# DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

| | | |
|---|---|---|
| In re: | ) | |
| | ) | |
| Alfa Vision Insurance Corporation (NAIC #12188) | ) | Examination No. 1007-10-TGT |
| Alfa Specialty Insurance Corporation (NAIC #11004) | ) | |
| | ) | |

## ORDER OF THE DIRECTOR

NOW, on this 18TH day of DECEMBER, 2012, Director John M. Huff, after consideration and review of the market conduct examination report of Alfa Vision Insurance Corporation (NAIC #12188) and Alfa Specialty Insurance Corporation (NAIC #11004) (hereafter referred to collectively as "Alfa"), report number 1007-10-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3(3)(a), RSMo, and the Stipulation of Settlement ("Stipulation") does hereby adopt such report as filed. After consideration and review of the Stipulation, report, relevant work papers, and any written submissions or rebuttals, the findings and conclusions of such report are deemed to be the Director's findings and conclusions accompanying this order pursuant to §374.205.3(4), RSMo.

This order, issued pursuant to §§374.205.3(4) and 374.280, RSMo and §374.046.15. RSMo (Cum. Supp. 2010), is in the public interest.

IT IS THEREFORE ORDERED that Alfa and the Division of Insurance Market Regulation having agreed to the Stipulation, the Director does hereby approve and agree to the Stipulation.

IT IS FURTHER ORDERED that Alfa shall not engage in any of the violations of law and

regulations set forth in the Stipulation and shall implement procedures to place the Company in full compliance with the requirements in the Stipulation and the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times.

IT IS FURTHER ORDERED that Alfa shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of $75,250 payable to the Missouri State School Fund.

IT IS SO ORDERED.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of my office in Jefferson City, Missouri, this 18th day of DECEMBER, 2012.

John M. Huff
Director

# DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

TO: Alfa Vision Insurance Corporation
210 Westwood Place, Suite 200
Brentwood, TN 37027

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DEC 13 2012
MO. DEPT OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

RE: Alfa Vision Insurance Corporation (NAIC #12188)
Alfa Specialty Insurance Corporation (NAIC #11004)
Missouri Market Conduct Examination #1007-10-TGT

## STIPULATION OF SETTLEMENT AND VOLUNTARY FORFEITURE

It is hereby stipulated and agreed by John M. Huff, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration, hereinafter referred to as "Director," Alfa Vision Insurance Corporation (NAIC #12188), and Alfa Specialty Insurance Corporation (NAIC #11004) (hereafter collectively referred to as "Alfa"), as follows:

WHEREAS, John M. Huff is the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration (hereafter referred to as "the Department"), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State in Missouri; and

WHEREAS, Alfa has been granted certificates of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, the Department conducted a Market Conduct Examination of Alfa and prepared report number 1007-10-TGT; and

WHEREAS, the report of the Market Conduct Examination revealed that:

1. In numerous instances, Alfa failed to document claim files with a copy of a sales tax affidavit in violation of §144.027, §374.205.2 (2), and 20 CSR 300-2.200 (3) (B) 3 [replaced by 20 CSR 100-8.040 (3) (B) 3, and violated §375.1007 (4) because the claims were not fairly and equitably settled;

2. In numerous instances, Alfa sent letters to claimants which contained a misstatement of §375.991 in violation of §375.936 (4);

3. In 2 instances, Alfa sent correspondence to claimants that stated another state's law which was not applicable to Missouri claimants in violation of §375.936 (4);

4. In 12 instances, Alfa failed to provide a 45 day letter to claimants in violation of §375.1007 (4), and 20 CSR 100-1.050 (1) (C);

5. In 5 instances, Alfa failed to effectuate prompt fair and equitable settlement of claims in violation of §375.1007 (4);

6. In 7 instances, Alfa failed to disclose all pertinent benefits and coverages to the insured or misrepresented relevant facts or policy provisions relating to coverages at issue in violation of §375.1007 (1) and 20 CSR 100-1.020 (1) (A) & (B);

7. In 1 instance, Alfa failed to complete the investigation of a claim within 30 days after notification of the claim in violation of §375.1007 (3) and 20 CSR 100-1.050 (4);

8. In 1 instance, Alfa failed to document the inception, disposition and handling of a claim in violation of §374.205.2 (2) and 20 CSR 300-2.200 (3) (A) [replaced by 20 CSR 100-8.040 (3) (B);

9. In 1 instance, Alfa failed to return a signed application for the policy term plus two years in violation of §374.205.2 (2) and 20 CSR 300-2.200 (3) (A) 1 A [replaced by 20 CSR 100-8.040 (3) (A) 1 A;

10. In 3 instances, Alfa sent written declination notices that was not sufficiently clear and specific in violation of §379.118.1 (3);

11. In 66 instances, Alfa sent non-renewal notices that were not sufficiently clear and specific in violation of §379.118.1 (3).

WHEREAS, Alfa hereby agrees to take remedial action bringing it into compliance with the statutes and regulations of Missouri and agrees to maintain those corrective actions at all times, to reasonably assure that the errors noted in the above-referenced market conduct examination reports do not recur. Such remedial actions shall include, but not be limited to, the following:

1. Alfa agrees to provide a sales tax affidavit to every total loss claimant whether or not the claimant initially chooses to retain their damaged vehicle;

2. Alfa agrees to document each total loss claim file with a copy of the sales tax affidavit;

3. Alfa agrees to develop a sales tax affidavit survey to be sent to all total loss claimants with claims dating from 1/1/07 to the date of the order closing this exam. This survey must request information including, but not limited to, the following: (a) whether the claimant received the sales tax affidavit; (b) if the claimant did receive one, the date upon which they received it; (c) whether the claimant replaced the total loss vehicle; (d) whether the claimant used the sales tax affidavit; and (e) if the claimant used the affidavit, (i) the date on which it was used; (ii) the number of days the affidavit provided to the claimant to claim the credit after the date of the total loss determination to the date of the purchase of a replacement auto; and (iii) the amount of credit provided to the claimant on the affidavit. It should include a blank copy of Missouri sales tax affidavit that would have been issued or sent to the claimant.

The survey must be reviewed and approved by the Department prior to its use. Once the survey is completed and responses are received by the Company, the Company must submit a report including information on who received the survey, who responded, copies of responses, who it paid, how much it paid the individual, the date paid, and the aggregate amount paid out. Alfa shall provide restitution, including applicable interest, for the amount of the lost credit to any total loss claimant who replaced their vehicle within 180 days of payment and who was not timely provided with a sales tax affidavit. The information required should be included in a report to the DIFP within 120 days after a final order closing this exam is entered by the Director.

4. Alfa agrees to make payment of restitution in the amount of $1,000 plus applicable interest on claim 189744. A letter must be included with the payment, indicating that "as a result of a Missouri Market Conduct examination "it was found that an additional payment was owed on the

claim". Additionally, evidence must be provided to the Department that such payment has been made within 120 days after the date of the Order finalizing this examination.

5. Alfa agrees to review all claims from January 1, 2007 to the date a final order is entered in this matter where Alfa was aware that a claimant suffered an injury for which Medical Payments coverage might apply to ensure that all claims were handled in a consistent manner and to ensure that claims were not denied or went unpaid because the Company failed to conduct a reasonable investigation of the claim. If any claims were improperly denied or went unpaid because Alfa failed to investigate the extent of injury suffered by a claimant and/or the extent of medical bills incurred by a claimant, Alfa must issue any payments that are due to the claimants for Medical Payments coverage, bearing in mind that an additional payment of nine per cent (9%) interest per annum is also required on all claims submitted, pursuant to §408.020. A letter must be included with the payments, indicating that "as a result of a Missouri Market Conduct examination," it was found that additional payment was owed on the claims. Additionally, evidence must be provided to the Department that such payments have been made within 120 days after the date of the Order finalizing this examination.

WHEREAS, Alfa, after being advised by legal counsel, does hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity for a hearing, which may have otherwise applied to the above referenced Market Conduct Examination.

WHEREAS, Alfa hereby agrees to the imposition of the ORDER of the Director and as a result of Market Conduct Examination #1007-10-TGT further agrees, voluntarily and knowingly to surrender and forfeit the sum of $75,250.

NOW, THEREFORE, in lieu of the institution by the Director of any action for the SUSPENSION or REVOCATION of the Certificate(s) of Authority of Alfa to transact the business of insurance in the State of Missouri or the imposition of other sanctions, Alfa does hereby voluntarily and knowingly waive all rights to any hearing, does consent to undertake the remedial actions set forth in this Stipulation, does consent to the ORDER of the Director and does surrender and forfeit the sum of $75,250, such sum payable to the Missouri State School Fund, in accordance with §374.280.

DATED: 11/28/12

President
Alfa Vision Insurance Corporation

DATED: 11/28/12

President
Alfa Specialty Insurance Corporation

Alfa Specialty Insurance Corporation
Alfa Vision Insurance Corporation
The Vision Insurance Group, LLC

RECEIVED
MAY 17 2012
MO. DEPT OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

May 16, 2012

Mr. Stewart Freilich
Missouri Department of Insurance
301 West High Street
Jefferson City, MO 65102-0690

RE: Missouri Market Conduct Examination #1007-10-TGT
Alfa Vision Insurance Corporation (NAIC #12188)
Alfa Specialty Insurance Corporation (NAIC #11004)
**Draft Market Conduct Report Response**

Dear Mr. Freilich:

This document is in response to the draft market conduct report dated April 10, 2012 and your letter dated April 17, 2012. Our responses to the criticisms found in the draft report are noted below and, for the most part, mimic our initial responses to the criticisms when first presented individually by the examiners.

Upon your review, please contact me and we can attempt to resolve any outstanding issues or company disagreements contained within the draft report response. I look forward to speaking with you.

Regards,

Steve Grizzle
AVP, Compliance and Risk Management
Alfa Vision and Alfa Specialty Insurance Companies

P.O. Box 2128 ■ Brentwood, TN 37024-2128
Toll Free (877) 584-7466 ■ www.alfapolicy.com

## EXAMINATION FINDINGS – CLAIMS

### A. AVIC Private Passenger Auto Bodily Injury Claims Paid

1. The examiners found nine instances in which the Company failed to document the file with a copy of a sales tax affidavit. Therefore, the examiners could not ascertain if it was provided to the claimants concerning their total loss vehicle.

| Claim Number | Claim Underpayment | Interest |
|---|---|---|
| 123070 | $178.60 | $76.33 |
| 124429 | $281.94 | $120.49 |
| 126045 | $297.25 | $126.74 |
| 119334 | $500.75 | $206.47 |
| 139584 | $175.61 | $62.75 |
| 184336 | $56.74 | $3.81 |
| 189842 | $76.11 | $5.10 |
| 190564 | $49.35 | $6.04 |
| 210509 | $265.75 | $17.83 |

Reference: §§144.027, 374.205.2(2), 375.1007(4), 408.020 RSMo, and 20 CSR 300-2.200(3)(B)(3) [as replaced by 20 CSR 100-8.040(3)(B)3 eff. 7/30/08].

The Company disagrees with the examiner in all instances.

In seven of the cases listed above, the vehicle owners elected to retain their vehicles. RSMo 144.027 provides for a sales tax credit in situations where a motor vehicle is "replaced due to a theft or casualty loss". The Company contends that where the owner of a motor vehicle elects to retain the vehicle, they have effectively made the decision not to replace it due to the accident, and thus eliminating the owner's right to a sales tax affidavit. A finding otherwise would allow the owner of the vehicle to obtain a tax credit towards the purchase of another vehicle without effectively replacing the damaged vehicle, a result the statute does not contemplate or condone.

In the remaining two cases (126045 and 119334), the Company contends that RSMo 144.027 only allows for a tax credit toward the purchase price of replacement motor vehicle and does not support the remedy being requested, as no proof or replacement was ever received. Thus, no sales tax affidavit was ever produced. The Company suggests and is prepared to mail a notice to the owner requesting they submit proof that sales tax was incurred within 180 days of settlement, and upon such proof, the Company will reimburse the proper amount of tax owed plus the statutory 9% per annum interest.

2. The 22 claim files captioned below contained wording concerning §375.991, which misstated the statute and thus, was a misstatement of Missouri law. The Company stated on correspondence in the aforementioned files below, "Missouri statute requires, per section No. 375.991, this warning: It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits". In review of the aforementioned statute, the examiners were unable to find wording in it that "requires" the warning to be

placed in the correspondence of an insurance company claim file or to be included in letters or forms sent to an insured or claimant.

| Claim Number | Claim Number | Claim Number |
|---|---|---|
| 111305 | 111940 | 123070 |
| 123261 | 124362 | 124429 |
| 126045 | 126565 | 127254 |
| 127360 | 127883 | 128293 |
| 129932 | 134737 | 134985 |
| 138212 | 138323 | 141043 |
| 141369 | 144659 | 147696 |
| 169750 | | |

Reference: §375.936(4), RSMo

The Company agrees that improper wording was including in the fraud language utilized on some of the correspondence found in these files. It should be noted that this issue was uncovered during a prior Market Conduct examination in the 3rd and 4th Quarter of 2007. Once it was brought to our attention, the Company worked to eliminate the improper wording from all correspondence. While two of the listed examples occurred after 2007, the remaining examples provided were mailed between 2006 and 2007, prior to our learning of this issue.

