

**MARKET CONDUCT EXAMINATION REPORT**

**OF**

**STATE AUTO PROPERTY AND CASUALTY  
INSURANCE COMPANY**

**AS OF**

**MARCH 31, 2016**

**COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

**Property and Casualty Division  
Market Conduct Section**

# COMMONWEALTH OF VIRGINIA



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## STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Andrea Baytop, Principal Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of State Auto Property and Casualty Insurance Company as of March 31, 2016, conducted at the company's office in Columbus, Ohio is a true copy of the original Report on file with the Bureau and also includes a true copy of the company's responses to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case Number INS-2017-00180 finalizing the Report.

**IN WITNESS WHEREOF**, I have  
hereunto set my hand and affixed  
the official seal of the Bureau  
at the City of Richmond, Virginia,  
this 18<sup>th</sup> day of October, 2017.

A handwritten signature in black ink, reading 'Andrea Baytop', written over a horizontal line.

Andrea Baytop  
Examiner in Charge

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# TABLE OF CONTENTS

INTRODUCTION .....	1
COMPANY PROFILE.....	1
SCOPE OF THE EXAMINATION.....	4
STATISTICAL SUMMARY .....	5
PART ONE - THE EXAMINERS' OBSERVATIONS.....	7
RATING AND UNDERWRITING REVIEW.....	7
Automobile New Business Policies .....	7
Automobile Renewal Business Policies.....	8
Homeowner New Business Policies .....	9
Homeowner Renewal Business Policies .....	11
TERMINATION REVIEW .....	12
Company-Initiated Cancellations – Automobile Policies .....	12
Notice Mailed Prior to the 60 <sup>th</sup> Day of Coverage .....	12
Notice Mailed After the 59 <sup>th</sup> Day of Coverage .....	12
All Other Cancellations – Automobile Policies .....	13
Nonpayment of the Premium .....	13
Requested by the Insured .....	14
Company-Initiated Non-renewals – Automobile Policies .....	14
Homeowner Policies .....	15
Company-Initiated Cancellations – Homeowner Policies.....	15
Notice Mailed Prior to the 90 <sup>th</sup> Day of Coverage .....	15
Notice Mailed After the 89 <sup>th</sup> Day of Coverage .....	15
All Other Cancellations – Homeowner Policies .....	15
Nonpayment of the Premium .....	15
Requested by the Insured .....	16
Company-Initiated Non-renewals – Homeowner Policies .....	16
CLAIMS REVIEW .....	16

Private Passenger Automobile Claims .....	16
Homeowner Claims.....	20
FORMS REVIEW .....	22
Automobile Policy Forms .....	23
Policy Forms Used During the Examination Period .....	23
Policy Forms Currently Used.....	23
Homeowner Policy Forms .....	23
Policy Forms Used During the Examination Period .....	23
Policy Forms Currently Used.....	23
POLICY ISSUANCE PROCESS REVIEW .....	23
Automobile Policies.....	24
New Business Policies .....	24
Renewal Business Policies.....	24
Homeowner Policies .....	24
New Business Policies .....	24
Renewal Business Policies.....	24
STATUTORY NOTICES REVIEW .....	25
General Statutory Notices .....	25
Statutory Vehicle Notices .....	25
Statutory Property Notices .....	26
Other Notices.....	26
LICENSING AND APPOINTMENT REVIEW .....	26
Agency.....	27
Agent .....	27
COMPLAINT-HANDLING PROCESS REVIEW .....	27
PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW.....	27
PART TWO – CORRECTIVE ACTION PLAN .....	28
General.....	28

Rating and Underwriting Review .....	28
Termination Review .....	29
Claims Review .....	30
Forms Review .....	31
Statutory Notices Review .....	31
Licensing and Appointment Review .....	31
<b>PART THREE – EXAMINERS’ RECOMMENDATIONS .....</b>	<b>32</b>
RECOMMENDATIONS .....	32
Rating and Underwriting.....	32
Termination.....	32
Claims.....	32
Forms .....	33
Notices.....	33
SUMMARY OF PREVIOUS EXAMINATION FINDINGS.....	33
ACKNOWLEDGEMENT.....	34

## **INTRODUCTION**

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a market conduct examination has been made of the private passenger automobile and homeowner lines of business written by State Auto Property and Casualty Insurance Company at its office in Columbus, Ohio.

The examination commenced July 18, 2016, and concluded May 3, 2017. Brandon L. Ayers, Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Ju'Coby D. Hendrick, Melody S. Morrissette, and Gloria V. Warriner, examiners of the Bureau of Insurance, Teresa Ratliff, Office Technician, and Joyclyn M. Morton, Market Conduct Manager of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Market Action Tracking System on April 25, 2016, and was assigned the examination number of VA177-1. The examination was conducted in accordance with the guidelines contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook.

## **COMPANY PROFILE\***

State Auto Property and Casualty Insurance Company (SPCIC) was incorporated under the laws of South Carolina on January 25, 1960, as The Dixie Fire and Casualty Company. It was licensed and commenced business on April 1, 1950. The title of Southern Home Insurance Company was adopted on December 31, 1963. The current title was adopted on January 1, 1988. The company re-domesticated to Iowa on November 14, 2006. The company is based in Columbus, Ohio.

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\* Source: Best's Insurance Reports, Property & Casualty, 2016 Edition.

The table below indicates when the company was licensed in Virginia and the lines of insurance that the company was licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date that the company was licensed in Virginia except as noted in the table.

<b>GROUP CODE: 0175</b>	<b>SPCIC</b>
NAIC Company Number	25127
LICENSED IN VIRGINIA	5/10/1954
<b>LINES OF INSURANCE</b>	
Accident and Sickness	
Aircraft Liability	X
Aircraft Physical Damage	
Animal	3/30/2010
Automobile Liability	X
Automobile Physical Damage	X
Boiler and Machinery	12/20/1991
Burglary and Theft	X
Commercial Multi-Peril	12/20/1991
Credit	
Farmowners Multi-Peril	12/20/1991
Fidelity	12/20/1991
Fire	X
General Liability	
Glass	X
Homeowners Multi-Peril	12/20/1991
Inland Marine	X
Miscellaneous Property	X
Liability Other than Auto	X
Ocean Marine	12/20/1991
Surety	12/20/1991
Water Damage	X
Workers' Compensation	X



The table below shows the company's premium volume and approximate market share of business written in Virginia during 2016 for those lines of insurance included in this examination.\* This business was developed through independent agents.

<b>COMPANY AND LINE</b>	<b>PREMIUM VOLUME</b>	<b>MARKET SHARE</b>
<b>State Auto Property and Casualty Insurance Company</b>		
Private Automobile Liability	\$5,094,229	.18%
Private Automobile Physical Damage	\$4,357,764	.20%

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\* Source: The 2016 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

## SCOPE OF THE EXAMINATION

The examination included a detailed review of the company's private passenger automobile and homeowner lines of business written in Virginia for the period beginning April 1, 2015 and ending March 31, 2016. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance\*, statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the company's operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the company failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations", are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the company's practices that require some action by the company. This section also summarizes the violations for which the company was cited in previous examinations.

The examiners may not have discovered every unacceptable or non-compliant activity in which the company engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the

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\*Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

Bureau.

### **STATISTICAL SUMMARY**

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the company. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

AREA	<u>Population</u>	<u>FILES</u>	<u>FILES NOT</u>	<u>FILES WITH</u>	<u>ERROR</u>
	<u>Sample</u>				
<b><u>Private Passenger Auto</u></b>					
New Business	<u>1686</u> 50	50	0	27	54%
Renewal Business <sup>1</sup>	<u>7897</u> 75	73	0	44	60%
Co-Initiated Cancellations <sup>2</sup>	<u>26</u> 26	24	0	16	67%
All Other Cancellations <sup>3</sup>	<u>1093</u> 20	21	0	17	81%
Nonrenewals <sup>4</sup>	<u>42</u> 6	5	0	1	20%
<b><u>Homeowner</u></b>					
New Business <sup>5</sup>	<u>1008</u> 50	49	0	30	61%
Renewal Business <sup>6</sup>	<u>3652</u> 50	48	0	28	58%
Co-Initiated Cancellations <sup>4</sup>	<u>10</u> 10	9	0	4	44%
All Other Cancellations <sup>7</sup>	<u>729</u> 24	21	0	4	19%
Nonrenewals <sup>8</sup>	<u>37</u> 12	10	0	0	0%
<b><u>Claims</u></b>					
Auto <sup>9</sup>	<u>2268</u> 100	99	0	77	78%
Property	<u>139</u> 50	50	0	27	54%

Footnote <sup>1</sup> Two policies were not reviewed: one policy did not insure a private passenger auto and one policy could not be recreated from the company's system.

