

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

In Re:

PRIDE NATIONAL INSURANCE
COMPANY (NAIC#25704)

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Market Conduct Exam No. 1201-01-TGT

ORDER OF THE DIRECTOR

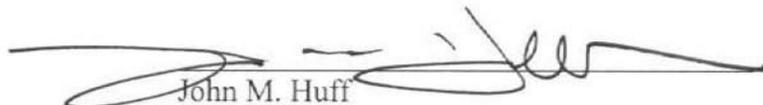
NOW, on this 4TH day of DECEMBER, 2013, Director John M. Huff, after consideration and review of the market conduct examination report of Pride National Insurance Company (NAIC #25704) (hereafter referred to as "Pride"), report number 1201-01-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3 (3) (a) RSMo, does hereby adopt such report as filed. After consideration and review of the 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) RSMo, is in the public interest.

IT IS FURTHER ORDERED that Pride shall not engage in any of the violations of law and regulations revealed in the examination report and shall implement procedures to place the Company in full compliance with the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times.

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 4TH day of DECEMBER, 2013.


John M. Huff
Director

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



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

Pride National Insurance Company
NAIC # 25704

MISSOURI EXAMINATION # 1201-01-TGT

NAIC EXAM TRACKING SYSTEM # MO341-M84

November 7, 2013

Home Office
5217 Maryland Way
Brentwood, TN 37027

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FOREWORD

This is a targeted market conduct examination report of Pride National Insurance Company, (NAIC Code #25704). This examination was conducted at the DIFP offices located in St. Louis, Missouri and the Company's home office in Brentwood, Tennessee.

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" or "Pride" refers to Pride National Insurance Company;
- "Rio" refers to Rio National Insurance Services, Inc;
- "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, 2009, through March 1, 2012, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination was a targeted examination involving the following business functions and lines of business: private passenger automobile 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 for underwriting and trade practices is 10%. The NAIC benchmark error rate for claims practices is seven percent (7%). 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

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

"Pride National Insurance Company (the "Company") is an Oklahoma domiciled property and casualty insurer. It was originally chartered in 1945. The Company was acquired by Pride Holding's Inc. in October 2008. Prior to 2009, the Company had not engaged in any underwriting activities for several years. The Company began writing principally non-standard private passenger automobile property and casualty insurance policies through two separate Managing General Agents ("MGA's") – Jupiter Managing General Agency, Inc. ("Jupiter") and Rio National Insurance Services, Inc. – in the first quarter of 2009. The Company is licensed and principally writes business in Arkansas, Iowa, Kansas, Mississippi, Missouri, Oklahoma and Tennessee. Effective July 1, 2011, the Company also began assuming premiums from CorePointe Insurance Company through a quota-share reinsurance agreement targeting commercial lines policies for quick-service and fast-casual dining restaurants."

Neither Rio nor Jupiter were appointed as an MGA in Missouri as required by §375.150.

The Company is licensed by the DIFP under Chapter 379, RSMo, to write property and casualty insurance in Missouri as set forth in its Certificate of Authority.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of Pride National Insurance Company. The examiners found the following principal areas of concern:

- Pride contracted services for their operations in Missouri with a general agent, Rio National Insurance Services, Inc. but failed to notify DIFP of the appointment of Rio as managing general agent.
- In 44 instances, Rio delayed payment to claimants of all lines of coverage by holding checks of completed claim adjudications from being sent when the claims were finalized.
- In 41 instances, Rio failed to establish minimal or appropriate case reserve amounts for all lines of coverage reviewed.
- In nine instances, Rio delayed payment to claimants by holding claim checks of completed claim adjudications from being sent when the claims were finalized for property damage, comprehensive, collision or uninsured motorist claims.
- In seven instances, Rio failed to establish minimal or appropriate case reserve amounts for property damage, comprehensive, collision or uninsured motorist claims.
- In three instances, Rio failed to retain a copy of the total loss tax credit affidavit in the claim file.
- In eight instances, Rio failed to disclose the availability of medical payments coverage to claimants for which they were legally entitled.
- In two instances, Rio failed to investigate and adjudicate a medical payments claim and failed to maintain the claim file so as to clearly show the inception, handling, and disposition of the claim.
- In four instances, Rio failed to establish appropriate case reserve amounts for medical payment claims.
- In eight instances, Rio failed to acknowledge with reasonable promptness pertinent communications with respect to submitted bodily injury claims.
- In 38 instances, Rio failed to adopt and implement reasonable standards for the prompt investigation and settlement of bodily injury claims.
- In 22 instances, Rio failed to establish minimal or appropriate case reserve amounts for bodily injury claims.
- In 17 instances, Rio did not attempt in good faith to effectuate prompt, fair and equitable settlement of bodily injury claims.
- In seven instances, Rio refused to pay bodily injury claims without conducting reasonable investigation.

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

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

EXAMINATION FINDINGS

I. GENERAL AGENCY LICENSURE

In this section of the report, examiners report their findings regarding how the Company complied with the laws that monitor general agencies that act on the insurer's behalf.