**3.** The examiners found two instances that contained correspondence that stated another state's law which was not applicable to Missouri claimants.

| Claim Number |
|---|
| 118870 |
| 139166 |

Reference: §375.936(4), RSMo

The Company agrees that it unintentionally included fraud language from other states on Missouri correspondence in these two files.

**B. AVIC Private Passenger Auto Medical Payments Claims Paid**

**1.** The examiners found 11 instances in which the Company failed to provide a letter to the insured explaining why the file remained open after 45 days of the initial notification of the claim and every 45 days thereafter.

| Claim Number | Claim Number |
|---|---|
| 119896 | 153211 |
| 123201 | 159046 |
| 132127 | 177763 |
| 136194 | 190680 |
| 137874 | 193046 |
| 140197 | |

Reference: §375.1007(4) RSMo, 20 CSR 100-1.050(1)(C) & 20 CSR 100-1.010(1)(F)

The Company agrees with the examiner's finding for claims 177763, 190680, and 193046. For the remaining eight claims we respectfully disagree. 20 CSR 100-1.050(1)(C) requires the noted 45 day status letter be mailed when the investigation remains incomplete. The Company contends that on each of the remaining files, the investigation into the claim was complete within the first 45 days. Coverage was verified to be valid and the limit of Medical Payments was verified during this time period confirming the maximum liability. In each case listed, the Company was merely awaiting the insured party to submit any medical bills for payment for any time period after the first 45 days, and the Company does not interpret the definition of "investigation" under 20 CSR 100-1.010(F) to include the time it takes the insured or their legal representative to compile and submit medical bills for payment under the policy.

**2.** The examiners found two instances in which the Company failed to effectuate prompt, fair and equitable settlement of the claim, by failing to investigate the extent and treatment of injuries of claimants. The examiners also found one instance in the second file listed, that the Company failed to document whether the insured had health or accident insurance, which would have affected coverage or exclusions related to Medical Payments coverage.

Claim Number
132149
141369

Reference: §375.1007(4) RSMo.

The Company disagrees with the examiner's finding for both the noted instances concerning settlement. 20 CSR 100-1.020(1)(A)&(B) require the insurer to disclose all pertinent benefits, coverages, or other provisions of an insurance policy and refrain from concealing said benefits in connection with a claim.

For claim 132149, the claim notes indicate on 4/3/07 that the adjuster discussed the Medical Payments coverage with the insured and advised this coverage may apply. The notes on 4/24/07 further note the adjuster fully explained all applicable coverage, including Medical Payments, to the insured during the claim investigation. Such explanation would have naturally included a discussion about coverage for any out of pocket medical expenses incurred by the insured.

On claim 141369, there were two individuals involved in this loss. The file notes on 11/5/07 indicate that all coverages available were explained to the insured which would include the Medical Payments coverage. Although Ms. Otten advised she was transported from the scene by EMS to the emergency room, she never presented any bills for payment. Since Ms. Otten never asserted a claim for Medical Payments, there was no reason for the adjuster to investigate whether the insured had any other related health or accident insurance. Travis Bates did present a claim for both Medical Payments and Bodily Injury. The claim for Medical Payments was paid up to the limit of $1000 as part of the resolution of the entire claim for Mr. Bates, so coverage was never contested by the Company.

The company also disagrees with the examiner's finding concerning failure to document. The medical record for Mr. Bates was included as a part of our original response to Criticism #21 and confirms he was a self pay patient with no indication of other collectible insurance.

**3.** The examiners found two instances in which the Company failed to disclose all pertinent benefits and coverages to the insured. There was no Medical Payments coverage explained to the insured in one instance (claim 132149), and Medical Payments coverage was not disclosed to the insured (claim 141369) in another. The examiners also found two instances (claim 140197, 158245) in which the Company misrepresented relevant facts or policy provisions relating to coverages at issue. The company explained it had the opportunity to subrogate Medical Payments coverage which is not permissible in Missouri.

Claim Number
132149
141369
140197
158245

Reference: §375.1007(1), 20 CSR 100-1.020(1)(A)&(B), & Policy Provisions

The company disagrees with the examiner's findings for Claims 132149 and 141369. Our disagreements are detailed immediately above in response to the previous finding for this section.

The Company agrees with the examiners' finding for claims 140197 and 158245. We agree that subrogation of Medical Payments is not allowed in the state of Missouri

**4.** The examiners noted the following two exceptions during their review that were considered as individual violations, and were discovered in a previous examination. The examiners found that the Company failed to document the following two files with a copy of a Missouri sales tax affidavit concerning the insured's and or the claimant's total loss vehicle(s) resulting in claim underpayments.

| Claim Number | Claim Underpayment | Interest |
|---|---|---|
| 119896 | $507.15 | $233.74 |
| 153211 | $625.68 | $179.44 |

Reference: §§144.027, 375.1007(4), 408.020 RSMo, & 20 CSR 300-2.200(3)(B)(3) [as replaced by 20 CSR 100-8.040(3)(B) 3 eff. 7/30/08]

The Company disagrees with the examiner in all instances.

In claim 199896, the vehicle owners elected to retain their vehicles. RSMo 144.027 provides for a sales tax credit in situations where a motor vehicle is "replaced due to a theft or casualty loss". The Company contends that where the owner of a motor vehicle elects to retain the vehicle, they have effectively made the decision not to replace it due to the accident, and thus eliminating the owner's right to a sales tax affidavit. A finding otherwise would allow the owner

of the vehicle to obtain a tax credit towards the purchase of another vehicle without effectively replacing the damaged vehicle, a result the statute does not contemplate or condone.

In claim 153211, the Company contends that RSMo 144.027 only allows for a tax credit toward the purchase price of replacement motor vehicle and does not support the remedy being requested, as no proof or replacement was ever received. Thus, no sales tax affidavit was ever produced. The Company suggests and is prepared to mail a notice to the owner requesting they submit proof that sales tax was incurred within 180 days of settlement, and upon such proof, the Company will reimburse the proper amount of tax owed plus the statutory 9% per annum interest.

5. The four claim files captioned below contained wording concerning §375.991, which misstated the statute and thus, was a misstatement of Missouri law. The Company stated on correspondence in the aforementioned files below, "Missouri statute requires, per section No. 375.991, this warning: It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits". In review of the aforementioned statute, the examiners were unable to find wording in it that "requires" the warning to be placed in the correspondence of an insurance company claim file or to be included in letters or forms sent to an insured or claimant.

| Claim Number | Claim Number |
|---|---|
| 111940 | 119896 |
| 172776 | 132149 |

Reference: §375.936(4), RSMo

The Company agrees that improper wording was including in the fraud language utilized on some of the correspondence found in these files. It should be noted that this issue was uncovered during a prior Market Conduct examination in the 3rd and 4th Quarter of 2007. Once it was brought to our attention, the Company worked to eliminate the improper wording from all correspondence. While one of the listed examples occurred after 2007, the remaining examples provided were mailed between 2006 and 2007, prior to our learning of this issue.

**C. AVIC Private Passenger Auto Uninsured/Underinsured Motorist Claims Paid**

1. The examiners found that the Company failed to complete the investigation of the claim within thirty (30) days after notification of the claim, and failed to document that the investigation could not reasonably be completed within this time.

| Claim Number |
|---|
| 119879* |

Reference: §375.1007(3) RSMo, and 20 CSR 100-1.050(4)

The Company agrees with the examiners findings on this issue.

2. The examiners found one instance in which the Company failed to provide a letter to the insured explaining why the file remained open after 45 days of the initial notification of the claim and every 45 days thereafter.

Claim Number
119879*

Reference: §375.1007(4) RSMo, 20 CSR 100-1.050(1)(C) and 20 CSR 100-1.010(1)(F)

**Although listed multiple times, the claim numbers listed above with an asterisk in this section of the report were counted only once in determining the error ratio.*

The Company agrees with the examiners findings on this issue.

3. The examiners found two instances in which the Company failed to attempt in good faith to effectuate a prompt, fair, and equitable settlement in which liability was reasonably clear. The Company issued payments under Uninsured Motorist coverage, but failed to pay the policy limits that applied under Medical Payments coverage.

| Claim Number | Claim Underpayment | Interest |
|---|---|---|
| 189744 | $1,000.00 | $101.11 |
| 147777 | $500.00 | $136.37 |

Reference: §§375.1007(4) & 408.020 RSMo.

The Company disagrees with the Examiner's findings. For claim 189744 there are two reasons for disagreeing. First, under the terms of the policy the Medical Payments coverage is "excess over any other valid and collectible....medical or hospital insurance, health or accident insurance" (see part B under the Medical Payments Insuring Agreement on page 12 of the AVIC policy provided as a part of the original Criticism #32 response). Second, under the Limit of Liability for Medical Payments, part C states that "No one will be entitled to receive duplicate payments for the same elements of loss under this coverage and: 2. Any Underinsured Motorist Coverage provided by this policy" (see page 14).

This was an Underinsured Motorist claim for the daughter of our policyholder. While we received approximately $98,000 in medical bills for Alyssa Coffman, the bills were covered by Healthcare USA who in turn filed a lien against the tort settlement. The underlying liability carrier offered their $100,000 policy limit to resolve the claim, and we contributed $100,000 in Underinsured Motorist coverage to bring the total settlement to $200,000. This was well over the medical bills presented, and the Circuit Court for the City of St. Louis approved the $200,000 total settlement noting that just over $30,000 of the settlement would go to reimburse the medical liens on file. The Company maintains there were no out of pocket medical expenses presented that were not either covered by other medical insurance or considered as part of the final Underinsurance Motorist settlement, and thus Medical Payments was inapplicable in this case.

For claim 147777, the file notes indicate on 2/18/08 the adjuster identified MED PAY as an applicable coverage, and the final closing notes on 10/27/08 confirm that all available coverages

were explained to the insured. The Company contends this is sufficient to comply with the requirements of statute.

4. The examiners found one instance in which the Company failed to disclose all pertinent benefits and coverages to the insured.

Claim Number
147777

Reference: §375.1007(1), 20 CSR 100-1.020(1)(A)&(B), & Policy Provisions

The Company agrees with the examiner's findings in this instance.

5. The examiners found one instance in which the Company failed to document the inception, handling, and disposition of the claim. The policy had lapsed, and was investigated under Reservation of Rights and initially denied, but was reopened and the claim was paid. The file failed to document how coverage was afforded under the lapsed policy.

Claim Number
121512

Reference: §374.205.2(2) & 20 CSR 300-2.200(3)(A) [as replaced by 20 CSR 100-8.040(3)(B) eff. 7/30/08]

The Company agrees with the examiner's findings in this instance.

6. The five claim files captioned below contained wording concerning §375.991, which misstated the statute and thus, was a misstatement of Missouri law. The Company stated on correspondence in the following files below, "Missouri statute requires, per section No. 375.991, this warning: It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits". In review of the aforementioned statute, the examiners were unable to find wording in it that "requires" the warning to be placed in the correspondence of an insurance company claim file or to be included in letters or forms sent to an insured or claimant.

Claim Number
117597
1120463
125005
126813
129173

Reference: §375.936(4), RSMo

The Company agrees that improper wording was including in the fraud language utilized on some of the correspondence found in these files. It should be noted that this issue was uncovered during a prior Market Conduct examination in the 3rd and 4th Quarter of 2007. Once it

was brought to our attention, the Company worked to eliminate the improper wording from all correspondence. All of the examples provided were mailed between 2006 and 2007, prior to our learning of this issue.

**D. AVIC Private Passenger Total Loss Claims Paid**

**1.** The Examiners found one instance in which the Company failed to effectuate prompt, fair and equitable settlement of the claim, by failing to investigate whether the insured driver was asked if he was injured or not as a result of a serious auto accident.

Claim Number
152675

Reference: §375.1007(4)

The Company disagrees with the examiner. The initial file note entry dated 6/10/2008 shows this claim was reported by Mr. Gladman through the assistance of his agent. During the initial loss report, it is documented that no injuries resulted from this loss based on the information Mr. Gladman provided the agent. We spoke with Mr. Gladman on several occasions and at no time did he ever change this information. Since there were no reported injuries, the Medical Payments coverage was not pertinent to the loss.

**2.** The Company failed to disclose all pertinent benefits and coverages to the insured. The first contact file notes make no reference to advising the insured regarding Medical Payments coverage. The Closing Review question and answer "All coverages available explained to the insured? Yes" was insufficient to establish that Medical Payments coverage was actually explained to the insured.

