

MARKET CONDUCT EXAMINATION REPORT

OF

EQUITY INSURANCE COMPANY

AS OF

June 30, 2014

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

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

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 Equity Insurance Company as of June 30, 2014, conducted at the office of the State Corporation Commission in Richmond, VA is a true copy of the original Report on file with the Bureau and also includes a true copy of the company's response 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-2016-00060 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 24th day of June, 2016.

Principal Examiner
Examiner in Charge

MARKET CONDUCT EXAMINATION REPORT

OF

EQUITY INSURANCE COMPANY

AS OF

June 30, 2014

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

**Property and Casualty Division
Market Conduct Section**

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
TERMINATION REVIEW	10
Company-Initiated Cancellations – Automobile Policies	10
Notice Mailed Prior to the 60 th Day of Coverage	10
Notice Mailed After the 59 th Day of Coverage	11
All Other Cancellations - Automobile Policies.....	11
Nonpayment of Premium.....	11
Requested by the Insured	12
Company-Initiated Nonrenewals - Automobile Policies	12
CLAIMS REVIEW	13
Private Passenger Automobile Claims	13
REVIEW OF FORMS.....	17
Automobile Forms.....	18
Policy Forms Used During the Examination Period	18
Policy Forms Currently Used by the Company	18
REVIEW OF THE POLICY ISSUANCE PROCESS.....	18
Private Passenger Automobile Policies.....	19
New Business Policies	19
Renewal Business Policies.....	19
REVIEW OF STATUTORY NOTICES	19
General Statutory Notices	20

Statutory Vehicle Notices	20
Other Notices	21
LICENSING AND APPOINTMENT REVIEW	21
Agent Review.....	22
Agency Review	22
REVIEW OF THE COMPLAINT-HANDLING PROCESS.....	22
REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES.....	22
PART TWO – CORRECTIVE ACTION PLAN	23
General.....	23
Rating and Underwriting Review	23
Termination Review	24
Claims Review	25
Forms Review.....	26
Review of Policy Issuance Process.....	26
Review of Statutory Notices	26
Licensing and Appointment Review	27
Review of the Complaint-Handling Process	27
PART THREE – RECOMMENDATIONS.....	28
RECOMMENDATIONS	28
Rating and Underwriting.....	28
Termination.....	28
Claims.....	28
Forms	29
Statutory Notices.....	29
SUMMARY OF PREVIOUS EXAMINATION FINDINGS.....	30
ACKNOWLEDGEMENT.....	31

INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a target examination has been made of the private passenger auto line of business written by Equity Insurance Company at our office in Richmond, Virginia.

The examination commenced December 8, 2014 and concluded May 28, 2015. Brandon L. Ayers, Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Ju'Coby D. Hendrick, Richard L. Howell, Melody Morrisette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on March 11, 2015, and was assigned the examination number of VA177-M10. The examination was conducted in accordance with the guidelines contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook.

COMPANY PROFILE

Equity Insurance Company (EIC) was incorporated under the laws of Oklahoma on January 1, 1965 as Circle Insurance Company and commenced business the same day. Equity Benefit Life Insurance Company purchased the company on April 1, 1975. The company name was changed to Equity Fire and Casualty Company on January 1, 1977. Lloyds General Insurance purchased the company on January 1, 1982. Midwest Mutual Insurance Company purchased the company on December 27, 1995. The name was changed again on February 1, 1998 to Guidant Casualty Insurance Company and later changed on April 26, 1999 to Guide One Casualty Insurance Company. The company re-domesticated to Iowa on December 15, 1999. On September 11, 2001, Home State Insurance Group (Home State General Agency) purchased the company.

On November 15, 2001, the company re-domesticated to Texas and adopted its current name on November 28, 2001.

The table below indicates when the company was licensed in Virginia and the line of insurance that the company was licensed to write in Virginia during the examination period. All lines of insurance were authorized on March 22, 2005.

GROUP CODE: 3179	EQUITY
NAIC Company Number	28746
LICENSED IN VIRGINIA	03/22/2005
LINES OF INSURANCE	
Accident and Sickness	
Aircraft Liability	
Aircraft Physical Damage	
Animal	
Automobile Liability	X
Automobile Physical Damage	X
Boiler and Machinery	
Burglary and Theft	
Commercial Multi-Peril	
Credit	
Farmowners Multi-Peril	
Fidelity	
Fire	
General Liability	
Glass	
Homeowners Multi-Peril	
Inland Marine	
Miscellaneous Property	
Ocean Marine	
Surety	
Water Damage	
Workers' Compensation	

The table below shows the company's premium volume and approximate market share of business written in Virginia during 2014 for the line of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Equity Insurance Company		
Private Passenger Automobile Liability	\$738,818	.03%
Private Passenger Automobile Physical Damage	\$566,425	.03%

* Source: The 2014 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 policies written in Virginia for the period beginning July 1, 2013 and ending June 30, 2014. This review included rating, 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

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

specific company practices does not constitute an acceptance of the practices by the 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.

Population
Sample Requested

AREA	<u>EIC</u>	<u>FILES REVIEWED</u>	<u>FILES NOT FOUND</u>	<u>FILES WITH ERRORS</u>	<u>ERROR RATIO</u>
<u>Private Passenger Auto</u>					
New Business	$\frac{4067}{45}$	45	0	45	100%
Renewal Business	$\frac{2605}{25}$	25	0	23	92%
Co-Initiated Cancellations	$\frac{2}{2}$	2	0	2	100%
All Other Cancellations ¹	$\frac{4347}{33}$	32	0	31	97%
Nonrenewals	$\frac{3}{3}$	3	0	3	100%
<u>Claims</u>					
Auto	$\frac{1372}{85}$	85	0	62	73%

Footnote¹: One file was a flat cancellation and was not reviewed.

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 examiners reviewed 45 new business policy files. During this review, the examiners found overcharges totaling \$959.80 and undercharges totaling \$4,902.17. The net amount that should be refunded to insureds is \$959.80 plus six percent (6%) simple interest.

- (1) The examiners found 16 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company listed endorsements on the declarations page that were not applicable to the policy.
- (2) The examiners found 45 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 misrepresented that the policy fee was fully earned on the declarations page.
- (3) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company failed to notify the insured in writing that his policy had been surcharged for an at-fault accident.
- (4) The examiners found seven violations of § 38.2-1905 C of the Code of Virginia. The company failed to assign points to the vehicle customarily driven by the operator responsible for incurring the points.

- (5) The examiners found 27 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.
- (6) The examiners found 23 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 two instances, the company failed to use the correct discounts and/or surcharges.
 - b. In 14 instances, the company applied surcharge points under its Safe Driver Insurance Plan (SDIP) incorrectly.
 - c. In one instance, the company failed to follow its filed premium determination rule.
 - d. In six instances, the company failed to properly assign the drivers to the vehicles they customarily operate in accordance with the company's filed driver assignment rule.

Automobile Renewal Business Policies

The examiners reviewed 25 renewal business policy files. During this review, the examiners found overcharges totaling \$980.35 and undercharges totaling \$99.88. The net amount that should be refunded to insureds is \$980.35 plus six percent (6%) simple interest.

- (1) The examiners found ten violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company listed endorsements on the declarations page that were not applicable to the policy.
- (2) The examiners found 25 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 misrepresented that the policy fee was fully earned on the declarations page.
- (3) The examiners found five violations of § 38.2-1905 C of the Code of Virginia. The company failed to assign points to the vehicle customarily driven by the operator responsible for incurring the points.
- (4) The examiners found 16 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.
- (5) The examiners found 12 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 four instances, the company failed to use the correct discounts and/or surcharges.
 - b. In two instances, the company applied the surcharge points under its SDIP incorrectly.
 - c. In one instance, the company incorrectly surcharged the policy for accidents and/or convictions outside of the filed experience period.
 - d. In one instance, the company failed to use the correct base and/or final rates.
 - e. In four instances, the company failed to properly assign the drivers to the vehicles they customarily operate in accordance with the company's filed driver assignment 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 60TH DAY OF COVERAGE**

The examiners reviewed two automobile cancellations that were initiated by the company where the notice was mailed prior to the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and undercharges totaling \$12.36.

- (1) The examiners found two violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an Adverse Underwriting Decision (AUD).
- (2) 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.
- (3) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the insured.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another law.

The examiners found two violations of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of canceling the policy as required by the Virginia Motor Vehicle Code.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The company's population files did not include any automobile cancellations that were initiated by the company where the notice was mailed on or after the 60th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy.

All Other Cancellations - Automobile PoliciesNONPAYMENT OF PREMIUM

The examiners reviewed 22 automobile cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found no overcharges and undercharges totaling \$3.04.