Missouri law requires the Company to contract only with individuals that hold a producers license from the DIFP as general agents. One of the purposes of a producers license is to protect the public by providing competent and trustworthy agents or brokers that may function as a general agent.

During the claims review, examiners documented the relationship between Pride and Rio National Insurance Services, Inc., an entity that operated as the Company's general agent in Missouri.

Pride failed to conduct adequate reviews of Rio's claim processing and procedures. By contracting with and utilizing Rio to administer all of the insurer's operation in Missouri without notifying the DIFP of Rio's appointment, Pride materially aided an act, practice, omission or course of business that failed to comply with §§375.150, 375.151, 375.152, and 375.158.1, RSMo.

Pride suspended Rio's authority to administer policy issuance, renewals, cancellations or declinations on behalf of the Company, effective February 1, 2012. Pride assumed responsibilities for adjudication of Missouri claims from Rio after February 13, 2012.

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, 2009, through March 1, 2012.

A claim 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., §§375.1000 – 375.1018 and §375.445) and compared with the NAIC benchmark error rate of seven percent (7%). Error rates in excess of the NAIC or statutory 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.
- 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.
- Payment or denial of a claim must be made within 15 working days after investigation of the claim is complete.

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

In addition, the Company used Rio National Insurance Services, Inc. (a third party) to adjudicate their claims from December 1, 2008 to February 1, 2012. Rio was acting as an agent of Pride National Insurance Company in the claim adjudication process. Where this report cites Rio's failure to comply with Missouri's laws, Pride (Rio's principal) is ultimately responsible for Rio's actions.

A. Claim Payment Analysis

Due to the transfer of claim adjudication responsibilities from Rio National Insurance Services, Inc. to Pride National Insurance Company and the incompleteness of the files provided to the examiners, a traditional time study analysis was deemed not to be representative of Rio's claim handling procedures. However, as a result of written interrogatories, complaint analysis, claim system documentation, a payment ledger, and staff interviews, it was determined that Rio began delaying claim checks from being sent to claimants starting in 2010. When a claimant would inquire or complain about not receiving their claim payment, Rio would place a stop payment order on the check and reissue the check. In some instances, this cycle of stopping payment and reissuing of checks was repeated regarding the same claim.

Statements were made by staff member(s) of Rio, alleging that Rio redacted electronic claim diaries to remove entries that referenced these payment delaying procedures. Rio's management maintained a payment ledger that tracked specific claims by amount and date as to when the claim payment was mailed. The existence of this ledger coupled with allegations from Rio staff regarding payment delays suggests Rio delayed payments to claimants to alleviate operational cash flow deficits.

In addition to traditional time studies, the examiners conducted an analysis of the number of days from claim check issuance to presentation of the claim check for processing at Rio's and Pride's joint claim trust account.

A sample of claims equal to or greater than \$1,000 was drawn by calendar year to trend the number of days for a claims payment to be presented for processing at the financial banking institution where the joint claim trust account was maintained. The following statistical analysis was developed from Rio's claim system and the joint claim trust account statements:

1. CALENDAR YEAR 2009

Field Size: 60
Sample Size: 60
Type of Sample: Census

<u>Average Days</u>	<u>Median Days</u>	<u>Mode Days</u>	<u>Standard Deviation Days</u>	<u>Minimum Days</u>	<u>Maximum Days</u>
10	7	6	9	0	49

2. CALENDAR YEAR 2010

Field Size: 504
Sample Size: 50
Type of Sample: Random

<u>Average Days</u>	<u>Median Days</u>	<u>Mode Days</u>	<u>Standard Deviation Days</u>	<u>Minimum Days</u>	<u>Maximum Days</u>
25	23	18	16	2	83

3. CALENDAR YEAR 2011

Field Size: 1,446

Sample Size: 50

Type of Sample: Random

<u>Average Days</u>	<u>Median Days</u>	<u>Mode Days</u>	<u>Standard Deviation Days</u>	<u>Minimum Days</u>	<u>Maximum Days</u>
41	27	27	43	3	223

As a result of the statistical analysis, the examiners conducted a review of the timeliness of claim payments to validate their findings. A sample was drawn on all coverage lines for the months in November and December of 2011 for those claims that totaled over \$1,000.

Field Size: 100

Sample Size: 100

Type of Sample: Census

Number of Errors: 44

Error Ratio: 44%

Within DIFP Guidelines: No

In 44 instances, Rio failed to effectuate prompt, fair and equitable settlement of claims submitted in which liability had become reasonably clear. Claim file documentation and a

payment ledger of mailed claimant checks indicate a significant period of time elapsed from the date of determination or check issuance until the check was mailed to claimants. Rio failed to mail payments to claimants within 15 working days as required.

Rio treated claimants improperly by delaying claim payments, failing to implement reasonable standards for settlement of claims, and not attempting in good faith to effectuate prompt settlement of claims.