Claim Number
152675

Reference: §375.1007(1), 20 CSR 100-1.020(1)(A)&(B)

The Company disagrees with the examiner. The initial file note entry dated 6/10/2008 shows this claim was reported by Mr. Gladman through the assistance of his agent. During the initial loss report, it is documented that no injuries resulted from this loss based on the information Mr. Gladman provided the agent. We spoke with Mr. Gladman on several occasions and at no time did he ever change this information. Since there were no reported injuries, the Medical Payments coverage was not pertinent to the loss.

**3.** The examiners found that the Company failed to document the following 32 files with a copy of a Missouri sales tax affidavit concerning the insured's and or the claimant's total loss vehicle(s) resulting in claim underpayments.

| Claim Number | Underpayment | Interest |
|---|---|---|
| **160558** | $799.83 | $201.18 |
| **166236** | $125.73 | $31.63 |
| **176827** | $207.97 | $52.09 |

| | | |
|---|---|---|
| **176529** | $56.06 | $14.10 |
| **192055** | $97.04 | $24.41 |
| **196886** | $343.00 | $86.27 |
| **197180** | $224.27 | $56.41 |
| **197129** | $277.72 | $69.96 |
| **189999** | $176.70 | $44.45 |
| **199298** | $134.53 | $33.84 |
| **200802** | $42.63 | $10.97 |
| **201794** | $278.25 | $69.69 |
| **161386** | $1,009.37 | $253.89 |
| **161851** | $545.22 | $137.14 |
| **179363** | $199.97 | $50.30 |
| **180921** | $120.26 | $30.25 |
| **183971** | $417.38 | $104.98 |
| **184336** | $54.24 | $13.64 |
| **189839** | $212.80 | $53.63 |
| **190564** | $46.35 | $11.66 |
| **197180** | $122.29 | $30.76 |
| **204482** | $60.60 | $15.24 |
| **199020** | $119.63 | $30.09 |
| **215292** | $198.92 | $50.03 |
| **222261** | $285.44 | $71.80 |
| 147054 | $144.84 | $35.29 |
| 150527 | $181.77 | $44.29 |
| 150618 | $81.11 | $26.32 |
| 153967 | $623.10 | $187.15 |
| 155197 | $271.31 | $75.94 |
| 158316 | $337.97 | $93.18 |
| 159014 | $302.82 | $73.78 |

Reference: §§144.027, 375.1007(4) 408.020 RSMo, & 20 CSR 300-2.200(3)(B)(3) [as replaced by 20 CSR 100-8.040(3)(B) 3. eff. 7/30/08]

The company does not have a record in any criticism for Alfa Vision Total Loss of the claims that are not in bold above. Our response addresses only the claims in bold.

The Company disagrees with the examiner in all instances.

In the first 12 of the cases listed above, the vehicle owners elected to retain their vehicles. RSMo 144.027 provides for a sales tax credit in situations where a motor vehicle is "replaced due to a theft or casualty loss". The Company contends that where the owner of a motor vehicle elects to retain the vehicle, they have effectively made the decision not to replace it due to the accident, and thus eliminating the owner's right to a sales tax affidavit. A finding otherwise would allow the owner of the vehicle to obtain a tax credit towards the purchase of another vehicle without effectively replacing the damaged vehicle, a result the statute does not contemplate or condone.

In the remaining highlighted cases, the Company contends that RSMo 144.027 only allows for a tax credit toward the purchase price of replacement motor vehicle and does not support the remedy being requested, as no proof or replacement was ever received. Thus, no sales tax affidavit was ever produced. The Company suggests and is prepared to mail a notice to the owner requesting they submit proof that sales tax was incurred within 180 days of settlement, and upon such proof, the Company will reimburse the proper amount of tax owed plus the statutory 9% per annum interest.

**E. ASIC Private Passenger Auto Bodily Injury Claims Paid**

1. The three claim files captioned below contained wording concerning §375.991, which misstated the statute and thus, was a misstatement of Missouri law. The Company stated on correspondence in the aforementioned files below, "Missouri statute requires, per section No. 375.991, this warning: It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits". In review of the aforementioned statute, the examiners were unable to find wording in it that "requires" the warning to be placed in the correspondence of an insurance company claim file or to be included in letters or forms sent to an insured or claimant.

Claim Number
167775
171502
171569

Reference: § 375.936(4) RSMo.

The Company agrees with the examiner's findings.

**F. ASIC Private Passenger Auto Uninsured/Underinsured Claims Paid**

1. The examiners found one instance in which the Company failed to disclose all pertinent benefits and coverages to the insured. The Uninsured Motorist coverage claim ($300) was paid. The Medical Payments coverage ($500 coverage available) was not.

Claim Number
196632

Reference: §375.1007(1), 20 CSR 100-1.020(1)(A)&(B)

The Company effectuated a settlement with Mr. Pruitt under his UM coverage for $300 based on his alleged pain and suffering as a result of this loss. In addition, we offered him up to $500 if he could provide any documentation to support he incurred any medical expenses as a result of this accident, which he never provided. The Medical Payments portion of Mr. Pruitt's policy covers "expenses incurred for necessary medical ... services" incurred as a result of an automobile accident (see page 12 of the enclosed policy). Since Mr. Pruitt never provided any documentation to support such expenses were incurred, no payments were made under either the UM or the Medical Payment portion of his policy

G. **ASIC Private Passenger Auto Total Loss Claims Paid**

1. The examiners found 13 instances in which the Company failed to provide a sales tax affidavit to the claimant concerning their total loss vehicle.

| Claim Number | Claim Underpayment | Interest |
|---|---|---|
| 167704 | $396.06 | $85.66 |
| 169069 | $56.55 | $11.31 |
| 170579 | $415.02 | $83.20 |
| 170626 | $290.58 | $60.76 |
| 171667 | $459.64 | $92.26 |
| 172134 | $139.75 | $27.95 |
| 172157 | $365.73 | $73.68 |
| 174510 | $151.67 | $28.50 |
| 175072 | $155.90 | $28.80 |
| 175893 | $444.30 | $79.11 |
| 176230 | $118.01 | $21.62 |
| 177387 | $69.62 | $12.60 |
| 178683 | $422.06 | $73.96 |

Reference: §§144.027, 375.1007(4), 408.020 RSMo, & 20 CSR 300-2.200(3)(B)(3) [as replaced by 20 CSR 100-8.040(3)(B) 3. eff. 7/30/08]

The Company disagrees with the examiner in all instances.

In ten of the cases listed above, the vehicle owners elected to retain their vehicles. RSMo 144.027 provides for a sales tax credit in situations where a motor vehicle is "replaced due to a theft or casualty loss". The Company contends that where the owner of a motor vehicle elects to retain the vehicle, they have effectively made the decision not to replace it due to the accident, and thus eliminating the owner's right to a sales tax affidavit. A finding otherwise would allow the owner of the vehicle to obtain a tax credit towards the purchase of another vehicle without effectively replacing the damaged vehicle, a result the statute does not contemplate or condone.

In the remaining three cases (167704, 170579, and 172157), the Company contends that RSMo 144.027 only allows for a tax credit toward the purchase price of replacement motor vehicle and does not support the remedy being requested, as no proof or replacement was ever received. Thus, no sales tax affidavit was ever produced. The Company suggests and is prepared to mail a notice to the owner requesting they submit proof that sales tax was incurred within 180 days of settlement, and upon such proof, the Company will reimburse the proper amount of tax owed plus the statutory 9% per annum interest.

2. The five claim files captioned below contained wording concerning §375.991, which misstated the statute and thus, was a misstatement of Missouri law. The Company stated on correspondence in the aforementioned files below, "Missouri statute requires, per section No. 375.991, this warning: It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties

include imprisonment, fines and denial of insurance benefits". In review of the aforementioned statute, the examiners were unable to find wording in it that "requires" the warning to be placed in the correspondence of an insurance company claim file or to be included in letters or forms sent to an insured or claimant.

| Claim Number | Claim Number |
|---|---|
| 167775 | 171667 |
| 168744 | 172134 |
| 169069 | |

Reference: §375.936(4) RSMo.

The Company agrees with the Examiner's findings. However, it should be noted that claim 167775 was also noted under the Alfa Specialty Bodily Injury section of this same report (For reference it can be found on both Criticism #34 and #37). Additionally, it should be noted that the improper fraud language was isolated to one adjuster who no longer handles Missouri claims for us. The Company will be utilizing software which scans for this improper wording to ensure this does not occur going forward.

**EXAMINATION FINDINGS - UNDERWRITING**

**A. Alfa Specialty Insurance Company Private Passenger Automobile**

**1.** The examiners found one instance in which the Company failed to retain a signed application for the policy term plus two years where an insurer intends to retain the right to contest any warranty, representation or condition contained in the application.

Policy Number
1963720

Reference: §374.205.2.(2) RSMo, and 20 CSR 300-2.100(3)(A)1.A. (as replaced by 20 CSR 100-8040(3)(A)1.A. eff. 7/30/08)

The Company agrees with the examiner's findings.

**B. Alfa Vision Private Passenger Automobile Cancellations, Non- Renewals and Declinations**

**1.** In the following file, the written Declination Notice to the insured was not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

Policy Number
1451367

Reference: §379.118.1(3) RSMo.

Company agrees with examiner comments. We acknowledge there are certain instances where our language could be more specific. We have created a project that will revamp and expand the cancellation language found in our notices.

2. In the following 22 files, the written non-renewal notices that were sent to the insureds were not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

| Policy Number | Policy Number |
|---|---|
| 878918 | 1596252 |
| 1207596 | 1680980 |
| 1251507 | 2718786 |
| 1345830 | 2985309 |
| 1358365 | 1552070 |
| 1365025 | 1585465 |
| 1383691 | 1692298 |
| 1405129 | 1187450 |
| 1405782 | 2637111 |
| 1450785 | 2693392 |
| 1590228 | 919601 |

Reference: §379.118.1(3) RSMo.

Company agrees with examiner comments. We acknowledge there are certain instances where our language could be more specific. We have created a project that will revamp and expand the nonrenewal language found in our notices.

E. **Alfa Specialty Private Passenger Automobile Cancellations, Non- Renewals and Declinations**

1. In the following two files, the written declination notices to the insureds were not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

| Policy Number |
|---|
| 2620836 |
| 3055888 |

Reference: §379.118.1(3) RSMo.

Company agrees with examiner comments. We acknowledge there are certain instances where our language could be more specific. We have created a project that will revamp and expand the cancellation language found in our notices.

2. In the following 44 files, the written non-renewal notices to the insureds were not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

| Policy Number | Policy Number | Policy Number |
|---|---|---|
| 2127231 | 2866325 | 2822067 |
| 2142644 | 2867028 | 2901202 |
| 2150113 | 2868571 | 2974678 |
| 2151707 | 2874085 | 2993143 |
| 2169817 | 2913176 | 3032418 |
| 2204145 | 2936580 | 2435040 |
| 2212464 | 2950131 | |

Company agrees with examiner comments. We acknowledge there are certain instances where our language could be more specific. We have created a project that will revamp and expand the nonrenewal language found in our notices.

# STATE OF MISSOURI
# DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
# AND
# PROFESSIONAL REGISTRATION

## FINAL MARKET CONDUCT EXAMINATION REPORT
**Of the Property and Casualty Business of**

**Alfa Vision Insurance Corporation**
**NAIC # 12188**
**Alfa Specialty Insurance Corporation**
**NAIC # 11004**

**MISSOURI EXAMINATION # 1007-10-TGT**

**NAIC EXAM TRACKING SYSTEM # MO-341-M12**

**August 20, 2012**

**Alfa Vision Insurance Corporation**
**210 Westwood Place, Suite 200**
**Brentwood, TN 37027**

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## FOREWORD

This is a targeted, desk market conduct examination report of the Alfa Vision Insurance Corporation (NAIC Code # 12188) and Alfa Specialty Insurance Corporation (NAIC Code # 11004). This examination was conducted at the offices of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP), located at 615 East 13th Street, Room 510, Kansas City Mo. 64106.

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products or files does not constitute approval thereof by the DIFP.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company.

During this examination, the examiners cited potential violations made by the Company. Statutory citations were as of the examination period unless otherwise noted.

The final examination report documents consist of this examination report, the Company's response and administrative actions based on the findings by the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration.

When used in this report:

- "Company" refers to Alfa Vision Insurance Corporation or Alfa Specialty Insurance Corporation;
- "CSR" refers to the Missouri Code of State Regulation;
- "DIFP" refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- "Director" refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- "NAIC" refers to the National Association of Insurance Commissioners;
- "AVIC" refers to Alfa Vision Insurance Corporation;
- "ASIC' refers to Alfa Specialty Insurance Corporation; and
- "RSMo" refers to the Revised Statutes of Missouri.

## SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§374.110, 374.190, 374.205, 375.445, 375.938, and 375.1009, RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DIFP regulations and to consider whether the Company's operations are consistent with the public interest. The primary period covered by this review is January 1, 2007 through the present, unless otherwise noted. However, errors outside of this time period discovered during the course of the examination may also be included in the report.

