DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

In re:	)	
	)	
Empire Fire and Marine Insurance Company	)	Examination No. 1003-11-TGT
(NAIC #21326)	)	
	)	

ORDER OF THE DIRECTOR

NOW, on this 3RD day of MAY, 2013, Director John M. Huff, after consideration and review of the market conduct examination report of Empire Fire and Marine Insurance Company, (NAIC #21326) (hereafter referred to as "Empire") report number 1003-11-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. 2012), is in the public interest.

IT IS THEREFORE ORDERED that Empire 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 Empire 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 Empire shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of $39,000 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 3RD day of MAY, 2013.

John M. Huff
Director

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

TO: Empire Fire and Marine Insurance Company
1400 American Lane
Schaumburg, Illinois 60196-1065

RECEIVED
APR 26 2013
MO. DEPT. OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

RE: Empire Fire and Marine Insurance Company (NAIC #21326)
Missouri Market Conduct Examination #1003-11-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," and Empire Fire and Marine Insurance Company (NAIC #21326), (hereafter referred to as "Empire"), 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, Empire has been granted a certificate of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, the Department conducted a Market Conduct Examination of Empire and prepared report number 1003-11-TGT; and

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

1. Empire violated §379.470.1[1] and 20 CSR 500-4.100 in connection with 1695 transactions involving 270 properties owned by an insured by using a +31.6% schedule rate factor;

2. In 9 instances, Empire engaged in claims practices in violation of §375.1007 (1) and 20 CSR 100-1.020 (1) (A);

3. In 11 instances, Empire engaged in claims practices in violation of §375.1007 (4) and 20 CSR 100-8.040;

4. In 30 instances, Empire failed to document recoverable depreciation in violation of §374.205.2 (2) and 20 CSR 100-8.040 (3) (B);

5. In 12 instances, Empire engaged in claims practices in violation of §375.1007 (3) and 20 CSR 100-1.050;

6. In 11 instances, Empire engaged in claims practices in violation of §375.1007 (4) and 20 CSR 100-1.050.

WHEREAS, Empire 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 to include the following:

1. Empire agrees to make payment of $1,828.79 plus 9% interest per annum to claimants whose claims were identified in the examination report as being underpaid. A letter must be included with the payments, 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 payments have been made within 90 days after the date of the Order finalizing this examination.

2. Empire agrees to review all Homeowners Claims Paid and Closed dated January 1, 2008 to the date a final Order is entered in this matter to determine if any other claimants were underpaid. If the claim was underpaid, the Company must issue any payments that are due to the claimants, 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

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1 All references, unless otherwise noted, are to Missouri Revised Statutes 2000, as amended.

an additional payment was owed on the claim". 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.

3. Empire agrees to maintain adequate documentation in its claim files to support the handling of the claim, including but not limited to, maintaining adequate documentation of depreciation factors.

WHEREAS, Empire, 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, Empire hereby agrees to the imposition of the ORDER of the Director and as a result of Market Conduct Examination #1104-03-TGT further agrees, voluntarily and knowingly to surrender and forfeit the sum of $39,000.

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 Empire to transact the business of insurance in the State of Missouri or the imposition of other sanctions, Empire 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 $39,000, such sum payable to the Missouri State School Fund, in accordance with §374.280.

DATED: 4/17/13

Kathleen Lamo

President
Empire Fire and Marine Insurance Company

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

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

Empire Fire and Marine Insurance Company
NAIC # 21326

MISSOURI EXAMINATION # 1003-11-TGT

NAIC EXAM TRACKING SYSTEM # M0341-M13

April 18, 2013

Home Office
1400 American Lane
Schaumburg, Illinois 60196-1065

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FOREWORD

This is a targeted market conduct examination report of the Empire Fire and Marine Insurance Company (The "Company"), (NAIC Code # 21326). This examination was conducted at the Office of DIFP, 301 West High Street, Jefferson City, Missouri, 65102.

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.

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

When used in this report:

- "Company" refers to Empire Fire and Marine Insurance Company;
- "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; 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, 2008, through December 31, 2009, 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 was a targeted examination involving the following business functions and lines of business: Company Complaints, Forced Homeowners' Underwriting, Forced Homeowners' Terminations, Forced Homeowners' Paid Claims, and Forced Homeowners' Non-Paid Claims.

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%). Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized, however, for reviews not applying 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

Empire Fire and Marine Insurance Company

History

The Company was incorporated under the laws of the State of Nebraska on March 16, 1954 and commenced business on July 31 of that year as a capital stock casualty insurance company.

By means of a reinsurance agreement effective August 1, 1954, the Company absorbed all of the assets and assumed all of the liabilities of the Empire Fire and Marine Automobile Insurance Company of Omaha, Nebraska, a mutual insurance company which had been organized in 1947.

Effective October 15, 1956, the Company assumed all of the assets and liabilities and obligations of Mutual Bonding and Indemnity Company of Omaha, Nebraska. Under the terms of a reinsurance and consolidation agreement, the Company, on February 15, 1957, received all of the assets and assumed all the liabilities and obligations of the Farmers Union Fidelity Insurance Company, a mutual insurance company of Grand Island, Nebraska. On September 1, 1957, a former wholly owned affiliate, Empire Surety Company of Omaha, Nebraska, was similarly absorbed by means of a reinsurance and consolidation agreement.

The Company and Public Service Insurance Company of Fort Wayne, Indiana, merged effective January 1, 1960. A merger between the Company and Equity Insurance Company of America, a domestic health and accident company of Omaha, was effective December 31, 1960. In both instances, the surviving corporation was Empire Fire and Marine Insurance Company.

Effective May 31, 1979, Zurich Insurance Company, U.S. Branch, acquired all of he outstanding shares of capital stock of the Company. Subsequent changes in ownership of the Company's stock have occurred among affiliate companies. The latest such change took place on January, 1, 1999 when American Guarantee & Liability Insurance Company contributed to the Company's stock to Zurich American Insurance Company (ZAIC).

Effective September 7, 1998, the financial services business of B.A.T. Industries p.l.c., a United Kingdom corporation, merged with Zurich Insurance Company, a Swiss corporation, formerly the ultimate controlling parent of the company. Separate holding companies were created for the business of the B.A.T. and Zurich. These were Allied Zurich and Zurich Allied AG, respectively. Allied Zurich and Zurich Allied AG then formed Zurich Financial Services (ZFS), and each contributed its business to the new holding company through an exchange of stock. Ultimate control of the Company is currently maintained by Allied Zurich (43%) and Zurich Allied AG (57%) through their common ownership of ZFS.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of Empire Fire and Marine Insurance Company. The examiners found the following principal areas of concern:

- The examiners found 11 violations in the Company's active REO underwriting files.
- The examiners found 24 violations in the Company's paid forced homeowners' claims files.
- The examiners found 48 violations in the Company's paid forced homeowners' claims files that were not counted in the error ratio.
- The examiners found 52 violations in the Company's paid forced homeowners' denied claims files.

The examiners requested that the Company make refunds concerning underwriting premium overcharges and claim underpayments for amounts greater than $5.00 during the examination.

EXAMINATION FINDINGS

I. 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 utilize sampling techniques in conducting compliance testing. A policy/underwriting file is reviewed 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) 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's underwriting and rating manuals for the line 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 systematically selected the policies 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 general business practice issues in this review.

B. Underwriting and Rating

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.

1. Active REO Policies

Field Size:	14,306
Sample Size:	107
Type of Sample:	Random
Number of Errors:	0
Error Ratio:	0%
Within DIFP Guidelines:	Yes

The examiners discovered no general business practice issues in this review.

Violations Not Included in Error Ratio:

The Company incorrectly rated 11 REO policies on properties owned by Bank of America with a +31.6% schedule rate factor. Title 20 CSR 500-4.100 states, "Rating plans may not allow a total credit or debit of more than twenty-five percent (25%) based on risk characteristics." The Company's Schedule Rating Plan states, "The combined maximum allowable is +/-25%." The Company has refunded the overcharges plus nine percent interest.

Policy Numbers:

RE0610524989	RE0610409914	RE0610460626
RE0610696389	RE0610525896	RE0610412441
RE0610414276	REO610756903	RE0610950441
RE0610703157	RE0610952005	

References: §379.470, RSMo, 20 CSR 500-4.100, and page 3 of the Company's Missouri Lender Placed Property Program Manual.

The examiners searched the entire population of active REO policies rated during the examination period and determined there were a total of 1,695 transactions involving 270 properties owned by the insured rated with a +31.6% schedule rate factor. This resulted in an overcharge of $13,017.83, plus nine percent interest of $3,272.74, for a total refund

amount from the entire population in the amount of $16,290.87. The Company refunded this amount during the exam.

References: §§379.470, 408.020, RSMo, 20 CSR 100-8.020(2)6, 20 CSR 500-4.100, and Company's Missouri Lender Placed Property Program Manual page 3.