Footnote <sup>2</sup> Two cancellations were not reviewed: one cancellation was requested by the insured and reviewed under that category, one policy was a duplicate cancellation already under review.

Footnote <sup>3</sup> One insured requested cancellation was added from the Company-Initiated category.

Footnote <sup>4</sup> One cancellation was not reviewed because the cancellation was requested by the insured.

Footnote <sup>5</sup> One policy was not reviewed because it was rewritten to a policy already under review.

Footnote <sup>6</sup> Two policies were not reviewed: one policy was a new policy instead of renewal, one policy was rewritten to a policy already under review.

Footnote <sup>7</sup> Three cancellations were not reviewed: one cancellation was an expiration and two cancellations were not mid-term cancellations.

Footnote <sup>8</sup> Two policies were not reviewed because they were insured requested cancellations.

Footnote <sup>9</sup> One claim was not reviewed because the insured withdrew the claim before the company initiated its review.

## **PART ONE - THE EXAMINERS' OBSERVATIONS**

This section of the Report contains all of the observations that the examiners provided to the company. These include all instances where the company violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the company violated any other Virginia laws applicable to insurers.

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile New Business Policies**

The Bureau reviewed 50 new business policy files. During this review, the examiners found overcharges totaling \$156.00 and undercharges totaling \$857.00. The net amount that should be refunded to insureds is \$156.00 plus six percent (6%) simple interest.

- (1) The examiners found ten violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page displayed discounts that were not applicable to the policy.
- (2) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (3) The examiners found 26 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In five instances, the company failed to use the correct discounts and/or surcharges.
  - b. In one instance, the company failed to apply the correct surcharge points for accidents and/or convictions.

- c. In nine instances, the company failed to use the correct symbol.
  - d. In three instances, the company failed to use the correct tier eligibility criteria.
  - e. In five instances, the company failed to use the correct base and/or final rates.
  - f. In three instances, the company failed to follow its filed rounding rule.
- (4) The examiners found one violation of § 38.2-2234 A of the Code of Virginia. The company failed to provide the insured/applicant the Insurance Credit Score Disclosure notice.

#### **Automobile Renewal Business Policies**

The Bureau reviewed 73 renewal business policy files. During this review, the examiners found overcharges totaling \$1,261.00 and undercharges totaling \$1,281.00. The net amount that should be refunded to insureds is \$1,261.00 plus six percent (6%) simple interest.

- (1) The examiners found 11 violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page displayed discounts that were not applicable to the policy.
- (2) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide the policy file requested.
- (3) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company failed to send a point surcharge notice to the insured.

- (4) The examiners found one violation of § 38.2-1906 A of the Code of Virginia. The company failed to file with the Commission all rates and supplementary rate information.
- (5) The examiners found 45 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In ten instances, the company failed to use the correct discounts and/or surcharges.
  - b. In seven instances, the company failed to apply the correct surcharge points for accidents and/or convictions.
  - c. In 12 instances, the company failed to use the correct symbol.
  - d. In two instances, the company failed to use the correct tier eligibility criteria.
  - e. In one instance, the company failed to use the correct base and/or final rates.
  - f. In 13 instances, the company failed to follow its filed rounding rule.
- (6) The examiners found three violations of § 38.2-2234 B of the Code of Virginia. The company failed to update the insured's credit score in a thirty-six month period.

### **Homeowner New Business Policies**

The Bureau reviewed 49 new business policy files. During this review, the examiners found overcharges totaling \$2,622.00 and undercharges totaling \$1,013.34. The net amount that should be refunded to insureds is \$2,622.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy. The company failed

- to include the edition dates of all forms applicable to the policy on the declarations page.
- (2) The examiners found seven violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed an incorrect Loss of Use limit on the declarations page.
- (3) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured written Notice of an Adverse Underwriting Decision (AUD).
- (4) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (5) The examiners found 39 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In 23 instances, the company failed to use the correct discounts and/or surcharges.
  - b. In one instance, the company failed to use the correct territory.
  - c. In four instances, the company failed to use the correct base and/or final rates.
  - d. In five instances, the company failed to use the correct public protection classification.
  - e. In six instances, the company failed to use the filed Defender Estates program rules.



**Homeowner Renewal Business Policies**

The Bureau reviewed 48 renewal business policy files. During this review, the examiners found overcharges totaling \$622.00 and undercharges totaling \$624.00. The net amount that should be refunded to insureds is \$622.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy. The company failed to list all forms applicable to the policy on the declarations page.
- (2) The examiners found nine violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed an incorrect Loss of Use limit on the declarations page.
- (3) The examiners found 36 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In 16 instances, the company failed to use the correct discounts and/or surcharges.
  - b. In one instance, the company failed to use the correct territory.
  - c. In four instances, the company failed to use the correct base and/or final rates.
  - d. In 13 instances, the company failed the company to use the correct public protection class.
  - e. In two instances, the company failed to use the filed rounding rule.

**TERMINATION REVIEW**

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

**Company-Initiated Cancellations – Automobile Policies****NOTICE MAILED PRIOR TO THE 60<sup>TH</sup> DAY OF COVERAGE**

The examiners reviewed four automobile cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and undercharges totaling \$91.00.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (2) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of sending the cancellation notice to the lienholder.

**NOTICE MAILED AFTER THE 59<sup>TH</sup> DAY OF COVERAGE**

The examiners reviewed 20 automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found overcharges totaling \$20.00 and no undercharges. The net amount that should be refunded to insureds is \$20.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The

- company failed to calculate the earned premium correctly.
- (2) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to retain proof of sending the cancellation notice to the insured.
- (3) The examiners found five violations of § 38.2-2208 B of the Code of Virginia.
- a. In one instance, the company failed to provide proper notice of cancellation to the lienholder.
  - b. In four instances, the company failed to retain proof of sending the cancellation notice to the lienholder.
- (4) The examiners found 11 violations of § 38.2-2212 D of the Code of Virginia.
- a. In one instance, the company cancelled the policy for a reason not permitted by the statute.
  - b. In eight instances, the company cancelled the policy due to suspension or revocation of a driver's license that did not occur during the time period permitted by the statute.
  - c. In two instances, the company failed to obtain sufficient documentation from the insured verifying relocation to another state that would permit the company to cancel the policy.
- (5) The examiners found two violations of § 38.2-2212 E of the Code of Virginia. The company failed to give the insured at least 45 days advance notice of cancellation.

### **All Other Cancellations – Automobile Policies**

#### NONPAYMENT OF THE PREMIUM

The examiners reviewed 11 automobile cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to retain proof of sending the cancellation notice to the insured.
- (2) The examiners found eight violations of § 38.2-2208 B of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.

#### REQUESTED BY THE INSURED

In addition, the examiners reviewed ten automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and undercharges totaling \$278.05.

- (1) The examiners found six violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (2) The examiners found two violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain a written request from the insured to cancel the policy.
- (3) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance notice of cancellation from the insured.

#### **Company-Initiated Non-renewals – Automobile Policies**

The examiners reviewed five automobile nonrenewals that were initiated by the company.

The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to retain proof of sending the nonrenewal notice to the insured.