The examination included a review of the following areas of the Company's operations for the lines of business reviewed: claims handling and underwriting practices.

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark error rate for claims practices is seven percent (7%) and for other trade practices is ten percent (10%). The benchmark error rates were not utilized, however, for reviews not applying to the general business practice standard.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

## COMPANY PROFILE

The following profile was provided to the examiners by the Company.

SUMMARY HISTORY

ALFA INSURANCE COMPANIES

Compiled by J. T. Salmon,
Edited and updated by Angela L. Cooner

In 1945 the leadership of the Alabama Farm Bureau Federation ("the Federation") determined that, in a number of rural areas in Alabama, farmers could not obtain fire insurance or, if it was available, it was not affordable. To provide stability and increase membership, the leadership decided to sponsor the organization of a mutual fire insurance company.

Alabama Farm Bureau Mutual Insurance Service, Inc. (Alfa Mutual Fire Insurance Company ["AMF"], also sometimes re ferred to herein as the "fire company") was incorporated on May 1, 1945 in Montgomery County, Alabama. The company was organized under Title 28, §101, et seq., Code of Alabama, 1940, dealing with the formation and licensing of mutual insurance companies other than life. The Organizational Director of the Federation, Mr. E. E. Hale, and its President, Walter Randolph, were largely responsible for getting the original soliciting agents who solicited applications of insurance for the fire company, and then the Federation employed Ed Lowder, whose primary job was to hire and develop an agency force for AMF.

In 1946, AMF obtained its Certificate of Authority as a mutual insurance company from the State of Alabama Department of Insurance. At that point, AMF began business and issued the policies on the applications that had been received and accepted. The Federation continued to assist the company financially by making loans available for operations in the fire company's development stages. Today, Fire operates in Alabama as a property casualty insurer through employee agents, and as a reinsurer.

In 1947 the same leadership determined that it would be beneficial to organize an insurance company to offer automobile insurance to Federation members. The leadership of the Federation organized Alabama Farm Bureau Mutual Casualty Insurance Company, Inc., (Alfa Mutual Insurance Company ["AMI"], also sometimes referred to herein as "Mutual"). All customers of Mutual are required to be Federation members. Eighteen directors from the twenty-director board of the Federation serve as directors of Alfa Mutual Insurance Company. Although five other officers in the Federations are elected as officers, only the President is assigned any executive duties with this insurance company. All other officers of the insurance companies are different from Federation officers. The Federation and the insurance companies are completely separate legal entities and operate independently, although they maintain an association

or relationship that is mutually beneficial to both organizations. Currently, both organizations operate out of the same building and share certain overhead and operating expenses. The Federation is and always has been an Alabama not-for-profit corporation, whose purpose is to advance the interests of agriculture in the State of Alabama. Today, the Alfa group of insurance companies offers multi-lines property casualty insurance, life insurance and financial services primarily in Alabama, Georgia and Mississippi. Two of the property casualty subsidiaries write nonstandard auto insurance in eight states. Mutual provides all management and operational support, including employing personnel for the Alfa companies, and is reimbursed those costs through a management and operating agreement with its Alfa company affiliates.

Alfa Mutual General Insurance Company (hereinafter sometimes referred to as "General" or "AMG") was incorporated under the name of Federated Guaranty Mutual Insurance Company in Covington County, Alabama, on August 23, 1955. All of the incorporators were residents of Andalusia, Alabama, and so far as is known, had no official connection whatsoever with the Federation or any of the affiliated insurance companies at that time. One of the directors and incorporators was Frank J. Tipler, Jr., a trial lawyer in Andalusia. By 1958 General was struggling, due to its size, and the organizers were interested in being repaid their "Advancement Certificates" (surplus notes). In 1958 the Andalusia directors resigned and Thomas F. Parker, O. P. Thompson and Shannon L owder were elected directors. Donald Pierce was appointed General Manager. Management determined that General would be useful for writing standard automobile coverage, which Mutual was unable to offer under its own rate structure. Mutual purchased approximately $150,000 of General's Guaranty Fund Certificates. The September 22, 1959, minutes of the Board of Directors meeting of General , reflect that the Board approved the assignment of the management contract between General and Donald Pierce to Mutual. Parker, Shannon Lowder and Thompson resigned from the Board, and J. Lewis Harper, H. H. Knowles and E. L. Lowder were elected to fill their vacancies. Robert L. Griffin was also elected to the Board as an additional member. General became effectively controlled by Mutual through its directors and the management agreement. General also borrowed funds with Guaranty Fund Certificates. In 1963 a Guaranty Fund Certificate was issued to George Farm Bureau Mutual Insurance Company in the amount of $150,000 bearing interest at the rate of 5% per annum. Although there were over-laps on the Board of Directors of Mutual and General, the number of directors was not increased to eighteen with a common director board until January 30, 1987. General writes property casualty insurance in Alabama, Georgia and Mississippi.

Federated Guaranty Life Insurance Company (hereinafter sometimes referred to as the "Life Company") was organized on October 22, 1971, as an Alabama stock company. The company began writing business through AMI agents on January 1, 1972. Prior to that time, the agents of AMI wrote life insurance through the Southern Farm Bureau Life Insurance Company. From its earliest planning stages, the Life Company was intended to be publicly owned and traded, with sufficient stock held by AMI to control the corporation. Due to threatened litigation, all of the original stock was subscribed for by AMI and three nominal subscribers. The original subscription price was $3.00 per

share, with a par value of $1.00 per share. The original directors were J. D. Hays, E. L. Lowder and Donald Pierce. Immediately following the resolution of the litigation between the Alabama company and Southern Farm Bureau Life Insurance Company, et al., steps were taken to sell stock in the Life Company to the public. In a joint meeting of the stockholders and directors on August 7, 1972, the Board of Directors authorized the sale and issuance of 1,000,000 shares of authorized and unissued common stock at a subscription price of $5.00 per share, and authorized the filing of the Registration Statements, bonds and all other required filings concerning the issuance and sale of such stock in the State of Alabama. On August 21, 1972, the stockholders and directors voted to reduce the number of shares authorized for sale and issuance to 750,000 shares at $5.00 per share and authorized the filing of an appropriate registration statement and related prospectus. At the meeting of the Board of Directors on November 29, 1972, it was reported that all 750,000 shares of common stock had been sold at $5.00 per share pursuant to Registration Order No. 72-15-RQ of the Securities Commission of the State of Alabama. On November 12, 1973, a prospectus was mailed to all of the shareholders proposing a merger of the Life Company into Cotton States Life Insurance Company. The prospectus shows that on that date, Mutual owned 57.8% of the outstanding stock of the Life Company. Cotton States Life Insurance Company was organized in Dallas County, Alabama on December 4, 1954. Prior to the merger there was never any official affiliation between Cotton States Life Insurance Company and the Federation or the Alfa insurance companies. Cotton States Life Insurance Company was qualified to do business and was writing life insurance in eight states at the time of the merger, whereas Federated Guaranty Life Insurance Company was writing life insurance only within the State of Alabama. Under the plan Federated Guaranty Life Insurance Company merged into Cotton States Life Insurance Company, the surviving corporation, and upon the merger the name of the surviving corporation was changed to Federated Guaranty Life Insurance Company. Management from both companies was retained immediately following the merger. The directors following the conversion were J. D. Hays, E. L. Lowder, Goodwin Myrick, James Earl Mobley, J. Louis Harper, Thomas Miller, W. C. Givhan, Young J. Boozer, Paul W. Bryant, George A. LeMaistre and Morris Sokol. On December 14, 1973, the stockholders of Federated Guaranty Life Insurance Company approved the merger by a vote of 1,518,758 shares for and 950 shares against. The merger became effective at midnight on December 31, 1973. On May 1, 1987, the name of the corporation was changed to Alfa Life Insurance Corporation ("ALIC"). It is a wholly owned subsidiary of Alfa Corporation. Life currently sells life insurance in Alabama, Georgia and Mississippi, through Alfa's network of employee and independent, exclusive agents.

Alfa Corporation ("Alfa Corp."), formerly known as Federated Guaranty Corporation, was incorporated as a Delaware corporation, on January 4, 1983. By amendment to its Certificate of Incorporation filed on April 20, 1987, its name changed to Alfa Corporation. The Certificate of Adoption of a Plan of Exchange between the Life Company and Alfa Corp. was filed in the Office of the Secretary of State of the State of Alabama on February 29, 1984, and the Plan became effective immediately, having received prior approval by the Commissioner of Insurance of the State of Alabama. Under the Plan of Exchange the stockholders of the Life Company became the

stockholders of Alfa Corp., and Alfa Corp. became the sole stockholder of the Life Company. Alfa Corp. was the publicly traded financial services holding company until April 15, 2008, when the company went private. Alfa Corp. is owned by Mutual (65%) and Fire (35%).

Alfa Insurance Corporation ("AIC") was organized under the name of American Service Mutual Insurance Company on February 11, 1955, by Donald J. Harter and others in Montgomery, Alabama. There was no affiliated connection between any of the organizers of that company and the Alfa companies or the Federation. In December, 1977, AMI acquired the surplus notes that had been issued by American Service Mutual to Donald J. Harter in the principal amount of $375,000.00. In January, 1978, the directors of American Service Mutual resigned, and directors designated by AMI were elected. In September, 1982, a Plan of Conversion of the company to a stock insurer and a name change to Federated Guaranty Insurance Company, Inc. was filed with the Commissioner of Insurance and after public hearing was approved. Articles of Amendment to the Declaration of Incorporation and Restated Articles of Incorporation were filed in the Probate Office of Montgomery, Alabama, on November 1, 1982. After public hearing on November 15, 1982, pursuant to the Alabama Insurance Holding Company System Regulatory Act, the sale of the stock of said company to ALIC was approved by Order Approving Acquisition under Case No. C-82-52S. By corporate amendment the name was changed to Alfa Insurance Corporation on May 1, 1987. AIC is an Alabama-domiciled, property casualty insurer, operating primarily in Georgia and Mississippi. AIC is a subsidiary of Alfa Corp.

Alfa General Insurance Corporation ("AGIC") was incorporated under the name Federated Guaranty General Insurance Company, Inc. in Montgomery County, Alabama, on December 8, 1982, as a wholly owned subsidiary of Federated Guaranty Life Insurance Company and under the reorganization exchange, became a wholly owned subsidiary of Alfa Corp. Its name was changed by corporate amendment to Alfa General Insurance Corporation on May 1, 1987. AGIC is an Alabama-domiciled, property casualty insurer, operating primarily in Georgia and Mississippi.

Alfa Specialty Insurance Corporation ("ASIC") was incorporated on August 11, 1999, as an Alabama domestic property casualty insurer. It is a wholly owned subsidiary of AMI. ASIC was formed to offer non-standard automobile insurance to Alfa customers in Alabama, Georgia and Mississippi. It also offers non-standard automobile insurance through a network of independent agents in Virginia, Tennessee, Arkansas, Kentucky, Missouri, Texas and Ohio.

In August, 2001, Virginia Mutual Insurance Company ("VMI"), a Virginia domiciled mutual insurer, and AMI received the necessary regulatory approvals and consummated a strategic affiliation. As a result of the affiliation, certain officers of Alfa became VMI directors, VMI employees became Alfa employees, AMF entered into a quota share reinsurance pooling agreement with VMI and VMI became a party to the Management and Operating Agreement with AMI.

On January 1, 2007, VMI was demutualized and became Alfa Alliance Insurance Corporation ("AAIC"), a wholly owned stock subsidiary of Alfa Corp. AA IC is a Virginia domiciled property casualty insurer, operating in Virginia, North Carolina and Tennessee.

On January 1, 2005, Alfa Corporation acquired The Vision Insurance Group, LLC, (Vision MGA) a Tennessee full-service managing general agency. As a part of that acquisition, Alfa Corporation formed a new Alabama domiciled casualty insurer, Alfa Vision Insurance Corporation (AVIC), to write non-standard auto through the Vision MGA outside of Alfa's traditional core states of Alabama, Georgia and Mississippi, utilizing independent agents. AVIC was incorporated in Alabama on July 1, 2004 as a wholly owned property casualty subsidiary of Alfa Corporation. Currently, Vision operates in Arkansas, Indiana, Kentucky, Missouri, Ohio, Tennessee, Texas and Virginia. In 2009, the MGA Agreement between the Vision MGA and AVIC and ASIC was terminated, and Vision and ASIC continue to write directly in those states via independent agents.

On April 15, 2008, pursuant to an Agreement and Plan of Merger, AMI and AMF (referred to collectively as the Mutual Group) acquired all of the outstanding shares of common stock of Alfa Corp. that they did not previously own for $22.00 per share in cash pursuant to a "take private" transaction of Alfa Corp. Alfa Corp. is now a wholly owned subsidiary of the Mutual Group. Alfa Corp. common stock ceased to trade on the Nasdaq Global Select Market, and suspended its reporting obligations under the Securities and Exchange Act of 1934, as amended.

