debited without supporting documentation. \$624 was returned to policyholders.
- In reviewing commercial underwriting files the examiners found that the Company used debits to increase premium for contractor classification risk because the felt that the filed ISO rate were lagging behind loss trends. Based on this information the examiners required the Company to review all contractor risks written between 2002 and 2005 to identify all policies where this occurred. The Company advised that between March 2002 through December 2003, 358 policies were adversely affected by the Company's actions. See Appendix 2 for details and Standard #2 in the Underwriting and Rating section of this exam for additional violations based on this action.

Standard #11:

- One (1) commercial auto policy and two (2) personal auto policies were issued with coverage limits that were not the same as those requested on the applications. The Company changed the coverage or the limits without written permission from the applicant to alter the application. See Appendix 2 for details.

RATE AND FORM FILINGS

The examiners selected forms that were attached to the new and renewal policies used in the Underwriting sample for the rate and form filings review. The purpose was to determine if the Company was complying with the laws regarding the filing and use of rates and forms.

Findings

The following errors were identified by the examiners. The policies were returned to management for review and correction, if necessary.

- One policy was returned to management for correction as it had been issued without one required form.
- The Company failed to order an audit on an auditable risk after it was cancelled and placed with another company.
- The Company failed to make a renewal offer in a timely manner. To comply with the requirements of renewal in RCW 48.18.2901 the Company used credits to force the rate on the new policy period to match the old premium.

The following Rate and Form Filing Standards Passed without Comment:

#	POLICY PROVISION STANDARD	REFERENCE
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use.	RCW 48.18.100, RCW 48.18.103
3	The declarations page of a policy must identify all forms that make up the policy. The policy will identify all coverage limits.	RCW 48.18.140(2)(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 Protections forms issued by the Company 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:

#	POLICY PROVISION STANDARD	REFERENCE
2	Where required, the Company filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect.	RCW 48.19.040(1) and (6)

Standard #2:

- Three hundred fifty eight (358) policies were not rated according to the Company's filed rates. The Company felt that ISO rates were inadequate for contractor liability exposures. They used schedule rating debits for the period of March 2002 to December 2003 to increase premium. This resulted in \$ 61,048 in premium overcharges that was returned to the insureds.

- Five hundred ninety-six (596) policies were estimated by the Company as not rated according to their filing for UIM coverage. The errors arose because of the use of a vendor product that did not calculate the premium as it was filed. The range of error was approximately \$10.00 undercharge to \$4.00 overcharge. The Company could not isolate the rating further without manually rating all the policies.
- One policy was not rated correctly because the Company used the wrong deductible factors.

See Appendix 3 for detail.

CANCELLATIONS AND NON-RENEWALS

The examiners reviewed files to determine if the Company was in compliance with state laws governing policy cancellation and non-renewal. The examiners selected a sample of 50 of 1,446 personal policies and 50 of 989 commercial policies that were either cancelled or non-renewed during the exam period.

Findings

One policy was non-renewed because the insured did not provide additional information requested by the underwriter. The Company sent the request to the agent, however, there was no way to ensure that the insured got the request. This was returned to the underwriting manager with a recommendation to review the procedure.

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

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
1	The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the Company.	RCW 48.17.591
2	The Company sends 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 Company includes 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 reviewed 75 of 912 personal and commercial claims that were closed during the exam period. They also reviewed 9 of 16 additional claims that contained settlements of first party total losses. Commercial and personal lines claims are handled by the same claims personnel.

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

The following Claims Standards Passed without Comment:

#	CLAIM STANDARD	REFERENCE
1	The Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.	WAC 284-30-330
3	The Company provided an explanation of all pertinent coverage to first party claimants.	WAC 284-30-350
6	The Company must accept or deny coverage within 15 days after receiving proof of claim.	WAC 284-30-380
9	The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required.	RCW 46.12.070, WAC 308-56A-460

The following Claims Standards Passed with Comment:

#	CLAIM STANDARD	REFERENCE
2	The Company claim files contain detailed log notes and work papers so as to allow the examiners to reconstruct the claim file.	WAC 284-30-340
4	The Company acknowledges 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)
5	The Company complies with the requirement for prompt investigation of claims.	WAC 284-30-370

Standard #2:

- Four (4) files did not contain sufficient documentation to reconstruct activities in the file. See Appendix 4 for details.