**Homeowner Policies****Company-Initiated Cancellations – Homeowner Policies**NOTICE MAILED PRIOR TO THE 90<sup>TH</sup> DAY OF COVERAGE

The examiners reviewed eight homeowner cancellations that were initiated by the company where the company mailed the notices prior to the 90th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found two violations of § 38.2-2113 A of the Code of Virginia. The company failed to retain proof of sending the cancellation notice to the insured.
- (2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to retain proof of sending the cancellation notice to the lienholder.

NOTICE MAILED AFTER THE 89<sup>TH</sup> DAY OF COVERAGE

In addition, the examiners reviewed one homeowner cancellation that was initiated by the company where the company mailed the notice on or after the 90<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found no overcharges and no undercharges.

The examiners found one violation of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner-occupied dwelling after the 89<sup>th</sup> day of coverage for a reason not permitted by the statute.

**All Other Cancellations – Homeowner Policies**NONPAYMENT OF THE PREMIUM

The examiners reviewed nine homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners

found no overcharges and no undercharges.

The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.

#### REQUESTED BY THE INSURED

In addition, the examiners reviewed 12 homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found two violations of § 38.2-2114 E of the Code of Virginia. The company failed to obtain a written request to cancel a policy insuring an owner-occupied dwelling.
- (2) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to use the cancellation date requested by the insured.

#### **Company-Initiated Non-renewals – Homeowner Policies**

The examiners reviewed ten homeowner nonrenewals that were initiated by the company.

The examiners found no violations in this area.

#### CLAIMS REVIEW

##### **Private Passenger Automobile Claims**

The examiners reviewed 99 automobile claims for the period of April 1, 2015 through March 31, 2016. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$957.15 and underpayments totaling \$14,442.57. The net amount that should be paid to claimants is \$13,980.32 plus six percent (6%) simple interest.

- (1) The examiners found 15 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found 16 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

- a. In five instances, the company failed to accurately inform an insured of the Medical Expense Benefits or Income Loss coverage when the file indicated the coverage was applicable to the loss.

- b. In ten instances, the company failed to accurately inform an insured of the Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.

- c. In one instance, the company failed to accurately inform an insured of the Automobile Death Indemnity coverage when the file indicated the coverage was applicable to the loss.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

- (4) The examiners found five violations of 14 VAC 5-400-70 A. The company failed

- to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found 32 violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
- a. In 14 instances, the company failed to pay the proper sales and use tax, title fee, and/or license fee on first party total loss settlements.
  - b. In seven instances, the company failed to pay the insured's Medical Expense Benefits claim properly.
  - c. In eight instances, the company failed to pay the insured's Transportation Expenses claim properly.
  - d. In two instances, the company failed to pay the insured's Collision or Other Than Collision claim properly.
  - e. In one instance, the company failed to pay the insured's Broad Form Personal Auto coverage claim properly.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found two violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
- a. In one instance, the company failed to provide a copy of the estimate to the insured.
  - b. In one instance, the company failed to provide a copy of the estimate to the claimant.



- (7) The examiners found six violations of § 38.2-236 A of the Code of Virginia. The company failed to send the Notice of Settlement Payment to the claimant within five days of issuing a settlement payment of \$5,000.00 or greater to the claimant's attorney or other representative.
- (8) The examiners found 28 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue
- a. In 26 instances, the company misrepresented its obligations relating to the breakage of glass.
  - b. In one instance, the company misrepresented the coverages pertinent to the claim.
  - c. In one instance, the company misrepresented the period of time under which the insured could submit a medical claim.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found three violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- (10) The examiners found 11 violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
- a. In five instances, the company unreasonably delayed the settlement of a claim.
  - b. In six instances, the company failed to reimburse the claimant for damages incurred.

These findings occurred with such frequency as to indicate a general business practice.

- (11) The examiners found three violations of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a valid assignment of benefits to make Medical Expense Benefits payments directly to the medical provider.
- (12) The examiners found 26 occurrences where the company failed to comply with the provisions of the insurance policy.
  - a. In one instance, the company paid an insured more than the insured was entitled to receive under the terms of his policy.
  - b. In three instances, the company failed to pay the claim under the correct coverage.
  - c. In 22 instances, the company overpaid the vehicle registration fee.

#### Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as violations of other Virginia laws.

The examiners found one violation of § 46.2-624 of the Code of Virginia. The company failed to notify the Virginia Department of Motor Vehicles when payment was made in excess of \$3,500.00 on a water-damaged vehicle.

#### **Homeowner Claims**

The examiners reviewed 50 homeowner claims for the period of April 1, 2015 through March 31, 2016. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$1,288.45 and underpayments totaling \$4.53. The net amount that should be paid to claimants is \$4.53 plus six percent (6%) simple interest.

- (1) The examiners found five violations of 14 VAC 5-400-30. The company failed to

document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

(2) The examiners found three violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim. The company failed to inform the insured of the Additional Living Expense coverage of the policy.

(3) The examiners found four violations of 14 VAC 5-400 70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

These findings occurred with such frequency as to indicate a general business practice.

(4) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of the claim.

(5) The examiners found one violation of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim. The company failed to pay the insured's Personal Property Replacement Cost coverage claim properly

(6) The examiners found 21 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.

a. In one instance, the company failed to properly convey its obligation

concerning payment of the claim to the insured.

- b. In 20 instances, the company failed to properly represent the replacement cost provisions of the policy.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found one violation of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.
- (8) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company paid more than the insured was entitled to receive under the terms of the policy.

#### **FORMS REVIEW**

The examiners reviewed the company's policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the company's compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the company. In addition, the Bureau requested copies of new and renewal business policy mailings that the company was processing at the time of the Examination Data Call. The details of these policies are set forth in the Policy Issuance Process Review section of the Report. The examiners then reviewed the forms used on these policies to verify the company's current practices.

**Automobile Policy Forms**POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 47 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found seven violations of § 38.2-2220 of the Code of Virginia.

- a. In two instances, the company failed to use a standard form in the precise language filed and adopted by the Bureau.
- b. In five instances, the company failed to have available for use standard automobile forms filed and adopted by the Bureau.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

**Homeowner Policy Forms**POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 71 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found two violations of § 38.2-317 A of the Code of Virginia. The company used forms that were not filed with the Bureau at least 30 days prior to use.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

**POLICY ISSUANCE PROCESS REVIEW**

To obtain sample policies to review the company's policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the company received the Examination Data Call. The company was instructed to provide duplicates of the entire packet that was provided to the

insured. The details of these policies are set forth below.

For this review, the examiners verified that the company enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

### **Automobile Policies**

The company provided five new business policies sent on the following dates: May 16, 24 and 26, 2016; June 16, 2016 and July 10, 2016. In addition, the company provided five renewal business policies sent on the following dates: June 17, 2016.

#### NEW BUSINESS POLICIES

The examiners found no violations in this area.

#### RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

### **Homeowner Policies**

The company provided five new business policies sent on the following dates: May 22, 27, and 29, 2016. In addition, the company provided five renewal business policies mailed/sent on the following dates: May 20, 2016.

#### NEW BUSINESS POLICIES

The examiners found no violations in this area.

#### RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

**STATUTORY NOTICES REVIEW**

The examiners reviewed the company's statutory notices used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the company's compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the company. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the company on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the company but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

**General Statutory Notices**

The examiners found two violations of § 38.2-604 B of the Code of Virginia. The company's Notice of Information Collection and Disclosure Practices did not include all of the information required by the statute.

**Statutory Vehicle Notices**

- (1) The examiners found one violation of § 38.2-517 A 3 of the Code of Virginia. The company's Glass Script did not properly disclose the use of a third party administrator.
- (2) The examiners found one violation of 38.2-2202 A of the Code of Virginia. The company's the Medical Expense Benefits notice was not in the precise wording

- required by the statute.
- (3) The examiners found one violation of § 38.2-2234 A 1 of the Code of Virginia. The company's Insurance Credit Score Disclosure notice did not include all of the information required by the statute.