2011

## EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of the Alfa Vision Insurance Corporation (AVIC) and the Alfa Specialty Insurance Corporation (ASIC) of Tennessee. The examiners found the following principal areas of concern:

The examiners discovered the following exceptions when conducting the AVIC Private Passenger Auto Bodily Injury Claims Paid practices reviews:

- The examiners found nine instances in which the Company failed to document the file showing that a sales tax affidavit was sent to the claimant concerning the total loss vehicle.
- The examiners found 22 instances that contained correspondence that misstated Missouri law.
- The examiners found two instances that contained correspondence that stated another state's law which was not applicable to Missouri claimants.

The examiners discovered the following exceptions regarding the AVIC Private Passenger Auto Medical Payments Claims Paid Practices reviews:

- The examiners found 11 instances in which the Company failed to provide a letter to the insured explaining why the file remained open after 45 days of the initial notification of the claim and every 45 days thereafter.
- The examiners found two instances in which the Company failed to document the file showing that a sales tax affidavit was sent to the claimant concerning the total loss vehicle.
- The examiners found two instances in which the Company failed to implement reasonable standards for the prompt investigation and settlement of the claim.
- The examiners found two instances in which the Company failed to disclose all pertinent benefits and coverages to the insured.
- The examiners found two instances in which the Company misrepresented relevant facts or policy provisions relating to coverages at issue.
- The examiners found one instance in which the Company failed to document the handling of the claim.
- The examiners found four instances that contained correspondence that misstated Missouri law.

The examiners discovered the following exceptions regarding the AVIC Private Passenger Uninsured Motorist Claims Paid Practices reviews:

- The examiners found one instance in which the Company failed to complete the investigation within 30 days.

- The examiners found one instance in which the Company failed to provide a letter to the insured explaining why the file remained open after 45 days of the initial notification of the claim and every 45 days thereafter.
- The examiners found one instance in which the Company failed to document the inception, handling, and disposition of the claim.
- The examiners found two instances in which the Company failed to attempt in good faith to effectuate a prompt, fair, and equitable settlement.
- The examiners found one instance in which the Company failed to disclose all pertinent benefits and coverages to the insured.
- The examiners found five instances that contained correspondence that misstated Missouri law.

The examiners discovered the following exceptions regarding the AVIC Private Passenger Auto Total Loss Claims Paid Practices reviews:

- The examiners found 32 instances in which the Company failed to document the file showing that a sales tax affidavit was sent to the claimant concerning the total loss vehicle.
- The examiners found one instance in which the Company failed to implement reasonable standards for the prompt investigation and settlement of the claim.
- The examiners found one instance in which the Company failed to disclose all pertinent benefits and coverages to the insured.

The examiners discovered the following exceptions regarding the ASIC Private Passenger Auto Bodily Injury Claims Paid Practices reviews:

- The examiners found three instances that contained correspondence that misstated Missouri law.

The examiners discovered the following exceptions regarding the ASIC Private Passenger Auto Uninsured Motorist Claims Paid Practices reviews:

- The examiners found one instance in which the Company failed to disclose all pertinent benefits and coverages to the insured.

The examiners discovered the following exceptions regarding the ASIC Private Passenger Auto Total Loss Claims Paid Practices reviews:

- The examiners found five instances that contained correspondence that misstated Missouri law.
- The examiners found 13 instances in which the Company failed to document the file showing that a sales tax affidavit was sent to the claimant concerning the total loss vehicle.

The examiners discovered the following exceptions regarding the Alfa Specialty Insurance Company Private Passenger Auto Underwriting and Rating practices reviews:

- The examiners found one file in which the Company failed to maintain a signed application for the policy term plus two years where the insurer intends to retain any right to contest any warranty, representation or condition contained in the application.

The examiners discovered the following exceptions regarding the Alfa Vision Insurance Company Private Passenger Auto Non-Renewal practices reviews:

- The examiners found 22 files in which the written Non-Renewal Notices to the insured were not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

The examiners discovered the following exceptions regarding the Alfa Vision Insurance Company Private Passenger Auto Declination practices reviews:

- The examiners found one file in which the written Non-Renewal Notice to the insured was not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

The examiners discovered the following exceptions regarding the Alfa Specialty Insurance Company Private Passenger Auto Non-Renewal practices reviews:

- The examiners found 44 files in which the written Non-Renewal Notices to the insured were not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

The examiners discovered the following exceptions regarding the Alfa Specialty Insurance Company Private Passenger Auto Declination practices reviews:

- The examiners found two files in which the written Declination Notices to the insured were not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

Various non-compliant practices were identified, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the Missouri insurance laws and regulations. When applicable, corrective action for any other jurisdictions should be addressed.

The examiners tracked and were mindful of the results, Company responses and public disciplinary action(s) of prior examinations concerning the Alfa Insurance group. The following represents a summary of the results from a previous Market Conduct Examination of the Company that took place in 2007.

### A. Prior Market Conduct Examination Report Findings From Missouri

A previous market conduct report, subsequent stipulation and consent order, and settlement agreement from Missouri (civil forfeiture of $6,109.25) was reviewed by the examiners. The examiners kept in mind the respective violations found as they applied to Missouri law.

The previous examination that was performed by the Missouri Department of Insurance, Financial Institutions, and Professional Registration, was closed in 2008. Claims related violations were discovered in this examination. The Company failed to document whether a sales tax affidavit was given to an insured or claimant, failed to effectuate fair, prompt and equitable settlements, misrepresented the insured's policy provisions, failed to document whether all benefits and coverages were disclosed to the insured, failed to document that the accident was a non at fault accident on the part of the insured, contained claim correspondence that misstated Missouri law, contained claim correspondence that stated another state's law which was not applicable to Missouri claimants, failed to follow Company guidelines by not putting the insured on notice of a potential excess property damage liability exposure, overpaid a claim due to failure to protect medical liens, and failed to document the inception, handling and disposition of a claim.

# EXAMINATION FINDINGS

## I. CLAIMS PRACTICES

This section of the report is designed to provide a review of the Company's claims handling practices. Examiners reviewed how the Company handled claims to determine the timeliness of handling, accuracy of payment, adherence to contract provisions, and compliance with Missouri statutes and regulations.

To minimize the duration of the examination, while still achieving an accurate evaluation of claim practices, the examiners reviewed a statistical sampling of the claims processed. The examiners requested a listing of claims paid and claims closed without payment during the examination period for the line of business under review. The review consisted of Missouri claims selected from a listing furnished by the Company with a date of closing from January 1, 2008, through the present.

A claim file is determined in accordance with 20 CSR 100-8.040 and the NAIC *Market Regulation Handbook*. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.1000 – 375.1018 and 375.445 RSMo) and compared with the NAIC benchmark error rate of seven percent (7%). Error rates in excess of the NAIC benchmark error rates are presumed to indicate a general business practice contrary to the law. Errors indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

A claim error includes, but is not limited to, any of the following:

- An unreasonable delay in the acknowledgement of a claim.
- An unreasonable delay in the investigation of a claim.
- An unreasonable delay in the payment or denial of a claim.
- A failure to calculate claim benefits correctly.
- A failure to comply with Missouri law regarding claim settlement practices.

The examiners reviewed the claim files for timeliness. In determining timeliness, examiners looked at the duration of time the Company used to acknowledge the receipt of the claim, the time for investigation of the claim, and the time to make payment or provide a written denial.

Missouri statutes require the Company to disclose to first-party claimants all pertinent benefits, coverage or other provisions of an insurance policy under which a claim is presented. Claim denials must be given to the claimant in writing, and the Company must maintain a copy in its claim files.

To test for compliance with timeliness standards, the examiners reviewed claim records and calculated the amount of time taken by the Company for claims processing. They reviewed the Company's claims processing practices relating to (1) the acknowledgement of receipt of notification of claims; (2) the investigation of claims; and (3) the payment of claims or the providing of an explanation for the denial of claims.

DIFP regulations require companies to abide by the following parameters for claims processing:

- Acknowledgement of the notification of a claim must be made within 10 working days.
- Completion of the investigation of a claim must be made within 30 calendar days after notification of the claim. If more time is needed, the Company must notify the claimant and send follow-up letters every 45 days.
- Payment or denial of a claim must be made within 15 working days after the investigation of the claim is complete.

In addition to the Claim Time Studies, examiners reviewed the Company's claim handling processes to determine compliance with contract provisions and adherence to unfair claims statutes and regulations. Whenever a claim file reflected that the Company failed to meet these standards, the examiners cited the Company for noncompliance.

### A. AVIC Private Passenger Auto Bodily Injury Claims Paid

#### 1. Claims Time Studies

The examiners requested a sample from the total population of Missouri Private Passenger Auto Physical Damage claims paid and closed during the examination period.

a. Acknowledgment

| | |
|---|---|
| Field Size: | 362 |
| Sample Size: | 82 |
| Type of Sample: | Random |
| Number of Errors: | 0 |

The examiners discovered no issues or concerns.

b. Investigation

| | |
|---|---|
| Field Size: | 362 |
| Sample Size: | 82 |
| Type of Sample: | Random |
| Number of Errors: | 0 |

The examiners discovered no issues or concerns.

c. Determination

| | |
|---|---|
| Field Size: | 362 |
| Sample Size: | 82 |
| Type of Sample: | Random |
| Number of Errors: | 0 |

The examiners discovered no issues or concerns.

**2. Unfair Settlement and General Handling Practices**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Physical Damage claims paid and closed during the examination period.

Effectuate Prompt, Fair and Equitable Settlements

| | |
|---|---|
| Field Size: | 362<br>67 files dated pre-8/28/07<br>295 files dated post-8/28/07 |
| Sample Size: | 82 total<br>18 files dated pre-8/28/07<br>64 files dated post-8/28/07 |
| Type of Sample: | Random |
| Number of Errors: | 9 total<br>2 files dated pre-8/28/07<br>7 files dated post-8/28/07 |
| Error Ratio: | 11.0% total<br>11.1% files dated pre-8/28/07<br>10.9% files dated post-8/28/07 |
| Within DIFP Guidelines: | No |

The examiners discovered no issues or concerns.

The following errors were found during the review of unfair claims practices.

The examiners noted the following nine exceptions during their review. The same exceptions were discovered in a previous examination.

1. The examiners found nine instances in which the Company failed to document the file with a copy of a sales tax affidavit. Therefore, the examiners could not ascertain if it was provided to the claimants concerning their total loss vehicle.

| Claim Number | Claim Underpayment | Interest |
|---|---|---|
| 123070 | $178.60 | $76.33 |
| 124429 | $281.94 | $120.49 |
| 126045 | $297.25 | $126.74 |
| 119334 | $500.75 | $206.47 |
| 139584 | $175.61 | $62.75 |
| 184336 | $56.74 | $3.81 |
| 189842 | $76.11 | $5.10 |
| 190564 | $49.35 | $6.04 |
| 210509 | $265.75 | $17.83 |

Reference: §§144.027, 374.205.2(2), 375.1007(4), 408.020 RSMo, and 20 CSR 300-2.200(3)(B)(3) [as replaced by 20 CSR 100-8.040(3)(B)3 eff. 7/30/08].

**3. Unfair Trade Practices**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Physical Damage claims paid and closed during the examination period.

| | |
|---|---|
| Field Size: | 362<br>67 files dated pre-8/28/07<br>295 files dated post-8/28/07 |
| Sample Size: | 82 total<br>18 files dated pre-8/28/07<br>64 files dated post-8/28/07 |
| Type of Sample: | Random |
| Number of Errors: | 24 total<br>10 files dated pre-8/28/07<br>14 files dated post-8/28/07 |
| Error Ratio: | 29.3% total<br>55.5% files dated pre-8/28/07<br>21.9% files dated post-8/28/07 |

Within DIFP Guidelines: No

The examiners found the following 24 exceptions during their review of unfair claims practices. The exceptions found are general business practice by definition and the same exceptions were discovered in a previous examination.