- (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 40 violations of § 38.2-2212 E of the Code of Virginia.
 - a. In 18 instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
 - b. In 22 instances, the company failed to advise the insured of the availability of other insurance.
- (3) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to mail the cancellation notice to the lienholder at least 15 days prior to the effective date of cancellation.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another law.

The examiners found seven violations of § 46.2-482 of the Code of Virginia. The

company failed to file an SR-26 within 15 days of canceling the policy as required by the Virginia Motor Vehicle Code.

REQUESTED BY THE INSURED

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 overcharges totaling \$15.52 and undercharges totaling \$626.88. The amount that should be refunded to insureds is \$15.52 plus 6% simple interest.

The examiners found nine 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.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another law.

The examiners found one violation of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days after canceling the policy as required by the Virginia Motor Vehicle Code.

Company-Initiated Nonrenewals - Automobile Policies

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

The examiners found three violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.

CLAIMS REVIEW**Private Passenger Automobile Claims**

The examiners reviewed 85 automobile claims for the period of July 1, 2013 through June 30, 2014. 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 \$10,209.27 and underpayments totaling \$11,288.31. The net amount that should be paid to claimants is \$11,217.51 plus six percent (6%) simple interest.

- (1) The examiners found 23 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 19 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 one instance, the company failed to inform an insured of the Collision or Other Than Collision (OTC) deductible when the file indicated the coverage was applicable to the loss.
 - b. In one instance, the company failed to inform an insured of the Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
 - c. In five instances, the company failed to accurately inform the insured of the Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.

- d. In 12 instances, the company failed to inform the insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM).

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

- (3) The examiners found six violations 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.

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

- (4) The examiners found eight violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.

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

- (5) The examiners found nine 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.

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

denial of the claim.

- (7) The examiners found 23 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 four instances, the company failed to pay the insured's UMPD claim properly when both Collision and UMPD coverages applied to the claim.
 - b. In 11 instances, the company failed to pay the insured's Uninsured Motorist claim when UMPD coverage and/or UIM coverage, including rental benefits, applied to the claim.
 - c. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.
 - d. In four instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
 - e. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Collision or OTC coverage.

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

- (8) The examiners found four violations of § 38.2-236 A of the Code of Virginia. The company failed to notify the claimant within five business days when the company issued a settlement payment or offer of \$5,000 or more to the claimant's attorney or other representative.
- (9) The examiners found four violations of § 38.2-236 B of the Code of Virginia. The company failed to use the prescribed language in its Notice of Settlement

Payment to the claimant.

- (10) The examiners found 11 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 ten instances, the company failed to inform the insured of Uninsured Motorist coverage when applicable.
 - b. In one instance, the company failed to properly convey to the claimant the company's obligation concerning payment of the rental or loss of use claim.

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

- (11) The examiners found one violation of § 38.2-510 A 2 of the Code of Virginia. The company failed to acknowledge and act reasonably prompt upon communications with respect to claims arising under the insurance policy.
- (12) The examiners found 15 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.

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

- (13) The examiners found nine 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.

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

- (14) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.
- (15) The examiners found five violations of § 38.2-510 C of the Code of Virginia. The company failed to accurately disclose the required aftermarket parts notice to the vehicle owner on the estimate of repairs or in a separate document.
- (16) The examiners found one violation of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured authorizing the company to make payments directly to the medical provider.
- (17) The examiners found six occurrences where the company failed to comply with the provisions of the insurance policy. The company paid an insured or claimant more than he was entitled to receive under the terms of the policy.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found five violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

REVIEW OF FORMS

The examiners reviewed the company's policy forms and endorsements used during the examination period and those that are currently used for the line 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 Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the company's current practices.

Automobile Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 18 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found one violation of § 38.2-2214 of the Code of Virginia. The company used a rate classification statement other than the one filed and approved by the Bureau.
- (2) The examiners found six violations of § 38.2-2220 of the Code of Virginia. The company used policy forms that were not in the precise language of the standard forms filed and adopted by the Bureau.

POLICY FORMS CURRENTLY USED BY THE COMPANY

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the company's policy issuance process for the line of business 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.

Private Passenger Automobile Policies

The company provided five new business policies mailed on September 9, 2014. In addition, the company provided five renewal business policies mailed on August 10, 2014.

NEW BUSINESS POLICIES

The examiners found three violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company listed endorsements on the declarations page that were not applicable to the policy.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

REVIEW OF STATUTORY NOTICES

The examiners reviewed the company's statutory notices used during the examination period and those that are currently used for the line 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, 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 policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

- (1) The examiners found two violations of § 38.2-604 B of the Code of Virginia. The company's long form Notice of Information Collection and Disclosure Practices did not contain all of the information required by the statute.
- (2) The examiners found one violation of § 38.2-604 C of the Code of Virginia. The company's short form Notice of Information Collection and Disclosure Practices did not contain all of the information required by the statute.
- (3) The examiners found two violations of § 38.2-604.1 B of the Code of Virginia. The company's Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by the statute.
- (4) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company's AUD notice did not include wording substantially similar to that of the prototype set forth in Administrative Letter 1981-16.

Statutory Vehicle Notices

- (1) The examiners found one violation of § 38.2-517 A of the Code of Virginia. The company's glass claim procedure did not properly disclose the use of a third party administrator.
- (2) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company's Accident Point Surcharge notice failed to include all of the information required by the statute.
- (3) The examiners found one violation of § 38.2-2202 B of the Code of Virginia. The company's Optional Uninsured Motorist Limits notice was not in the precise wording required by the statute.

Other Notices

The company provided copies of 20 other notices (including applications) that were used during the examination period.

- (1) The examiners found four violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The Auto Application misrepresented the benefits of the policy by indicating discounts were capped at a maximum of 50 percent. The Auto Application misrepresented the conditions of the policy by indicating coverage was not provided for students residing, or military personnel stationed, outside of Virginia. The Auto Application misrepresented the conditions of the policy by indicating an insured vehicle could not be used for any commercial or business purpose. The Insured's Receipt for Payment misrepresented the advantages of the policy by stating that the producer or insured was responsible for filing the SR-22 with the Division of Motor Vehicles (DMV).
- (2) The examiners found two violations § 38.2-2212 E of the Code of Virginia. The company's termination notices did not include accurate information.
 - a. In one instance, the company's right to review by the Commissioner of Insurance notice was not in the precise wording required by the statute.
 - b. In one instance, the company's notice of availability of other insurance did not include all of the wording required by the statute.

LICENSING AND APPOINTMENT REVIEW

A review was made of new business automobile 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.

Agent Review

- (1) The examiners found two violations 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.
- (2) The examiners found 16 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.

Agency Review

- (1) The examiners found two violations of § 38.2-1812 E of the Code of Virginia. The company paid commission to a trade name that was not filed with the Bureau.
- (2) The examiners found 32 violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agency within 30 days of the date of application.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

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 one violation of § 38.2-511 of the Code of Virginia. The company failed to maintain a complete complaint register in compliance with this statute.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

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 company provided its written information security procedures.

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

Equity Insurance Company shall:

Provide a Corrective Action Plan (CAP) with its response to the Report.

Rating and Underwriting Review

Equity 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) Specify accurate information in the policy by listing only those endorsements that are applicable to the policy on the declarations page.

- (5) Properly represent the policy fee on the declarations page.
- (6) Provide the Accident Point Surcharge notice when the policy has been surcharged for an at-fault accident.
- (7) Apply accident and conviction surcharge points to the vehicle customarily operated by the driver who incurred the points.
- (8) File all rates and supplementary rating information with the Bureau.
- (9) 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, premium determination rules, experience period for surcharges, correct base and/or final rates, and driver assignment rules.

Termination Review

Equity 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 a written AUD notice to the insured.
- (5) Calculate earned premium according to the filed rules and policy provisions.
- (6) Retain valid proof of mailing the cancellation notice to the insured.

- (7) Advise the insured of his right to review by the Commissioner of Insurance.
- (8) Advise the insured of the availability of other insurance.

Claims Review

Equity 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 Transportation Expenses and Uninsured Motorists coverages, including rental benefits.
- (6) Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within ten business days.
- (7) Notify the insured in writing every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (8) Make all claim denials in writing and keep a copy in the claim file.
- (9) 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.
- (10) Properly represent pertinent facts or insurance provisions relating to the coverage at issue.
 - (11) Adopt and implement standards for prompt investigation of claims.
 - (12) Negotiate prompt, fair and equitable settlements of claims in which liability is reasonably clear.

Forms Review

Equity Insurance Company shall:

- (1) Use the rate classification statement filed and approved by the Bureau.
- (2) Use the precise language of the standard automobile forms as filed and adopted by the Bureau.

Review of Policy Issuance Process

Equity Insurance Company shall:

Specify accurate information in the policy by listing only those endorsements that are applicable to the policy on the declarations page.

Review of Statutory Notices

Equity 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 short form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 C of the Code of Virginia.
- (3) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 B of the Code of Virginia.