### **Statutory Property Notices**

- (1) The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company's Replacement Cost Benefits notices incorrectly stated the insured had 180 days to make a replacements cost claim instead of six months.
- (2) The examiners found two violations of § 38.2-2126 A 1 of the Code of Virginia. The company's Insurance Credit Score Disclosure notice did not include all of the information required by the statute.

### **Other Notices**

The company provided copies of five other notices (including applications) that were used during the examination period.

The examiners found no violations in this area.

### **LICENSING AND APPOINTMENT REVIEW**

A review was made of new business private passenger auto and homeowner policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the company as required by Virginia insurance statutes. In addition, the agent or agency to which the company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.



**Agency**

The examiners found no violations in this area.

**Agent**

- (1) The examiners found three violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (2) The examiners found one violation of § 38.2-1822 of the Code of Virginia. The company permitted a person to act in the capacity of an agent who was not licensed in Virginia.
- (3) The examiners found 11 violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of application.

**COMPLAINT-HANDLING PROCESS REVIEW**

A review was made of the company's complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

**PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW**

The Bureau requested a copy of the company's information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The examiners found no violations in this area.

## **PART TWO – CORRECTIVE ACTION PLAN**

Business practices and the error tolerance guidelines are determined in accordance with the guidelines contained in the NAIC Market Regulation Handbook. A seven percent (7%) error criterion was applied to claims handling. Any error ratio above this threshold for claims indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

### **General**

State Auto Property and Casualty Insurance Company shall:  
Provide a Correction Action Plan (CAP) with its response to the Report.

### **Rating and Underwriting Review**

State Auto Property and Casualty Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
- (4) Properly represent the discounts applicable to the policy on the declarations page.
- (5) Use the rules and rates on file with the Bureau. Particular attention should be

focused on the use of filed discounts, surcharges, points for accidents and convictions, tier eligibility criteria, symbols, base and/or final rates, public protection classes, program eligibility rules, and rounding rule.

- (6) Update the insured's credit information at least once in a three year period or when requested by the insured.

### **Termination Review**

State Auto Property and Casualty Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
- (4) Provide proper notice of cancellation to the lienholder.
- (5) Obtain written notice of cancellation from the insured as required by the insurance policy.
- (6) Calculate earned premium according to the filed rules and policy provisions.
- (7) Retain proof of sending cancellation notices to the insured and lienholder.
- (8) Cancel policies only for the reasons permitted by statute.
- (9) Send the cancellation notice for a policy insuring a private passenger automobile at least 45 days before the effective date of cancellation when the notice is sent after the 59<sup>th</sup> day of coverage.

**Claims Review**

State Auto Property and Casualty Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.
- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to Medical Expense Benefits coverage and Transportation Expenses coverage.
- (6) Make all claim denials in writing and keep a copy in the claim file.
- (7) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
- (8) Properly represent pertinent facts or insurance provisions relating to the coverage at issue.
- (9) Attempt, in good faith, to make prompt, fair, and equitable settlements of claims in which liability is reasonably clear.

**Forms Review**

State Auto Property and Casualty Insurance Company shall:

- (1) Use the precise language of the standard automobile forms as adopted by the Bureau.
- (2) Use the required standard auto forms adopted by the Bureau.
- (3) File all homeowner forms with the Bureau at least 30 days prior to use.

**Statutory Notices Review**

State Auto Property and Casualty Insurance Company shall:

- (1) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (2) Amend the Medical Expense Benefits notice to comply with § 38.2-2202 A of the Code of Virginia.
- (3) Amend the Insurance Credit Score Disclosure notice to comply with §§ 38.2-2126 A 1 and 38.2-2234 A 1 of the Code of Virginia.
- (4) Amend the Glass Script to comply with § 38.2-517 A 3 of the Code of Virginia.
- (5) Properly represent the replacement cost provisions in the homeowner policy to comply with § 38.2-2119 of the Code of Virginia.

**Licensing and Appointment Review**

State Auto Property and Casualty Insurance Company shall:

- (1) Retain a copy of all new business applications.
- (2) Accept business only from agents that are licensed in Virginia.
- (3) Appoint agents within 30 days of the date of application.

### **PART THREE – EXAMINERS’ RECOMMENDATIONS**

The examiners also found violations that did not appear to rise to the level of business practices by the company. The company should carefully scrutinize these errors and correct the causes before these errors become business practices.

#### **RECOMMENDATIONS**

We recommend that the company take the following actions:

##### **Rating and Underwriting**

- Specify accurate information in the policy by listing all applicable forms and the corresponding edition dates on the declarations page.
- Ensure that its filed rules and rates accurately correspond to how the company implements its rating manual. The company received an itemized list on manual inconsistencies during the examination.
- Consistently only obtain the credit score of one particular named insured or always obtain the credit score of both spouses.
- Either display “hydrant within 1000 feet” or “hydrant over 1000 feet” on the declarations page instead of display a distance that is not correct.
- File the Amount of Insurance factors for limits between \$300,000 and \$500,000 for the Securgard program.

##### **Termination**

- Obtain and retain advance notice for insured requested cancellation in accordance with the policy provisions.
- Accurately classify terminations in accordance with the different categories specified by the Code of Virginia to ensure correct statistical reporting.

##### **Claims**

- Document the claim file when Additional Living Expense coverage is discussed with the insured.

- Pay insureds and claimants no more than they are entitled to receive under the terms of the policy.
- Obtain a valid assignment of benefits to make Medical Expense Benefits payments directly to the medical provider.
- Notify a claimant when a payment of \$5,000 or more is issued to the claimant's attorney as required by statute.
- Send a copy of the claimant's settlement notice to the claimant's attorney.
- Provide a reasonable explanation of the basis for the denial of a claim or offer of a compromise settlement.
- Implement standards for the prompt investigation of claims.
- Negotiate prompt, fair and equitable settlements of claims where liability is Make prompt, fair and equitable settlements of claims where liability Make clear.
- Make payments under the correct coverage in accordance with the policy provisions.
- Pay sales and use tax and transfer fees only when incurred by the insured.
- Make payments to claimants in accordance with the policy provisions for registration, title and tag replacement fees.

### **Forms**

- Correct the typographical errors identified on the forms during the examination.

### **Notices**

- Amend the Flood Exclusion Notice to state information regarding flood insurance is available from the insurer and remove the wording regarding coverage for water that backs up through sewers and drains.

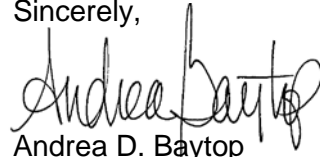
### **SUMMARY OF PREVIOUS EXAMINATION FINDINGS**

This is the first time the Virginia Bureau of Insurance has conducted an examination of the company.

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the officers and employees of the company during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink that reads "Andrea Baytop". The signature is written in a cursive style with a large initial 'A' and a long, sweeping tail.

Andrea D. Baytop  
Principal Insurance Market Examiner



# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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May 10, 2017

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Ms. Holly Drake  
Corporate Compliance Director  
State Auto Insurance Companies  
518 E. Broad Street  
Columbus, Ohio 43215

**RE: Market Conduct Examination  
State Auto Property and Casualty Insurance Co. (NAIC# 25127)  
Examination Period: April 1, 2015 – March 31, 2016**

Dear Ms. Drake:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of April 1, 2015, through March 31, 2016. The preliminary examination report (Report) has been drafted for the company's review.

Enclosed with this letter is a copy of the preliminary examination report and copies of review sheets that were withdrawn on May 3, 2017. Also enclosed are several technical reports that will provide you with the specific file references for the violations listed in the Report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the company, I would urge you to closely review the Report. Please provide a written response. When the company responds, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the company to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report. The company does not need to respond to any particular item with which it agrees. If the company disagrees with an item or wishes to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the company provides written documentation to support its position.

Secondly, the company should provide a corrective action plan that addresses all of the issues identified in the examination, again using the same headings and numberings as are used in the Report.

Thirdly, if the company has comments it wishes to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the company should outline the actions it is taking to prevent those issues from becoming a business practice.