C. Forced Homeowners' Terminations

The examiners reviewed policies that the carrier terminated because the insured provided proof of insurance, loan was sold to another lender, or property was in bankruptcy.

1. Forced Homeowners' Terminations

Field Size:	1,516
Sample Size:	107
Type of Sample:	Random
Number of Errors:	0
Error Ratio:	0%
Within DIFP Guidelines:	Yes

The examiners discovered no general business practice issues in this review.

D. Practices Not in the Best Interest of Consumers

The examiners also looked for items that were not in the best interest of consumers. Not only could these practices be harmful to the insured, they may expose the Company to potential liability.

The e xaminers discovered no general business practice issues in this review.

II. 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 December 31, 2009.

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) are compared with the NAIC benchmark error rate of seven percent (7%). Error rates in excess of the NAIC benchmark error rate[s] 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; and
- 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.

Unfair Claims Settlement Rates – Sampling and Error Rates

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; and
- Payment or denial of a claim must be made within 15 working days after investigation of the claim is complete.

A. Homeowners' Claims Paid and Closed

The examiners requested a sample from the total population of Missouri Forced Homeowners' Claims paid and closed during the examination period.

1. Time Error Rate

Field Size:	608 13 files dated pre-8/28/07 595 files dated post 8/29/07
Sample Size:	106 3 files dated pre-8/28/07 103 files dated post-8/29/07
Type of Sample:	Random
Number of Errors:	0 0 file dated pre-8/28/07 0 files dated post-8/29/07
Error Ratio:	0% 0% files dated pre-8/28/07 0% files dated post 8/29/07
Within DIFP Guidelines:	Yes

There were no errors noted in this review.

2. Unfair Settlement and General Handling Practices

a. Misrepresenting Relevant Facts or Policy Provisions (§375.1007.1 RSMo)

Field Size:	608 13 files dated pre-8/28/07 595 files dated post 8/29/07
Sample Size:	106 3 files dated pre-8/28/07 103 files dated post-8/29/07
Type of Sample:	Random
Number of Errors:	9

0 file dated pre-8/28/07
9 files dated post-8/29/07

Error Ratio: 9%
0% files dated pre-8/28/07
9% files dated post 8/29/07

Within DIFP Guidelines: No

Claim Numbers:

09-07284 09-07044 09-06409 09-06112 09-05422 09-04582
08-05993 08-04409

The Company failed to ensure that all pertinent benefits and coverages were disclosed to the insured. The claim settlement letters did not disclose the loss settlement condition, although they did disclose the perils insured against, general exclusions and insured duties after loss, and other policy provision and conditions.

References: §375.1007(1), RSMo, and 20 CSR 100-1.020 (1) (A).

Claim Number: 09-08589

The Company did not ensure that the claim file was clearly documented showing the disposition of the claim and accurately representing to the insured their policy provisions relating to coverage. The settlement letter dated June 22, 2009 referred to incorrect locations within the policy to clarify the Company's partial denials. The letter referred the insured to Condition, Loss Settlement, item #5b(4). But, there was no #5b(4) under the Conditions Loss Settlement section. In addition, the letter referenced Perils Insured Against #2h(1), (2) and (3), when, in fact, the correct location was #2g(1), (2) and (3).

References: §375.1007(1), RSMo, 20 CSR 100-8.040(3)(B) and the Company's policy RP12010397.

b. Reasonable Standards for Prompt Investigation (§375.1007.3 RSMo)

Field Size: 608
13 files dated pre-8/28/07
595 files dated post 8/29/07

Sample Size: 106
3 files dated pre-8/28/07
103 files dated post-8/29/07

Type of Sample: Random

Number of Errors:	1 0 file dated pre-8/28/07 1 file dated post-8/29/07
Error Ratio:	1% 0% files dated pre-8/28/07 1% files dated post 8/29/07
Within DIFP Guidelines:	Yes

Claim Number: 07-09028

The Company failed to implement reasonable standards for the prompt investigation of the depreciation expense. The estimate included $570.02 of "special clean & removal" which was similar to Debris Removal provided in Coverage A that states: Debris removal expense is included in the amount of insurance applying to Coverage A. The Company also responded to the examiner's formal request #13 regarding how "special clean & removal" is treated. The Company responded that it applies to Coverage A and paid under the replacement cost/loss settlement provision which is paid at actual cash value until the services has been provided and appropriate documentation received. The loss was paid at replacement cost as the "special clean and removal" was not depreciated according to the loss settlement provision. Therefore, the claim was overpaid by $570.02. As a result of the overpayment of the claim, the examiner determined that the claim was not settled fairly and equitably.

References: §375.1007(3),RSMo, 20 CSR 100-8.040(3)(B)1, and The Company's Residential Property Policy form 12010397-Coverages p. 1; Conditions #5 p.4

c. Effectuating Equitable Settlement in Good Faith (§375.1007.4 RSMo)

Field Size:	608 13 files dated pre-8/28/07 595 files dated post 8/29/07
Sample Size:	106 3 files dated pre-8/28/07 103 files dated post-8/29/07
Type of Sample:	Random
Number of Errors:	11 0 files dated pre-8/28/07 11 files dated post-8/29/07
Error Ratio:	10% 0% files dated pre-8/28/07

10% files dated post 8/29/07

Within DIFP Guidelines: No

Claim Number: 08-06082

The Company failed to effectuate a fair and equitable settlement of the claim submitted and did not document the useful life of the wood shakes/shingles. The estimate states that the roofing wood shakes/shingles are older than 10 years in age, and that they should be replaced because of their age. The examiner determined through additional research that the wood shakes have a useful life expectancy of 30 years. Because the Company did not document the specific age, the examiner applied only 10 years of wear and tear. The appropriate depreciation percentage should have been 33% instead of the 6% the Company had applied. The 33% was determined by 10 (wear/tear) divided by 30 (useful life expectancy). The replacement cost was $3,202.32 for 132 bundles of wood shakes. Although the Company had applied the 6% depreciation or $206.65, the correct amount of depreciation that should have been applied was $1,154.10. Therefore, the claim payment was overpaid by $947.45 due to the misapplication of the depreciation percentage. The examiner determined that the claim settlement was not fair and equitable and that it lacked documentation.

References: §375.1007(4), RSMo, and 20 CSR 100-8.040(3)(B).

Claim Number: 09-02985

The Company failed to document why 100% depreciation was not applied to the debris removal expense. The Company settled the claim at actual cash value minus the $500 deductible. However, there was no documentation to support the adjuster's action not to apply the depreciation, as instructed by the Company's "Special Instructions" vendor requirements. As a result, the examiner determined that the claim was overpaid by $129.76 and was not settled fairly and equitably.

References: §375.1007(4), RSMo, 20 CSR 100-8.040(3)(B), and The Company's Special Instructions for vendors-additional instructions #10.

Claim Number: 08-08144

The Company did not attempt in good faith to effectuate a fair and equitable settlement of the claim. According to the ASI estimate, the interior was paid at replacement cost of $919.57. The examiner reviewed the estimate and determined that the Company did not apply the 7.5% tax ($58.76). The replacement cost payment should have been $978.43; therefore, the claim was underpaid by $58.76.

The examiner requests that the Company issue a $58.86 refund that includes interest at nine percent beginning on the claim settlement date of 9/10/08 and ending on the date the claim is paid in full.

References: §§375.1007(4) and 408.020 RSMo.

Claim Number: 09-09061

The Company failed to effectuate a fair and equitable settlement of the claim. The Company's response to the examiner's Criticism #17 item #2 states: "As a general guideline the Company waives depreciation where the damages are less than $2,500.00. This allows for an increased indemnity payment to the insured to begin repairs to the property."

In this case, the total damage was $616.27 less recoverable depreciation of $123.49, which was the actual cash value of $492.78. The claim payment subtracted the $250 deductible, which equals $242.78. The examiner determined that the insured did not receive the full indemnity payment as required, as the depreciation expense was not waived.

Therefore, the examiners request the Company issue a refund payable to the insured, in the amount of $141.82 with interest payable at nine percent per annum beginning on the settlement date of July 1, 2009.

References: §§375.1007(4), 408.020 RSMo, and the Company's RP12010397 policy: Conditions- #5 Loss Settlement (2)(b), page 5.

The Company also failed to apply depreciation to the debris removal expense of $190.17. As a result, the claim was overpaid by that amount, creating an unfair claim settlement.

References: §375.1007(4), RSMo, and The Company's Special Vendor Requirements Guidelines.

Claim Number: 08-03461

The Company did not in good faith effectuate a fair and equitable settlement of the claim. The Company settled the Coverage A- vandalism portion in the amount of $319.99 at replacement cost. The Company then applied the $103.51 depreciation. According to the Loss Settlement provision, the damage did not exceed $2,500.00. Therefore, no depreciation should apply. The Company under paid the claim by $103.51.

The examiner requests that the Company issue a $130.04 refund that includes the $26.83 nine percent annum interest beginning on the claim settlement date April 24, 2008 and ending on the date the claim is paid in full.