- (4) Amend the Adverse Underwriting Decision notice to comply with § 38.2-610 of the Code of Virginia and Administrative Letter 1981-16.
- (5) Amend the Glass Script to comply with § 38.2-517 A of the Code of Virginia.
- (6) Amend the Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.
- (7) Amend the Optional Uninsured Motorist Limits notice to comply with the § 38.2-2202 B of the Code of Virginia.
- (8) Properly represent discounts, permissible drivers and usage, and SR-22 filings.
- (9) Amend the right to review by the Commissioner notice to comply with § 38.2-2212 E4 of the Code of Virginia.
- (10) Amend the availability of other insurance language to comply with § 38.2-2212 E5 of the Code of Virginia.

Licensing and Appointment Review

Equity Insurance Company shall:

- (1) Accept business only from agents who are licensed in the Commonwealth of Virginia.
- (2) Appoint agents within 30 days of the application.
- (3) Pay commissions to trade names only when they have been filed with the Bureau.
- (4) Pay commissions only to agencies that are appointed by the company.

Review of the Complaint-Handling Process

Equity Insurance Company shall:

Maintain a complete complaint register that is in compliance with § 38.2-511 of the Code of Virginia.

PART THREE – 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

- The company should amend its rules to reference the current managing general agency instead of American Edge as the representing agency.
- The company should file a revision to Page 1 of its filed manual to remove the reference to unused liability symbol factors and add a rounding rule for Medical Expense Benefits coverage.

Termination

- The company should send the cancellation notice for a motor vehicle policy for nonpayment of premium to the lienholders at least 15 days prior to the effective date of cancellation.
- The company should file an SR-26 with DMV within 15 days of cancellation of a motor vehicle policy.

Claims

- The company should notify the claimant within five business days when the company issued a settlement payment or offer of \$5,000 or more to the claimant's attorney or other representative.
- The company should provide a Notice of Settlement Payment to the claimant that complies with the language required by statute.
- The company should provide the aftermarket parts notice with vehicle repair estimates to vehicle owners.
- The company should provide the fraud statement with claim forms required by the company as a condition of payment.

- The company should provide a reasonable explanation of the basis for a denial in the written denial of the claim.
- The company should not pay an insured or claimant more than he or she is entitled to receive under the terms of the policy.
- The company should make sure insureds and claimants have the proper fax number to return the signed Power of Attorney form to the company.

Forms

- The company should correct the typographical errors found in the company's versions of the Virginia standard auto forms and endorsements.

Statutory Notices

- The company should amend the fraud statement in its claim letter sample to be substantially similar to the language in the statute.
- The company should correct the Bureau's in state number to (800) 552-7945 on its Important Information Regarding Your Insurance notice.
- The company should add a field to its application to capture which vehicle each driver customarily operates to make sure that information is properly obtained and documented pursuant to § 38.2-1905 of the Code of Virginia.
- The company should allow the insured to request UM limits lower than the Bodily Injury or Property Damage Liability limits selected for the policy.
- The company should ensure that it only charges trucks and vans for the Customized Equipment coverage.
- The company should clarify the coverage limits for Medical Expense Benefits and Income Loss Benefits on the declarations page.
- The company should revise the Insured's Receipt for Payment to clearly indicate that if the insured wants to follow-up and have the SR-22 refilled with DMV via paper, then such is the responsibility of the agent or insured.

- The company should change "terms" to "items" in the AUD language located in the Reason for Cancellation section of the Notice of Cancellation.
- The company should correct the typographical error in the Medical Expense Benefits notice. The word "hospical" should be changed to "hospital" in the first sentence of Item 1.
- The company should change "comprehensive" to "other than collision" in the Rental Reimbursement notice to match the names of the coverage in the policy and declarations page.

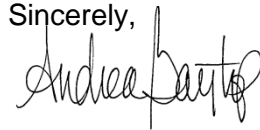
SUMMARY OF PREVIOUS EXAMINATION FINDINGS

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
Senior Insurance Market Examiner

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

July 15, 2015

VIA UPS 2nd DAY DELIVERY

Sheli Steinert
Executive Vice President
Home State Insurance Group
15443 Knoll Trail, Ste. 110
Dallas, TX 75248

RE: Market Conduct Examination
Equity Insurance Company (NAIC# 28746)

Dear Ms. Steinert:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of July 1, 2013, through June 30, 2014. 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 have been withdrawn or revised since May 28, 2015. 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.

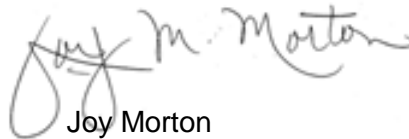
Finally, we have enclosed an Excel file that the company must complete and return to the Bureau with the company's response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The company's response and the spreadsheet mentioned above must be returned to the Bureau by August 21, 2015.

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 August 21, 2015.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large initial "J" and "M".

Joy Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

Andrea Baytop

From: ssteinert@homestate.net
Sent: Friday, August 28, 2015 6:48 PM
To: Joy Morton; Andrea Baytop
Subject: Equity Insurance Company - Market Conduct Examination Response
Attachments: Response to Market Conduct Examination Report.pdf; Equity Restitution 7.15.15 - EIC completed.xlsx

Joy and Andrea,

Please find attached our response to the Market Conduct Examination of Equity Insurance Company. I trust that I have addressed all of the findings noted in your report and that this is presented in the correct order as requested. However, should you need any revisions to our response please let me know and I will be happy to make any necessary corrections.

Sincerely,
Sheli

Sheli Steinert
Executive Vice President
Home State Insurance Group
15443 Knoll Trail, Ste. 110
Dallas, TX 75248
972-931-0344 ext. 2005
ssteinert@homestate.net

CONFIDENTIALITY NOTICE: This e-mail may contain confidential information and is authorized to be read only by the intended recipient(s). Use of it by anyone other than an intended recipient is unlawful. Whether or not you are mistakenly named as an addressee, if you receive this e-mail by mistake, interception or otherwise, and you are not the intended recipient, you have no authority to read or disseminate this e-mail or any of its attachments; therefore, please immediately delete it and any attachments, and then notify the sender by e-mail or telephone at (800) 792-3224.



Response to Market Conduct Examination Report

**issued by the Commonwealth of Virginia
State Corporation Commission Bureau of Insurance
as of March 31, 2014**

PART ONE – THE EXAMINERS OBSERVATIONS

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The examiners reviewed 45 new business policy files. During this review, the examiners found overcharges totaling \$1,593.06 and undercharges totaling \$4,902.17. The net amount that should be refunded to the insured is \$1,593.06 plus six percent (6%) simple interest.

EIC Response:

We have made adjustments to several of the indicated refund amounts as noted in the exhibit titled "Rating Overcharges Cited during the Examination" as noted below. The adjusted refund amounts are "net to customer" and include the 6% simple interest.

- 1) RPA004 – The indicated amount of \$275.60 was pro-rated due to policy cancellation effective 2/4/2014. The refund issued to the insured was \$46.01.
- 2) RPA006 – The indicated amount of \$320.12 was pro-rated due to policy cancellation effective 4/8/2014. The refund issued to the insured was \$52.00.
- 3) RPA013 – The indicated amount of \$463.21 was adjusted to account for the error affecting multiple policy periods. The refund issued to the insured was \$766.00.
- 4) RPA015 – The indicated amount of \$189.74 was adjusted to account for the error affecting multiple policy periods. The refund issued to the insured was \$587.00.
- 5) RPA019 – The indicated amount of \$182.40 was pro-rated due to policy cancellation effective 4/1/2014. The refund issued to the insured was \$125.04.
- 6) RPA029 - The indicated amount of \$229.78 was pro-rated due to policy cancellation effective 4/9/2014. The refund issued to the insured was \$107.04.

Automobile Renewal Business Policies

The examiners reviewed 25 renewal business policy files. During this review, the examiners found overcharges totaling \$1,221.17 and undercharges totaling \$99.88. The net amount that should be refunded to the insured is \$1,221.17 plus six percent (6%) simple interest.

EIC Response:

We have made adjustments to several of the indicated refund amounts as noted in the exhibit titled "Rating Overcharges Cited during the Examination" as noted below. The adjusted refund amounts are "net to customer" and include the 6% simple interest.