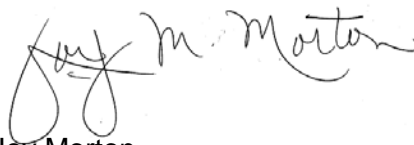
Finally, we have enclosed an Excel file that the company must complete and return to the Bureau with the company's response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The company's response and the spreadsheet mentioned above must be returned to the Bureau by June 19, 2017.

After the Bureau has received and reviewed the company's response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by June 19, 2017.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is fluid and cursive, with the first name "Joy" and the last name "Morton" clearly legible.

Joy Morton  
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Market Conduct Section  
Property & Casualty Division  
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[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

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June 19, 2017

**VIA EMAIL To [joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)**

Ms. Joy Morton  
Manager  
Market Conduct Section  
Property & Casualty Division  
Virginia Bureau of Insurance  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

**RE: Response to Market Conduct Examination  
State Auto Property and Casualty Insurance Company (NAIC#25127)  
Examination Period: April 1, 2015-March 31, 2016**

Dear Ms. Morton:

Thank you for your letter and preliminary examination report (Report) and for providing State Auto Property and Casualty Insurance Company ("Company") the opportunity to review and provide comments before you publish the final examination report. As a reminder, the file with the spreadsheets titled "Rating Overcharges Cited during the Examination," etc., referenced in the market conduct examination report was missing from the UPS packet the Company received on May 12. Ms. Andrea Baytop promptly emailed the Company a file titled "State Auto Restitution1," which has been used to document the Company's reimbursements or credits.

Thank you, in advance, for your time and consideration in reviewing the Company's responses.

**Part One**

After reviewing the Part One of the Examination Report, the Company would like to submit the following comment:

Claims Review

On page 18 under the Private Passenger Automobile Claims portion of the Report, section (5) lists violations of 14 VAC 5-400-70 D. The Company disagrees with 5e and has enclosed documents from the claims file for your review and consideration.

**Part Two**

After reviewing the Part Two of the Examination Report, the Company provides the following corrective action plan:

Rating and Underwriting Review

- 1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
  - The Company has addressed the overcharges and undercharges and has reimbursed the overcharges, which amounted to \$4,940.66.
- 2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
  - The Company has reimbursed or credited insureds accounts in the amount of \$4,940.66, which included 6% simple interest.
- 3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
  - The Company has enclosed the completed file titled "State Auto Restitution 1" and acknowledges that it has refunded or credited any overcharges listed in the file.
- 4) Properly represent the discounts applicable to the policy on the declarations page.
  - The Company's system will be updated to ensure all discounts applicable to a policy are appropriately displayed on the declarations page. The scheduled effective date is November 13, 2017.
- 5) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, tier eligibility criteria, symbols, base and/or final rates, public protection classes, program eligibility rules, and rounding rule.
  - The Company is reviewing the rate documents and manuals to ensure use of appropriate filed discounts, surcharges, points for accidents and convictions, tier eligibility criteria, symbols, base and/or final rates, public protection classes, program eligibility rules, and rounding rules. The scheduled effective date for the changes is November 13, 2017.
- 6) Update the insured's credit information at least once in a three year period or when requested by the insured.
  - The Company will complete a system change to ensure that the insured's credit information is updated at least once in a three year period or when requested by the insured. The scheduled effective date is November 13, 2017.

Termination Review

- 1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
  - The Company has addressed the overcharges and undercharges and has reimbursed the overcharge, which amounted to \$21.20.
- 2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
  - The Company has reimbursed the insured \$21.20, which included 6% simple interest.



- 3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
  - The Company has enclosed the completed file titled "State Auto Restitution1" and acknowledges that it has refunded the overcharge listed in the file.
- 4) Provide proper notice of cancellation to the lienholder.
  - The Company has reviewed its procedures and statutory requirements relative to advance notification requirements for lienholders when a policy is cancelled. The Company will begin work on making necessary modifications of procedures to ensure compliance with the statutory and regulatory requirements. The scheduled effective date is November 13, 2017.
- 5) Obtain written notice of cancellation from the insured as required by the insurance policy.
  - The Company has scheduled a training session on June 29, 2017 with its Virginia underwriters to review the requirements for cancellation of a policy at the request of the insured, including obtaining written notice.
- 6) Calculate earned premium according to the filed rules and policy provisions.
  - The Company has amended the policy provision stating that the Company will refund 100% pro-rata unearned premium when the policy is cancelled. A new form will be filed with the Department, AU0199-A (10/15). The target effective date is November 13, 2017, subject to the Bureau's approval of the new form.
- 7) Retain proof of sending cancellation notices to the insured and lienholder.
  - On May 23, 2017, the Company reinforced the importance of maintaining proof of mailings for cancellation notices with appropriate teams. Additionally, the Company is monitoring the processes to ensure that proof of sending cancellation notices are maintained as required by statutory and regulatory requirements in Virginia.
- 8) Cancel policies only for the reasons permitted by statute.
  - On June 29, 2017, the Company has scheduled a training session with its Virginia underwriters to review the statutory and regulatory requirements for cancelling policies in Virginia.
- 9) Send the cancellation notice for a policy insuring a private passenger automobile at least 45 days before the effective date of cancellation when the notice is sent after the 59 day of coverage.
  - On June 29, 2017, the Company has scheduled a training session with its Virginia underwriters to review the statutory and regulatory requirements for terminating private passenger auto policies in Virginia.

#### Claims Review

- 1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
  - The Company has addressed the errors that caused the underpayments and overpayments and has reimbursed the underpayments to insureds and claimants, which amounted to \$14,988.60.

- 2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
  - The Company has reimbursed the insureds and claimants in the amount of \$14,988.60, which included 6% simple interest.
- 3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.
  - The Company has enclosed the completed file titled "State Auto Restitution1" and acknowledges that it paid the underpayments as listed in the file. Note that the Company is disagreeing with the underpayment of CPA038 and encloses additional documentation for your review and consideration.
- 4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
  - During June team meetings, the Company will reinforce with claims teams the importance of properly documenting claims files such that all events and dates pertinent to the claim can be reconstructed. Additionally, claims training will reinforce this topic in training sessions.
- 5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to Medical Expense Benefits coverage and Transportation Expenses coverage.
  - During the exam, management discussed this topic and reinforced it with the auto and casualty claims teams. Additionally, the Company will address this topic through its claims quality assurance review process.
- 6) Make all claim denials in writing and keep a copy in the claim file.
  - On June 15, 2017, the Company discussed the topic with the claims teams of providing a reasonable written explanation of an offer of compromise or full denial. The Company is also creating a job aid document to reinforce to the teams that any offer of a compromise settlement or denial must be in writing and thoroughly explained.
- 7) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
  - In February 2017, the Company trained claims associates on a newly implemented online state regulatory reference guide that addresses total loss fees and taxes, including real-time updates. Additionally, the Company will be reinforcing proper payment of coverages in their June 2017 team meetings.
- 8) Properly represent pertinent facts or insurance provisions relating to the coverage at issue.
  - In August 2016, the auto physical damage form letters were revised by removing the obligations relating to the breakage of glass. In April 2017, the property letters regarding the replacement cost provisions of the policy were revised.
- 9) Attempt, in good faith, to make prompt, fair, and equitable settlements of claims in which liability is reasonably clear.
  - During June and July 2017, these topics, including the delay and failure to reimburse the claimant for damages involving the CDW and \$2.00 license transfer fees, will be discussed in claims team meetings. On Jun 12, 2017, the claims quality assurance team discussed this topic to ensure it is addressed in claim file reviews.



Forms Review

- 1) Use the precise language of the standard automobile forms as adopted by the Bureau.
  - The Company's forms have been compared with ISO's forms, which have been approved by the Bureau of Insurance. Any discrepancies will be updated in the system such that all forms match the approved Bureau of Insurance forms. The scheduled effective date is November 13, 2017.
- 2) Use the required standard auto forms adopted by the Bureau.
  - The Company has reviewed its forms to ensure compliance with the requirement to only use forms adopted by the Bureau and will update and implement any forms, as necessary. The scheduled effective date is November 13, 2017.
- 3) File all homeowner forms with the Bureau at least 30 days prior to use.
  - On May 30, 2017, the Company reinforced with the Company's state filing team the need to follow the Bureau's filing requirements to ensure forms are filed correctly.