<u>No.</u>	<u>Claim Number</u>	<u>Check Number</u>	<u>Determination Date</u>	<u>Date Mailed</u>	<u>Working Days</u>
1	PMO1101417	20092	11/8/2011	2/1/2012	57
2	PMO1101152	20121	11/8/2011	1/23/2012	50
3	PMO1101152	20122	11/8/2011	1/23/2012	50
4	PMO1101774	20130	11/9/2011	1/11/2012	42
5	PMO1101812	20313	11/28/2011	1/27/2012	42
6	PMO1101417	20260	11/17/2011	1/11/2012	37
7	PMO1101823	20368	11/30/2011	1/24/2012	37
8	PMO1101759	20719	11/15/2011	1/6/2012	36
9	PMO1101978	20423	12/5/2011	1/25/2012	35
10	PMO1101958	20520	12/15/2011	2/5/2012	34
11	PMO1101943	20303	11/22/2011	1/10/2012	33
12	PMO1101907	20226	11/14/2011	12/29/2011	32
13	PMO1101812	20322	11/28/2011	1/11/2012	31
14	PMO1102015	20617	12/22/2011	2/7/2012	31
15	PMO1102015	20618	12/22/2011	2/7/2012	31
16	PMO1000768	20607	12/21/2011	2/5/2012	30
17	PMO1100968	20208	11/16/2011	12/29/2011	30
18	PMO1100968	20207	11/16/2011	12/29/2011	30
19	PMO1100968	20209	11/16/2011	12/29/2011	30
20	PMO1100735	20185	11/14/2011	12/23/2011	29
21	PMO1101316	19834	9/13/2011	10/21/2011	29
22	PMO1101923	20230	11/15/2011	12/27/2011	29
23	PMO1102009	20619	12/27/2011	2/7/2012	29
24	PMO1101968	20551	12/18/2011	1/27/2012	27
25	PMO1101975	20616	12/27/2011	2/3/2012	27
26	PMO1101295	20778	11/11/2011	12/20/2011	26
27	PMO1101898	20532	12/15/2011	1/23/2012	25
28	PMO1102108	20654	12/29/2011	2/3/2012	25
29	PMO1101043	20612	12/22/2011	1/27/2012	24
30	PMO1100959	21438	12/20/2011	1/24/2012	23
31	PMO1100959	21439	12/20/2011	1/24/2012	23
32	PMO1101940	20278	11/18/2011	12/16/2011	20
33	PMO1101655	20421	12/1/2011	12/28/2011	19

<u>No.</u>	<u>Claim Number</u>	<u>Check Number</u>	<u>Determination Date</u>	<u>Date Mailed</u>	<u>Working Days</u>
34	PMO1101772	20366	11/29/2011	12/23/2011	19
35	PMO1101892	20354	11/29/2011	12/23/2011	19
36	PMO1101932	20545	12/15/2011	1/12/2012	19
37	PMO1101819	20103	11/4/2011	12/1/2011	18
38	PMO1101977	20497	12/13/2011	1/9/2012	18
39	PMO1102066	20697	1/3/2012	1/27/2012	18
40	PMO1101702	20064	11/2/2011	11/28/2011	17
41	PMO1101894	20482	11/29/2011	12/21/2011	17
42	PMO1101948	20324	11/28/2011	12/20/2011	17
43	PMO1101655	20420	12/1/2011	12/22/2011	16
44	PMO1101655	20419	12/1/2011	12/22/2011	16

Reference: §§ 375.1007(4), 375.445(2), and 20 CSR 100-1.050 (1)(A).

The following are the results of the unfair claim settlement and general handling review:

B. Private Passenger Automobile – Collision, Comprehensive, Property Damage, and Uninsured Motorist – Paid and Closed Without Payment

1. Unfair Settlement and General Handling Practices

a. Prompt Investigation and Settlement of Claims (§375.1007(3), RSMo)

Field Size: 4,604

Sample Size: 110

Type of Sample: Random

Number of Errors: 8

Error Ratio: 7.3%

Within DIFP Guidelines: No

In one instance, Rio failed to adopt and implement reasonable standards for the prompt investigation and settlement of bodily injury claims arising under Pride's policies. Rio failed to apply reasonable standards in the determination of liabilities regarding physical damage coverage for first party claimants by failure to investigate the claim and not maintaining the claim file so as to clearly show the inception, handling, and disposition of the claim.

Claim Number

PMO1200176

References: §§ 375.1007(3), 375.1009, RSMo, and 20 CSR 100-8.040(3)(B).

The examiners reviewed the Company's individual claim reserving practices as implemented by Rio National Insurance Services, Inc. The following amounts were the standard reserve amounts to be applied:

Uninsured Motorist	\$ 3,000
Collision:	\$ 2,000
Comprehensive:	\$ 2,000
Property Damage:	\$ 2,000

The examiners found Rio to be inconsistent in their application of the stated reserve practices. Rio frequently established claim reserve amounts below the minimal reserve levels. Pride failed to provide adequate oversight of Rio National Insurance Services, Inc. regarding Rio's implementation of Pride's claim reserving procedures.

In five instances, Rio failed to establish any reserves for the presented claim.