1. The 22 claim files captioned below contained wording concerning §375.991, which misstated the statute and thus, was a misstatement of Missouri law. The Company stated on correspondence in the aforementioned files below, "Missouri statute requires, per section No. 375.991, this warning: It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits". In review of the aforementioned statute, the examiners were unable to find wording in it that "requires" the warning to be placed in the correspondence of an insurance company claim file or to be included in letters or forms sent to an insured or claimant.

| Claim Number | Claim Number | Claim Number |
|---|---|---|
| 111305 | 111940 | 123070 |
| 123261 | 124362 | 124429 |
| 126045 | 126565 | 127254 |
| 127360 | 127883 | 128293 |
| 129932 | 134737 | 134985 |
| 138212 | 138323 | 141043 |
| 141369 | 144659 | 147696 |
| 169750 | | |

Reference: §375.936(4), RSMo

2. The examiners found two instances that contained correspondence that stated another state's law which was not applicable to Missouri claimants.

| Claim Number |
|---|
| 118870 |
| 139166 |

Reference: §375.936(4), RSMo

## B. AVIC Private Passenger Auto Medical Payments Claims Paid

### 1. Claims Time Studies

The examiners requested a sample from the total population of Missouri Private Passenger Auto Medical Payments claims paid and closed during the examination period.

a. Acknowledgment

| | |
|---|---|
| Field Size: | 48 |
| Sample Size: | 48 |
| Type of Sample: | Census |
| Number of Errors: | 0 |

The examiners discovered no issues or concerns.

b. Investigation

| | |
|---|---|
| Field Size: | 48 total<br>8 files dated pre-8/28/07<br>40 files dated post-8/28/07 |
| Sample Size: | 48 total<br>8 files dated pre-8/28/07<br>40 files dated post-8/28/07 |
| Type of Sample: | Census |
| Number of Errors: | 11 total<br>4 files dated pre-8/28/07<br>7 files dated post-8/28/07 |
| Error Ratio: | 22.9% total<br>50.0% files dated pre-8/28/07<br>17.5% files dated post-8/28/07 |
| Within DIFP Guidelines: | No |

The examiners noted the following exceptions during their review:

1. The examiners found 11 instances in which the Company failed to provide a letter to the insured explaining why the file remained open after 45 days of the initial notification of the claim and every 45 days thereafter.

| Claim Number | Claim Number |
|---|---|
| 119896 | 153211 |
| 123201 | 159046 |
| 132127 | 177763 |
| 136194 | 190680 |
| 137874 | 193046 |
| 140197 | |

Reference: §375.1007(4) RSMo, 20 CSR 100-1.050(1)(C) & 20 CSR 100-1.010(1)(F)

c. Determination

| | |
|---|---|
| Field Size: | 48 |
| Sample Size: | 48 |
| Type of Sample: | Census |
| Number of Errors: | 0 |

The examiners discovered no issues or concerns.

**2. Unfair Settlement and General Handling Practices**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Medical Payments claims paid and closed during the examination period.

Effectuate Prompt, Fair and Equitable Settlements

| | |
|---|---|
| Field Size: | 48 total<br>8 files dated pre-8/28/07<br>40 files dated post-8/28/07 |
| Sample Size: | 48 total<br>8 files dated pre-8/28/07<br>40 files dated post-8/28/07 |
| Type of Sample: | Census |
| Number of Errors: | 4 total<br>2 files dated pre-8/28/07<br>2 files dated post-8/28/07 |

Error Ratio: 8.3% total
25.0% files dated pre-8/28/07
5.0% files dated post-8/28/07

Within DIFP Guidelines: No

The examiners found the following four exceptions during their review of unfair claims practices. The exceptions found are a general business practice by definition. And the same exceptions were discovered in a previous examination.

1. The examiners found two instances in which the Company failed to effectuate prompt, fair and equitable settlement of the claim, by failing to investigate the extent and treatment of injuries of claimants. The examiners also found one instance in the second file listed, that the Company failed to document whether the insured had health or accident insurance, which would have affected coverage or exclusions related to Medical Payments coverage.

   Claim Number

   132149

   141369

Reference: §375.1007(4) RSMo.

2. The examiners found that the Company failed to document the following two files with a copy of a Missouri sales tax affidavit concerning the insured's and or the claimant's total loss vehicle(s) resulting in claim underpayments.

| Claim Number | Claim Underpayment | Interest |
|---|---|---|
| 119896 | $507.15 | $233.74 |
| 153211 | $625.68 | $179.44 |

Reference: §§144.027, 374.205.2(2), 375.1007(4), 408.020 RSMo, and 20 CSR 300-2.200(3)(B)(3) [as replaced by 20 CSR 100-8.040(3)(B)3 eff. 7/30/08].

Unfair Settlement Rate

Field Size: 48 total
8 files dated pre-8/28/07
40 files dated post-8/28/07

| | |
|---|---|
| Sample Size: | 48 total<br>8 files dated pre-8/28/07<br>40 files dated post-8/28/07 |
| Type of Sample: | Census |
| Number of Errors: | 3 total<br>1 files dated pre-8/28/07<br>2 files dated post-8/28/07 |
| Error Ratio: | 6.2% total<br>12.5% files dated pre-8/28/07<br>5.0% files dated post-8/28/07 |
| Within DIFP Guidelines: | Yes |

The examiners found the following three exceptions during their review of unfair claims practices. The exceptions found are a general business practice by definition. And the same exceptions were discovered in a previous examination.

1. The examiners found one instance in which the Company failed to disclose all pertinent benefits and coverages to the insured. Medical Payments coverage was not disclosed to the insured (claim 141369). The examiners also found two instances (claim 140197, 158245) in which the Company misrepresented relevant facts or policy provisions relating to coverages at issue. The company explained it had the opportunity to subrogate Medical Payments coverage which is not permissible in Missouri.

   Claim Number

   141369

   140197

   158245

Reference: §375.1007(1), 20 CSR 100-1.020(1)(A)&(B), & Policy Provisions

**3. Other Claims Handling Practices Not Included In the Error Ratio**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Medical Payments claims paid during the examination period.

The following errors were found during the review of unfair claims practices, but were not classified as a general business practice error.

The examiners noted the following exception during their review.

1. The claim file did not clearly document whether medical payments coverage was fully disclosed to the claimant.

   Claim Number

   132149

Reference: §374.205.2 (2) and 20 CSR 100-8.040 (3) (B)

**4. Unfair Trade Practices**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Medical Payments claims paid during the examination period.

| | |
|---|---|
| Field Size: | 48 total<br>8 files dated pre-8/28/07<br>40 files dated post-8/28/07 |
| Sample Size: | 48 total<br>8 files dated pre-8/28/07<br>40 files dated post-8/28/07 |
| Type of Sample: | Census |
| Number of Errors: | 4 total<br>3 files dated pre-8/28/07<br>1 files dated post-8/28/07 |
| Error Ratio: | 8.3% total<br>37.5% files dated pre-8/28/07<br>2.5% files dated post-8/28/07 |
| Within DIFP Guidelines: | No |

The examiners discovered the following exceptions. This violation can be considered a general business practice by definition, and was also found in a previous examination.

1. The four claim files captioned below contained wording concerning §375.991, which misstated the statute and thus, was a misstatement of Missouri law. The Company stated on correspondence in the aforementioned files below, "Missouri statute requires, per section No. 375.991, this warning: It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the

company. Penalties include imprisonment, fines and denial of insurance benefits". In review of the aforementioned statute, the examiners were unable to find wording in it that "requires" the warning to be placed in the correspondence of an insurance company claim file or to be included in letters or forms sent to an insured or claimant.

| Claim Number | Claim Number |
|---|---|
| 111940 | 119896 |
| 172776 | 132149 |

Reference: §375.936(4), RSMo

## C. AVIC Private Passenger Auto Uninsured/Underinsured Motorist Claims Paid

### 1. Claims Time Studies

The examiners requested a sample from the total population of Missouri Private Passenger Auto Uninsured/Underinsured Motorist claims closed with payment during the examination period.

a. Acknowledgment

| | |
|---|---|
| Field Size: | 50 |
| Sample Size: | 50 |
| Type of Sample: | Census |
| Number of Errors: | 0 |

The examiners discovered no issues or concerns.

b. Investigation

| | |
|---|---|
| Field Size: | 50 total<br>11 files dated pre-8/28/07<br>39 files dated post-8/28/07 |
| Sample Size: | 50 total<br>11 files dated pre-8/28/07<br>39 files dated post-8/28/07 |
| Type of Sample: | Census |
| Number of Errors: | 1 total<br>1 files dated pre-8/28/07<br>0 files dated post-8/28/07 |

| | |
|---|---|
| Error Ratio: | 2.0% total<br>9.1% files dated pre-8/28/07<br>0.0% files dated post-8/28/07 |
| Within DIFP Guidelines: | Yes |

The examiners noted the following exceptions during their review:

1. The examiners found that the Company failed complete the investigation of the claim within thirty (30) days after notification of the claim, and failed to document that the investigation could not reasonably be completed within this time.

   Claim Number

   119879*

Reference: §375.1007(3) RSMo, and 20 CSR 100-1.050(4)

2. The examiners found one instance in which the Company failed to provide a letter to the insured explaining why the file remained open after 45 days of the initial notification of the claim and every 45 days thereafter.

   Claim Number

   119879*

Reference: §375.1007(4) RSMo, 20 CSR 100-1.050(1)(C) and 20 CSR 100-1.010(1)(F)

*Although listed multiple times, the claim numbers listed above with an asterisk in this section of the report were counted only once in determining the error ratio.

**2. Unfair Settlement and General Handling Practices**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Uninsured/Underinsured Motorist claims closed with payment during the examination period.

Effectuate Prompt, Fair and Equitable Settlements

| | |
|---|---|
| Field Size: | 50 total<br>11 files dated pre-8/28/07<br>39 files dated post-8/28/07 |

| | |
|---|---|
| Sample Size: | 50 total<br>11 files dated pre-8/28/07<br>39 files dated post-8/28/07 |
| Type of Sample: | Census |
| Number of Errors: | 2 total<br>0 files dated pre-8/28/07<br>2 files dated post-8/28/07 |
| Error Ratio: | 4.0% total<br>0.0% files dated pre-8/28/07<br>5.1% files dated post-8/28/07 |
| Within DIFP Guidelines: | Yes |

The following errors were found during the review of unfair claims practices, but were not classified as a general business practice error. These errors were also found in a previous examination

The examiners noted the following two exceptions during their review that were considered as individual violations, since they were discovered in a previous examination.

1. The examiners found two instances in which the Company failed to attempt in good faith to effectuate a prompt, fair, and equitable settlement in which liability was reasonably clear. The Company issued payments under Uninsured Motorist coverage, but failed to pay the policy limits that applied under Medical Payments coverage.

| Claim Number | Claim Underpayment | Interest |
|---|---|---|
| 189744 | $1,000.00 | $101.11 |
| 147777 | $500.00 | $136.37 |

Reference: §§375.1007(4) & 408.020 RSMo.

Unfair Settlement Rate

| | |
|---|---|
| Field Size: | 50 total<br>11 files dated pre-8/28/07<br>39 files dated post-8/28/07 |
| Sample Size: | 50 total<br>11 files dated pre-8/28/07<br>39 files dated post-8/28/07 |

| | |
|---|---|
| Type of Sample: | Census |
| Number of Errors: | 1 total<br>0 files dated pre-8/28/07<br>1 files dated post-8/28/07 |
| Error Ratio: | 2.0% total<br>0.0% files dated pre-8/28/07<br>2.6% files dated post-8/28/07 |
| Within DIFP Guidelines: | Yes |

The following error was found during the review of unfair claims practices, but was not classified as a general business practice error. This error was also found in a previous examination

1. The examiners found one instance in which the Company failed to disclose all pertinent benefits and coverages to the insured.

   Claim Number

   147777

Reference: §375.1007(1), 20 CSR 100-1.020(1)(A)&(B), & Policy Provisions

**3. Other Claims Handling Practices Not Included In the Error Ratio**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Uninsured/Underinsured Motorist claims closed with payment during the examination period.

The following error was found during the review of unfair claims practices.

1. The examiners found one instance in which the Company failed to document the inc eption, handling, and disposition of the claim. The policy had lapsed, and was investigated under Reservation of Rights and initially denied, but was reopened and the claim was paid. The file failed to document how coverage was afforded under the lapsed policy.

   Claim Number

   121512

Reference: §374.205.2(2) & 20 CSR 300-2.200(3)(A) [as replaced by 20 CSR 100-8.040(3)(B) eff. 7/30/08]

**4. Unfair Trade Practices**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Uninsured Motorist claims paid and closed during the examination period.

The examiners found the following 5 exceptions during their review of unfair trade practices. The exceptions found are general business practice by definition, and were also found in a previous examination.

| | |
|---|---|
| Field Size: | 50<br>11 files dated pre-8/28/07<br>39 files dated post-8/28/07 |
| Sample Size: | 50 total<br>11 files dated pre-8/28/07<br>39 files dated post-8/28/07 |
| Type of Sample: | Census |
| Number of Errors: | 5 total<br>5 files dated pre-8/28/07<br>0 files dated post-8/28/07 |
| Error Ratio: | 10% total<br>45.5% files dated pre-8/28/07<br>0.0% files dated post-8/28/07 |
| Within DIFP Guidelines: | Yes |

1. The five claim files captioned below contained wording concerning §375.991, which misstated the statute and thus, was a misstatement of Missouri law. The Company stated on correspondence in the following files below, "Missouri statute requires, per section No. 375.991, this warning: It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits". In review of the aforementioned statute, the examiners were unable to find wording in it that "requires" the warning to be placed in the correspondence of an insurance company claim file or to be included in letters or forms sent to an insured or claimant.

