



UTAH INSURANCE DEPARTMENT  
TARGET MARKET CONDUCT EXAMINATION REPORT  
Of  
PROPERTY AND CASUALTY INSURANCE

For  
AUTO-OWNERS INSURANCE COMPANY  
6101 Anacapri Blvd, P.O. Box 30660, Lansing, Michigan 48909-8160  
(NAIC Company Code #18988)

As of December 31, 2011

EXAMINATION NUMBER: UT082-M1

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State of Utah

GARY R. HERBERT  
*Governor*

GREG BELL  
*Lieutenant Governor*

TODD E. KISER  
*Insurance Commissioner*

# Insurance Department

October 9, 2013

The Honorable Suzette Green-Wright  
Director of Market Conduct  
State of Utah  
State Office Building, Room 3110  
Salt Lake City, Utah 84114

Dear Director:

Pursuant to your instructions, in compliance with §31A-2-201(6), Utah Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), I have conducted a limited-scope Market Conduct Examination as of December 31, 2011, of:

Auto-Owners Insurance Company  
6101 Anacapri Blvd  
P.O. Box 30660  
Lansing, Michigan 48909-8160

hereinafter referred to as the “Company”, at its offices in Lansing, Michigan.

The following Report of Examination is respectfully submitted.

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## FORWARD

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This is a market conduct examination report of the practices and procedures of the Auto-Owners Insurance Company (NAIC Company Code #18988).

The examination was conducted as a desk audit at the Utah Insurance Department located at the State Office Building, Room 3110, Salt Lake City, Utah, 84114.

This examination report is, in general, a report by exception. However, failure to identify or criticize procedures or files does not constitute approval thereof by the Utah Insurance Department.

In performing this examination, the examiner only reviewed a random sample of the Company's procedures and files. Some noncompliant practices may not have been discovered during this examination. As such, this report may not fully reflect all of the procedures and files of the Company.

During the examination, the examiner cited potential violations made by the Company. Statutory citations are as of the period under examination. The goal of the examination was to produce an examination report that reflects agreement in content with the Company. The report indicates where agreement was not possible.

The final examination report documents consist of the examiners' report, the Company's response, and administrative actions based on the findings, if any, of the Commissioner of the Utah Insurance Department.

When used in this report:

- "UID" refers to the Utah Insurance Department;
- "Company" refers to Auto-Owners Insurance Company;
- "ACL" refers to ACL® (Audit Command Language) Software, Version 9; and
- "NAIC" refers to the National Association of Insurance Commissioners.

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## PURPOSE AND SCOPE OF EXAMINATION

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The purpose of this examination is to determine whether the Company complied with applicable Utah Insurance Department statutes in compliance with:

“31A-2-201(6). General duties and powers.

(6) The commissioner shall inquire into violations of this title and may conduct any examinations and investigations of insurance matters, in addition to examinations and investigations expressly authorized, that the commissioner considers proper to determine: (a) whether or not any person has violated any provision of this title; or (b) to secure information useful in the lawful administration of this title.”

and the Utah Insurance Department regulations and bulletins issued by the Utah Insurance Department Commissioner of Insurance. In addition, the examiner documented practices and procedures that did not appear to be in the best interest of the Utah Insurance Department’s consumers.

The Utah Insurance Department conducted a desk audit and a limited scope exam of Auto-Owners Insurance Company claims and complaint procedures. The examiner requested a download of the Company’s claim files for Property & Casualty from January 1, 2009 through December 31, 2011. Two-hundred claim files were selected randomly by use of ACL from a total of 12,812 claims.

While this report contains errors found in individual files, the focus is on the general business practices of the Company. The examiner used the NAIC suggested error tolerance rate of 10% for areas other than Claims. A suggested error tolerance rate of 7% was used for claims handling practices. An error rate in excess of the tolerance level in these sections of the report is indicative of a general business practice of engaging in that type of conduct.

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## EXAM FINDINGS

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When conducting the Claims Handling Practices and Complaint Handling Procedures review, key lines of business examined included Homeowners, Commercial and Private Passenger Auto.

This limited-scope market conduct examination included tests of policies that were:

- Issued
- Renewed
- Cancelled
- Non-renewed
- Declined

In conjunction with the review of the above policy areas, the Company's general practices and procedures relating to consumer complaints were scrutinized.

Test-work conducted in the areas of claims handling and timeliness of claims payments included the following populations:

- Paid claims
- Denied claims
- Claims closed without payment

In summary, the main areas of non-compliance identified during this examination included the Company not providing claimants with correspondence pertaining to denial and or disposition of the claim, and failure to maintain pertinent documentation in the claim files.

In all instances, there is a delay between when the company reports the claim was first reported and the actual date the branch received the first notice of claim. Detailed results of the examination follow in the next section.

### CLAIMS

While reviewing claims submitted for Private Passenger Auto, Commercial Auto, and Homeowners, the examiner discovered a **5%** error rate for the claims handling practice review.

During the examination, the examiner evaluated the file organization, legibility and structure to ensure that the electronic records were adequate, accessible and orderly as required by Utah Insurance Laws and Rule:

“R590-190-4. File and Record Documentation.

Each insurer's claim files for policies or certificates are subject to examination by the commissioner of insurance or by the commissioner's duly appointed designees. To aid in such examination:

- (1) the insurer shall maintain claim data that is accessible and retrievable for examination; and
- (2) detailed documentation shall be contained in each claim file to permit reconstruction of the insurer's activities relative to the claim.”

A benchmark error rate of 7 % has been established for auditing claim practices; the Company's error rate did not exceed this benchmark and therefore are not an indication of a poor general business practice relating to the organization of the claim files.

During the examination, the examiner discovered a discrepancy between the date first reported to the branch office and the date the company computer generated date of first notice.

“31A-21-312. Notice and proof of loss.

- (1) Every insurance policy shall provide that:
  - (a) when notice of loss is required separately from proof of loss, notice given by or on behalf of the insured to any authorized agent of the insurer within this state, with particulars sufficient to identify the policy, is notice to the insurer;’

The error rate of **61.5%** is out of compliance for the benchmark error rate of 7%, however, this discrepancy did not affect the payment of claims statute.

“31A-26-301. Timely payment of claims.

- (1) (a) Unless otherwise provided by law, an insurer shall timely pay every valid insurance claim made by an insured.”

#### COMPLAINT REGISTER

During the examination period, the Company maintained complaint procedures and an incomplete complaint log. The Company only generated the summary complaint information log for complaints which had been directed to the Department, rather than “all the complaints”.

It is recommended that, in the future, the Company modify its complaint procedures and maintain a summary tracking log for “all” complaints, not just those directed to the Department.

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## EXECUTIVE SUMMARY/RECOMMENDATIONS

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The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the Utah Insurance Departments' laws and regulations.

It is recommended that, in the future, the Company modifies its computer procedures to establish the date of notification complies with Utah Statute, and submit a corrective action plan within 60 days.

### CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

Respectfully submitted,



Sandra Halladay, MCE  
Market Conduct Examiner  
Utah Insurance Department