

December 14, 2009

VIA FEDERAL EXPRESS

Mr. John M. Huff, Director
Department of Insurance
Financial Institutions
and Professional Registration
Maryland Insurance Administration
301 West High Street,
Room 530
P.O. Box 690
Jefferson City, Missouri
65102-0690

Re: Missouri Market Conduct Examination #0811-20-TGT
State Auto Insurance Group (NAIC #0175)

Dear Mr. Duff,

The purpose of this letter is to set forth State Auto Insurance Group's, ("State Auto"), response to the Final Draft Market Conduct Examination Report. ("Draft Report") dated November 3, 2009 and provided to us under Carolyn H. Kerr's cover letter dated November 13, 2009.

This response will address State Auto's various exceptions to the Draft Report. State Auto understands that this response becomes part of the official record in conjunction with the Draft Report. It should be understood that if a particular exam finding is not referred to in this letter that would indicate State Auto did not disagree with the exam finding in that particular section of the Draft Report.

It should be noted that none of these comments or any of our actions are admissions to any of the alleged violations and should not be interpreted by the Missouri Department of Insurance or any other party as constituting an admission. We are providing these comments and taking actions without waiving any defenses, legal or equitable, and without waiving any applicable privilege in connection with the information provided.

This response will address each exam finding by topic area.

I. Underwriting and Rating Practices

A. Forms and Filings (p. 18)

Company Response: The ten forms listed below, at the time of the Exam were not filed with the Department. However, those forms have since been filed, without modification, and approved for use by the Department.

- IL 12 01 04 93 – Policy Changes
- Form F 08 99 – Uniform Motor Carrier Endorsement (6)
- MC-17 12 85 – Manuscript (2)
- IL 00 03 07 02 – Calculation of Premium (650)
- SA 10 24 05 07 – Comprehensive Coverage Deductible Endorsement (45)
- SA 23 24 05 07 – Comprehensive Deductible Endorsement – Truckers (0)
- SA 23 84 01 06 – Exclusion of Terrorism (2)
- SA 23 85 01 06 – Exclusion of Terrorism involving Nuclear, Biological (45)
- SA 25 24 05 07 – Comprehensive Coverage Deductible – Garage (0)
- SA 31 10 05 07 – New Auto Replacement Endorsement (0)

B. Underwriting and Rating Commercial Auto Sate Auto Mutual Insurance Co. (p. 20)

State Auto disagrees with the number of errors being listed as six. State Auto believes the errors should be listed as five.

Reference: Policy Provisions, Statistical Error

4. The examiners found that the Company failed to charge the insured the correct premium by rating vehicle number 014 on the policy as a leased vehicle when the policy application listed it as "solely owned by the registered applicant", creating the following overcharge amount.

<u>Policy Number</u>	<u>Overcharge Amount</u>
BAP444993	\$15

Company Response: In fact, the policy application for policy # BAP444993 is incorrect. The insured verified that vehicle number 014, a 1994 Lincoln Limo, s/n 1LNLM81W3RY717778 was a leased vehicle in June of 2001 when it was added to the policy. **(See Exhibit A)**

F. Meridian Security Insurance Company Private Passenger Automobile Underwriting and Rating (p. 26)

2. The examiners found that the Company failed to apply the youthful driver household factor to the policy premium.

<u>Policy Number</u>	<u>Premium Undercharge Amount</u>
AMO 0015992	\$243

Company Response: We respectfully disagree with the examiners review. Both drivers are listed, Driver Attribute LST, but not rated. They have insurance elsewhere. We have a general rule in the manual under driver status indicating that we list all drivers in the household on our auto policies, even if they are not rated drivers. Since we do not rate for drivers that are only "listed," the household factor does not apply. All "rated" drivers are over the age of 21. **(See Exhibit B)**

3. The examiners found that the Company failed to charge the insured the correct premium by using an incorrect credit rating factor.

<u>Policy Number</u>	<u>Premium Overcharge Amount</u>
AMO 0005599	\$55

Company Response: We respectfully disagree with the examiners review. At the time the policy was rated we ran credit on the first driver listed only. In this case, the insured's credit score at the time was 760 (authorization code 07760099, where 07 is the year ordered, 760 is the credit score, 09 is the month ordered, and the final digit is random.) The credit factor of .67 was correct for both drivers. **(See Exhibit C)**

II. Claims Practices

B. State Auto Insurance Company commercial Auto Subrogation Claims Paid. (p. 37)

1. Claims Time Studies

Company response: This sample was extremely small and clearly not a good representation of State Auto's claims handling ability and practices.

G. State Auto Property and Casualty Insurance Company Commercial Auto Subrogation Claims Paid

2. Unfair Settlement and General Handling Practices

Company Response: This was two separate accidents that occurred close in time at the same scene.

Accident #1: State Auto insured rear ended a stopped vehicle totaling the State Auto insured vehicle and caused more than \$250 damage to the front of the insured State Auto vehicle. **(See Exhibit D)**

Accident #2: A State Farm insured collided with rear end of the State Auto insured vehicle causing only rear end damage to the State Auto vehicle. No deductible amount was applied to the State Auto insured for this rear end collision caused by the State Farm insured. This collision result in a recovery from the State Farm insured that lowered the salvage value received for the State Auto vehicle as a result of the first accident which totaled the vehicle. **(See Exhibit D)**

AD. State Auto National Company Private Passenger Auto Medical Payments Claims Closed Without Payment

2. Unfair Settlement and General Handling Practices (p. 60-61)

Company Response:

1. State Auto respectfully disagrees. Discussions with insured passenger indicate medical payments and bodily injury coverages were discussed. The insured passenger was to submit medical bills and provide a medical authorization so medical records could be obtained to confirm the treatment was accident related. **(See Exhibit E)**

The insured passenger became represented by an attorney who filed suit. Once suit was filed and liability was further investigated, a compromised settlement was reached for any and all claims, including medical payments.

2. Upon receipt of the claim, we had minimal information concerning the insured passenger. We attempted to contact the passenger. In cases such as this, we generally prefer to speak with the party to explain the form being sent so they understand what the form is for before they receive it.

3. Please refer to number 1 above.

4. State Auto respectfully disagrees. Prior to this time, we had spoken to the insured passenger twice and discussed medical payments and bodily injury coverages. We explained that we needed the medical authorization to review the

medical records in order to consider the medical payments and bodily injury claim.

The insured's attorney is the party who made us aware the insured passenger had retained legal representation. The insured passenger did not return the medical authorization for our handling. We did not hear from the insured passenger's attorney until after suit was filed March 3, 2005. After counsel was involved by State Auto and discovery was conducted a compromised settlement was ultimately reached. **(See Exhibit E)**

Conclusions

State Auto takes regulatory compliance very serious. State Auto submits that any alleged Market Conduct regulatory violations have been properly addressed and will periodically be addressed in the future as a part of an ongoing training and/or process and procedure review and update. The exam did not reveal significant issues where Missouri citizens or State Auto insureds were substantively mistreated, denied statutory protection or insurance benefits. Generally, the alleged violations related to more administrative detail type issues. On balance, the Company believes the report confirms it deals with its customers and Missouri citizens fairly and in compliance with the letter and spirit of Missouri law. State Auto has and always will be a friend you can trust.

Respectfully submitted,



Patrick M. Dukes
Compliance Officer
State Auto Insurance Companies