<u>Claim Number</u>	<u>Coverage</u>	<u>Minimum Standard Reserve</u>
PMO1100958	Property Damage	2,000
PMO1100572	Comprehensive	2,000
PMO1100162	Collision	2,000
PMO1100959	Uninsured Motorist	3,000
PMO1101456	Property Damage	2,000

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

In one instance, Rio set the reserves below the appropriate minimum levels.

<u>Claim Number</u>	<u>Coverage</u>	<u>Minimum Standard Reserve</u>	<u>Set Reserve</u>
PMO1000325	Uninsured Motorists	3,000	1,500

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

In one instance, Rio failed set the reserve at the minimum level and failed to adjust the reserve during the claim adjudication. The final settlement amount in this claim was significantly higher than the established reserve.

<u>Claim Number</u>	<u>Coverage</u>	<u>Minimum Standard Reserve</u>	<u>Set Reserve</u>	<u>Settlement</u>
PMO1100507	Collision	2,000	1,500	10,040.50

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

b. Effectuating Equitable Settlement in Good Faith (§375.1007(4), RSMo)

Field Size: 4,604
Sample Size: 110
Type of Sample: Random
Number of Errors: 10
Error Ratio: 9.1%
Within DIFP Guidelines: No

In one instance, Rio did not attempt in good faith to effectuate prompt, fair and equitable settlement. Rio failed to adjudicate the claim and did not maintain the claim file so as to clearly show the inception, handling, and disposition of the claim.

Claim Number

PMO1200176

References: §§ 375.1007(3), 375.1009, RSMo, and 20 CSR 100-8.040(3)(B).

In nine instances, Rio failed to effectuate prompt, fair and equitable settlement of claims submitted in which liability had become reasonably clear. Claim file documentation and a payment ledger for mailed claimant checks indicate a significant period of time elapsed from the date of determination or check issuance until the check was mailed to claimants. Rio failed to mail payments to claimants within 15 working days as required.

Rio treated claimants improperly by delaying claim payments, failing to implement reasonable standards for settlement of claims, and not attempting in good faith to effectuate prompt settlement of claims.

<u>Claim Number</u>	<u>Check Number</u>	<u>Determination Date</u>	<u>Date Mailed</u>	<u>Number of Days</u>
PMO1000287	16859	6/21/2011	10/11/2011	80
PMO1100772	17342	7/27/2011	9/25/2011	50
PMO1100843	20320	11/28/2011	1/24/2012	40
PMO1100507	20008	10/27/2011	11/25/2011	25
PMO1100507	20009	10/27/2011	11/25/2011	25
PMO1100507	20010	10/27/2011	11/25/2011	25
PMO1100503	20588	12/20/2011	1/25/2012	25
PMO1000719	14647	11/19/2010	12/16/2010	21
PMO1001134	19820	10/21/2011	11/18/2011	20

Reference: §§ 375.1007(4), 375.445(2), and 20 CSR 100-1.050 (1)(A).

Errors not included in ratio

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

Failure to Maintain Sales Tax Affidavits

In three instances, Rio failed to maintain a copy of the total loss tax credit affidavit in the claim file as required.

Claim Number

PMO1101859
PMO1001121
PMO1000719

References: §§ 374.205.2(2), 375.1007(4), 375.1009, RSMo, and 20 CSR 100-8.040(3)(B).

C. Private Passenger Automobile – Medical Payments – Paid and Closed Without Payment

1. Unfair Settlement and General Handling Practices

a. Misrepresenting Relevant Facts or Policy Provisions (§375.1007(1), RSMo)

Field Size: 73
Sample Size: 73
Type of Sample: Census
Number of Errors: 8
Error Ratio: 10.9%
Within DIFP Guidelines: No

In eight instances, Rio failed to fully disclose to first-party claimants all pertinent benefits, coverage, or other benefits of the medical payment portion of the insureds'

private passenger auto policies. Although claimants pursued reimbursement from adverse parties' coverage when liability was established, Rio failed to disclose to first party claimants the availability of their own medical payment coverage. This omission prevented claimants from pursuing medical reimbursement for which they were legally entitled.

Claim Number

PMO0900114
PMO1000034
PMO1000130
PMO1000289
PMO1101942
PMO1100416
PMO1102173
PMO1000774

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

b. Prompt Investigation and Settlement of Claims (§375.1007(3), RSMo)

Field Size: 73
Sample Size: 73
Type of Sample: Census
Number of Errors: 4
Error Ratio: 5.5%
Within DIFP Guidelines: Yes

In two instances, Rio failed to adopt and implement reasonable standards for the prompt investigation and settlement of bodily injury claims arising under the Company's policies. Rio failed to apply reasonable standards in the determination of liabilities for medical reimbursement to first party claimants by failure to investigate the claim and not maintaining the claim file so as to clearly show the inception, handling, and disposition of the claim.

Claim Number

PMO1101687
PMO1200092

References: §§ 375.1007(3), 375.1009, RSMo, and 20 CSR 100-8.040(3)(B).