Standard #4:

- Two (2) files contained information that the Company did not respond to a claim or correspondence within the prescribed timeframes. See Appendix 4 for details.

Standard #5:

- One (1) file did not contain documentation of an adequate or timely investigation to pursue the insured's subrogation rights. The file did not contain documentation showing any timely attempts to obtain funds from the adverse party who was found to be partially negligent for the injury. See Appendix 4 for details.

The following Claims Standards Failed:

#	CLAIM STANDARD	REFERENCE
7	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.	WAC 284-30-390, or WAC 284-30-3901 through 3916 as applicable
8	The Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.	WAC 284-30-395

Standard #7:

- Three (3) of sixteen total loss files were not settled according to the requirements of WAC 284-30-3901 through 3916. In two files the vendor's method of establishing the actual value of the total loss did not meet all the criteria identified in WAC 284-30-3907(d)(i)-(vi). One file was not documented with the information or method for establishing the salvage value. See Appendix 4 for details.

Standard #8:

- Three (3) of seventy five files reviewed did not contain Personal Injury Protection (PIP) notification of benefits letters that described under what situations benefits could be terminated, denied or reduced. The examiners considered this standard failed as approximately 40% of the files in the sample were not auto claims or were on commercial auto with no PIP coverage. See Appendix 4 for details.

Subsequent event: While on site, the examiners were provided with a revised template for the PIP letters that included the mandated language regarding the denial, termination or reduction of PIP benefits.

SUMMARY OF STANDARDS

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington. (RCW 48.05.030(1))	7	X	
2	The Company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding company. (RCW 48.07.070)	7	X	

General Examination Standards:

#	STANDARD	PAGE	PASS	FAIL
1	The Company made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	7	X	
2	The Company does business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06)	8	X	
3	The Company maintains full and accurate records and accounts. (RCW 48.05.280)	7	X	
4	The Company filed an antifraud plan with the Office of Insurance Commissioner. (RCW 48.30A.045)	7	X	

Advertising:

#	STANDARD	PAGE	PASS	FAIL
1	The Company' advertising materials do not contain any false, deceptive or misleading representations. (RCW 48.30.040)	N/A		
2	The Company does not use quotations or evaluations from rating services or other sources in a manner that appears to be deceptive to the public. (WAC 284-30-660)	N/A		
3	The Company must use its full name and include the location of its home office or principle office in all advertisements. (RCW 48.30.050, Bulletin 78-7, Bulletin T 2000-06)	N/A		
4	The Company is required to show the actual financial condition of the Company as it corresponds with the financial statements published by each Company and must include only those assets actually owned and possessed by the Company exclusively. (RCW 48.30.070)	N/A		
5	The Company does not advertise the existence of the	N/A		

#	STANDARD	PAGE	PASS	FAIL
	Washington Insurance Guaranty Association. (RCW 48.30.075)			
6	The Company does not include any statements in its advertising material that would appear to defame the name of other insurers. (RCW 48.30.080)	N/A		
7	The Company does not misrepresent the terms of its policies in any form during the advertising and solicitation of its products. (RCW 48.30.090)	N/A		
8	The Company does not offer, promise, allow, give, set off, or pay to the insured or to any employee of the insured any rebate, discount, abatement or reduction of premium or any part of these as an inducement to purchase or renew insurance unless specifically exempted from this statute. (RCW 48.30.140, RCW 48.30.150)	N/A		