- 1) RPA047 – The indicated amount of \$202.46 was not paid to the insured. The policy did not renew.
- 2) RPA048 – The indicated amount of \$23.70 was adjusted to account for the error affecting multiple policy periods.
- 3) RPA051 – The indicated amount of \$366.50 was pro-rated due to policy cancellation effective 5/6/2014
- 4) RPA052 - The indicated amount of \$141.42 was adjusted to account for the error affecting multiple policy terms. The refund issued to the insured was \$523.40.
- 5) RPA053 – The indicated amount of \$94.34 was adjusted to account for the error affecting multiple policy terms. The refund issued to the insured was \$499.00
- 6) RPA058 – The indicated amount of \$113.78 was not paid to the insured. Please see (3) below.
- 7) RPA059 – The indicated amount of \$145.47 was adjusted to account for the error affecting multiple policy terms. The refund issued to the insured was \$386.14.
- 8) RPA068 – The indicated amount of \$18.02 was adjusted to account for the error affecting multiple policy periods. The refund issued to the insured was \$31.00.
- 9) RPA070 – The indicated amount of \$132.56 was adjusted to account for the error affecting multiple policy periods. The refund issued to the insured was \$136.06.

- (3) The examiners found five 16 violations of 38.2-1905C of the Code of Virginia. The company failed to assign points to the vehicle customarily driven by the operator responsible for incurring points.

EIC Response: With regard to Review Sheet #R&URBPPA-265030060, this policy was rated to the lowest rate for the policyholder. We cannot recreate the scenario under our rating structure that generates a refund of \$107.34 as suggested in the Rating Overcharges exhibit. To reassign the drivers and vehicles would produce a significantly higher premium rate. We respectfully request an additional review of this violation.

- (5) The examiners found 12 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.

b. In two instances, the company failed to apply the correct points for accidents and/or convictions.

EIC Response: The policy which is the subject of Review Sheet # R&URBPPA 1908052493 did not renew.

Claims Review

The examiners reviewed 85 automobile claims for the period July 1, 2013 through June 30, 2014. 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 \$10,209.27 and underpayments totaling \$99,547.60. The net amount that should be paid to claimants is \$99,476.80 plus six percent (6%) simple interest.

EIC Response: We have made adjustments to several of the indicated payment amounts as noted in the exhibit titled "Claim Underpayments Cited during The Examination" as noted below. The adjusted stated payment amounts are "net to customer" and include the 6% simple interest.

- 1) CPA005 – The indicated amount of \$10,598.94.00 was adjusted. We have spoken to the insured and he advised that no rental expense was incurred. \$0 payment was made to the insured.
 - 2) CPA010 – The indicated amount of \$10,598.94 was adjusted. We have attempted to contact the insured and the phone number is no longer correct. EIC acknowledges that \$511.82 is owed based on 15 days rental at \$30.99 per day. We will continue to contact the insured to issue the refund.
 - 3) CPA014 – The indicated amount of \$10,598.94 was adjusted. We have attempted to contact the insured passenger and have left messages for a return call. EIC acknowledges BI exposure for the insured passenger and will continue to attempt contact for settlement.
 - 4) CPA020 – The indicated amount of \$10,598.94 was adjusted. A check for \$740.63 has been issued to the insured representing 29 days of rental at \$30.99 per day less \$200 paid to the insured for loss of use.
 - 5) CPA023 – The indicated amount of \$10,598.94 was adjusted. We have attempted to contact the insured and left messages. EIC acknowledges that \$146.22 is owed for 3 days of rental. We will continue to attempt contact with the insured.
 - 6) CPA035 – The indicated amount of \$10,598.94 was adjusted. EIC has issued payment in the amount of \$418.23 representing \$332.58 for damage to the vehicle and \$61.98 representing 2 days of rental coverage.
 - 7) CPA044 – The indicated amount of \$10,598.94 was adjusted. EIC has issued payment in the amount of \$358.22 representing \$200 UMPD deductible and 3 days of rental coverage.
 - 8) CPA047 – The indicated amount of \$10,598.94 will be adjusted. We have attempted contact with the insured to negotiate settlement however phone number is no longer valid. EIC will continue to attempt contact.
 - 9) CPA083 – The indicated amount of \$10,916.94 has been adjusted. EIC has issued payment in the amount of \$482.25 representing \$300 deductible reimbursement and 5 days of rental coverage at \$30.99 per day.
- (7) The examiners found 25 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.

d. In four instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.

EIC Response: As respects Review Sheet #ClaimVehPPA – 1597074993, we have contacted the insured and confirmed that there was no rental expense incurred as a result of this claim.

PART TWO – 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.

EIC Response: Checks have been issued as detailed in the exhibit titled "Rating Overcharges Cited during the Exam". We have adjusted certain indicated payment amounts as noted in Part One of the Examination response.

- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insured's account.

EIC Response: 6% has been added to the amount paid to the insured.

- (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.

EIC Response: Exhibit included

- (4) Include accurate information in the policy by listing only those endorsements that are applicable to the policy on the declaration page.

EIC Response: These violations are attributable to a programming error that added an inappropriate endorsement at policy issuance. This has been corrected in the policy administration system.

- (5) Properly represent the policy fee on the declarations page

EIC Response: The policy form has been corrected and no longer reflects that the policy fee is fully earned.

- (6) Provide the Accident Point Surcharge notice when the policy has been surcharged for an at-fault accident.

EIC Response: We have added this form to our policy issuance packet and it is issued when a policy is surcharged for an at-fault accident.

- (7) Apply accident and conviction surcharge points to the vehicle customarily operated by the driver who incurred the points.

EIC Response: We have implemented an underwriting process at new business submission and endorsement to ensure that all accidents and convictions are attached to the vehicle customarily operated by the driver who incurred the points.

- (8) File all rates and supplementary rating information with the Bureau.

EIC Response: We were awaiting a final determination on all of the items that should be included. A rate filing will be submitted no later September 15, 2015.

- (9) 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, premium determination rules, experience period for surcharges, correct base and/or final rates, driver assignment rules.

EIC Response: We have set up new procedures in our underwriting process, particularly around new business submissions and endorsements, to ensure that discounts, surcharges, etc. are applied appropriately.

Termination Review

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insured's accounts the amount of the overcharge as of the date the error first occurred.

EIC Response: Checks have been issued as noted in the exhibit "Termination Overcharges Cited during the Examination".

- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insured's accounts.

EIC Response: 6% has been added to the amount paid to the insured.

- (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.

EIC Response: Exhibit included

- (4) Provide a written AUD notice to the insured.

EIC Response: We have modified our underwriting procedures to ensure the AUD notices go out with all underwriting cancellations and non-renewals.

- (5) Calculate earned premium according to the filed rules and policy provisions.

EIC Response: We have modified procedures to ensure compliance.

- (6) Retain valid proof of mailing the cancellation notice to the insured.

EIC Response: We have confirmed with our mail vendor and lienholder notification vendor that proof of mailing will be secured on every cancellation notice going forward.

- (7) Advise the insured of his right to review by the Commissioner of Insurance using the language required by statute.

EIC Response: The underwriting cancellation notice now properly reflects the right to review language required by statute. The non-payment cancellation notice will be compliant no later than September 5, 2015.

- (8) Advise the insured of the availability of other insurance through an agent, another insurer or the VAIP.

EIC Response: The underwriting cancellation notice now properly reflects the right to review language required by statute. The non-payment cancellation notice will be compliant no later than September 5, 2015.

Claims Review

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayments to insureds and claimants.

EIC Response: Checks have been issued as detailed in the exhibit titled "Claim Underpayments Cited during the Examination". We have adjusted and omitted certain payments as noted in Part One of the Examination response.

- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.

EIC Response: 6% has been added to the amount paid to the insured.

- (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.

EIC Response: Exhibit included

- (4) Properly document the claim file so that all events and dates can be reconstructed.

EIC Response: A full review of the market conduct exam findings has been conducted with the claims department with specific attention paid to file documentation.

- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to Transportation Expenses and Uninsured Motorists coverages, including rental benefits.

EIC Response: A full review of the market conduct exam findings was conducted with the claims department with specific attention paid to file documentation, particularly as it relates to state specific coverages/benefits.

- (6) Acknowledge correspondence that reasonably suggest a reply is expected from insureds and claimants within ten business days.

EIC Response: File audits as a percentage of the total claim volume have been increased, with specific attention paid to the timing of responses to time demands.

- (7) Notify the insured in writing every 45 days of the reason for the company's delay in completing the investigation of the claim.

EIC Response: This is standard procedure and our increased file audits have confirmed that this is taking place.

- (8) Make all claim denials in writing and keep a copy in the claim file.

EIC Response: This is standard procedure and our increased file audits have confirmed that this is regularly occurring.

- (9) 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.

EIC Response: This is standard procedure and our increased file audits have confirmed that this is regularly occurring.

- (10) Properly represent pertinent facts or insurance provisions relating to the coverage at issue.

EIC Response: A full review of the market conduct exam findings was conducted with our claims department with specific attention paid to file documentation, particularly as it relates to state specific coverages/benefits.

- (11) Adopt and implement standards for prompt investigation of claims.

EIC Response: Our file standards and service level agreements have been reviewed and updated per comments from the reviewers.

- (12) Negotiate prompt, fair and equitable settlements of claims in which liability is reasonable clear.