The examiners reviewed the Company's individual claim reserving practices (case reserves) as implemented by Rio National Insurance Services, Inc. The standard reserve amount of \$500 was to be applied to medical payment claims.

The examiners found Rio to be inconsistent in their application of Pride's stated reserve practices. Pride failed to provide adequate oversight of Rio National Insurance Services, Inc. regarding the implementation of Pride's claim reserving procedures.

In two instances, Rio set the reserves greater than the standard reserves and substantially in excess of policy coverage limits.

<u>Claim Number</u>	<u>Coverage</u>	<u>Minimum Standard Reserve</u>	<u>Set Reserve</u>	<u>Coverage Limit</u>	<u>Number of Passengers</u>
PMO1001041	Medical Payments	500	4,500	None	1
PMO1000130	Medical Payments	500	2,000	500	2

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

c. Effectuating Equitable Settlement in Good Faith (§375.1007(4), RSMo)

Field Size: 73
Sample Size: 73
Type of Sample: Census
Number of Errors: 2
Error Ratio: 2.7%

Within DIFP Guidelines: Yes

In two instances, Rio did not attempt in good faith to effectuate prompt, fair and equitable settlement of claims submitted in which liability had become reasonably clear. Rio failed to adjudicate the claim and did not maintain the claim file so as to clearly show the inception, handling, and disposition of the claim.

Claim Number

PMO1101687
PMO1200092

References: §§ 375.1007(4), 375.1009, RSMo, and 20 CSR 100-8.040(3)(B).

D. Private Passenger Automobile – Bodily Injury – Closed Without Payment

1. Unfair Settlement and General Handling Practices

a. Failure to Acknowledge Communications (§375.1007(2), RSMo)

Field Size:	368
Sample Size:	110
Type of Sample:	Random
Number of Errors:	8
Error Ratio:	7.3%

Within DIFP Guidelines: No

In eight instances, Rio failed to acknowledge with reasonable promptness pertinent communications with respect to bodily injury claims arising under the Pride's policies. Rio did not inform claimants of acceptance or denial of a claim in writing and failed to communicate to claimants their decision regarding resolution of questions of liability and or coverage. Rio never advised some claimants that their claim had been closed.

Claim Number

PMO1101892
PMO1100780
PMO1100233
PMO1101768
PMO1101033
PMO1100482
PMO1101933
PMO1101849

References: §375.1007(2), RSMo, and 20 CSR 100-1.030(2).

b. Prompt Investigation and Settlement of Claims (§375.1007(3) RSMo)

Field Size: 368
Sample Size: 110
Type of Sample: Random
Number of Errors: 38
Error Ratio: 34.5%
Within DIFP Guidelines: No

In 16 instances, Rio failed to adopt and implement reasonable standards for the prompt investigation and settlement of bodily injury claims arising under the Pride's policies. Rio failed to apply reasonable standards by not investigating and determining liabilities of their insureds for injured parties afforded protection under bodily injury coverage.

Claim Number

PMO1100344
PMO1101892
PMO1000499
PMO1101164
PMO1102090
PMO1100780
PMO1100233

Claim Number

PMO1101768
PMO1100482
PMO1101933
PMO1101849
PMO1100032
PMO1100695
PMO1101369
PMO1102166
PMO1101203

References: §375.1007(3) RSMo, and 20 CSR 100-1.050(1)(A) & (B), (2)(A), & (4).

The examiners reviewed the Company's individual claim reserving practices (case reserves) as implemented by Rio National Insurance Services, Inc. The standard reserve amount of \$3,000 was to be applied to bodily injury claims.

The examiners found Rio to be inconsistent in their application of Pride's stated reserve practices. Rio frequently established claim reserve amounts below the standard reserve levels. Pride failed to provide adequate oversight of Rio National Insurance Services, Inc. regarding the implementation of Pride's claim reserving procedures.

In eight instances, Rio set the reserve at 1 cent or \$1 to track claims but the reserve was not adjusted or only adjusted at the time of settlement.

<u>Claim Number</u>	<u>Coverage</u>	<u>Minimum Standard Reserve</u>	<u>Set Reserve</u>
PMO0900146	Bodily Injury	3,000	1
PMO1101348	Bodily Injury	3,000	1
PMO1102088	Bodily Injury	3,000	1
PMO1101657	Bodily Injury	3,000	1
PMO1100163	Bodily Injury	3,000	1
PMO1100728	Bodily Injury	3,000	.01 cent
PMO1101970	Bodily Injury	3,000	1
PMO1101203	Bodily Injury	3,000	1

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

In nine instances, Rio failed to set the reserves at the minimum \$3,000 level.

<u>Claim Number</u>	<u>Coverage</u>	<u>Minimum Standard Reserve</u>	<u>Set Reserve</u>
PMO1100523	Bodily Injury	3,000	2,000
PMO1101067	Bodily Injury	3,000	1,000
PMO1100110	Bodily Injury	3,000	2,000
PMO1100233	Bodily Injury	3,000	2,000
PMO1100390	Bodily Injury	3,000	2,000
PMO1000061	Bodily Injury	3,000	1,500
PMO1100549	Bodily Injury	3,000	2,000
PMO1100413	Bodily Injury	3,000	2,000
PMO1000887	Bodily Injury	3,000	2,000

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

In two instances, Rio failed to establish any reserves for the presented claim.