References: §§375.1007(4), 408.020 RSMo, and the Company's Policy RP12010397 Policy Provision Conditions 5, Loss Settlement section b (2)b.

Claim Number: 08-05001

The Company did not in good faith effectuate a fair and equitable settlement of the claim. The Company settled the Coverage A-Dwelling Theft portion in the amount of $566.40 at replacement cost. However, the Company then applied the $245.84 depreciation.

The Company created an estimate for the Coverage A-Dwelling Theft and Coverage A-Dwelling Vandalism. According to the Loss Settlement provision, the damage for Coverage A – Dwelling Theft did not exceed $2,500.00, therefore, no depreciation would apply. As a result of the applied depreciation expense the Company under paid the claim by $254.84.

The examiner requests that the Company issue a $245.84 refund that includes the nine percent annum interest beginning on the claim settlement date April 24, 2008 and ending on the date that the claim is paid in full.

References: §§375.1007(4), 408.020 RSMo, and the Company's Policy RP12010397 Policy Provision Conditions 5, Loss Settlement section b (2)b.

Claim Number: 08-13550

The Company did not in good faith effectuate a fair and equitable settlement of the claim. The Company settled the Coverage A- Dwelling Vandalism portion in the amount of $2,010.05 at replacement cost. The Company then applied $629.57 depreciation. According to the Loss Settlement provision, the damage did not exceed $2,500.00; therefore, no depreciation would apply. As a result of the applied depreciation expense the Company underpaid the claim by $103.51.

The examiner requests that the Company issue a $765.57 refund that includes the nine percent annum interest beginning on the date the estimate was received November 20, 2008 and ending on the date the claim is paid in full.

References: §§375.1007(4), 408.020 RSMo, and The Company's Policy RP12010397 Policy Provision Conditions 5, Loss Settlement section b (2)b.

Claim Number: 08-01781

The Company did not attempt in good faith to effectuate a fair and equitable settlement of the claim. The Company did not apply depreciation to the debris removal expense/ special clean up, in the amount of $201.68 ($184.42 and $17.25). Therefore, the claim was overpaid by $201.68. Even though the insured was not harmed in regards to the claim settlement, the Company did not follow their claims "Special Instructions" Vendor Requirements Guidelines for estimate writing.

References: §375.1007(4), RSMo, and the Company's "Special Instructions" Vendor's Requirements Guidelines.

Claim Numbers: 08-13719 08-15781 08-02122

The Company did not attempt in good faith to effectuate a fair and equitable settlement of the three paid claims. The Company settled the Coverage A- at replacement cost, however, the Company then deducted for depreciation. According to the Loss Settlement provision, the damage did not exceed $2,500.00; therefore, no depreciation would apply. The Company underpaid the three claims.

The examiner determined that the Company did not effectuate a fair and equitable settlement of the claim, as the Company applied the depreciation to the replacement cost. The examiner determined that the Company did not follow policy language stated in the Loss Settlement Provision.

Claim #	Underpayment	Settlement Date	Days	Interest	Refund
08-13719	$450.49	11/18/2008	897	$99.65	$550.14
08-15781	$472.04	1/5/2009	849	$98.83	$570.87
08-02122	$252.82	4/14/2008	1115	$69.52	$322.34
	$1,175.35			**$268.00**	**$1,443.35**

References: §§375.1007 (4), 408.020, RSMO, and The Company's Policy RP12010397 Policy Provision Conditions 5, Loss Settlement – a(1), and (2), b(1)(a)(b), and (2)(a)(b),i, and ii, and (3).

Not included in the Error Ratio

The following claim was not included in the error ratio listed above in this section of the report.

Claim Number: 08-09241

The Company settled the vandalism portion of the claim in the amount of $1,701.81 at replacement cost and applied the $1,000 deductible for a payment of $701.82. The estimate notes indicated that the depreciation expense of $528.15 was waived. However, there was no documentation to support the Company's decision to waive that expense.

The file also did not reflect a recoverable depreciation payment for the theft portion to the insured; therefore, the examiner's concern was that no depreciation was applied on the vandalism portion as the settlement payment was based on the actual cash value. As a result, the examiner determined that the claim file lacked documentation during the handling, and disposition was not settled fairly and equitably and was over paid by $528.15.

References: §374.205.2 (2), RSMo, 20 CSR 100-8.040(3)(B), and the Company's Policy RP12010397 under Policy Provision Conditions 5, Loss Settlement section b (2).

d. Prompt Provision of Explanation for Denial (§375.1007.12 RSMo)

Field Size:	608 13 files dated pre-8/28/07 595 files dated post 8/29/07
Sample Size:	106 3 files dated pre-8/28/07 103 files dated post-8/29/07
Type of Sample:	Random
Number of Errors:	1 0 files dated pre-8/28/07 1 file dated post-8/29/07
Error Ratio:	1% 0% files dated pre-8/28/07 1% files dated post 8/29/07
Within DIFP Guidelines:	Yes

Claim Number: 08-03141

The Company failed to provide an accurate explanation of the basis for claim denial. According to the settlement letter dated May 1, 2008, the Company stated to the insured that the water damage was a result of the leaking roof, which was based on a first occurrence only. However, the policy excludes wear, tear, deterioration, rot, mold, and damage due to domestic animals, neglect and inadequate repairs and maintenance. Because the Company had created an estimate for the partial loss, the entire water loss was not excluded.

The examiner determined that if the entire water loss was not covered, the Company would not have created an estimate and followed their "Special Instructions" guidelines which states, "Do not write estimates for damages not covered by the policy." The Company's Claims Best Practices also states, "A letter should be sent on a claim under the deductible and on partial denials if any part of the loss is not covered." Therefore, the water damage loss in the amount of $745.16 (replacement cost) or $404.04 (actual cash value) was less than the $1,000 per occurrence deductible. The denial letter did not inform the insured that their damage was less than the per occurrence deductible, only that it was not covered by cause of loss and excluded.

There was also a covered theft loss, in the amount of $474.43 (replacement cost) or $332.10 (actual cash value), that was less than the $1,000 per occurrence deductible. The denial letter did not inform the insured that the theft loss was below the per occurrence deductible.

In addition to the water damage and theft, there was a vandalism loss covered under Coverage B, in the amount of $92.05 (replacement cost) or $71.75 (actual cash value) that was less than the $1,000 per occurrence deductible. The denial letter did not inform the insured that their damage was less than the per occurrence deductible. As a result, the examiner was unable to confirm that the Company provided all the accurate reasons for the claim denial.

References: §375.1007(12), RSMo, 20 CSR 100-1.050(1)(A), The Company's Best Claims Practice; Coverage-Correspondence bullet # 2 page 2, and The Company's "Special Instructions," Lender File Claims Additional Instructions # 11.

3. Not included in the Error Ratio

Although not included in the error ratio listed above in this section of the report, the following claims were considered as individual violations, and did not qualify as a general business practice violation that would have been included in the error ratio.

Claim Numbers:

08-10606	07-09788	07-10522	08-00727	08-01368	08-01781	08-02836
08-04824	08-06840	08-07521	08-08007	08-08483	08-14418	08-14829
08-15371	08-15899	08-16385	09-00928	09-00980	09-06843	09-07284
09-07575	08-09064	08-09102	09-01550	09-03045	09-03634	09-03743
09-05795	07-05144 (dated pre-8/28/2007)					

The Company file did not document how the total recoverable depreciation on the covered property was calculated in these 30 claims. The estimates indicated that the depreciation was based on the age and condition of the property. However, the estimates did not provide the age/condition for each listed dwelling property that was depreciated.

The Company did not provide the appropriate documentation to support the depreciation expense applied.

The examiner then requested that the Company provide the depreciation documentation for 62 paid claims. Although the Company provided the documentation regarding the depreciation, the information provided was not sufficient and did not provide the useful life years of the property.

The examiner was therefore unable to verify that the Company followed their claims guidelines for claim settlements and if the appropriate depreciation was applied. These

actions may have resulted in the Company not attempting in good faith to effectuate a fair and equitable claim settlement.

References: §374.205.2 (2), RSMo, and 20 CSR 100-8.040(3)(B).

Claim Number: 09-02985

The Company failed to document the appropriate application of depreciation applied to this claim. The examiner was unable to determine the age of the carport that was depreciated at 19% or $773.11 to confirm that the depreciation calculation was accurate. Without that documentation, the examiner was unable to determine if the claim was settled fairly and equitably.

References: §374.205.2 (2), RSMo, and 20 CSR 100-8.040(3)(B).

Claim Number: 07-109400

The Company failed to document how it determined the total recoverable depreciation on the covered property. Total recoverable depreciation was calculated at $1,630.52. The estimate indicated that the depreciation was based on the age and condition of the property, however, the estimate did not provide the age/condition for each property that was depreciated. The examiner was unable to determine if the claim was settled fairly and equitably.

References: §374.205.2 (2), RSMo, and 20 CSR 100-8.040(3)(B).