EIC Response: This is a normal part of our process and our increased file audits have confirmed that this is occurring regularly.

Forms Review

- (1) Use the rate classification statement filed and approved by the Bureau.

EIC Response: The rate classification statement included in our policy jacket has been corrected to match the statement filed and approved by the Bureau. The revised policy jacket was filed and approved by the Bureau effective 4/1/15.

- (2) Use the precise language of the standard automobile forms as filed and adopted by the Bureau.

EIC Response: The typos in our policy jacket have been corrected to match the standard automobile forms as filed and adopted by the Bureau. The revised policy jacket was filed and approved by the Bureau effective 4/1/15.

Review of the Policy Issuance Process

Specify accurate information in the policy by listing only those endorsements that are applicable to the policy on the declarations page.

EIC Response: These violations are attributable to a programming error that added an inappropriate endorsement at policy issuance. This has been corrected in the policy administration system.

Review of Statutory Notices

- (1) Amend the long form Notice of Information Collection and Disclosure Practices to comply with 38.2-604B of the Code of Virginia.

EIC Response: The typos in the long form Notice of Information Collection and Disclosure Practices have been corrected to comply with 38.2-604B of the Code of Virginia. The revised form was filed and approved by the Bureau effective 4/1/15.

- (2) Amend the short form Notice of Information Collection and Disclosure Practices to comply with 38.2-604 C of the Code of Virginia.

EIC Response: We provide the long form Notice of Information Collection and Disclosure Practices as a part of the policy jacket that is provided to the customer when applying for coverage.

- (3) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with 38.2-604 1 B of the Code of Virginia.

EIC Response: The typos in the long form Notice of Information Collection and Disclosure Practices have been corrected to comply with 38.2-604 1 B of the Code of Virginia. The revised form was filed and approved by the Bureau effective 4/1/15.

- (4) Amend the Adverse Underwriting Decision notice to comply with 38.2-610 of the Code of Virginia and Administrative Letter 1981-16.

EIC Response: This notice was amended on 5/1/15.

- (5) Amend the Glass Script to comply with 38.2-517 A of the Code of Virginia.

EIC Response: The glass script was amended on 12/17/2014.

- (6) Amend the Accident Point Surcharge notice to comply with 38.2-1905 A of the Code of Virginia.

EIC Response: This notice was amended on 5/1/15.

- (7) Amend the Optional Uninsured Motorists Limits notice to comply with the 38.2-2202 B of the Code of Virginia.

EIC Response: The typos in the Optional Uninsured Motorists Limits notice have been corrected to comply with 38.2-2202 B of the Code of Virginia. The revised form was filed and approved by the Bureau effective 4/1/15.

- (8) Properly represent discounts, permissible drivers and usage, and SR-22 filings.

EIC Response: These corrections will be made no later than Q4 2015.

Licensing and Appointment Review

- (1) Accept business only from agents who are licensed in the Commonwealth of Virginia.

EIC Response: We have confirmed that all of our appointed agents are licensed in the Commonwealth of Virginia.

- (2) Appoint agents within 30 days of the application.

EIC Response: We have updated our agency licensing policies and procedures to ensure that we appoint agents within 30 days of the application.

- (3) Pay commissions to trade names only when they have been filed with the Bureau.

EIC Response: We have corrected our policy administration system to ensure the proper entity name is printed on the commission check.

- (4) Pay commissions only to agents that are appointed with the company.

EIC Response: We have reviewed all of our agents to ensure they are appointed with the company.

Review of the Complaint-Handling Process

Maintain a complete complaint register that is in compliance with 38.2-511 of the Code of Virginia

EIC Response: The complaint register has been updated and is now in compliance.

PART THREE – RECOMMENDATIONS

Rating and Underwriting

- (1) The company should amend its rules to reference MILE Auto Insurance instead of American Edge as the representing agency.

EIC Response: The rules will be amended and filed no later than September 15, 2015.

- (2) The company should file a revision to Page 1 of its filed manual to remove the reference to unused liability symbol factors and add a rounding rule for Medical Expense Benefits coverage.

EIC Response: The manual will be amended and filed no later than September 15, 2015.

Termination

- (1) The company should send the cancellation notice for a motor vehicle policy for non-payment of premium to the lienholders at least 15 days prior to the effective date of cancellation.

EIC Response: This is our standard process and we have used the outliers uncovered in the audit to work with our underwriting team to ensure tighter compliance with the 15 day notification requirement.

- (2) The company should file an SR-26 with DMV within 15 days of cancellation of a motor vehicle policy.

EIC Response: This has been established as a required process within our underwriting processes and procedures.

Claims

- (1) The company should notify the claimant within five business days when the company issued a settlement payment or offer of \$5,000 or more to the claimant's attorney or other representative.

EIC Response: This is a normal part of our process and our increased file audits have confirmed that this is occurring regularly.

- (2) The company should provide a Notice of Settlement Payment to the claimant that complies with the language required by statute.

EIC Response: This form will be revised no later than Q4 2015.

- (3) The company should provide the aftermarket parts notice with vehicle repair estimates to vehicle owners.

EIC Response: We contacted our appraisal vendors and they have incorporated this notice into their repair estimates.

- (4) The company should provide the fraud statement with the claim forms required by the company as a condition of payment.

EIC Response: The fraud statement will be added to the appropriate letters no later than Q4 2015.

- (5) The company should provide a reasonable explanation of the basis for a denial in the written denial of a claim.

EIC Response: This is standard procedure and our increased file audits have confirmed that this is occurring regularly.

- (6) The company should not pay an insured or claimant more than he or she is entitled to receive under the terms of the policy.

EIC Response: This is standard procedure and our increased file audits have confirmed that this is taking place.

- (7) The company should make sure insureds and claimants have the proper fax number to return the signed Power of Attorney form to the company.

EIC Response: The correct fax number has been added to the appropriate forms.

Forms

The company should correct the typographical errors found in the company's versions of the Virginia standard auto forms and endorsements.

EIC Response: The typographical errors were corrected and the forms and endorsements were filed and approved effective 4/1/15.

Statutory Notices:

- (1) The company should amend the fraud statement in its claim letter sample to be substantially similar to the language in the statute.

EIC Response: The fraud statement will be amended to be substantially similar to the language in the statute no later than Q4 2015.

- (2) The company should add the telephone number for the hearing impaired to its Important Information Regarding Your Insurance notice. The TDD phone number is (804) 371-9206.

EIC Response: We missed this item when we filed our corrected notice effective 4/1/15. We will make this change and file a revised notice no later than September 15, 2015.

- (3) The company should correct the Bureau's in state number to (800) 552-7945 on its Important Information Regarding Your Insurance notice.

EIC Response: The change was made on the notice filed and approved effective 4/1/15.

- (4) The company should add a field to its application to capture which vehicle each driver customarily operates to make sure that information is properly obtained and documented pursuant to 38.2-1905 of the Code of Virginia.

EIC Response: The application will be revised as noted (and filed for approval with the Bureau) no later than Q4 2015.

- (5) The company should allow the insured to request UM limits lower than the Bodily Injury or Property Damage Liability limits selected for the policy.

EIC Response: We have revised our policy issuance and underwriting processes to allow the insured to request UM limits lower than the Bodily Injury or Property Damage Liability limits selected for the policy.

- (6) The company should ensure that it only charges trucks and vans for the customized equipment coverage:

EIC Response: We have set up procedures in our underwriting process, particularly around new business submissions and endorsements, to ensure that only trucks and vans are charged for customized equipment coverage.

- (7) The company should clarify the coverage limits for Medical Expense Benefits and Income Loss Benefits on the declaration page.

EIC Response: The declarations page will be clarified as noted (and filed for approval with the Bureau) no later than Q4 2015.

- (8) The company should revise the Insured's Receipt for Payment to clearly indicate that if the insured wants to follow-up and have the SR-22 refiled with the DMV via paper, then such is the responsibility of the agent or insured.

EIC Response: The Insured's Receipt for Payment will be revised no later than Q4 2015.

- (9) The company should change the "terms" to "items" in the AUD language located in the Reason for Cancellation section of the Notice of Cancellation.

EIC Response: The Notice of Cancellation will be revised no later than September 5, 2015.

- (10) The company should correct the typographical error in the Medical Expense Benefits notice. The word "hospical" should be changed to "hospital" in the first sentence of item 1.

EIC Response: The typographical error was corrected with the form filed and approved effective 4/1/15.

- (11) The company should change "comprehensive" to "other than collision" in the Rental Reimbursement notice to match the names of the coverage in the policy and declarations page.

EIC Response: The notice was revised with the form filed and approved effective 4/1/15.