<u>Claim Number</u>	<u>Coverage</u>	<u>Minimum Standard Reserve</u>
PMO1000594	Bodily Injury	3,000
PMO1100780	Bodily Injury	3,000

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

In one instance, Rio eventually set the appropriate reserves but failed to set initial reserves when a coverage exposure became evident.

<u>Claim Number</u>	<u>Coverage</u>	<u>Date Exposure Known</u>	<u>Date of Reserve</u>
PMO1101557	Bodily Injury	9/14/2011	11/1/2011

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

In two instances, Rio set the reserve at the minimum level, but failed to adjust the reserve during the claim adjudication. The final settlement amounts in these two claims were substantially higher than the established reserves.

<u>Claim Number</u>	<u>Coverage</u>	<u>Set Reserve</u>	<u>Settlement Amount</u>
PMO1101802	Bodily Injury	3,000	20,000
PMO1100507	Bodily Injury	3,000	25,000

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

c. Effectuating Equitable Settlement in Good Faith (§375.1007(4), RSMo)

Field Size: 368
Sample Size: 110
Type of Sample: Random
Number of Errors: 17
Error Ratio: 15.5%
Within DIFP Guidelines: No

In 15 instances, Rio did not attempt in good faith to effectuate prompt, fair and equitable settlement of claims submitted in which liability had become reasonably clear. With insureds' liability for injured parties established and medical treatment sought, Rio failed to determine settlement amounts with bodily injury claimants. Unless claimants vigorously pursued settlement of their claim, Rio often closed the claim without payment or communication to the claimants of their file closure.

Claim Number

PMO1101892
PMO1000499
PMO1101164
PMO1102090
PMO1100780
PMO1100233
PMO1101768
PMO1101033
PMO1100482
PMO1101933
PMO1101849
PMO1100032
PMO1101369
PMO1102166
PMO1101203

References: §§ 375.1007(4), 375.445, RSMo. and 20 CSR 100-1.050(1)(A).

In two instances, Rio did not attempt in good faith to effectuate prompt, fair and equitable settlement of claims submitted in which liability had become reasonably clear. With insureds liability for injured parties established and medical treatment sought, Rio failed to determine settlement amounts with bodily injury claimants, resulting in specific claim underpayment amounts. Rio closed claims without payment or communication to the claimants of their file closure.

During the examination, Rio issued refunds to claimants for the following claims:

<u>Claim Number</u>	<u>Underpayment</u>
PMO1100695	\$ 18,913.00 *
PMO1100344	5,677.56

Total: \$ 24,590.56

* Pride did not pay interest on this underpayment due to claimant acceptance of a compromised settlement while represented by legal counsel during the examination.

References: §§ 375.1007(4), 375.445, RSMo., and 20 CSR 100-1.050(1)(A).

d. Refusal to Pay Without a Reasonable Investigation (§375.1007(6), RSMo)

Field Size: 368
Sample Size: 110
Type of Sample: Random
Number of Errors: 7
Error Ratio: 6.4%
Within DIFP Guidelines: Yes

In seven instances, Rio refused to pay bodily injury claims without conducting a reasonable investigation. Rio failed to reasonably determine the extent of liabilities for their insureds by not fully investigating the necessity or amount of medical treatment for injured parties afforded protection by bodily injury coverage. Claimants may have been incorrectly denied settlements. And by not conducting reasonable investigations to appropriately deny bodily injury claims, Pride's insureds could suffer adverse litigation and or legal expenses.

Claim Number

PMO1100344
PMO1000499
PMO1101164
PMO1100032
PMO1100695
PMO1101369
PMO1102166

References: §§ 375.1007(4), 375.445, RSMo., and 20 CSR 100-1.050(1)(A).

E. Recoveries not included in the Error Ratio

As previously noted, Pride National Insurance Company suspended their agreement with Rio National Insurance Services, Inc. on February 1, 2012. Pride National Insurance Company assumed responsibilities for adjudication of Missouri claims after February 13, 2012. During the review, the following claims were processed and paid after Pride assumed adjudication responsibilities from Rio.

1. The following five claims were sampled from data Rio presented to the examiners to be bodily injury claims that were closed without payment. During the review, examiners made inquiries concerning the status of these claims while the claims were being finalized and paid by Pride after assuming adjudication responsibilities from Rio.

The claim files were initially incomplete and did not show the inception, handling and disposition of the claim files with sufficient clarity and specificity so that pertinent dates and events could be reconstructed.

The Company also initially failed to adopt and implement reasonable standards for the prompt investigation and settlement of claims arising under its policies and did not attempt in good faith to effectuate prompt, fair and equitable settlement of claims submitted in which liability had become reasonably clear.