Statutory Notices Review

- 1) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
  - Effective January 9, 2017, the auto long form AU303 was updated and now contains all the necessary information as outlined in § 38.2-604 B of the Code of Virginia, other than the Summary of Rights, as required by 38.2-608 and 38.2-609.
  - Effective November 13, 2017, the home long form AU303 will be updated and implemented.
  - The Summary of Rights as required by 38.2-608 and 38.2-609 will be provided by the Company's VA-SOR form for both auto and home and will be implemented for both private passenger auto and homeowners. The scheduled effective date is November 13, 2017.
- 2) Amend the Medical Expense Benefits notice to comply with § 38.2-2202 A of the Code of Virginia.
  - Effective January 9, 2017, the Company adopted ISO's form ILN181 (01/17), which contains the required wording as outlined in 38.2-2202 A of the Code of Virginia.
- 3) Amend the Insurance Credit Score Disclosure notice to comply with §§ 38.2- 2126 A 1 and 38.2-2234 A 1 of the Code of Virginia.
  - The Company will use an additional notice, which complies with §§ 38.2- 2126 A 1 and 38.2-2234 A 1 of the Code of Virginia. For auto, this was implemented and effective January 9, 2017. For homeowners, this is scheduled to be effective November 13, 2017.
- 4) Amend the Glass Script to comply with § 38.2-517 A 3 of the Code of Virginia.
  - On August 27, 2016, the Company's glass script was updated to comply with Sec. 38.2-517 A 3. The script now states: "Welcome to the State Auto glass service administered by Safelite Solutions, an affiliate of Safelite Auto Glass. Please note that Safelite Solutions is not State Auto Insurance and is only providing a service on behalf of State Auto Insurance to process your glass claim. We only need to start by asking a few questions to process your claim and get an appointment scheduled. This call may be recorded for quality assurance purposes."
- 5) Properly represent the replacement cost provisions in the homeowner policy to comply with § 38.2-2119 of the Code of Virginia.

- The Company is updating the replacement cost provisions for form FI 2804 Important Notice Replacement Cost Loss Settlement Provision to comply with 38.2-2110. The scheduled effective date is November 13, 2017.
- 6) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.
- Form MK657 was discontinued with effective August 15, 2015.

#### Licensing and Appointment Review

- 1) Retain a copy of all new business applications.
- In 2016, the Company implemented a new underwriting system that will store all applications electronically. Virginia is scheduled to be added to the new system later this year.
- 2) Accept business only from agents that are licensed in Virginia.
- The Company has implemented a new system that will validate that the agent of record is licensed and appointed. Virginia is scheduled to be added to the new system later this year.
- 3) Appoint agents within 30 days of the date of application.
- The Company has implemented a new system that will validate that the agent of record is licensed and appointed. Virginia is scheduled to be added to the new system later this year.

### **Part Three**

After reviewing the Part Three of the Examination Report, the Company provides the following comments:

#### Rating and Underwriting

- 1) Specify accurate information in the policy by listing all applicable forms and the corresponding edition dates on the declarations page.
- The Company has reviewed its procedures to ensure all contract and endorsements numbers and edition dates are listed properly on the declaration page. In addition, training was completed with the underwriting team on October 21, 2016 regarding forms and edition dates requirements for declaration pages.
- 2) Ensure that its file rules and rates accurately correspond to how the company implements its rating manual. The Company received an itemized list on manual inconsistencies during the examination.
- The Company has reviewed the filed rules and rates and its rating manual for inconsistencies and the Bureau's itemized list. The Company will publish an updated rating manual effective November 13, 2017.
- 3) Consistently only obtain the credit score of one particular named insured or always obtain the credit score of both spouses.
- The Company's system is will be updated to consistently order credit reports for the first named insured on a homeowners policy. The scheduled effective date is November 13, 2017,
- 4) Either display "hydrant within 1000 feet" or "hydrant over 1000 feet" on the declarations page instead of display a distance that is not correct.
- Effective November 13, 2017, the Company will amend the declaration page to display: "Hydrant within 1000 feet" or "Hydrant over 1000 feet."



- 5) File the Amount of Insurance factors for limits between \$300,000 and \$500,000 for the Securgard program.
  - The Company will file limits for the amount of insurance factor for limits between \$300,000 and \$500,000 for the Securgard program. The target effective date is November 13, 2017, subject to the Bureau's approval.

#### Termination

- 1) Obtain and retain advance notice for insured requested cancellation in accordance with the policy provisions.
  - On June 29, 2017, the Company has scheduled a training session with Virginia underwriters. Also, a bulletin was sent out to the State Auto Agents on June 9, 2017 outlining the requirements to obtain advance notice from the insured to cancel a policy.
- 2) Accurately classify terminations in accordance with the different categories specified by the Code of Virginia to ensure correct statistical reporting.
  - The Company will amend the classification of terminations to ensure the proper statistical reporting as specified by the code of Virginia.

#### Claims

- 1) Document the claim file when Additional Living Expense coverage is discussed with the insured.
  - On June 15, 2017, the Company provided additional claims training to the property team on the importance of discussing all policy provisions that are pertinent to a claim, including Additional Living Expense and that the first contact is critical to addressing this coverage. Additionally, the Company is creating a job aid to further reinforce this topic.
- 2) Pay insureds and claimants no more than they are entitled to receive under the terms of the policy.
  - The overpayment violations were reviewed within the appropriate auto and property units during the course of the market conduct exam. In July 2016, the claims total loss unit revised their sales and use tax reference material with the appropriate figures.
- 3) Obtain a statement from an insured authorizing the company to make Medical Expense Benefits coverage payments directly to the medical provider.
  - During the exam, the Company created and implemented a process for claim handlers to follow to ensure that proper authorization was being requested prior to issuing payment. On August 22, 2016, this document was created and distributed with appropriate discussion and training.
- 4) Notify a claimant when a payment of \$5,000 or more is issued to the claimant's attorney as required by statute.
  - In February 2017, the Company installed a new regulatory reference library for claim handlers. This violation notification has been added to Virginia profile page in a prominent location. ClaimCenter compliance enhancements are being reviewed by the business analysts to provide the claim handlers additional alerts. On June 12, 2017, the Company discussed this topic with the quality assurance audit team to ensure adherence to this requirement.
- 5) Send a copy of the claimant's settlement notice to the claimant's attorney.
  - See response for item 4) above.

- 6) Provide a reasonable explanation of the basis for the denial of a claim or offer of a compromise settlement.
  - On June 15, 2017, the property team discussed the topic of providing a reasonable written explanation of an offer of compromise or full denial. In addition, the property team is creating a 'job aid' reference document to reinforce any denial or offer of a compromise settlement must be in writing and thoroughly explained.
- 7) Implement standards for the prompt investigation of claims.
  - In June 2017, the claims teams will be addressing this recommendation. Additionally, the claims quality assurance team will reinforce this recommendation through quality reviews.
- 8) Negotiate prompt, fair and equitable settlements of claims where liability is clear. Make prompt, fair, and equitable settlements of claims where liability is clear.
  - The recommendations involving delay and failure to reimburse the claimant for damages involving the CDW and \$2.00 license transfer fees are being addressed in upcoming team meetings this month and next. Additionally, in June 2017, these topics were discussed with quality assurance team to ensure appropriate claim file reviews.
- 9) Make payments under the correct coverage in accordance with the policy provisions.
  - This recommendation will be reviewed in the June 2017 unit meetings with the appropriate claims staff.
- 10) Pay sales and use tax and transfer fees only when incurred by the insured.
  - As of January 2017, the Company is now providing the claim handlers with a compliance reference tool (updated regularly) that provides taxes and fees, which improves accuracy. By June 30, 2017, a total loss calculator feature will also be added to this compliance tool which will appropriately apply state and local sales and use tax or other applicable fees as part of the calculation.
- 11) Make payments to claimants in accordance with the policy provisions for registration, title and tag replacement fees.
  - See response for item 10) above.