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/boi>

October 6, 2015

VIA UPS 2nd DAY DELIVERY

Sheli Steinert
Executive Vice President
Home State Insurance Group
15443 Knoll Trail, Suite 110
Dallas, TX 75248

RE: Market Conduct Examination
Equity Insurance Company (NAIC# 28746)
Examination Period: July 1, 2013 - June 30, 2014

Dear Ms. Steinert:

The Bureau of Insurance (Bureau) has reviewed the August 28, 2015 response to the Preliminary Market Conduct Report (Report) of Equity Insurance 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 – THE EXAMINERS' OBSERVATIONS

Automobile New Business Rating

The Company should provide a copy of the cancellation notices to support its restitution adjustments for RPA004, RPA006, RPA019 and RPA029.

Automobile Renewal Business Rating

The Company should provide documentation for RPA047 showing the policy was not renewed effective June 11, 2014, and no payment was received from the insured.

The Company should provide a copy of the cancellation notice to support the restitution adjustments for RPA051.

The restitution amount has been revised for RPA058 per item (3) below.

- (3) The violation for RPA058 remains in the Report. The \$25 SR-22 fee was not included in the examiner's original calculations; therefore, the overcharge amount is amended from \$107.34 to \$82.34 to account for the SR-22 fee. The examiner has enclosed a copy of the rating spreadsheet used to determine the revised overcharge.
- (5c) The violation for RPA047 (Review Sheet # R&URBPPA 1908052493) remains in the Report. The Company issued a renewal offer that incorrectly surcharged the policy for a conviction occurring outside the filed experience period. The Company did not provide evidence that the policy did not renew effective June 11, 2014 to reconsider the amount of restitution.

Claims Review

The changes to restitution have been addressed under Part Two.

- (7) The violation for CPA005 has been withdrawn from the Report. The Company confirmed that no additional monies were due to the insured.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (8) The Bureau acknowledges that the Company submitted a filing to address the rating violations on September 28, 2015.

Termination Review

- (7) Please provide a copy of the Company's revised cancellation notice including the right to review language.
- (8) Please provide a copy of the Company's revised cancellation notice including the availability of other insurance language.

Claims Review

- (1) The restitution for CPA005 has been removed from the Restitution Spreadsheet.

The Company's restitution spreadsheet reflected a payment of \$511.82 for CPA010. This loss was reported August 26, 2013. The insured was not paid until October 24, 2013, 59 days later. The company has estimated only 15 days rental. Please provide an explanation as well as documentation of the Company's 15 day rental estimate. Please explain the reason for not attempting to contact the insured through written communications.

For CPA014, the Company should provide documentation of its efforts to contact the insured passenger, including documentation of written communications.

The Company's restitution spreadsheet reflected a payment of \$146.22 for CPA023. Please provide an explanation and documentation of the Company's estimate. Please also provide documentation of attempts to contact the insured through underwriting records, phone records, and written communications.

The Company issued restitution to the medical provider on CPA033. The restitution should have been issued to the insured. The claim file does not contain an Assignment of Benefits that is compliant with § 38.2-2201 B of the Code of Virginia. The Company should issue restitution to the insured in the amount of \$1,646.71.

For CPA035, the Company should provide documentation regarding the claimant's rental expenses. The Company has not indicated how it confirmed two days of rental at \$30.99 per day.

For CPA044, the Company should provide documentation regarding the insured's rental expenses. The Company has not indicated how it confirmed three days of rental or the rate per day.

For CPA047, the Company should provide documentation of its attempts to reach the insured through alternate sources such as underwriting records, phone records, and written communications.

The Company's restitution spreadsheet listed one check number for CPA052. However, the Company's note within the spreadsheet stated two checks were issued. Please provide the information for both checks or explain if this note was intended for CPA069.

The Company's restitution spreadsheet listed two check numbers for CPA069. However, the spreadsheet only indicated one check amount and one date. Please provide the amount and date of each check.

For CPA083, the Company should provide documentation regarding the insured's rental expenses. The Company has not indicated how it confirmed five days of rental or the rate per day.

Forms Review

- (1) The Company indicated that the revised policy jacket, which included the rate classification statement, was filed and approved by the Bureau effective April 1, 2015. The examiner was unable to locate this filing; please provide the SERFF tracking number that corresponds to the filing.
- (2) The Bureau acknowledges that the Company implemented the revised standard form PP 01 99 04 15 on April 1, 2015. However, the Company was unable to file this form or its policy jacket with the Rates and Forms Section of the Bureau since they are standard forms the Company is already required to use. However, the Company should submit a copy of the revised policy jacket to the market conduct examiners for review.

Review of Policy Issuance Process

Please provide a date in which the programming error was corrected in the company's policy administration system.

Review of Statutory Notices

- (1) Please provide a copy of the Company's revised long form Notice of Information Collection and Disclosure Practices for review. The Company's notice was not filed or approved by the Bureau. Only forms are filed and approved in Virginia.
- (2) The Bureau acknowledges that the Company has removed the non-compliant short form Notice of Information Collection and Disclosure Practices from its application and is providing the long form at the time of application.
- (3) Please provide a copy of the Company's revised Notice of Financial Information Collection and Disclosure Practices. The Company's notice was not filed or approved by the Bureau. Only forms are filed and approved in Virginia.
- (4) Please provide a copy of the Company's revised Adverse Underwriting Decision notice for review. The Company is advised that the Bureau withdrew Administrative Letter 1981-16 and replaced it with Administrative Letter 2015-07 on March 30, 2015.
- (7) Please provide a copy of the Company's revised Optional Uninsured Motorists Limits notice for review. The Company's notice was not filed or approved by the Bureau. Only forms are filed and approved in Virginia.

PART THREE – EXAMINERS' RECOMMENDATIONS

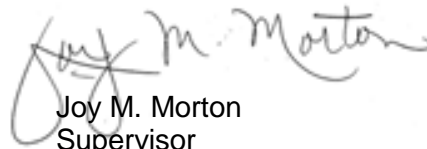
Statutory Notices

- Insurers cannot file and obtain approval for notices in Virginia. However, the Company may provide its revised Important Information Regarding Your Insurance, Medical Expense Benefits, and Rental Reimbursement notices to the market conduct examiners for review.
- Insurers cannot file and obtain approval for applications in Virginia. However, the Company may provide its revised application to the market conduct examiners for review.
- Insurers cannot file and obtain approval for declarations in Virginia. However, the Company may provide its revised declarations page to the market conduct examiners for review.

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, the Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review. The Company's response to this letter is due in the Bureau's office by October 22, 2015.

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 October 22, 2015.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large initial "J" and "M".

Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

Enclosure

Andrea Baytop

From: ssteinert@homestate.net
Sent: Friday, October 30, 2015 3:03 PM
To: Joy Morton; Andrea Baytop
Subject: Market Conduct Examination - EIC Response
Attachments: Response to Market Conduct Examination Report - 10.24.15.pdf; Supporting documents 10.21.2015.zip

Joy & Andrea,

Please find attached our response and supporting documentation as requested in your letter dated October 6, 2015. As always, please don't hesitate to contact me with any questions that you may have.

Best regards,
Sheli

Sheli Steinert
Executive Vice President
Home State Insurance Group
15443 Knoll Trail, Ste. 110
Dallas, TX 75248
972-931-0344 ext. 2005
ssteinert@homestate.net

CONFIDENTIALITY NOTICE: This e-mail may contain confidential information and is authorized to be read only by the intended recipient(s). Use of it by anyone other than an intended recipient is unlawful. Whether or not you are mistakenly named as an addressee, if you receive this e-mail by mistake, interception or otherwise, and you are not the intended recipient, you have no authority to read or disseminate this e-mail or any of its attachments; therefore, please immediately delete it and any attachments, and then notify the sender by e-mail or telephone at (800) 792-3224.



October 24, 2015

Response to Market Conduct Examination Report

**issued by the Commonwealth of Virginia
State Corporation Commission Bureau of Insurance
as of March 31, 2014**

PART ONE – THE EXAMINERS OBSERVATIONS

Automobile New Business Policies

Cancellation notices attached per your request as respects RPA004, RPA006, RPA019 and RPA029.

Automobile Renewal Business Policies

RPA047 - We have attached the installment offer and cancellation for non-payment of premium that was sent to the insured. We are unsure how to provide sufficient evidence that payment was not received beyond these documents.

RPA051 – Cancellation notice attached.

(3) RPA058 – Acknowledged and agreed.

(5c) RPA047 – Please see attached cancellation for non-payment of premium that was sent to the insured.

PART TWO – CORRECTIVE ACTION PLAN

Termination Review

(7) Cancellation Notice attached including revised Right to Review language.

(8) Cancellation Notice attached including revised The Availability of Other Insurance language.

Claims Review

(1) CPA010 - 15 days is the Company's average rental expense for a total loss. There were attempts made to contact the insured by phone however we acknowledge that we did not attempt to contact the insured via written communication. We have since mailed a letter to the insured's last known address and have attached a copy here.