<u>Claim Number</u>	<u>Underpayment</u>
PMO1101210	\$ 10,000.00
PMO1102196	6,553.26
PMO1102137	6,500.00
PMO1101067	6,000.00
PMO1101557	<u>3,000.00</u>

Total: \$ 32,053.26

References: §§ 374.204.2(2), 375.445, 375.1007(3) & (4), RSMo., 20 CSR 100-1.050(1) (A) & (B), and 20 CSR 100-8.040(3)(B) & (4).

2. In fifteen instances, claims were sampled from data that Rio presented to the examiners to be bodily injury claims that were closed without payment. However, these claims were reopened or finalized after Pride assumed adjudication responsibilities from Rio but before the examiners began the review.

The Company initially failed to adopt and implement reasonable standards for the prompt investigation and settlement of a claim arising under its policies and did not attempt in good faith to effectuate prompt, fair and equitable settlement of claims submitted in which liability had become reasonably clear.

References: §§ 375.445, 375.1007(3) & (4), RSMo., and 20 CSR 100-1.050(1) (A) & (B).

<u>Claim Number</u>	<u>Underpayment</u>
PMO1101203	\$ 13,000.00
PMO1100143	8,127.25
PMO1101638	10,200.00
PMO1100393	5,458.00
PMO1100071	2,336.00
PMO1101802	20,000.00
PMO1102059	3,649.00
PMO1102197	4,250.00
PMO1101115	3,000.00
PMO1101507	50,000.00
PMO1102009	9,018.40
PMO1101680	11,600.00
PMO1100728	25,000.00
PMO1102118	6,910.58
PMO1101954	<u>450.00</u>

Total: \$ 172,999.23

References: §§ 375.445, 375.1007(3) & (4), RSMo., and 20 CSR 100-1.050(1) (A) & (B).

F. Claim Reserving Practices

Field Size: 1,303

Sample Size: 111

Type of Sample: Random

Number of Errors: 41

Error Ratio: 36.9%

Within DIFP Guidelines: No

As a result of the errors discovered during the general handling review of claims, the examiners conducted a separate review of case reserving practices (case reserves) that focused on all coverage lines for claims totaling greater than \$1,000.

The examiners reviewed and documented the Company's individual claim reserving practices (case reserves) as implemented by Rio National Insurance Services, Inc.

First party reserves: Reserves were to be opened and assigned at the standard amount if the 1) coverage was in effect and 2) an exposure was recognized and presented.

Third party reserves: Reserves were to be opened and assigned at the standard amount if the 1) coverage was in effect, 2) an exposure was recognized, and 3) a claim demand was presented.

The following amounts are the standard reserve amounts to be applied:

Bodily Injury:	\$ 3,000
Uninsured Motorist	\$ 3,000
Medical Payments:	\$ 500
Collision:	\$ 2,000
Comprehensive:	\$ 2,000
Property Damage:	\$ 2,000
Rental Reimbursement:	\$ 450

The examiners found Rio to be inconsistent in their application of Pride's stated reserve practices. Rio frequently established claim reserve amounts below the standard reserve amounts. Pride failed to provide adequate oversight of Rio National Insurance Services, Inc. regarding the implementation of Pride's claim reserving procedures.

In seven instances, Rio set the reserve at \$1 to track claims but the reserve was not adjusted or only adjusted at the time of settlement.

<u>Claim Number</u>	<u>Coverage</u>	<u>Minimum Standard Reserve</u>	<u>Set Reserve</u>
PMO1100170	Bodily Injury	3,000	1
PMO1101029 *	Property Damage	2,000	1
PMO1101024 *	Property Damage	2,000	1
PMO1101115 *	Property Damage	2,000	1
PMO1101188 *	Collision	2,000	1
PMO1101879	Property Damage	2,000	1
PMO1101898	Property Damage	2,000	1

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

* These errors were not counted in the error ratio due to being totaled for a different error in this review.

In 16 instances, Rio failed to establish any reserves for the presented claim.

<u>Claim Number</u>	<u>Coverage</u>	<u>Minimum Standard Reserve</u>
PMO1000594	Bodily Injury	3,000
PMO1000594 *	Property Damage	2,000
PMO1001121	Rental	450
PMO1100464	Medical Payments	500
PMO1100464	Property Damage	2,000
PMO1100958	Rental	450
PMO1101024	Rental	450
PMO1101138	Rental	450
PMO1101277 *	Rental	450
PMO1101369	Rental	450
PMO1101672 *	Rental	450
PMO1101795	Rental	450
PMO1101952	Bodily Injury	3,000
PMO1101952 *	Property Damage	2,000
PMO1101954	Rental	450
PMO1102054	Bodily Injury	3,000

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

* These errors were not counted in the error ratio due to being totaled for a different error in this review.

In 19 instances, Rio set the reserves below the appropriate minimum level.