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	The Company ensures 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 Company in any way. (RCW 48.17.060(1) and (2))	8	X	
2	The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company. (RCW 48.17.160)	8	X	
3	The Company must notify the OIC when an agent's appointment is revoked. (RCW 48.17.160(3))	8	X	
4	The Company 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))	8	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(2))	10	X	
2	The Company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing. (RCW 48.22.030(3) and (4))	10	X	
3	The Company requires an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	11		X
4	During underwriting, the Company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance. (RCW 46.52.130, RCW 48.30.310, Bulletin 79-3, WAC 308-104-145)	10	X	
5	The Company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the Company's decision. (WAC 284-24-100)	11		X
6	The Company retains all documentation related to the development and use of (a) rates. (WAC 284-24-070)	10	X	
7	The Company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	10	X	
8	Binders must identify the insurer which is bound by the form, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received. (WAC 284-30-560(2)(a))	10	X	
9	An insurer, when using credit scoring to underwrite, may not use the following factors. §(3) the number of credit inquires, §(4) collections identified with medical industry code, §(5) the purchase of a new vehicle or home (exceptions) or §(6) insurer cannot use total available line of credit to set rate or deny coverage. (WAC 284-24A-065) The insurer is required to §(1) tell the consumer the significant factors that adversely affected the credit history or insurance score	10	X	

#	STANDARD	PAGE	PASS	FAIL
	(2) explain significant factors that lead to adverse action in clear and simple language (WAC 284-24A-010) Effective 06-30-03			
10	(1) The insurer filed the credit scoring model by January 1, 2003. (2) Related rates, risk classification plans, rating factors and rating plans were filed and approved by June 30, 2003 (WAC 284-24-A-015)	10	X	
11	No insurer may alter an application for insurance without the insured's written permission. RCW 48.18.070	11		X

Rate and Form Filings:

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

Cancellations and Non-Renewals:

#	STANDARD	PAGE	PASS	FAIL
1	The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the Company. (RCW 48.17.591)	13	X	
2	The Company sends offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	13	X	
3	The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570), (Bulletin 96-2)	13	X	

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	14	X	
2	The Company's claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file. (WAC 284-30-340)	14	X	
3	The Company provided an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	14	X	
4	The Company acknowledged receipt of a claim within 10 days, and respond to all communication on a claim file within the time frames prescribed. (WAC 284-30-360(1), (3), and (4))	14	X	
5	The Company complies with requirement for prompt investigation of claims. (WAC 284-30-370)	14	X	
6	The Company must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	14	X	
7	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390 and WAC 284-30-3901 through 3916)	15		X
8	The Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395)	15		X
9	The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	14	X	

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTIONS

	Instruction	Page
1	The Company is instructed to comply with RCW 48.22.085(2) and obtain PIP rejections as required. (Underwriting Standard #3)	11
2	The Company is instructed to comply with WAC 284-24-100 to ensure that those files eligible for schedule rating contain the supporting documentation and underwriter's analysis as required. The Company is further instructed to return premium on all policies referenced in the exam findings. (Underwriting Standard #5)	11
3	The Company is instructed to comply with RCW 48.18.070 and not alter an application without the insured's written permission. (Underwriting Standard #11)	11
4	The Company is instructed to comply with RCW 48.19.040(1) and (6) and issue policies according to its filed rates. (Rates & Forms Filings Standard #2)	12
5	The Company is instructed to comply with WAC 284-30-3901 through 3916 and settle all total loss claims in accordance with its requirements. (Claims Standard #7)	15
6	The Company is instructed to comply with WAC 284-30-395 and ensure all PIP claimants receive the information that explains under what circumstances PIP benefits can be terminated, limited, or denied. (Claims Standard #8)	15

RECOMMENDATIONS

	Recommendation
1	The examiners recommend that the Company establish a procedure to ensure that insureds are contacted and made aware of underwriting information that is being requested through their agents, prior to taking any adverse action because the requested information has not been received.

APPENDIX 1

GENERAL EXAM STANDARD #2 RCW 48.05.190(1)	The Company conducts business in its own legal name.
Policy or claim #	Comments
300005800	Letter to the insured did not show the correct Company name. The Company advised this had been produced from a template, and that the template had been corrected.
300335490	Letter and Certificate of Insurance did not show the correct Company name.