Claim Number

117597

1120463

125005

126813

129173

Reference: §375.936(4), RSMo

## D. AVIC Private Passenger Total Loss Claims Paid

### 1. Claims Time Studies

The examiners requested a sample from the total population of Missouri Private Passenger Auto Total Losses Paid during the examination period.

a. Acknowledgment

| | |
|---|---|
| Field Size: | 255 |
| Sample Size: | 76 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

b. Investigation

| | |
|---|---|
| Field Size: | 255 |
| Sample Size: | 76 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

c. Determination

| | |
|---|---|
| Field Size: | 255 |
| Sample Size: | 76 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

**2. Unfair Settlement and General Handling Practices**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Total Losses claims paid and closed during the examination period.

Effectuate Prompt, Fair and Equitable Settlements

| | |
|---|---|
| Field Size: | 255<br>0 files dated pre-8/28/07<br>255 files dated post-8/28/07 |
| Sample Size: | 76 total<br>0 files dated pre-8/28/07<br>76 files dated post-8/28/07 |
| Type of Sample: | Random |
| Number of Errors: | 26 total<br>0 files dated pre-8/28/07<br>26 files dated post-8/28/07 |
| Error Ratio: | 34.2% total<br>0.0% files dated pre-8/28/07<br>100% files dated post-8/28/07 |
| Within DIFP Guidelines: | No |

The examiners found the following twenty-six exceptions during their review of unfair claims practices. The exceptions found are a general business practice by definition. And the same exceptions were discovered in a previous examination.

1. The Examiners found one instance in which the Company failed to effectuate prompt, fair and equitable settlement of the claim, by failing to investigate whether the insured driver was asked if he was injured or not as a result of a serious auto accident.

   Claim Number

   152675

Reference: §375.1007(4)

2. The examiners found that the Company failed to document the following 25 files with a copy of a Missouri sales tax affidavit concerning the insured's and or the claimant's total loss vehicle(s) resulting in claim underpayments.

| Claim Number | Underpayment | Interest |
|---|---|---|
| 160558 | $799.83 | $201.18 |
| 166236 | $125.73 | $31.63 |
| 176827 | $207.97 | $52.09 |
| 176529 | $56.06 | $14.10 |
| 192055 | $97.04 | $24.41 |
| 196886 | $343.00 | $86.27 |
| 197180 | $224.27 | $56.41 |
| 197129 | $277.72 | $69.96 |
| 189999 | $176.70 | $44.45 |
| 199298 | $134.53 | $33.84 |
| 200802 | $42.63 | $10.97 |
| 201794 | $278.25 | $69.69 |
| 161386 | $1,009.37 | $253.89 |
| 161851 | $545.22 | $137.14 |
| 179363 | $199.97 | $50.30 |
| 180921 | $120.26 | $30.25 |
| 183971 | $417.38 | $104.98 |
| 184336 | $54.24 | $13.64 |
| 189839 | $212.80 | $53.63 |
| 190564 | $46.35 | $11.66 |
| 197180 | $122.29 | $30.76 |
| 204482 | $60.60 | $15.24 |
| 199020 | $119.63 | $30.09 |
| 215292 | $198.92 | $50.03 |
| 222261 | $285.44 | $71.80 |

Reference: §§144.027, 374.205.2(2), 375.1007(4), 408.020 RSMo, and 20 CSR 300-2.200(3)(B)(3) [as replaced by 20 CSR 100-8.040(3)(B)3 eff. 7/30/08].

Unfair Settlement Rate

| | |
|---|---|
| Field Size: | 255<br>0 files dated pre-8/28/07<br>255 files dated post-8/28/07 |
| Sample Size: | 76 total<br>0 files dated pre-8/28/07<br>76 files dated post-8/28/07 |
| Type of Sample: | Random |
| Number of Errors: | 1 total<br>0 files dated pre-8/28/07<br>1 file dated post-8/28/07 |
| Error Ratio: | 1.3% total<br>0.0% files dated pre-8/28/07<br>1.3% files dated post-8/28/07 |
| Within DIFP Guidelines: | Yes |

The following error was found during the review of unfair claims practices, but was not classified as a general business practice error. The same error was discovered in a previous examination.

1. The Company failed to disclose all pertinent benefits and coverages to the insured. The first contact file notes make no reference to advising the insured regarding Medical Payments coverage. The Closing Review question and answer "All coverages available explained to the insured? Yes" were insufficient to establish that Medical Payments coverage was actually explained to the insured.

   Claim Number

   152675

Reference: §375.1007(1), 20 CSR 100-1.020(1)(A)&(B)

## E. ASIC Private Passenger Auto Bodily Injury Claims Paid

### 1. Claims Time Studies

The examiners requested a sample from the total population of Missouri Private Passenger Auto Bodily Injury Claims Paid during the examination period.

a. Acknowledgment

| | |
|---|---|
| Field Size: | 66 |
| Sample Size: | 25 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

b. Investigation

| | |
|---|---|
| Field Size: | 66 |
| Sample Size: | 25 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

c. Determination

| | |
|---|---|
| Field Size: | 66 |
| Sample Size: | 25 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

**2. Unfair Settlement and General Handling Practices**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Bodily Injury Claims Paid during the examination period.

| | |
|---|---|
| Field Size: | 66 |
| Sample Size: | 25 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

**3. Unfair Trade Practices**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Bodily Injury Claims Paid during the examination period.

| | |
|---|---|
| Field Size: | 66<br>0 files dated pre-8/28/07<br>66 files dated post-8/28/07 |
| Sample Size: | 25 total<br>0 files dated pre-8/28/07<br>25 files dated post-8/28/07 |
| Type of Sample: | Random |
| Number of Errors: | 3 total<br>0 files dated pre-8/28/07<br>3 files dated post-8/28/07 |
| Error Ratio: | 12.0% total<br>0% files dated pre-8/28/07<br>12% files dated post-8/28/07 |
| Within DIFP Guidelines: | No |

The examiners discovered the following exceptions. This violation is a general business practice by definition, and was also found in a previous examination.

1. The three claim files captioned below contained wording concerning §375.991, which misstated the statute and thus, was a misstatement of Missouri law. The Company stated on correspondence in the aforementioned files below, "Missouri statute requires, per section No. 375.991, this warning: It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits". In review of the aforementioned statute, the examiners were unable to find wording in it that "requires" the warning to be placed in the correspondence of an insurance company claim file or to be included in letters or forms sent to an insured or claimant.

   Claim Number

   167775

   171502

   171569

Reference: § 375.936(4) RSMo.

## F. ASIC Private Passenger Auto Uninsured/Underinsured Claims Paid

### 1. Claims Time Studies

The examiners requested a sample from the total population of Missouri Private Passenger Auto Uninsured Motorist Claims Paid during the examination period.

a. Acknowledgment

| | |
|---|---|
| Field Size: | 22 |
| Sample Size: | 22 |
| Type of Sample: | Census |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

b. Investigation

| | |
|---|---|
| Field Size: | 22 |
| Sample Size: | 22 |
| Type of Sample: | Census |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

c. Determination

| | |
|---|---|
| Field Size: | 22 |
| Sample Size: | 22 |
| Type of Sample: | Census |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

### 2. Unfair Settlement and General Handling Practices

The examiners requested a sample from the total population of Missouri Private Passenger Auto Total Loss claims paid during the examination period.

Unfair Settlement Rate

| | |
|---|---|
| Field Size: | 22<br>0 files dated pre-8/28/07<br>22 files dated post-8/28/07 |

| | |
|---|---|
| Sample Size: | 22 total<br>0 files dated pre-8/28/07<br>22 files dated post-8/28/07 |
| Type of Sample: | Census |
| Number of Errors: | 1 total<br>0 files dated pre-8/28/07<br>1 files dated post-8/28/07 |
| Error Ratio: | 4.5% total<br>0% files dated pre-8/28/07<br>4.5% files dated post-8/28/07 |

The following error was found during the review of unfair claims practices, but was not classified as a general business practice error. The same error was discovered in a previous examination.

1. The examiners found one instance in which the Company failed to disclose all pertinent benefits and coverages to the insured. The Uninsured Motorist coverage claim ($300) was paid. The Medical Payments coverage ($500 coverage available) was not.

   Claim Number

   196632

Reference: §375.1007(1), 20 CSR 100-1.020(1)(A)&(B)

## G. ASIC Private Passenger Auto Total Loss Claims Paid

### 1. Claims Time Studies

The examiners requested a sample from the total population of Missouri Private Passenger Auto Total Loss claims paid during the examination period.

a. Acknowledgment

| | |
|---|---|
| Field Size: | 165 |
| Sample Size: | 25 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

b. Investigation

| | |
|---|---|
| Field Size: | 165 |
| Sample Size: | 25 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

c. Determination

| | |
|---|---|
| Field Size: | 165 |
| Sample Size: | 25 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

**2. Unfair Settlement and General Handling Practices**

The examiners requested a sample from the total population of Missouri Private Passenger Auto Total Loss claims paid during the examination period.

| | |
|---|---|
| Field Size: | 165 total<br>0 files dated pre-8/28/07<br>165 files dated post-8/28/07 |
| Sample Size: | 25 total<br>0 files dated pre-8/28/07<br>25 files dated post-8/28/07 |
| Type of Sample: | Random |
| Number of Errors: | 20 total<br>0 files dated pre-8/28/07<br>20 files dated post-8/28/07 |
| Error Ratio: | 80.0% total<br>0.0% files dated pre-8/28/07<br>100% files dated post-8/28/07 |
| Within DIFP Guidelines: | No |

The examiners discovered the following 20 exceptions. This violation is a general business practice by definition, and was also found in a previous examination.

1. The examiners found that the Company failed to document the following 20 files with a copy of a Missouri sales tax affidavit concerning the insured's and or the claimant's total loss vehicle(s) resulting in claim underpayments.

| Claim Number | Claim Underpayment | Interest |
|---|---|---|
| 167704 | $396.06 | $85.66 |
| 169069 | $56.55 | $11.31 |
| 170579 | $415.02 | $83.20 |
| 170626 | $290.58 | $60.76 |
| 171667 | $459.64 | $92.26 |
| 172134 | $139.75 | $27.95 |
| 172157 | $365.73 | $73.68 |
| 174510 | $151.67 | $28.50 |
| 175072 | $155.90 | $28.80 |
| 175893 | $444.30 | $79.11 |
| 176230 | $118.01 | $21.62 |
| 177387 | $69.62 | $12.60 |
| 178683 | $422.06 | $73.96 |
| 147054 | $144.84 | $35.29 |
| 150527 | $181.77 | $44.29 |
| 150618 | $81.11 | $26.32 |
| 153967 | $623.10 | $187.15 |
| 155197 | $271.31 | $75.94 |
| 158316 | $337.97 | $93.18 |
| 159014 | $302.82 | $73.78 |

Reference: §§144.027, 374.205.2(2), 375.1007(4), 408.020 RSMo, and 20 CSR 300-2.200(3)(B)(3) [as replaced by 20 CSR 100-8.040(3)(B)3 eff. 7/30/08].

### 3. Unfair Trade Practices

The examiners requested a sample from the total population of Missouri Private Passenger Auto Total Loss claims paid during the examination period.

| | |
|---|---|
| Field Size: | 165 total<br>0 files dated pre-8/28/07<br>165 files dated post-8/28/07 |
| Sample Size: | 25 total<br>0 files dated pre-8/28/07<br>25 files dated post-8/28/07 |
| Type of Sample: | Random |
| Number of Errors: | 5 total<br>0 files dated pre-8/28/07<br>5 files dated post-8/28/07 |
| Error Ratio: | 20.0% total<br>0.0% files dated pre-8/28/07<br>20.0% files dated post-8/28/07 |
| Within DIFP Guidelines: | No |

The examiners discovered the following five exceptions. This violation is a general business practice by definition, and was also found in a previous examination.

1. The five claim files captioned below contained wording concerning §375:991, which misstated the statute and thus, was a misstatement of Missouri law. The Company stated on correspondence in the aforementioned files below, "Missouri statute requires, per section No. 375.991, this warning: It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits". In review of the aforementioned statute, the examiners were unable to find wording in it that "requires" the warning to be placed in the correspondence of an insurance company claim file or to be included in letters or forms sent to an insured or claimant.

| Claim Number | Claim Number |
|---|---|
| 167775 | 171667 |
| 168744 | 172134 |
| 169069 | |

Reference: §375.936(4) RSMo.

## II. UNDERWRITING AND RATING PRACTICES

This section of the report is designed to provide a review of the Company's underwriting and rating practices. These practices included the use of policy forms, adherence to underwriting guidelines, assessment of premium, and procedures to decline or terminate coverage. Examiners reviewed how the Company handled new and renewal policies to ensure that the Company underwrote and rated risks according to their own underwriting guidelines, filed rates, and Missouri statutes and regulations.