Claim Number: 07-09028

The Company failed to document how the total recoverable depreciation on the covered property was calculated. The estimate indicated that the depreciation was based on the age and condition of the property, however, the estimate did not provide the age/condition for each listed dwelling property that was depreciated. There was a 17% ($11.95) depreciation on the smoke detectors (three each), 24% ($20.90) depreciation on the thermostat, 14% ($11.21) on the door bell chime, 11% ($34.69) on the window, and 9% ($18.69) on the ceiling paddle fan. The total recoverable depreciation was $319.93. Without that information documented, the examiner was unable to determine if the claim was settled fairly and equitably.

References: §374.205.2 (2), RSMo, and 20 CSR 100-8.040(3)(B).

Claim Number: 08-10172

The Company did not ensure that the claim file was documented clearly showing the handling of the claim. The claim was received by the Company on September 17, 2008. The Company acknowledged the claim on September 19, 2008, by a telephone conversation with the insured. On September 19, 2008, the claim notes indicated that no

letter was mailed. However, a letter dated October 1, 2008, that was mailed to the insured stated that an acknowledgement letter dated September 22, 2008, was mailed, and that the letter contained some incorrect information.

The Company's actions are misleading to the insured. The Company indicated in their notes that no letter was mailed, but later the Company mailed a letter to the insured advising the insured that a letter was mailed out on September 22, 2008. After reviewing the file, the examiner was not able to find a copy of any letter dated September 22, 2008.

The examiner was not sure if the letter was mailed or not. Therefore, the Company did not handle the claim file properly and did not provide all documentation regarding the claim.

References: §374.205.2(2), RSMo, and 20 CSR 100-8.040(3)(B).

Claim Number: 08-06736

The Company failed to properly document the inception and handling of the claim. The Company received a letter from the insured on March 3, 2008, informing the Company of a claim for tree damage with a date of loss of January 9, 2008. The file did not make any reference regarding the tree damage loss. However, the file provides an estimate for claim # 08-02417 with a date of loss March 10, 2008, and summarizes the type of losses as vandalism, theft, weight of ice and snow, and the plumbing leak. In addition, the file indicates that VMMV $1,000 deductible and VMMO $500 deductible apply.

According to the claims data that was provided by the Company, claim #08-02417 loss date was January 9, 2008, with an acknowledge date of March 3, 2008, and a claim payment of $5,640.03, with a loss description as wind. Claim # 08-06736 loss date was January 9, 2008, with a settlement letter in the file dated June 23, 2008, and with theft Coverage A and plumbing leak with a loss date of September 24, 2007.

The examiner was unable to follow the inception and handling of the claim and requested the additional file notes (see request #14), but the Company did not provide the additional documentation. Both claims #08-02417 and 08-06736 have same date of loss.

References: §374.205.2(2) RSMo, and 20 CSR 100-8.040(3)(B).

Claim Number: 08-10379

The Company did not ensure that the claim file was clearly documented showing the handling of the claim. The claim was received by the Company on September 16, 2008, and the Company acknowledged the claim on September 19, 2008, with a telephone message to the additional named insured. A letter dated October 1, 2008, was mailed to the additional named insured stating that an acknowledgement letter dated September 22, 2008, was mailed and that letter contained some incorrect information.

The examiner did not find a copy of the September 22, 2008 letter in the file nor did the log notes indicate that a letter had been mailed or was going to be mailed on September 22, 2008. The Company's language in its October 1, 2008 letter was misleading and confusing.

The examiner was not sure if the letter was mailed or not mailed. If the September 22, 2008 letter was mailed out, the examiner could not verify the exact wording in the letter because the Company did not provide a copy in the file for review. If the September 22, 2008 letter does not exist, the Company did not handle the claim properly by mailing a letter that misled the additional named insured to think that an error had occurred.

References: §374.205.2(2), RSMo, and 20 CSR 100-8.040(3)(B).

Claim Number: 09-13238

The Company did not ensure that it date stamped all claim materials received. On September 14, 2009, the Company received and date stamped the PT&C Forensic Consulting Services report. On September 24, 2009, the Company received and date stamped the ASI estimate. The Company received two reports dated September 16 and 23 from the Claim Adjustment Specialists Inc. Also, the Company received information from the mortgage company. It was unclear to the examiner when those other reports and the letter were received by the Company, as those reports and letter were not date stamped upon receipt.

References: §374.205.2(2), RSMo, and 20 CSR 100-8.040(3)(B)2.

Claim Number: 08-01781

The Company did not ensure that the claim file was documented clearly showing the handling of the claim. The Company indicates that the ASI estimator had completed their audit on the Independent Adjustor's estimate. The Independent Adjustor's estimate was in the amount of $4,275.63 replacement cost, less $233.66 recoverable depreciation, for the actual cash value $4,041.97. This estimate was not in the file for the examiner's review. The ASI estimator completed their audit at a reduced amount. The ASI estimate was in the amount of $4,012.90 replacement cost, less $298.46 recoverable depreciation, for the actual cash value $3,714.44. The examiner was not able to review the Independent Adjustor's estimate because the estimate was not in the file.

References: §374.205.2(2), RSMo, and 20 CSR 100-8.040(3)(B).

Claim Number: 08-06082

The Company did not document the useful life of the wood shakes/shingles. The estimate states that the roofing wood shakes/shingles are older than 10 years in age, and that they should be replaced because of their age. The examiner determined through additional research that the wood shakes have a useful life expectancy of 30 years.

Because the Company did not document the specific age, the examiner applied only 10 years of wear and tear. The appropriate depreciation percentage should have been 33% instead of the 6% the Company had applied. The 33% was determined by 10 (wear/tear) divided by 30 (useful life expectancy). The replacement cost was $3,202.32 for 132 bundles of wood shakes. Although the Company had applied the 6% depreciation or $206.65, the correct amount of depreciation that should have been applied was $1,154.10. Therefore, the claim payment was overpaid by $947.45 due to the misapplication of the depreciation percentage. The examiner determined that the claim settlement was not fair and equitable and that it lacked documentation.

The Company also failed to document the appropriate depreciation application that was applied on the covered property. The total amount of recoverable depreciation was $671.14. Without the documentation of a depreciation guide in the file, the examiner was unable to determine how the Company determined the depreciation percentages.

References: §374.205.2 (2), RSMo, and 20 CSR 100-8.040(3)(B).

The Company also failed to document why 100% depreciation was not applied to the debris removal expense. The Company settled the claim at actual cash value minus the $500 deductible. However, there was no documentation to support the adjuster's action not to apply the depreciation, as instructed by the Company's "Special Instructions" vendor requirements. As a result, the examiner determined that the claim was overpaid by $129.76 and was not settled fairly and equitably.

References: §374.205.2(2), RSMo, 20 CSR 100-8.040(3)(B), and The Company's Special Instructions for vendors-additional instructions #10.

Claim Number: 08-09241

The Company failed to document how the depreciation percentage was calculated. The examiner reviewed the estimate which indicated that the dwelling was 80 years old and in average condition. Even though no roof damage existed, the estimate indicated the age was 6-8 year old composition shingles. The file did not provide the age of the suspended ceiling system (45%), bath accessories (45%), cabinets & countertops (45%), doors (45%) and mechanicals (40%). Each was depreciated at a specific percentage. Without the depreciation guide documentation, the examiner was not able to determine the age of each covered dwelling property to which depreciation applied. As a result, the examiner was unable to determine if the claim was settled fairly and equitably.

The Company also settled the vandalism portion of the claim in the amount of $1,701.81 at replacement cost and applied the $1,000 deductible for a payment of $701.82. The estimate notes indicated that the depreciation expense of $528.15 was waived. However, there was no documentation to support the Company's decision to waive that expense.

The file also did not reflect a recoverable depreciation payment for the theft portion to the insured; therefore, the examiner's concern was that no depreciation was applied on the

vandalism portion as the settlement payment was based on the actual cash value. As a result, the examiner determined that the claim file lacked documentation during the handling, and disposition was not settled fairly and equitably and was over paid by $528.15.

References: §374.205.2(2), RSMo, 20 CSR 100-8.040(3)(B), and the Company's Policy RP12010397 under Policy Provision Conditions 5, Loss Settlement section b (2).

Claim Number: 08-08144

The Company failed to document the handling of the claim file. Th e independent adjuster's estimate was not in the file. The Audit Service Inc. (ASI) estimate did not document the age of the depreciated covered property, specifically the roofing materials. The ASI estimate was compared to another estimate that was written by an independent adjuster. The ASI adjuster had commented that there are variances between the independent adjuster's estimate and the ASI estimate. However the examiner was unable to compare the ASI estimate for accuracy because the independent adjuster's estimate was not in the file.

The Company also failed to document how the depreciation percentage was calculated, and as a result, the examiner was unable to determine if the depreciation calculation was fair and equitable upon settlement.

References: §374.205.2(2), RSMo and 20 CSR 100-8.040(3)(B).