<u>Claim Number</u>	<u>Coverage</u>	<u>Minimum Standard Reserve</u>	<u>Set Reserve</u>
PMO1000044	Rental	450	210
PMO1000062	Uninsured Motorist	3,000	1,000
PMO1000492	Bodily Injury	3,000	2,000
PMO1000649	Property Damage	2,000	1,100
PMO1100099	Property Damage	2,000	1,500
PMO1100387	Collision	2,000	1,500
PMO1100415	Collision	2,000	1,760
PMO1100658	Comprehensive	2,000	1,000
PMO1100750	Property Damage	2,000	500
PMO1100658 *	Rental	450	300
PMO1000594 *	Bodily Injury	3,000	750
PMO1100893	Property Damage	2,000	1,000
PMO1101029	Collision	2,000	200
PMO1101277	Collision	2,000	1,500
PMO1101277 *	Property Damage	2,000	1,500
PMO1101331	Property Damage	2,000	1,500
PMO1101952 *	Bodily Injury	3,000	2,000
PMO1101952 *	Bodily Injury	3,000	1,000
PMO1101952 *	Bodily Injury	3,000	1,000

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

* These errors were not counted in the error ratio due to being totaled for a different error in this review.

In 11 instances, Rio eventually set the appropriate reserves but failed to set initial reserves when a coverage exposure became evident.

<u>Claim Number</u>	<u>Coverage</u>	<u>Date Exposure Known</u>	<u>Date of Reserve</u>
PMO1000833 *	Rental	10/15/2010	1/25/2011
PMO1000833 *	Bodily Injury	10/27/2010	12/2/2010
PMO1000833 *	Bodily Injury	10/27/2010	11/3/2010
PMO1100170 *	Bodily Injury	2/17/2011	4/25/2011
PMO1100415 *	Uninsured Motorist	3/28/2011	5/4/2011
PMO1101115 *	Bodily Injury	7/18/2011	10/26/2011

<u>Claim Number</u>	<u>Coverage</u>	<u>Date Exposure Known</u>	<u>Date of Reserve</u>
PMO1101115 *	Bodily Injury	7/18/2011	10/26/2011
PMO1100203	Uninsured Motorist	2/28/2011	6/8/2011
PMO1100591	Uninsured Motorist	4/21/2011	5/5/2011
PMO1100632	Property Damage	4/29/2011	5/11/2011
PMO1100838	Comprehensive	5/26/2011	6/6/2011

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

* These errors were not counted in the error ratio due to being totaled for a different error in this review.

In three instances, Rio closed the claim reserve prior to settlement.

<u>Claim Number</u>	<u>Coverage</u>	<u>Date Reserve Closed</u>	<u>Date Claim Settled</u>
PMO1000204	Property Damage	7/22/2010	8/3/2010
PMO1000833	Collision	12/31/2010	1/18/2012
PMO1101672	Bodily Injury	2/2/2012	2/12/2012

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

In nine instances, Rio failed to set the reserves at the minimum or appropriate level until the claim was adjudicated or paid.

<u>Claim Number</u>	<u>Coverage</u>	<u>Date Reported</u>	<u>Date of Reserve</u>
PMO1000162	Collision	3/31/2010	5/21/2010
PMO1000206	Rental	4/12/2010	6/25/2010
PMO1100958 *	Property Damage	6/7/2011	7/25/2011
PMO1000162 *	Property Damage	3/31/2010	5/20/2010
PMO1000044 *	Rental	2/9/2010	2/16/2010

<u>Claim Number</u>	<u>Coverage</u>	<u>Date Reported</u>	<u>Date of Reserve</u>
PMO1101187	Property Damage	7/15/2010	7/19/2010
PMO1101188	Property Damage	7/15/2011	7/27/2011
PMO1101285	Property Damage	8/2/2011	11/1/2011
PMO1101349	Property Damage	8/10/2011	11/2/2011

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

* These errors were not counted in the error ratio due to being totaled for a different error in this review.

In one instance, Rio created a reserve for collision coverage that was not in effect.

Claim Number

PMO110115

References: §§ 375.150, 375.445(2), and 375.1007(3), RSMo.

III. 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

<u>Calendar Days</u>	<u>Number of Criticisms</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	45	100%
Received outside time-limit, incl. any extensions	0	0%
<u>No Response</u>	<u>0</u>	<u>0 %</u>
Total	45	100 %

Reference: §374.205, RSMo and 20 CSR 100-8.040.

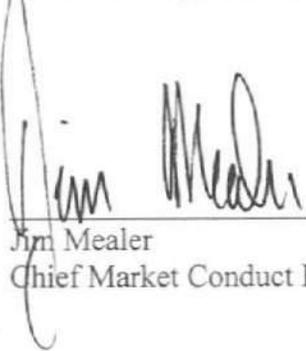
B. Formal Request Time Study

<u>Calendar Days</u>	<u>Number of Requests</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	21	100%
Received outside time-limit, incl. any extensions	0	0%
<u>No Response</u>	<u>0</u>	<u>0%</u>
Total	21	100%

Reference: §374.205, 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 Pride National Insurance Company (NAIC #25704), Examination Number 1201-01-TGT. This examination was conducted by Gary Meyer, Gary Bird, and John Pfaender. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated June 14, 2013. 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.



Jim Mealer
Chief Market Conduct Examiner

11/12/2013

Date