APPENDIX 2

UNDERWRITING AND RATING STANDARD #3	The Company requires an insured to reject Personal Injury Protection coverage in writing.
Policy number	Comments
CA30003876 01/000	The declaration page of the policy listed a named individual as well as a Company name or a "dba." PIP coverage was not included nor rejected as required.
CA30005791 01/000	The declaration page of the policy listed a named individual as well as a company name or a "dba." PIP coverage was not included nor rejected as required.
UNDERWRITING AND RATING STANDARD #5	The Company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the Company's decision.
Policy number	Comments
358 policies	Company used unsupported schedule rating debits to increase premium because the Company felt the ISO rates were inadequate. The Company re-rated these policies at the direction of the examiners. \$61,048 was returned to policyholders.
3000191232	Debits were unsupported with factual documentation. Refund to policyholder \$22
300001953	File documentation did not provide underwriters analysis for schedule

	rating decisions
300002463	Debits were unsupported with factual documentation. Refund to policyholder \$56
300005005	File documentation did not provide underwriters analysis for schedule rating decisions
300005203	Debits were unsupported with factual documentation. Refund to policyholder \$215
30004161	Debits were unsupported with factual documentation. Refund to policyholder \$87
300006932	Debits were unsupported with factual documentation. Refund to policyholder \$61
30004143	File documentation did not provide underwriters analysis for schedule rating decisions
30002986	File documentation did not provide underwriters analysis for schedule rating decisions
30007460	File documentation did not provide underwriters analysis for schedule rating decisions
30007386	Debits were unsupported with factual documentation. Refund to policyholder \$94
30007387	Debits were unsupported with factual documentation. Refund to policyholder \$95
30004904	Debits were unsupported with factual documentation. Refund to policyholder \$48
30004110	Debits were unsupported with factual documentation. Refund to policyholder \$20
CP 30002034	Debits were unsupported with factual documentation. Refund to policyholder \$9
UNDERWRITING AND RATING STANDARD #11	No insurer may alter an application for insurance without the insured's written permission.
Policy number	Comments
PAP 300077548	The policy was issued with coverage limits that were not the same as those asked for on the application. The Company changed the limits without the applicant's permission to alter the application.
CA 3005791	The application shows the insured requested 35,000 in PIP coverage; the policy was issued medical payments coverage of \$5,000.
PAP 300077976	The policy was issued with coverage limits that were not the same as those asked for on the application. The Company changed the limits without the applicant's permission to alter the application.

APPENDIX 3

RATE AND FORM FILING STANDARD #2	Where required, the Company has 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 filing.
Policy number	Comments
358 policies	The Company did not rate according to the filed ISO rates. The Company used debits to increase the rates on between March 2002 and December 2003. \$61,048 was returned to policy holders.
596 policies	The Company purchased a rating program from a vendor that was not programmed correctly and from 3/01/01 to 12/01/04 the Company was either overcharging by \$4 or undercharging by \$10 per vehicle for the coverage underinsured coverage. This affected 596 policies.
GL 300006762	The Company used the wrong deductible factors resulting in an overcharge for the premium. Refund to the insured \$12.

APPENDIX 4

CLAIMS SETTLEMENT STANDARD #2	Company claim files contain detailed log notes and work papers that allow reconstruction of the claim file.
Claim number	Comments
300330015	File was not documented with how the salvage value was established
300316938	File did not contain documentation supporting a response to a subrogation letter from another carrier via a telephone call
300323822	File did not contain documentation of the adjuster's response to letters
300202592	File did not contain documentation of the adjuster's response to letters
CLAIMS SETTLEMENT STANDARD #4	The Company acknowledges receipt of a claim within 10 days and responds to all communication on a claim file within the time frame prescribed and provides reasonable assistance, forms and instruction to the first party claimants.
Claim number	Comments
3003117607	The insured reported a claim promptly to the agent. The agent did not report the claim for several weeks.
300316938	The Company failed to respond to a letter within the time frame established in the code.
CLAIM	The Company complies with the requirements for prompt investigation of