Claim Number: 09-08589

The Company failed to provide a copy of the Independent Adjuster's estimate in the file for review.

References: §374.205.2(2), RSMo, and 20 CSR 100-8.040(3)(B).

The Company failed to document why 100% depreciation was not applied to the debris removal expense. The Company settled the claim at actual cash value minus the $500 deductible. However, there was no documentation to support the adjuster's action not to apply the depreciation, as instructed by the Company's "Special Instructions" vendor requirements. As a result, the examiner determined that the claim was overpaid by $129.76 and was not settled fairly and equitably.

Also the Company failed to provide a copy of the Independent Adjuster's estimate in the file for review.

References: §374.205.2(2) RSMo, 20 CSR 100-8.040(3)(B), and The Company's Special Instructions for vendors-additional instructions #10.

B. Homeowners' Denied Claims

The examiners requested a sample from the total population of Missouri Forced Homeowners' Denied Claims during the examination period.

1. Time Error Rate

Field Size:	154 total 3 files dated pre- 8/28/07 151 files dated post 8/29/07
Sample Size:	154
Type of Sample:	Census
Number of Errors:	6 0 files dated pre - 8/28/07 6 files dated post – 8/29/07
Error Ratio:	4% 0% files dated pre – 8/28/07 4% files dated post – 8/29/07
Within DIFP Guidelines:	Yes

Claim Number: 09-03711

The lender submitted a loss on February 24, 2009, for water and roof damage. The Company assigned the loss to an appraiser for inspection on February 26, 2009. The property was inspected on March 5, 2009, and the appraiser submitted a report dated March 19, 2009, stating the damage was under the deductible. A denial letter was sent March 31, 2009.

The Company failed to acknowledge receipt of the claim from the first party claimant within 10 working days of receiving the claim. There was no acknowledgement letter or electronic message in file.

References: §375.1007(2), RSMo, 20 CSR 100-1.030(1) and the Company's Claims Best Practices manual, New Loss Set Up & Assignment, Initial File Review and Assignment, page 1 and Claim File Administration, File Tempo, page 3.

Claim Number: 09-10445

The lender submitted a loss on July 7, 2009, for water damage. The Company assigned the loss to an appraiser for inspection on July 9, 2009. The property was inspected on

July 13, 2009, and the appraiser submitted a report dated July 20, 2009, stating the damage was excluded from coverage. A denial letter was sent July 22, 2009.

The Company failed to acknowledge receipt of the claim from the first party claimant within 10 working days of receiving the claim. There was no acknowledgement letter, electronic message, or any notation of the acknowledgement of claim in the file.

Reference: §375.1007(2), RSMo, 20 CSR 100-1.030 (1), and the Company's Claims Best Practices manual, New Loss Set Up & Assignment, Initial File Review & Assignment, Page 1.

Claim Number: 09-09903

The lender submitted a loss on June 25, 2009, for vandalism damage. The Company assigned the loss to an appraiser for inspection on June 26, 2009. The property was inspected on July 4, 2009, and the appraiser submitted a report dated July 17, 2009, stating the damage was excluded from coverage. A denial letter was sent July 21, 2009.

The Company failed to acknowledge receipt of the claim from the first party claimant within 10 working days of receiving the claim. There was no acknowledgement letter, electronic message, or any notation of acknowledgement in the file.

References: §375.1007(2) , RSMo, 20 CSR 100-1.030(1), and the Company's Claims Best Practices manual, New Loss Set Up & Assignment, Initial File Review & Assignment, Page 1.

Claim Number: 09-03251

The lender submitted a loss on February 16, 2009, for water damage. The Company assigned the loss to an appraiser for inspection on February 18, 2009. The property was inspected on February 23, 2009, and the appraiser submitted a report dated March 10, 2009, stating the damage was excluded from coverage. A denial letter was sent March 25, 2009.

The Company failed to acknowledge receipt of the claim from the first party claimant within 10 working days of receiving the claim. There was no acknowledgement letter, electronic message, or any notation of acknowledgement in the file.

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. A status was due by March 18, 2009, but was not given.

References: §375.1007(2), RSMo, 20 CSR 100-1.030(1), and the Company's Claims Best Practices manual, New Loss Set Up & Assignment, Initial File Review and Assignment, page 1 and Claim File Administration, File Tempo, page 3.

Claim Number: 08-15210

The lender submitted a loss on November 20, 2008, for damages from theft and vandalism. The Company assigned the loss to an appraiser for inspection on November 24, 2008. The property was inspected on December 2, 2008, and the appraiser submitted a report dated January 6, 2009, stating the damage was under the deductible and excluded from coverage. A denial letter was sent January 2, 2009.

The Company failed to acknowledge receipt of the claim from the first party claimant within 10 working days of receiving the claim. There was no acknowledgement letter, electronic message, or any notation of acknowledgement in the file.

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. A status was due by December 20, 2008, but was not given.

References: §375.1007(2), RSMo, 20 CSR 100-1.030(1), and the Company's Claims Best Practices manual, New Loss Set Up & Assignment, Initial File Review & Assignment, Page 1 and Claim File Administration, File Tempo, Page 3.

Claim Number: 09-08808

The lender submitted a loss on June 4, 2009, for damages from vandalism. The Company assigned the loss to an appraiser for inspection on June 5, 2009. The property was inspected on June 9, 2009, and the appraiser submitted a report dated June 18, 2009, stating the damage was under the deductible and excluded from coverage. A denial letter was sent July 11, 2009.

The Company failed to acknowledge receipt of the claim from the first party claimant within 10 working days of receiving the claim. There was no appropriate notation of an acknowledgement letter, electronic message, or any notation of acknowledgement in the file.

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. A status was due by July 4, 2009, but was not given.

References: §375.1007(2), RSMo, 20 CSR 100-1.030(1), and the Company's Claims Best Practices Manual, New Loss Set Up & Assignment, Initial File Review and Assignment, Page 1 and Claim File Administration, File Tempo, Page 3.

2. Unfair Settlement and General Handling Practices

a. Reasonable Standards for Prompt Investigation (§375.1007.3 RSMo)

Field Size:	154 total 3 files dated pre- 8/28/07 151 files dated post 8/29/07
Sample Size:	154
Type of Sample:	Census
Number of Errors:	13 total 0 files dated pre - 8/28/07 13 files dated post – 8/29/07
Error Ratio:	8% 0% files dated pre – 8/28/07 8% files dated post – 8/29/07
Within DIFP Guidelines:	No

Claim Number: 08-02982

The lender submitted a loss on March 13, 2008, reporting damages from vandalism. An appraiser was assigned to inspect damages on March 17, 2008. The Company acknowledged the claim on March 18, 2008. The property was inspected on April 1, 2008, and a report of damages was submitted by May 1, 2008. A denial letter was sent May 1, 2008.

The Company failed to implement reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. A status was due to the insured by April 12, 2008, but none was given.

References: §375.1007(3), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-13160

The lender submitted a loss on October 17, 2008, reporting damages from vandalism. An appraiser was assigned to inspect damages on October 20, 2008. The Company acknowledged the claim on October 23, 2008. The property was inspected on November 5, 2008, and a final report of damages was submitted by December 22, 2008. The

insured or lender was given a status on November 14, 2008. A denial letter stating damages were excluded from coverage was sent January 6, 2009.

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. A status was given to the insured on November 14, 2008, but a follow up status was never given at the next 30 day interval which would have been December 14, 2008.

The Company failed to send a letter of explanation in writing to the insured explaining why the file remained open more than 45 days after the initial notification and every 45 days thereafter. The Company gave an email explanation on November 14, 2008, but did not send another letter 45 days later, which was due by December 29, 2008.

The lender also submitted a loss on October 21, 2008 reporting damages from vandalism. An appraiser was assigned to inspect damages on October 23, 2008. The Company acknowledged the claim on October 27, 2008. The property was inspected on November 12, 2008, and a final report of damages was submitted by December 17, 2008. The insured or lender was sent a status on December 23, 2008. A denial letter stating damages were excluded and under the deductible was sent January 5, 2009.

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. An initial 30 day status was due on November 20, 2008, and a second 30 day status on December 20, 2008, but none was given. Subsequently, a status was given to the insured or lender in a December 23, 2008 email at the request of the insured or lender.

References: §375.1007(3), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-13451

The lender submitted a loss on October 21, 2008 reporting damages from vandalism. An appraiser was assigned to inspect damages on October 23, 2008. The Company acknowledged the claim on October 27, 2008. The property was inspected on November 12, 2008, and a final report of damages was submitted by December 17, 2008. The insured or lender was sent a status on December 23, 2008. A denial letter stating damages were excluded and under the deductible was sent January 5, 2009. The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. An initial 30 day status was due on November 20, 2008, and a second 30 day status on December 20, 2008, but none was given. Subsequently, a status was given to the insured or lender in a December 23, 2008 email at the request of the insured or lender.