CPA014 – We attempted to contact the insured passenger by phone on August 26, 2015, as noted in the attached phone log. We have also initiated a search through Transunion which returned no match for an individual by that name in Virginia. We do not have a physical address for the passenger.

CPA023 – Appraisal attached reflecting 14.1 hours of repair time at 5 hours per day; indicates 3 days of rental allowance. We attempted to contact the insured at two different phone numbers as evidenced in the attached Phone Log. We acknowledge that we did not originally attempt to contact the insured via written communication and have since mailed the attached letter to the insureds last known address.

CPA033 – Please see attached release signed by the insured authorizing payment to the medical provider.

CPA035 – Appraisal attached reflecting 5.5 hours of repair time. 5.5 hours of repair time at 5 hours per day; indicates 2 days of rental allowance. The per day rental rate of \$30.99 is the Company's preferred rate for an intermediate vehicle.

CPA044 - Appraisal attached reflecting 13 hours of repair time at 5 hours per day; indicates 3 days of rental allowance. The per day rental rate of \$30.99 is the Company's preferred rate for an intermediate vehicle.

CPA047 - There were attempts made to contact the insured by phone as noted in the attached phone log; we acknowledge that we did not attempt to contact the insured via written communication. We have since mailed a letter to the insured's last known address and have attached a copy here.

CPA052 – Copy of restitution check attached per your request.

CPA069 – Two checks were issued and are attached per your request.

CPA083 - Appraisal attached reflecting 5 days of repair time which was granted at \$30.99 per day. The per day rental rate of \$30.99 is the Company's preferred rate for an intermediate vehicle.

Forms Review

- (1) The policy jacket including the rate classification statement was filed under 2010 – SERFF #HMSG126407009.
- (2) Revised policy jacket including PP 01 99 04 15 is attached.

Review of the Policy Issuance Process

The programming error that incorrectly assigned endorsements was corrected on August 28, 2015.

Review of Statutory Notices

- (1) Long Form Notice of Information Collection and Disclosure Practices is included in the attached policy jacket.
- (2) Notice of Financial Information Collection and Disclosure Practices is included in the attached policy jacket.

- (3) Adverse Underwriting Decision notice is attached per your request.
- (4) Optional Uninsured Motorists Limits notice is included in the attached policy jacket.

PART THREE – RECOMMENDATIONS

Statutory Notices

- (1) Important Information Regarding Your Insurance, Medical Expense Benefits and Rental Reimbursement notices are included in the attached policy jacket.
- (2) The revised application is still in programming and will be complete no later than Q4 2015. We will forward for your review as soon as it is complete.
- (3) The revised declarations page is still in programming and will be complete no later than Q4 2015. We will forward for your review as soon as it is complete.

Please don't hesitate to contact me with any questions that you may have.

Sincerely,



Sheli Steinert
Executive Vice President

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/boi>

January 21, 2016

VIA UPS 2nd DAY DELIVERY

Sheli Steinert
Executive Vice President
Home State Insurance Group
15443 Knoll Trail, Suite 110
Dallas, TX 75248

RE: Market Conduct Examination
Equity Insurance Company (NAIC# 28746)
Examination Period: July 1, 2013 - June 30, 2014

Dear Ms. Steinert:

The Bureau of Insurance (Bureau) has reviewed the October 24, 2015 response to the Preliminary Market Conduct Report (Report) of Equity Insurance 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 – THE EXAMINERS' OBSERVATIONS

Automobile New Business Rating

The Bureau acknowledges the restitution made for RPA004.

The Bureau acknowledges the restitution made for RPA006.

The Company incorrectly pro-rated the restitution amount for RPA019. The examiners indicated the overcharge to be \$172.08. The pro-rated amount based on the April 1, 2014 cancellation date is \$124.54 (policy in effect for 131 days). The Company should have made restitution in the amount of \$132.01 (\$124.54 x 6% interest). The Company made restitution in the amount of \$125.04; therefore, the Company still needs to make restitution in the amount of \$6.97 (\$132.01 - \$125.04) to the insured.

The Bureau acknowledges the restitution made for RPA029.

Automobile Renewal Business Rating

The restitution amount for RPA047 has been removed from the Report. The Company provided the necessary documentation to show the policy was not renewed on June 11, 2014.

The Bureau acknowledges the Company's restitution amount of \$340.19 made on August 26, 2015 for RPA051.

- (5c) The violation for RPA047 remains in the Report. The Company made a renewal offer to the insured with a premium amount that included a surcharge for a conviction that occurred outside of the filed experience period. Although the violation remains, the overcharge amount has been removed from the restitution spreadsheet due to the insured not accepting the renewal offer effective June 11, 2014.

Claims

- (7b) After further review, the violation of CPA047 has been withdrawn from the Report. The Report has been amended to reflect this change.

PART TWO – CORRECTIVE ACTION PLAN

Termination Review

- (7) The Bureau acknowledges the Company's submission of its cancellation notice including the revised Right to Review language.
- (8) The Bureau acknowledges the Company's submission of its cancellation notice including the revised Availability of Other Insurance language.

Claims Review

- (1) Please confirm that the underpayments for reference numbers CPA010, CPA014, CPA023, CPA035, CPA044, and CPA083 have all been reported to the Virginia State Treasurer as unclaimed property.

Please make the required restitution for CPA033. The Company issued the check to the medical provider without the proper authorization as required by § 38.2-2201 of the Code of Virginia. The statute was amended in 2013 to include specific documentation when paying the medical provider instead of the insured. The signed release fails to meet the requirements outlined in the statute. The Company has included a Bodily Injury release and not an Assignment of Benefits (AOB). The Company should issue the required restitution to the insured as outlined in the restitution spreadsheet.

Ms. Steinert
January 21, 2016

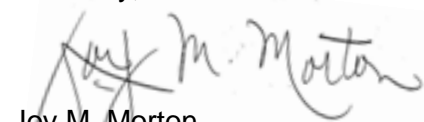
All Notices

- The header on page 37 reads "Warning read the following endorsements carefully. If shown in the Declarations these endorsements change the coverages and terms of your policy. The documents following this statement are notices and not endorsements and do not affect the coverage. The notices only advise the insured of the additional options available.
- The notices provided with the Company's October 24, 2015 response have not been amended to comply with the statute.

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, the 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 response to these items, we will be in a position to conclude this examination. We look forward to your response by February 11, 2016.

Sincerely,



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

Enclosures

Andrea Baytop

From: ssteinert@homestate.net
Sent: Monday, February 15, 2016 6:39 PM
To: Joy Morton; Andrea Baytop
Subject: Response to Letter dated January 21, 2016
Attachments: Response to Market Conduct Examination Report - 2.15.2016.pdf

Follow Up Flag: Follow up
Flag Status: Completed

Joy and Andrea,
Please find attached our response to your letter dated January 21, 2016.

Please let me know if we can provide any additional information to supplement our reply.

Best regards,
Sheli

Sheli Steinert
Executive Vice President
Home State Insurance Group
15443 Knoll Trail, Ste. 110
Dallas, TX 75248
972-931-0344 ext. 2005
ssteinert@homestate.net

CONFIDENTIALITY NOTICE: This e-mail may contain confidential information and is authorized to be read only by the intended recipient(s). Use of it by anyone other than an intended recipient is unlawful. Whether or not you are mistakenly named as an addressee, if you receive this e-mail by mistake, interception or otherwise, and you are not the intended recipient, you have no authority to read or disseminate this e-mail or any of its attachments; therefore, please immediately delete it and any attachments, and then notify the sender by e-mail or telephone at (800) 792-3224.



February 15, 2016

Response to Market Conduct Examination Report

**issued by the Commonwealth of Virginia
State Corporation Commission Bureau of Insurance
as of March 31, 2014**

PART ONE – THE EXAMINERS OBSERVATIONS

Automobile New Business Rating

The company incorrectly pro-rated the restitution amount for RPA019.

EIC Response: EIC issued additional restitution in the amount of \$6.97 via check #41203 dated 2/10/2016.

PART TWO – CORRECTIVE ACTION PLAN

Claims Review

- (1) Confirm that the underpayments for reference numbers CPA010, CPA014, CPA023, CPA035, CPA044 and CPA083 have been reported to the Virginia State Treasurer as unclaimed property.

EIC Response: As of the writing of this response, EIC has not reported the payments under the reference numbers above as unclaimed property as each is under the five-year deadline for reporting. However, since EIC is in non-renewal status in the state of Virginia, we will begin reporting all claim checks that remain outstanding at six months from the date of issue as unclaimed property once a final attempt to contact the payee is exhausted. Since we have been unsuccessful in contacting the payees associated with the reference numbers noted above, EIC will report these in early April, prior to the May 1 deadline..

Required Restitution for CPA033.