Because of the time and cost involved in reviewing each policy/underwriting file, the examiners utilized sampling techniques in conducting compliance testing. A policy/underwriting file is determined in accordance with 20 CSR 100-8.040 and the NAIC *Market Regulation Handbook*. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.930 – 375.948 and 375.445, RSMo.) and compared with the NAIC benchmark error rate of ten percent (10%). Error rates in excess of the NAIC benchmark error rate are presumed to indicate a general business practice contrary to the law. Errors indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

The examiners requested the Company underwriting and rating manuals for the lines of business under review. This included all rates, guidelines, and rules that were in effect on the first day of the examination period and at any point during that period to ensure that the examiners could properly rate each policy reviewed.

The examiners also reviewed the Company's procedures, rules, and forms filed by or on behalf of the Company with the DIFP. The examiners used a census or randomly selected the files for review from a listing furnished by the Company.

The examiners also requested a written description of significant underwriting and rating changes that occurred during the examination period for underwriting files that were maintained in an electronic format.

An error can include, but is not limited to, any miscalculation of the premium based on the information in the file, an improper acceptance or rejection of an application, the misapplication of the company's underwriting guidelines, incomplete file information preventing the examiners from readily ascertaining the company's rating and underwriting practices, and any other activity indicating a failure to comply with Missouri statutes and regulations.

### A. Forms and Filings

The examiners reviewed the Company's policy and contract forms to determine its compliance with filing, approval, and content requirements to ensure that the contract language is not ambiguous or misleading and is adequate to protect those insured.

The examiners discovered no issues or concerns.

### B. Alfa Vision Insurance Company Private Passenger Automobile

The examiners reviewed applications for coverage that were issued, modified, or declined by the Company to determine the accuracy of rating and adherence to prescribed and acceptable underwriting criteria.

The following are the results of the reviews:

**Underwriting**

| | |
|---|---|
| Field Size: | 42,051<br>2,779 files dated pre-8/28/07<br>39,272 files dated post-8/28/07 |
| Sample Size: | 25 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Error Ratio: | 0.0% |

The examiners discovered no issues or concerns.

### C. Alfa Specialty Insurance Company Private Passenger Automobile

The examiners reviewed applications for coverage that were issued, modified, or declined by the Company to determine the accuracy of rating and adherence to prescribed and acceptable underwriting criteria.

The following are the results of the reviews:

**Underwriting**

| | |
|---|---|
| Field Size: | 19,220<br>28 files dated pre-8/28/07<br>19,192 dated post-8/28/07 |
| Sample Size: | 25<br>0 files dated pre-8/28/07<br>25 files dated post-8/28/07 |
| Type of Sample: | Random |

| | |
|---|---|
| Number of Errors: | 1<br>0 files dated pre-8/28/07<br>1 file dated post-8/28/07 |
| Error Ratio: | 4.0%<br>0% files dated pre 8/28/07<br>4.0% files dated post 8/28/07 |

The examiners noted the following exception during their review.

1. The examiners found one instance in which the Company failed to retain a signed application for the policy term plus two years where an insurer intends to retain the right to contest any warranty, representation or condition contained in the application.

   Policy Number

   1963720

Reference: §374.205.2.(2) RSMo, and 20 CSR 300-2.100(3)(A)1.A. (as replaced by 20 CSR 100-8040(3)(A)1.A. eff. 7/30/08)

**D. Alfa Vision Private Passenger Automobile Cancellations, Non- Renewals and Declinations**

This section of the report is designed to provide a review of the Company's cancellation, non-renewal and declination practices. Examiners reviewed how the Company declines applications, cancels and non-renews policies to ensure that it was performing these practices according to its own company guidelines, Missouri statutes, and DIFP regulations.

The examiners requested a data download of policies cancelled within the first 60 days, policies non-renewed, and applications declined during the examination period. Policies were then randomly selected for review. When the number of policies in the population was small, the examiners selected each file, or a census, for review.

**1. Policies Cancelled/Declined within 60 Days**

The examiners requested a sample from the total population of all Private Passenger Auto policies written in the state of Missouri, which were cancelled or declined within 60 days after the policy inception date, during the examination period.

The following are the results of the reviews:

| | |
|---|---|
| Field Size: | 14,541<br>5,375 files dated pre-8/28/07<br>9,166 files dated post-8/28/07 |
| Sample Size: | 25<br>3 files dated pre-8/28/07<br>22 files dated post-8/28/07 |
| Type of Sample: | Random |
| Number of Errors: | 1<br>0 files dated pre-8/28/07<br>1 file dated post-8/28/07 |
| Error Ratio: | 4.0%<br>0% files dated pre 8/28/07<br>4% files dated post 8/28/07 |

The examiners noted the following exception that was noted as an individual violation.

1. In the following file, the written Declination Notice to the insured was not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

   Policy Number

   1451367

   Reference: §379.118.1(3) RSMo.

**2. Policies Cancelled after 60 Days**

The examiners requested a sample from the total population of all Private Passenger Auto policies written in the state of Missouri, which were cancelled after 60 days of the Policy inception date, during the examination period.

The following are the results of the reviews:

| | |
|---|---|
| Field Size: | 14,962<br>2,591 files dated pre-8/28/07<br>12,371 dated post-8/28/07 |
| Sample Size: | 25 |
| Type of Sample: | Random |
| Number of Errors: | 0 |

| | |
|---|---|
| Error Ratio: | 0.0% |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

**3. Policies That Were Non-Renewed**

The examiners requested a sample from the total population of all Private Passenger Auto policies written in the state of Missouri, which were non-renewed after the policy inception date, during the examination period.

The following are the results of the reviews:

| | |
|---|---|
| Field Size: | 175<br>61 files dated pre-8/28/07<br>114 files dated post-8/28/07 |
| Sample Size: | 50<br>1 files dated pre-8/28/07<br>49 files dated post-8/28/07 |
| Type of Sample: | Random |
| Number of Errors: | 22<br>1 files dated pre-8/28/07<br>21 file dated post-8/28/07 |
| Error Ratio: | 44.0%<br>100% files dated pre 8/28/07<br>42.9% files dated post 8/28/07 |

The examiners considered the following 22 files as individual violations.

1. In the following 22 files, the written non-renewal notices that were sent to the insureds were not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

| Policy Number | Policy Number |
|---|---|
| 878918 | 1596252 |
| 1207596 | 1680980 |
| 1251507 | 2718786 |
| 1345830 | 2985309 |

| Policy Number | Policy Number |
|---|---|
| 1358365 | 1552070 |
| 1365025 | 1585465 |
| 1383691 | 1692298 |
| 1405129 | 1187450 |
| 1405782 | 2637111 |
| 1450785 | 2693392 |
| 1590228 | 919601 |

Reference: §379.118.1(3) RSMo.

**E. Alfa Specialty Private Passenger Automobile Cancellations, Non- Renewals and Declinations**

This section of the report is designed to provide a review of the Company's cancellation, non-renewal and declination practices. Examiners reviewed how the Company declines applications, cancels and non-renews policies to ensure that it was performing these practices according to its own company guidelines, Missouri statutes, and DIFP regulations.
The examiners requested a data download of policies cancelled within the first 60 days, policies non-renewed, and applications declined during the examination period. Policies were then randomly selected for review. When the number of policies in the population was small, the examiners selected each file, or a census, for review.

**1. Policies Cancelled/Declined within 60 Days**

The examiners requested a sample from the total population of all Private Passenger Auto policies written in the state of Missouri, which were cancelled or declined within 60 days after the policy inception date, during the examination period.

The following are the results of the reviews:

| | |
|---|---|
| Field Size: | 5,411<br>0 files pre-dated 8/27/07<br>5,411 files post-dated 8/27/07 |
| Sample Size: | 25 |
| Type of Sample: | Random |

| | |
|---|---|
| Number of Errors: | 2<br>0 files pre-dated 8/27/07<br>2 files post-dated 8/27/07 |
| Error Ratio: | 8.0%<br>0% files pre-dated 8/27/07<br>8.0% files post-dated 8/27/07 |

The examiners found the following two errors.

1. In the following two files, the written declination notices to the insureds were not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

   Policy Number

   2620836

   3055888

Reference: §379.118.1(3) RSMo.

**2. Policies Cancelled after 60 Days**

The examiners requested a sample from the total population of all Private Passenger Auto policies written in the state of Missouri, which were cancelled after 60 days of the Policy inception date, during the examination period.

The following are the results of the reviews:

| | |
|---|---|
| Field Size: | 6,413<br>0 files pre-dated 8/27/07<br>6,413 files post-dated 8/27/07 |
| Sample Size: | 25 |
| Type of Sample: | Random |
| Number of Errors: | 0 |
| Error Ratio: | 0.0% |
| Within DIFP Guidelines: | Yes |

The examiners discovered no issues or concerns.

**3. Policies That Were Non-Renewed**

The examiners requested a sample from the total population of all Private Passenger Auto policies written in the state of Missouri, which were cancelled or declined within 60 days after the policy inception date, during the examination period.

The following are the results of the reviews:

| | |
|---|---|
| Field Size: | 133<br>0 files pre-dated 8/28/07<br>133 files post-dated 8/28/07 |
| Sample Size: | 133<br>0 files pre-dated 8/28/07<br>133 files post-dated 8/28/07 |
| Type of Sample: | Census |
| Number of Errors: | 44<br>0 files pre-dated 8/28/07<br>44 files post-dated 8/28/07 |
| Error Ratio: | 33.1%<br>0% files pre-dated 8/28/07<br>33.1% files post-dated 8/28/07 |

The examiners found errors in the following 44 files.

1. In the following 44 files, the written non-renewal notices to the insureds were not sufficiently clear and specific so that a person of average intelligence could identify the basis for the insurer's decision without further inquiry.

| Policy Number | Policy Number | Policy Number |
|---|---|---|
| 1901295 | 2222961 | 3038300 |
| 1916965 | 2340292 | 3053981 |
| 1943819 | 2450862 | 2047726 |
| 2002836 | 2574195 | 2439096 |
| 2066742 | 2583654 | 2897034 |
| 2067812 | 2668479 | 2986368 |
| 2075954 | 2716997 | 2151108 |
| 2084572 | 2858510 | 2799774 |
| 2127231 | 2866325 | 2822067 |
| 2142644 | 2867028 | 2901202 |
| 2150113 | 2868571 | 2974678 |
| 2151707 | 2874085 | 2993143 |
| 2169817 | 2913176 | 3032418 |
| 2204145 | 2936580 | 2435040 |

| Policy Number | Policy Number | Policy Number |
|---|---|---|
| 2212464 | 2950131 | |

Reference: §379.118.1(3) RSMo.

**F. Practices Not in the Best Interest of Missouri Consumers**

The examiners discovered no issues or concerns.

## III. COMPLAINTS

This section of the report is designed to provide a review of the Company's complaint handling practices. Examiners reviewed how the Company handled complaints to ensure it was performing according to its own guidelines and Missouri statutes and regulations.

Section 375.936(3), RSMo, requires companies to maintain a registry of all written complaints received during the scope of the examination. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the company.

The examiners verified the Company's complaint registry, dated January 1, 2006, to the present. The registry contained a total of 44 complaints. The examiners reviewed all 44 that went through the DIFP and those that did not come through the Department, but went directly to the Company.

### A. Complaints Sent Directly to the DIFP

The review consisted of a review of the nature of each complaint, the disposition of the complaint, and the time taken to process the complaint as required by §375.936.(3), RSMo, and 20 CSR 300-2.100(3)(D) (as replaced by 20 CSR 100-8.040(3)(D), eff. 1/30/09).

The examiners discovered no issues or concerns.

### B. Complaints Sent Directly to the Company

This review consisted of a review of the nature of each complaint, the disposition of the complaint, and the time taken to process the complaint.

The examiners discovered no issues or concerns.

## IV. CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri law requires companies to respond to criticisms and formal requests within 10 calendar days. Please note that in the event an extension was requested by the Company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within that time period, the response was not considered timely. The examiners discovered no issues or concerns.

### A. Criticism Time Study

| Calendar Days | Number of Criticisms | Percentage |
|---|---|---|
| Received w/in time-limit, incl. any extensions | 46 | 100.00 % |
| Received outside time-limit, incl. any extensions | 0 | 0.0 % |
| No Response | 0 | 0.0 % |
| Total | 46 | 100.0 % |

Reference: §374.205.2(2), RSMo, and 20 CSR 100-8.040

### B. Formal Request Time Study

| Calendar Days | Number of Requests | Percentage |
|---|---|---|
| Received w/in time-limit, incl. any extensions | 2 | 100 % |
| Received outside time-limit, incl. any extensions | 0 | 0.0 % |
| No Response | 0 | 0.0 % |
| Total | 2 | 100 % |

Reference: §374.205.2(2), RSMo, and 20 CSR 100-8.040

## EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of Alfa Vision Insurance Corporation (NAIC #12188), and Alfa Specialty Insurance Corporation (NAIC #11004) Examination Number 1007-10-TGT. This examination was conducted by Scott B. Pendleton, Dennis Foley, and Christine Donner. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated April 10, 2012. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.

12/20/2012

Jim Mealer — Date

Chief Market Conduct Examiner