References: §375.1007(3), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 07-10216

The lender submitted a loss on December 6, 2007, reporting damages from vandalism. The Company acknowledged the claim on December 18, 2007. An appraiser was assigned to inspect damages on December 18, 2007. The property was inspected on December 28, 2007, and a final report of damages stating damages were excluded from coverage was submitted by January 11, 2008. A denial letter was sent February 6, 2008.

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. An initial 30 day status was due on January 5, 2008, but was not given.

References: §375.1007(3), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-04515

The lender submitted a loss on April 18, 2008, reporting damages from an earthquake. The Company acknowledged the claim on April 22, 2008. An appraiser was assigned to inspect damages on April 21, 2008, and an engineer on April 24, 2008. The property was inspected by the appraiser and engineer on May 2, 2008. A final report of damages stating damages were excluded from coverage was submitted by the engineer on June 10, 2008. A denial letter was sent June 18, 2008.

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. An initial 30 day status was due on May 18, 2008, but was not given.

References: §375.1007(3), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-04639

The lender submitted a loss on April 22, 2008, reporting cracks in the foundation walls. The Company acknowledged the claim on April 23, 2008. Telephone contact was made with the insured to discuss the damages on April 28, 2008. An engineer inspected the property on May 12, 2008, and submitted a report dated May 22, 2008. A denial letter was sent July 22, 2008.

The Company failed to implement reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. The last status was given to the insured on April 28, 2008. Another status would have been due by May 28, 2008.

References: §375.1007(3), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices manual, Claim File Administration, File Tempo, page 3.

Claim Number: 09-03711

The Company failed to implement reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. A status was due to the insured by March 26, 2009, but was never given.

References: §375.1007(3), RSMo, 20 CSR 100-1.030(1) and the Company's Claims Best Practices manual, New Loss Set Up & Assignment, Initial File Review and Assignment, page 1 and Claim File Administration, File Tempo, page 3.

Claim Number: 09-03251

The lender submitted a loss on October 21, 2008 reporting damages from vandalism. An appraiser was assigned to inspect damages on October 23, 2008. The Company acknowledged the claim on October 27, 2008. The property was inspected on November 12, 2008, and a final report of damages was submitted by December 17, 2008. The insured or lender was sent a status on December 23, 2008. A denial letter stating damages were excluded and under the deductible was sent January 5, 2009.
The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. An initial 30 day status was due on November 20, 2008, and a second 30 day status on December 20, 2008, but none was given. Subsequently, a status was given to the insured or lender in a December 23, 2008 email at the request of the insured or lender.

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. A status was due by March 18, 2009, but was not given.

References: §375.1007(3), RSMo, 20 CSR 100-1.030(1), and the Company's Claims Best Practices manual, New Loss Set Up & Assignment, Initial File Review and Assignment, page 1 and Claim File Administration, File Tempo, page 3.

Claim Number: 08-15210

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. A status was due by December 20, 2008, but was not given.

References: §375.1007(3), RSMo, 20 CSR 100-1.030(1), and the Company's Claims Best Practices manual, New Loss Set Up & Assignment, Initial File Review & Assignment, Page 1 and Claim File Administration, File Tempo, Page 3.

Claim Number: 09-08808

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. A status was due by December 20, 2008, but was not given.

References: §375.1007(3), RSMo, 20 CSR 100-1.030(1), and the Company's Claims Best Practices manual, New Loss Set Up & Assignment, Initial File Review & Assignment, Page 1 and Claim File Administration, File Tempo, Page 3.

Claim Number: 08-00128

The lender submitted a loss on January 4, 2008, reporting chimney and wall damage. The Company acknowledged the claim January 7, 2008. A Reservation of Rights letter was sent to the insured January 14, 2008, to continue investigation and inspection of the loss by an appraiser and engineer. Telephone contact was made to the insured on January 31, 2008, to inform of the status. The appraisal and engineer's inspection report was received February 11, 2008. A denial letter was sent to the insured on March 11, 2008.

The Company failed to implement reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. The last status was given to the insured on January 31, 2008, and another status would have been due by March 1, 2008.

References: §375.1007(3), RSMo, and 20 CSR 100-1.050(1)(A) and (C) and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-06189

The lender submitted a loss on June 6, 2008, reporting water leaks. The Company acknowledged the claim on June 9, 2008, and contacted the insured by telephone on June 10, 2008, to discuss damages. A Reservation of Rights letter was sent June 14, 2008. The property was inspected on June 17, 2008, and the appraiser submitted a report dated June 18, 2008. A denial letter was sent to the insured dated July 21, 2008.

The Company failed to implement reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. The last status was given to the insured on June 14, 2008, and another status would have been due by July 14, 2008.

References: §375.1007(3), RSMo, and 20 CSR 100-1.050(1)(A), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 09-10668

The lender submitted a loss on July 13, 2009, reporting water damage from roof leaks. The Company acknowledged the claim on July 13, 2009. An appraiser was assigned to inspect the property on July 13, 2009. The property was inspected on July 16, 2009, and the appraiser submitted a report on July 21, 2009. A denial letter was sent to the insured dated August 14, 2009.

The Company failed to implement and follow reasonable standards for a prompt investigation by failing to inform the insured of the status of their claim at regular and appropriate intervals. A status was due by August 12, 2009, but none was given to the insured.

References: §375.1007(3), RSMo, and 20 CSR 100-1.050(1)(A), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, Page 3.

b. Effectuating Equitable Settlement in Good Faith (§375.1007.4 RSMo)

Field Size:	154 total 3 files dated pre- 8/28/07 151 files dated post 8/29/07
Sample Size:	154
Type of Sample:	Census
Number of Errors:	11 0 files dated pre - 8/28/07 11 files dated post – 8/29/07
Error Ratio:	7.14% 0% files dated pre – 8/28/07 7.14 % files dated post – 8/29/07
Within DIFP Guidelines:	No

Claim Number: 08-04391

The lender submitted a loss on April 15, 2008, reporting damage to a garage door. The Company acknowledged the claim on April 16, 2008. Telephone contact was made with

the insured on April 23, 2008, to discuss damages. An inspection report from an appraiser was received on May 8, 2008. A denial letter was sent June 3, 2008.

The Company failed to send a letter of explanation in writing to the insured explaining why the file remained open more than 45 days after the initial notification and every 45 days thereafter. The Company did not send such a letter which was due May 30, 2008.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(A)(C).

Claim Number: 09-17289

The lender submitted a loss on October 22, 2009, reporting a roof leak. The Company acknowledged the claim on October 23, 2009, along with a Reservation of Rights letter on October 25, 2009. An appraiser was assigned to inspect damages on October 23, 2009.

The property was inspected on October 26, 2009, and November 3, 2009. The appraiser's final report was received by November 4, 2009, stating damages were excluded from coverage. A denial letter was sent to the insured on November 30, 2009.

References: §375.1007 (4), RSMo, and 20 CSR 100-1.050(1)(A).

Claim Number: 08-00128

The lender submitted a loss on January 4, 2008, reporting chimney and wall damage. The Company acknowledged the claim January 7, 2008. A Reservation of Rights letter was sent to the insured January 14, 2008, to continue investigation and inspection of the loss by an appraiser and engineer. Telephone contact was made to the insured on January 31, 2008, to inform of the status. The appraisal and engineer's inspection report was received February 11, 2008. A denial letter was sent to the insured on March 11, 2008.

The Company failed to send a letter of explanation in writing to the insured explaining why the file remained open more than 45 days after the initial notification and every 45 days thereafter. The Company mailed a Reservation of Rights letter January 14, 2008, but failed to send a letter 45 days thereafter, (by February 28, 2008).

The last status was given to the insured on January 31, 2008, and another status would have been due by March 1, 2008.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(A) and (C) and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-04639

The lender submitted a loss on April 22, 2008, reporting cracks in the foundation walls. The Company acknowledged the claim on April 23, 2008. Telephone contact was made with the insured to discuss the damages on April 28, 2008. An engineer inspected the property on May 12, 2008, and submitted a report dated May 22, 2008. A denial letter was sent July 22, 2008.

The Company failed to send a letter of explanation in writing to the insured explaining why the file remained open more than 45 days after the initial notification and every 45 days thereafter. The Company did not send such a letter, which was due by June 6, 2008.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(A) and (C) and the Company's Claims Best Practices manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-02982

The lender submitted a loss on March 13, 2008, reporting damages from vandalism. An appraiser was assigned to inspect damages on March 17, 2008. The Company acknowledged the claim on March 18, 2008. The property was inspected on April 1, 2008, and a report of damages was submitted by May 1, 2008. A denial letter was sent May 1, 2008.

A status was due to the insured by April 12, 2008, but none was given.