#### Forms

- 1) Correct the typographical errors identified on the forms during the examination.
  - The typographical errors have been implemented and completed as of February 9, 2017.

I appreciate the Bureau's consideration of our comment and corrective action plan. If you have further questions, please call me at 614-917-5740.

Sincerely,



Rick Holbein

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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June 29, 2017

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Mr. Rick Holbein  
Vice President of Underwriting  
State Auto Insurance Companies  
518 E. Broad Street  
Columbus, Ohio 43215

RE: **Market Conduct Examination**  
**State Auto Property and Casualty Insurance Co. (NAIC# 25127)**  
**Examination Period: April 1, 2015 – March 31, 2016**

Dear Mr. Holbein:

The Bureau of Insurance (Bureau) has reviewed the June 19, 2017 response to the Preliminary Market Conduct Report (Report) of the above referenced company (Company). The Bureau has referenced only those items in which the Company has disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

## PART ONE – EXAMINERS' OBSERVATIONS

### Private Passenger Automobile Claims Review

- (5b) After further review, the violation for CPA038 has been withdrawn from the Report. The Company provided sufficient documentation that no payment under Medical Expense was due to the insured.
- (5e) The Company stated it disagreed with this item, but no documentation was provided for CPA064. The Company only provided documentation for CPA038 as discussed above.
- (11) The wording for this item has been revised in the Report for clarity.

## **PART TWO – CORRECTIVE ACTION PLAN**

### **Claims Review**

- (3) For CPA093, the Company incorrectly paid the medical provider without a valid Assignment of Benefits instead of paying the insured directly. Additionally, the Company underpaid the interest and still owes the insured \$14.75. The Company calculated interest based upon the \$3,248.89 underpayment cited in the review sheet, when the actual amount paid to the provider increased by \$245.80.

For CHO013, the Company only paid the insured \$4.80 without any documentation supporting this payment.

- (6) Please confirm that the Company's process includes written letters for partial claim denials, as well as full denials.
- (8) Please provide a copy of the revised auto physical damage form letter and revised property replacement cost letters.

### **Forms Review**

- (2) Please confirm that the Company now has the Suspension of Insurance and Reinstatement of Insurance forms available for use.

### **Statutory Notices Review**

- (1-3) Please provide a copy of the revised notices.
- (4) Please confirm that the updated Glass Script is provided to insureds BEFORE being transferred to Safelite Auto Glass.
- (6) The Company is required to provide a Flood Exclusion notice to all insureds with new and renewal policies that exclude such coverage. Please provide a copy of the Flood Exclusion notice now used by the Company, in place of the State Auto Flood Notice MK657.

## **PART THREE – RECOMMENDATIONS**

### **Claims**

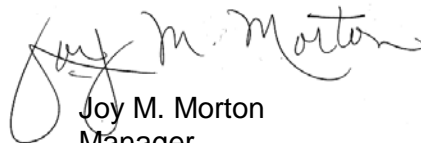
- Please provide a copy of the Company's authorization document distributed on August 22, 2016. The Company is not responsible for creating valid authorizations for payment to medical providers. However, the Company must ensure the Assignment of Benefits forms received from medical providers are valid in accordance with 38.2-2201 of the Code of Virginia to make Medical

Expense Benefit payments to those other than the insureds. The wording for this recommendation has been revised for clarity.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports and Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review.

Once we have received and reviewed the Company's responses to these items, we will be in a position to make a settlement offer. We look forward to your response by July 21, 2017.

Sincerely,

A handwritten signature in cursive script that reads "Joy M. Morton".

Joy M. Morton  
Manager  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

Enclosures



Mr. Rick Holbein  
VP Underwriting  
State Auto Insurance Companies  
PO Box 182822  
Columbus, Ohio 43218-2822  
Telephone: (614) 917-5740  
[Rick.Holbein@stateauto.com](mailto:Rick.Holbein@stateauto.com)

July 21, 2017

**VIA EMAIL To [joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)**

Ms. Joy Morton  
Manager  
Market Conduct Section  
Property & Casualty Division  
Virginia Bureau of Insurance  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

**RE: Response to Market Conduct Examination Letter Dated June 29, 2017  
State Auto Property and Casualty Insurance Company (NAIC#25127)  
Examination Period: April 1, 2015-March 31, 2016**

Dear Ms. Morton:

Thank you for your June 29 letter and the opportunity for State Auto Property and Casualty Insurance Company ("Company") to provide additional responses before the Bureau publishes the final examination report. Also, thank you, in advance, for your time and consideration in reviewing the Company's responses.

Before responding to your inquiries, the Company would like to inform you of a minor change to our corrective action plan under Termination Review, paragraph (6) Calculate earned premium according to the filed rules and policy provision. In our June 19th response, the Company responded that it amended the policy provision in order to indicate that the Company will refund 100% of pro-rata unearned premium when the policy is cancelled. We planned to use a new form, AU0199-A (10/15) for this notice. Upon further review, we have determined that amending the existing termination provision in VA2073 would be clearer for the insured. Therefore, we have updated and plan to file VA2073; a copy is enclosed.

#### **Part One**

Regarding the Private Passenger Automobile Claims Review, the Company inadvertently typed the 5e instead of 5b in the June 19<sup>th</sup> letter to the Bureau. The Company did not intend to disagree with 5e and has paid the \$1060.00 to the claimant as the Bureau recommended.

#### **Part Two**

The Company would like to submit the following responses to your inquiries:

##### Claims Review

(3) For CPA093, the Company has paid the additional \$14.75 in interest to the insured and enclosed CPA093 as documentation of the payment. For CHO013, the Company has enclosed CHO013, which documents the exchange rate, calculations, and payment confirmation.

(6) The Company's claims process has been updated to provide written letters to claimants for both partial and full claim denials. The Company is developing a job aid and training for Claims associates to ensure that they understand and follow the updated process.

(8) The Company has enclosed the revised Auto Physical Damage Disclosure and Virginia Property Replacement Cost letters.

#### Forms Review

(2) The Company is in the process of filing and adopting both Suspension of Insurance (form number PPO201) and Reinstatement of Insurance (form number PP0202). Both will be available by 11/13/2017.

#### Statutory Notices Review

(1-3) The Company has enclosed the following notices:

- AU303 (08/16): Privacy Statement
- CR-VA (01/17): Use of Credit Information Disclosure-Virginia
- ILN144 (01/17): Virginia Important Notice Regarding Uninsured Motorists Coverage
- ILN181 (01/17): Important Notice Concerning Medical Expense and Income Loss Coverages
- VA-SOR (01/16): Summary of Rights

(4) As confirmation, the Company does provide the updated Glass Script to claimants before they are transferred to Safelite Auto Glass.

(6) The Company has enclosed notice FI657 (08/15).

#### **Part Three**

The Company has enclosed the document titled Virginia Assignment of Benefits Document. (Note: the original publication of this document was August 22, 2017, and an updated document was published on September 22, 2017.)

We appreciate the Bureau's consideration of our additional responses. If you have further questions, please call me at 614-917-5740.

Sincerely,



Rick Holbein

Enclosures

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

August 9, 2017

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Mr. Rick Holbein  
Vice President of Underwriting  
State Auto Insurance Companies  
518 East Broad Street  
Columbus, Ohio 43215

RE: **Market Conduct Examination**  
**State Auto Property and Casualty Insurance Co. (NAIC# 25127)**  
**Examination Period: April 1, 2015 – March 31, 2016**

Dear Mr. Holbein:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of July 21, 2017. Based upon the Bureau's review of the company's letters of June 19 and July 21, 2017, we are now in a position to conclude this examination.

## PART ONE – EXAMINERS' OBSERVATIONS

### Statutory Property Notices

- (6) After further review, the violation for NSP018 has been withdrawn from the Report. The Company concurrently used a second Flood Exclusion notice that was compliant.