SETTLEMENT STANDARD #5	claims.
Claim number	Comments
300303701	The Company failed to conduct an adequate investigation to enable the Company to protect their subrogation claim, or to obtain contribution from the adverse driver who was partially negligent to settle a claim from a passenger.
CLAIM SETTLEMENT STANDARD #7	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements in WAC 284-30-390 & 3901-3916.
Claim number	Comments
300318291	The total loss evaluation prepared by a vendor was not completed in accordance with the code.
30072718	The total loss evaluation prepared by a vendor was not completed in accordance with the code
3000301500	The file did not contain information to explain how the value of the salvage was established
CLAIM SETTLEMENT STANDARD #8	The Company complies with the regulation regarding notification of PIP benefits, limitations, termination or denial of benefits.
Claim number	Comments
300074835	The Company did not send a PIP advisory letter that contained the required elements as described in WAC 284-30-395
300318291	The Company did not send a PIP advisory letter that contained the required elements as described in WAC 284-30-395
300300223	The Company did not send a PIP advisory letter that contained the required elements as described in WAC 284-30-395



**WESTERN NATIONAL
INSURANCE**

The relationship company

August 29, 2005

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner for Company Supervision
Office of Insurance Commissioner
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Olympia, WA 98504-0255

RECEIVED
SEP 01 2005
INSURANCE COMMISSIONER
COMPANY SUPERVISION

RE: Draft Market Conduct Report

We are in receipt of the draft of the Market Conduct Report. The following are our comments:

Instruction #1

We have reaffirmed the need for a rejection of PIP coverage on vehicles owned by individuals and the need for a signed rejection form from the insured has been discussed with all members of the underwriting department. Procedures are in place to monitor compliance.

Instruction #2

We have reaffirmed with the underwriters that reasons used to justify any schedule credits or debits applied to a policy must be properly documented by information contained in the underwriting file in every case.

We did apply debits on many contractor policies due to the ISO's failure to respond in a timely fashion to the phenomenon of construction defect claims. Our debit was based on what we felt to be factual information and felt justified in our interpretation of the regulation and the use of the debit under the section for classification peculiarities. While we still feel that this was an appropriate reason for use of the schedule rating program, we have complied with the request of the examiners by returning all premium derived from our use of this debit by endorsement. We ceased the use of this reason in late 2003.

The Underwriting Manager has begun a monthly audit of policies to insure that all schedule credits or debits are applied and documented.

Instruction #3

The underwriters have been instructed to have any deviations from the original application signed off by the insured. The Underwriting Manager will audit the new procedures. Both the agent and insured will be notified by letter.

Instruction #4

We have contacted the vendor of our rating program concerning the incorrect rating of UIM. This has been corrected.

Instruction #5

We have implemented new procedures with our vendor in handling total vehicle losses in accord with Washington Statute. The claim manager will audit all losses involving a total vehicle loss settlement.

Instruction #6

Our PIP form now complies with Washington Statutes.

Recommendation #1

When sending any request to the agent for additional underwriting information, we will also send a copy to the insured. We thank you for the suggestion.

Additional Comment #1

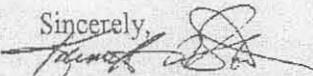
On page 12 of the report, under "findings", the second item makes note of failure to order an audit. When the examiners originally brought this up during the exam, we explained that our delay in ordering an audit and the anticipated size of an audit would not be fair to the insured. Despite our best efforts between auditors and ourselves, we were unable to find a regulation or manual rule that addresses this issue.

Additional Comment #2

Finally, we refer you to the comments we made in previous responses to many of the items raised during the exam. We acted in good faith (as noted in Additional Comment #2), and have returned premium at your request to comply with your interpretation of the law. However, with all due respect to your position, and not knowing your final conclusions regarding enforcement, we reserve our right to assert and support our original position on these various issues should this matter go to enforcement.

Thank you for the courtesies extended to us during this exam, and for your willingness to take the time to discuss these issues with us throughout the exam.

Sincerely,



Kenneth T. Stover
Executive Vice President & General Manager
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