The Company failed to send a letter of explanation in writing to the insured explaining why the file remained open more than 45 days after the initial notification and every 45 days thereafter. The Company did not send such a letter, which was due by April 27, 2008.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-13160

The lender submitted a loss on October 17, 2008, reporting damages from vandalism. An appraiser was assigned to inspect damages on October 20, 2008. The Company acknowledged the claim on October 23, 2008. The property was inspected on November 5, 2008, and a final report of damages was submitted by December 22, 2008. The insured or lender was given a status on November 14, 2008. A denial letter stating damages were excluded from coverage was sent January 6, 2009.

A status was given to the insured on November 14, 2008, but a follow up status was never given at the next 30 day interval which would have been December 14, 2008.

The lender also submitted a loss on October 21, 2008 reporting damages from vandalism. An appraiser was assigned to inspect damages on October 23, 2008. The Company acknowledged the claim on October 27, 2008.

The property was inspected on November 12, 2008, and a final report of damages was submitted by December 17, 2008. The insured or lender was sent a status on December 23, 2008. A denial letter stating damages were excluded and under the deductible was sent January 5, 2009.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-13451

The lender submitted a loss on October 21, 2008 reporting damages from vandalism. An appraiser was assigned to inspect damages on October 23, 2008. The Company acknowledged the claim on October 27, 2008. The property was inspected on November 12, 2008, and a final report of damages was submitted by December 17, 2008. The insured or lender was sent a status on December 23, 2008. A denial letter stating damages were excluded and under the deductible was sent January 5, 2009.

The Company failed to send a letter of explanation in writing to the insured explaining why the file remained open more than 45 days after the initial notification and every 45 days thereafter. A 45 day letter was due December 5, 2008, but was never sent.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 07-10216

The lender submitted a loss on December 6, 2007, reporting damages from vandalism. The Company acknowledged the claim on December 18, 2007. An appraiser was assigned to inspect damages on December 18, 2007. The property was inspected on December 28, 2007, and a final report of damages stating damages were excluded from coverage was submitted by January 11, 2008. A denial letter was sent February 6, 2008.

The Company failed to send a letter of explanation in writing to the insured explaining why the file remained open more than 45 days after the initial notification and every 45 days thereafter. A 45 day letter was due January 20, 2008, but was never sent.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-04515

The lender submitted a loss on April 18, 2008, reporting damages from an earthquake. The Company acknowledged the claim on April 22, 2008. An appraiser was assigned to inspect damages on April 21, 2008, and an engineer on April 24, 2008. The property was inspected by the appraiser and engineer on May 2, 2008. A final report of damages stating damages were excluded from coverage was submitted by the engineer on June 10, 2008. A denial letter was sent June 18, 2008.

The Company failed to send a letter of explanation in writing to the insured explaining why the file remained open more than 45 days after the initial notification and every 45 days thereafter. A 45 day letter was due by June 2, 2008, but was never sent.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(C), and the Company's Claims Best Practices manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-06189

The lender submitted a loss on June 6, 2008, reporting water leaks. The Company acknowledged the claim on June 9, 2008, and contacted the insured by telephone on June 10, 2008, to discuss damages. A Reservation of Rights letter was sent June 14, 2008. The property was inspected on June 17, 2008, and the appraiser submitted a report dated June 18, 2008. A denial letter was sent to the insured dated July 21, 2008.

The Company failed to advise the insured of the acceptance or denial of the claim within 15 working days after submission of all forms necessary to establish the nature and extent of the claim. The appraiser's inspection report was dated June 18, 2008, and received June 19, 2008. It determined the damages were not a covered loss.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(A), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 09-10668

The lender submitted a loss on July 13, 2009, reporting water damage from roof leaks. The Company acknowledged the claim on July 13, 2009. An appraiser was assigned to inspect the property on July 13, 2009. The property was inspected on July 16, 2009, and the appraiser submitted a report on July 21, 2009. A denial letter was sent to the insured dated August 14, 2009.

The Company failed to advise the insured of the acceptance or denial of the claim within 15 working days after submission of all forms necessary to establish the nature and extent of the claim. The appraiser's inspection report was dated July 20, 2009, and received July 21, 2009. It determined the damages were not a covered loss. There was no denial letter sent until August 14, 2009, which was 18 working days later.

References: §375.1007(4), RSMo, and 20 CSR 100-1.050(1)(A), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, Page 3.

c. Affirming or Denying Coverage in Reasonable Time (§375.1007.7 RSMo)

Field Size:	154 total 3 files dated pre- 8/28/07 151 files dated post 8/29/07
Sample Size:	154
Type of Sample:	Census
Number of Errors:	4 0 files dated pre - 8/28/07 4 files dated post – 8/29/07
Error Ratio:	2.5% 0% files dated pre – 8/28/07 2.5% files dated post – 8/29/07
Within DIFP Guidelines:	Yes

Claim Number: 08-06189

The lender submitted a loss on June 6, 2008, reporting water leaks. The Company acknowledged the claim on June 9, 2008, and contacted the insured by telephone on June 10, 2008, to discuss damages. A Reservation of Rights letter was sent June 14, 2008. The property was inspected on June 17, 2008, and the appraiser submitted a report dated June 18, 2008. A denial letter was sent to the insured dated July 21, 2008.

The Company should have sent the denial letter no later than July 4, 2008, but failed to do so, instead sending it on July 21, 2008, which was 23 working days later.

References: §375.1007(7), RSMo, and 20 CSR 100-1.050(1)(A), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 09-10668

The lender submitted a loss on July 13, 2009, reporting water damage from roof leaks. The Company acknowledged the claim on July 13, 2009. An appraiser was assigned to inspect the property on July 13, 2009. The property was inspected on July 16, 2009, and

the appraiser submitted a report on July 21, 2009. A denial letter was sent to the insured dated August 14, 2009.

There was no denial letter sent until August 14, 2009, which was 18 working days later.

References: §375.1007(7), RSMo, and 20 CSR 100-1.050(1)(A), and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, Page 3.

Claim Number: 08-00128

The lender submitted a loss on January 4, 2008, reporting chimney and wall damage. The Company acknowledged the claim January 7, 2008. A Reservation of Rights letter was sent to the insured January 14, 2008, to continue investigation and inspection of the loss by an appraiser and engineer. Telephone contact was made to the insured on January 31, 2008, to inform of the status. The appraisal and engineer's inspection report was received February 11, 2008. A denial letter was sent to the insured on March 11, 2008.

The Company failed to advise the insured of the acceptance or denial of the claim within 15 working days after submission of all forms necessary to establish the nature and extent of the claim. The appraiser and engineer's report received on February 11, 2008, determined the damages were below the deductible and not a covered loss. The denial letter was sent 21 working days later on March 11, 2008.

References: §375.1007(7), RSMo, and 20 CSR 100-1.050(1)(A) and (C) and the Company's Claims Best Practices Manual, Claim File Administration, File Tempo, page 3.

Claim Number: 08-04639

The lender submitted a loss on April 22, 2008, reporting cracks in the foundation walls. The Company acknowledged the claim on April 23, 2008. Telephone contact was made with the insured to discuss the damages on April 28, 2008. An engineer inspected the property on May 12, 2008, and submitted a report dated May 22, 2008. A denial letter was sent July 22, 2008.

The Company failed to advise the insured of the acceptance or denial of the claim within 15 working days after submission of all forms necessary to establish the nature and extent of the claim. The engineer's report was dated May 22, 2008, and determined the damages was not a covered loss. The denial letter was sent 43 working days later on July 22, 2008.

References: §375.1007(7), RSMo, and 20 CSR 100-1.050(1)(A) and (C) and the Company's Claims Best Practices manual, Claim File Administration, File Tempo, page 3.

C. Practices Not in the Best Interest of Consumers

The examiners also looked for items that were not in the best interest of consumers. Not only could these practices be harmful to the insured, they may expose the company to potential liability.

The examiners discovered no general business practice issues in this review.

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 for the last three years. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the company.

The examiners verified the four complaints from the Company's complaint registry and the Department's list, dated January 1, 2007, through December 31, 2009. The Company's registry did not contain any complaints that did not come through the Department.

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 100-8.240.

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.

A. Criticism Time Study

Calendar Days	Number of Criticisms	Percentage
Received w/in time-limit, incl. any extensions	48	100%
Received outside time-limit, incl. any extensions	0	0 %
No Response	0	0 %

Total	48	100%

References: §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	30	100%
Received outside time-limit, incl. any extensions	0	0%
No Response	0	0%
Total	30	100%

References: §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 Empire Fire and Marine Insurance Company (NAIC #21326), Examination Number 1003-11-TGT. This examination was conducted by Gary T. Meyer, Gerald Michitsch, Darren Jordan, and Shelly Herzing. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated January 4, 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.