## PART TWO – CORRECTIVE ACTION PLAN

### Forms Review

- (2) The Suspension of Insurance and Reinstatement of Insurance forms are mandatory standard auto forms that insurers must use in Virginia, and therefore, they cannot be filed. Insurers are required to have a copy of these forms available for use.



### **Statutory Notices Review**

- (1) The Company should add the right to amend and delete personal information in the “Accessing your personal information” section of its Privacy Statement, AU303 (08/16), to comply with § 38.2-604 B of the Code of Virginia.
- (2) The Company should change the ILN181 (01/17) notice title from HEALTH CARE AND DISABILITY BENEFITS COVERAGE to MEDICAL EXPENSE AND INCOME LOSS BENEFITS COVERAGE within the body of the notice.
- (3) The Company’s revised Insurance Credit Score Disclosure Notice, CR-VA (01/17), complies with the statute.

Although not cited, the Company provided its Uninsured Motorists Important Notice, ILN144 (01/17), which complies with the statute.

Although not cited, the Company also provided its Adverse Underwriting Decision (AUD) notice, VA SOR (01/16), which was not used during the examination period. The Company should revise this notice to indicate the nature of the Adverse Underwriting Decision and inform the insured of the right to know the specific reasons for the AUD. The notice should also state the insured’s statement given in 2a and b will be put in the Company’s file so that anyone reviewing the insured’s file will see it.

### **PART THREE – RECOMMENDATIONS**

#### **Claims**

- The August 22, 2017 authorization document provided by the Company is not an Assignment of Benefits form, but a set of guidelines for paying Medical Expense claims. The third bullet of these guidelines does not comply with all the requirements of § 38.2-2201 D of the Code of Virginia. The Company should refer to subsection 1a through g of § 38.2-2201 D of the Code of Virginia for further guidance.

#### **Statutory Notices**

- A recommendation has been added to revise the Flood Exclusion Notice currently used by the Company, FI657 (08/15).

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter are the final Market Conduct Examination Report of State Auto Property and Casualty Insurance Company, technical reports, and any review sheets withdrawn, added or altered as a result of this review.

Based on the Bureau’s review of the Report and the company’s responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-305 A, 38.2-317 A, 38.2-502, 38.2-510 A 1, 38.2-510 A 6, 38.2-517 A 3, 38.2-604 B, 38.2-1318, 38.2-1822, 38.2-1833, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2114 E, 38.2-2126 A 1, 38.2-2202 A, 38.2-2208 A, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F, 38.2-2220, 38.2-2234 A 1, 38.2-2234 B of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-70 A, 14 VAC 5-400-70 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

Joy M. Morton  
Manager  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

Enclosures

STATE CORP COMMISSION  
BUREAU OF INSURANCE  
17 SEP 13 AM 9:51

Mr. Rick Holbein  
VP Underwriting  
State Auto Insurance Companies  
PO Box 182822  
Columbus, Ohio 43218-2822  
Telephone: (614) 917-5740  
[Rick.Holbein@stateauto.com](mailto:Rick.Holbein@stateauto.com)

September 6, 2017

**VIA FedEx Tracking #770235496610**

Rebecca Nichols  
Deputy Commissioner  
Property and Casualty  
Bureau of Insurance  
1300 E Main Street  
Richmond, VA 23218

**RE: State Auto Property and Casualty Insurance Co.  
Market Conduct Examination Settlement Offer  
Ecase/Docket Number: INS-2017-00180**

Dear Ms. Nichols:

This will acknowledge receipt of the Bureau of Insurance's letter dated August 16, 2017, concerning the above referenced matter.

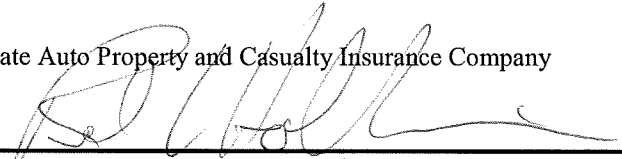
We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ 38.2-305 A, 38.2-317 A, 38.2-502, 38.2-510 A 1, 38.2-510 A 6, 38.2-517 A 3, 38.2-604 B, 38.2-1318, 38.2-1822, 38.2-1833, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2114 E, 38.2-2126 A, 38.2-2202 A, 38.2-2208 A, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F, 38.2-2220, 38.2-2234 A 1, 38.2-2234 B of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-70 A, 14 VAC 5-400-70 D of the Virginia Administrative Code to indicate a general business practice.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$51,400.00.
2. We agree to comply with the corrective action plan set forth in the company's letters of June 19, 2017 and July 21, 2017.
3. We confirm that restitution was made to 74 consumers for \$19,965.21 in accordance with the company's letters of June 19, 2017 and July 21, 2017.
4. We further acknowledge the company's right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of settlement and does not constitute nor should it be construed as, an admission of any violation of law.

Sincerely,

State Auto Property and Casualty Insurance Company

  
\_\_\_\_\_  
(Signed)

Rick L. Holbein  
\_\_\_\_\_  
(Type or Print Name)

VP UNDERWRITING  
\_\_\_\_\_  
(Title)

9/6/2017  
\_\_\_\_\_  
(Date)

# COMMONWEALTH OF VIRGINIA



**JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

**P.O. BOX 1157  
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TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)**

State Auto Property and Casualty Insurance Company has tendered to the Bureau of Insurance the settlement amount of \$51,400.00 by its check numbered 0001873875 and dated September 12, 2017, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
AT RICHMOND, OCTOBER 6, 2017

SCC-CLERK'S OFFICE  
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COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2017-00180

STATE AUTO PROPERTY AND CASUALTY INSURANCE  
COMPANY,

Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that State Auto Property and Casualty Insurance Company ("Defendant"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Virginia"), violated: § 38.2-305 A of the Code of Virginia ("Code") by failing to specify all required information in policies; § 38.2-317 A of the Code by issuing insurance policies or endorsements without having filed such policies or endorsements with the Commission at least 30 days prior to their effective date; § 38.2-502 (1) of the Code by misrepresenting the benefits, advantages, conditions or terms of an insurance policy; §§ 38.2-517 A 3, 38.2-604 B, 38.2-2126 A 1, 38.2-2202 A and 38.2-2234 A 1 of the Code by failing to accurately provide the required notices to insureds; § 38.2-1318 of the Code by failing to provide convenient access to files, books, and records; § 38.2-1822 of the Code by permitting a person to act as an agent without first obtaining a license in the manner and form prescribed by the Commission; § 38.2-1833 of the Code by paying commissions to agencies/agents that are not appointed by the Defendant; § 38.2-1906 D of the Code by making

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or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendant; §§ 38.2-2113 A, 38.2-2113 C, 38.2-2114 E, 38.2-2208 A, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, and 38.2-2212 F of the Code by failing to properly terminate insurance policies; § 38.2-2220 of the Code by failing to use forms in the precise language of the standard forms previously filed and adopted by the Commission; § 38.2-2234 B of the Code by failing to update the insured's credit information at least once in a three-year period; §§ 38.2-510 A 1 and 38.2-510 A 6 of the Code as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-70 A, and 14 VAC 5-400-70 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to properly handle claims with such frequency as to indicate a general business practice.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendant has been advised of its right to a hearing in this matter whereupon the Defendant, without admitting any violation of Virginia law, has made an offer of settlement to the Commission wherein the Defendant has tendered to Virginia the sum of Fifty-one Thousand Four Hundred Dollars (\$51,400), waived its right to a hearing, agreed to comply with the corrective action plan set forth in its letters to the Bureau dated June 19, 2017, and July 21, 2017, and confirmed that restitution was made to 74 consumers in the amount of Nineteen Thousand Nine Hundred Sixty-five Dollars and Twenty-one Cents (\$19,965.21).

The Bureau has recommended that the Commission accept the offer of settlement of the Defendant pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Bureau, is of the opinion that the Defendant's offer should be accepted.

Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendant in settlement of the matter set forth herein is hereby accepted.

(2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Rick Holbein, Vice President of Underwriting, State Auto Insurance Companies, 518 East Broad Street, Columbus, Ohio 43215; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Rebecca Nichols.