EIC Response: Check #8032 in the amount of \$1,939,.71 was issued on 2/10/2016 to the insured. The amount paid to the insured is a total of all three checks that were originally issued to the medical providers.

All Notices

Thank you for your observation regarding the warning language on page 37 of the policy. We will be revising the statement with our filing scheduled for 3/1/2016.

You have noted that the notices provided with our response on October 24, 2015 have not been amended to comply with the statute. As we submitted several notices with this response, can you please advise which specific notices are still not compliant and we will correct them immediately?

Andrea Baytop

From: Andrea Baytop
Sent: Thursday, March 03, 2016 12:13 PM
To: ssteinert@homestate.net; Joy Morton
Subject: RE: Equity Response to Letter dated January 21, 2016
Attachments: NoticesGSN-286539923.docx; NoticesGSN1107584250.docx; NoticesGSN1373250804.docx; NoticesGSN-1376932107.docx; NoticesGSN1978945884.docx; NoticesSVN745768682.docx; NoticesSVN1141175075.docx; NoticesSVN-1260248055.docx

Hello Sheli,

The Company's Response appeared to attach some of the same original notices that were provided at the start of the examination, upon which the violations were based. We did not find any changes in the following notices:

1. Long Form Notice of Information collection and Disclosure Practices for 38.2-604 B
2. Notice of Information Collection and Disclosure Practices for 38.2-604.1 B
3. Optional Uninsured Motorists Limits notice
4. Optional Medical Expense Benefits notice
5. Important Information Regarding Your Insurance notice
6. Rental Reimbursement written offer-- Please note that since the company's filed manual requires Other than Collision and Collision coverage to *always* be written together, we did not cite the notice for stating Rental Reimbursement coverage would only be offered if the insured had both Other than Collision and Collision coverage. However, should that rule change, the written offer must state the insured may buy Rental Reimbursement coverage if the policy has Other than Collision OR Collision coverage as required by 38.2-2230.

I have attached the corresponding review sheets as they state the issues we found with each notice. If you have revised notices, please attach them for our review. Otherwise, the company should make the necessary changes to the notices and then we would be happy to review them for you.

Thank you,

Andrea Baytop, MCM

Senior Insurance Market Examiner
P&C Market Conduct Section
Virginia Bureau of Insurance
804.371.9547
andrea.baytop@scc.virginia.gov

From: ssteinert@homestate.net [<mailto:ssteinert@homestate.net>]
Sent: Monday, February 15, 2016 6:39 PM
To: Joy Morton; Andrea Baytop
Subject: Response to Letter dated January 21, 2016

Joy and Andrea,
Please find attached our response to your letter dated January 21, 2016.

Please let me know if we can provide any additional information to supplement our reply.

Best regards,
Sheli

Sheli Steinert
Executive Vice President
Home State Insurance Group
15443 Knoll Trail, Ste. 110

Dallas, TX 75248
972-931-0344 ext. 2005
ssteinert@homestate.net

CONFIDENTIALITY NOTICE: This e-mail may contain confidential information and is authorized to be read only by the intended recipient(s). Use of it by anyone other than an intended recipient is unlawful. Whether or not you are mistakenly named as an addressee, if you receive this e-mail by mistake, interception or otherwise, and you are not the intended recipient, you have no authority to read or disseminate this e-mail or any of its attachments; therefore, please immediately delete it and any attachments, and then notify the sender by e-mail or telephone at (800) 792-3224.

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

March 11, 2016

VIA UPS 2nd DAY DELIVERY

Sheli Steinert
Executive Vice President
Home State Insurance Group
15443 Knoll Trail, Ste. 110
Dallas, TX 75248

RE: Market Conduct Examination
Equity Insurance Company (NAIC# 28746)

Dear Ms. Steinert:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of February 15, 2016. Based upon the Bureau's review of the company's August 28, 2015, October 24, 2015 and February 15, 2016 letters, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Equity Insurance Company (Report).

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:

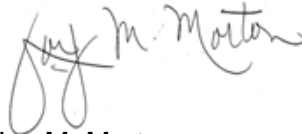
Sections 38.2-305 A, 38.2-502, 38.2-510 A 1, 38.2-510 A 3, 38.2-510 A 6, 38.2-511, 38.2-517 A, 38.2-604 B, 38.2-604 C, 38.2-604.1 B, 38.2-610 A, 38.2-1812 E, 38.2-1822, 38.2-1833, 38.2-1905 A, 38.2-1905 C, 38.2-1906 A, 38.2-1906 D, 38.2-2202 B, 38.2-2208 B, 38.2-2212 E, 38.2-2214 and 38.2-2220 of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, 14 VAC 5-400-60 B, 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.

Ms. Steinert
March 11, 2016
Page 2

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

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, stylized initial "J".

Joy M. Morton
BOI Manager
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

Enclosures



Rebecca Nichols
Deputy Commissioner
Property and Casualty
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

400118

STATE CORP COMMISSION
BUREAU OF INSURANCE
16 APR -7 AM 8:40

RE: Market Conduct Examination Settlement Offer
Equity Insurance Company

Dear Ms. Nichols:

This will acknowledge receipt of the Bureau of Insurance's letter dated March 17, 2016, 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, 38.2-502, 38.2-510 A 1, 38.2-510 A 3, 38.2-510 A 6, 38.2-511, 38.2-517 A, 38.2-604 B, 38.2-604 C, 38.2-604.1 B, 38.2-610 A, 38.2-1812 E, 38.2-1822, 38.2-1833, 38.2-1905 A, 38.2-1905 C, 38.2-1906 A, 38.2-1906 D, 38.2-2202 B, 38.2-2208 B, 38.2-2212 E, 38.2-2214 and 38.2-2220 of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, 14 VAC 5-400-60 B, 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 \$44,800.00.
2. We agree to comply with the corrective action plan set forth in the company's August 28, 2015, October 24, 2015 and February 15, 2016 letters.
3. We confirm that restitution was made to 36 consumers for \$16,912.08 in accordance with the company's August 28, 2015, October 24, 2015 and February 15, 2016 letters,
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 a settlement and does not constitute, nor should it be construed as an admission of any violation of law.

Sincerely,
Equity Insurance Company

A handwritten signature in black ink, appearing to read 'Charles Michael Davis', is written over a large, stylized circular flourish.

Charles Michael Davis
President
April, 6, 2016

Enclosure

COMMONWEALTH OF VIRGINIA

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



**P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi**

Equity Insurance Company has tendered to the Bureau of Insurance the settlement amount of \$44,800.00 by its check numbered 31654 and dated April 6, 2016, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, APRIL 14, 2016

16042001
SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER
2016 APR 14 P 3: 35

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2016-00060

EQUITY INSURANCE COMPANY,
Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Equity 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 provide the information required by statute in the insurance policy; violated § 38.2-502 of the Code by misrepresenting the benefits, advantages, conditions or terms of an insurance policy; violated § 38.2-511 of the Code by failing to maintain a complete complaint register; violated §§ 38.2-517 A, 38.2-604 B, 38.2-604 C, 38.2-604.1 B, 38.2-610 A and 38.2-2202 B of the Code by failing to accurately provide the required notices to insureds; violated § 38.2-1812 E of the Code by paying commissions to a trade name that was not filed with the Bureau; violated § 38.2-1822 of the Code by permitting a person to act as an agent without first obtaining a license in a manner and form prescribed by the Commission; violated § 38.2-1833 of the Code by paying commissions to agencies or agents that are not appointed by the Defendant; violated § 38.2-1905 A of the Code by failing to notify insureds in writing when their policies were surcharged for at-fault accidents; violated § 38.2-1905 C of the Code by assigning points under a safe-driver insurance policy to a vehicle other than the vehicle

customarily driven by the operator responsible for incurring points; violated § 38.2-1906 A of the Code by failing to file all rates and supplementary rate information prior to use; violated § 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendant; violated §§ 38.2-2208 B and 38.2-2212 E of the Code by failing to properly terminate insurance policies; violated § 38.2-2214 of the Code by failing to provide insureds with rate classification statements; violated § 38.2-2220 of the Code by failing to use forms in the precise language of standard forms previously filed and adopted by the Commission; and violated §§ 38.2-510 A (1), 38.2-510 A (3) 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 5-400-50 C, 14 VAC 5-400-60 B, 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 Forty-four Thousand Eight Hundred Dollars (\$44,800), waived its right to a hearing, agreed to comply with the corrective action plan set forth in its letters to the Bureau dated August 28, 2015, October 24,

2015 and February 15, 2016, and confirmed that restitution was made to 36 consumers in the amount of Sixteen Thousand Nine Hundred Twelve Dollars and Eight Cents (\$16,912.08).

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: Charles Michael Davis, President, Equity Insurance Company, 4315 Lake Shore Drive, Suite J, Waco, Texas 76710-1970; 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.