5/9/2013

Jim Mealer — Date

Chief Market Conduct Examiner

ZURICH

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MAR 14 2012
MO. DEPT OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

March 13, 2012

Mr. Stewart Freilich
Legal Counsel, Market Conduct Section
Missouri Department of Insurance
P.O. Box 690
Jefferson City, Missouri 65102-0690

RE: Missouri Market Conduct Examination #1003-11-TGT
Empire Fire and Marine Insurance Company (NAIC #21326)

Dear Mr. Freilich:

Zurich
13810 FNB Parkway
Omaha, NE 68154

www.zurichna.com

Direct Phone: 402-963-5049
Direct E-mail:
craig.fundum@zurichna.com

This letter will acknowledge receipt of the Department's Draft Report on the Market Conduct Examination #1003-11-TGT.
Empire Fire and Marine Insurance Company (EFM) generally agrees with the findings of the report, except where noted herein.

The information on Page 5 (five) of the Draft Report, entitled "Company Profile" is incorrect and does not apply to EFM. A copy of the EFM Company Profile is attached separately.

Underwriting Results:

EFM agrees with the information in the Draft report regarding the Underwriting errors. EFM has already remediated the issue that caused the errors, and has issued refunds to all affected policyholders.

Claims Results:

Section II.A.2.a - Homeowners Claims Paid and Closed, Unfair Settlement and General Handling Practices, Misrepresenting Relevant Facts or Policy Provision

The examiner noted a 9% error ratio in this area, citing nine (9) findings of the 106 sample size. Based on the company's review of the findings, we concur with two (2) of the findings resulting in a reduced error ratio of 1.8%.

- Regarding six of the eight claims cited (09-07284, 09-07044, 09-06409, 09-06112, 09-05422, 09-04582), no depreciation was withheld from the loss payment. Therefore, the Loss Settlement provision was not applicable.

Including the language in the communication to the insured would have been misleading and potentially caused confusion for the insured.

- Regarding the remaining two of eight claims (08-05993, 08-04409) the Company agrees that the Loss Settlement provision was inadvertently not included as part of the letter to the insured.
- Regarding claim 09-08589, the policy language quoted as part of the June 22, 2009 payment letter accurately reflects the language provided by the insured's policy RP1201 0397. The claim handler inadvertently typed the number 4 that should have been number 2 and the numbers (2) and (3) that should have been typed as the numbers (1) and (2). However, the policy language was quoted correctly. This claim was filed by the lender and the payment letter directed to the lender. The lender is familiar with the policy language and the inadvertent labeling error in the payment letter had no impact to the lender or the handling of the claim.

Section II.A.2.c - Homeowners Claims Paid and Closed, Unfair Settlement and General Handling Practices, Effectuating Equitable Settlement in Good Faith

The examiner noted an 11% error ratio in this area, citing twelve (12) findings of the 106 sample size. Based on the company's review of the findings, we concur with eight (8) of the findings resulting in a reduced error ratio of 7.5%.

- Regarding claim 08-06082: The independent adjuster who wrote the damage estimate for the claim applied 50% depreciation to the wood shake shingles. Please see Appendix item 1, labeled 08-08062. However, in efforts to reach an agreed cost of repair with the insured's contractor, our estimate review team agreed to a lesser amount to allow for increased loss payment to the insured. Depreciation was appropriately considered and applied to the original estimate, thus effectuating a fair and equitable settlement of the claim submitted.
- Regarding claim 09-02985: The Special Instructions cited are guidelines that apply to the independent adjusters who are inspecting the property and writing the damage estimate. The company adjuster who is responsible for making the claim decision may allow for payment of debris removal without depreciation if the service and resulting charges have been incurred by the insured. This claim was settled fairly and equitably by providing payment to the insured for expenses incurred.
- Regarding claim 08-09241: This was a real estate owned (REO) claim filed by the lender. The REO policy and lender agreements allow for separate occurrences to be handled within a single claim with a separate deductible per occurrence. This claim had a theft and vandalism occurrence. Damages for the theft occurrence were greater than $2,500.00. Therefore, applicable depreciation was withheld. Damages for the vandalism occurrence were less

than $2,500.00. Therefore, the applicable depreciation amount was not withheld, but rather paid to the insured lender. The claim was settled fairly, equitably, and within policy and company guidelines.

- Regarding claim 08-08144: While we agree that sales tax was not specifically paid at the time of initial payment, the payment to the insured included depreciation which should have been withheld. This resulted in a net overpayment to the insured. The appropriate payment for these damages should have been $810.62 ($919.57 RCV + $58.83 Sales Tax - $167.81 depreciation). The actual payment for the damages was $919.57. As a result, the claim was over paid by $108.95. As a result of the overpayment, additional monies are not owed.
- Regarding claims 09-09061, 08-03461, 08-05001, 08-13550: The company previously agreed with the examiner's findings and paid the appropriate restitution, plus interest to the affected insureds.
- Regarding claim 08-01781: The Special Instructions cited are guidelines that apply to the independent adjusters who are inspecting the property and writing the damage estimate. The company adjuster who is responsible for making the claim decision may allow for payment of debris removal without depreciation if the service and resulting charges have been incurred by the insured. This claim was settled fairly and equitably by providing payment to the insured for expenses incurred.

Section II.A.3 - Recoverable Depreciation

Although not included in the error ratio, the company would like to provide a response due to the number of findings by the examiner.

At the time a claim is dispatched to an independent adjuster, instruction is given to write an estimate of damages that provides the replacement cost value as well as the actual cash value.

The field adjuster evaluates each material that must be replaced as to age, remaining life expectancy, and condition in its pre-loss state. As a great many of the lender placed claims are for vacant properties or properties where a renters lives in the home, there is no homeowner to provide information to the adjuster about the age of the materials damaged. The adjuster evaluates the condition and assigns a percentage of depreciation.

There is no predetermined calculation or formula for determining the condition of the damaged property and any resulting depreciation. Each building component is given an average life expectancy. This can vary based on the quality and installation of the product, as well as the level of exposure or use of the product.

The adjuster applies a depreciation percentage that is appropriate for the materials that is appropriate based on his or her opinion of the condition of the material.

While every building component has an average useful life, the professional judgment of the building estimator is needed to address the unique condition of every building loss and apply that information appropriately within the estimating tool.

We require our field estimators to use modern and up to date dwelling estimate repair software which typically includes rules for calculating the amount of depreciation for each line item in the estimate based on the age and condition of the home. The depreciation logic that is built in to the estimating software is proprietary to the vendor and will not be released to the Company. The estimating tool allows the adjuster to input either the age of the damaged item or the appropriate depreciation percentage based on their inspection.

Although the State of Missouri does not require that independent adjusters be licensed, the Company requires that all independent adjusters hold licenses in the states where they do business. As part of obtaining and holding an independent adjuster license, these individuals must pass a licensing exam and take part in continuing education.

Section II.B.2.a - Homeowners Denied Claims, Unfair Settlement and General Handling Practices, Reasonable Standards for Prompt Investigation

The examiner noted an 8% error ratio in this area, citing thirteen (13) findings of the 154 sample size. Based on the company's review of the findings, we concur with three (3) of the findings resulting in a reduced error ratio of 2%.

- Regarding claims 08-02982, 08-13160, 08-13451, 07-10216, 08-04515, 08-04639, 09-03711, 09-03251, 09-08808: Each of these claims was filed by the respective lender. As clients, the lenders have requested that written status not be provided at regular intervals throughout the life of a claim. The company meets and provides summary report data to the lender clients regularly with respect to claims disposition. Where significant claim status information arises, direct written communication to the lender does take place as seen in several of the claims cited.
- Regarding claims 08-06189, 09-10668: These claims were filed by the homeowner insured. While we do not dispute the findings, we do not believe this individual claim constitutes a failure on our part to implement standards for prompt investigation. Rather, it indicates a pattern of non-performance by a particular claim handler and claim manager. Action has been taken directly with these individuals to ensure this issue does not recur.

Section II.B.2.b - Homeowners Denied Claims, Unfair Settlement and General Handling Practices, Effectuating Equitable Settlement in Good Faith

The examiner noted a 7.14% error ratio in this area, citing eleven (11) findings of the 154 sample size. Based on the company's review of the findings, we concur with seven (7) of the findings resulting in a reduced error ratio of 4.5%.

- Regarding claims 08-02982, 08-13160, 08-13451, 07-10216, 08-04515, 08-04639, 09-03711, 09-03251, 09-08808: Each of these claims was filed by the respective lender. As clients, the lenders have requested that written status not be provided at regular intervals throughout the life of a claim. The company meets and provides summary report data to the lender clients regularly with respect to claims disposition. Where significant claim status information arises, direct written communication to the lender does take place as seen in several of the claims cited.
- Regarding claims 08-04391, 09-17289, 08-00128, 08-04639, 08-04515, 08-06189, 09-10668: These claims were filed by the homeowner insured. While we do not dispute the findings, we do not believe this individual claim constitutes a failure on our part to implement standards for prompt investigation. Rather, it indicates a pattern of non-performance by a particular claim handler and claim manager. Action has been taken directly with these individuals to ensure this issue does not recur.

We respectfully request that the examiner consider the information provided herein with respect to findings and overall results of the market conduct examination for Empire Fire and Marine Insurance Company.

Sincerely,

Craig Fundum, President
Programs & Direct Markets