



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF MARKET CONDUCT EXAMINATION

OF

**MID-CENTURY INSURANCE COMPANY
LOS ANGELES, CALIFORNIA**

NAIC COMPANY CODE 21687

AS OF

DECEMBER 31, 2001

TABLE OF CONTENTS

SCOPE OF EXAMINATION	4
UNDERWRITING	6
FINDINGS	6
ADDITIONAL FINDINGS AND PROCEDURES	10
Forms	10
Compliance with ORS 742.562(2).....	11
CLAIMS	12
FINDINGS	13
CONCLUSIONS/RECOMMENDATIONS	16
ACKNOWLEDGMENT	17
AFFIDAVIT	18
APPENDIX A.....	19
UNDERWRITING	19
CLAIMS	20

March 14, 2003

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street, NE, Room 440
Salem, OR 97301-3883

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, we have examined the
business affairs of

**Mid-Century Insurance Company
PO Box 2478, Terminal Annex
Los Angeles, California 90051**

NAIC Company Code 21687

hereinafter referred to as the "Company." The following report of examination is
respectfully submitted.

SCOPE OF EXAMINATION

The market conduct examination of the Company was conducted as of December 31, 2001, covering the period of January 1, 2001 through December 31, 2001, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

A follow-up market conduct examination was performed. The examination was limited to a review of the items on which recommendations were made during the market conduct examination for the examination period ending June 30, 1998. Thirteen recommendations were made during that market conduct examination.

The recommendations from the prior examination referenced above can be found in the Appendix immediately following this report.

The examination of the Company was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines established by the Oregon Insurance Division, Market Conduct Program. The program generally follows the Market Conduct Examination Handbook as adopted by the National Association of Insurance Commissioners to the extent that it is consistent with Oregon law. The purpose was to determine the Company's ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, whether it has given proper treatment to policyholders, and its compliance with the Oregon Insurance Code and Administrative Rules.

In order to determine the practices and procedures of the Company's operations, one or more of the following procedures was performed in each phase:

1. A sample of files was selected from listings provided by the Company. The examiner then reviewed each file.
2. The procedure manuals and/or memorandum were evaluated.
3. The Company responded to a series of questions regarding the phase being examined.

The examination was comprised of the following phases:

Underwriting

Claims

The Company's underlying data was measured against an established standard. A list of all recommendations considered can be found in Appendix A at the end of the report. The examiner used the following three classifications to disclose the examination results:

Passed without Comment	The recommendations the Company passed are displayed in a chart at the beginning of the Findings section of each phase. Items included in this category passed the recommendation and the examiner did not find it necessary to comment on the findings.
Passed with Comment	Recommendations the Company passed with some errors noted are included in this classification. Items in this category are not considered to be indicative of a general business practice of noncompliance. Usually, a recommendation is not warranted, but in certain instances a recommendation might be made.
Failed	The Company has not demonstrated compliance with recommendations that fall into this category. A recommendation for compliance is usually made for each recommendation the Company fails.

Information regarding some items might be noted in the examination report without remarks.

Other areas of concern discovered during the examination that do not fall within the scope of the recommendations might appear in the report as the last section of each phase and titled Additional Findings and Procedures.

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific Company practices does not constitute acceptance or approval by the Oregon Insurance Division. Examination findings may result in administrative action or further inquiry.

UNDERWRITING

The Company provided population runs of new business issued, non-renewed, and canceled during the examination period from which random samples were drawn. The chart below illustrates the size of the original population as well as the size of the sample selected.

POPULATION REVIEWED	TOTAL POPULATION	INITIAL RANDOM SAMPLE	% TO TOTAL
New Business Issued	26,227	100	0.38%
Policies non-renewed	112	50	45%
Policies canceled	1,298	50	3.9%

For the review of Recommendation #1, the examiner extracted a population of policies issued for which the Bodily Injury and Uninsured/Underinsured Motorist coverage limits did not match. This process yielded a total population of 56 policies. The examiner reviewed all (100%) of these cases.

Findings

The Company passed the following recommendations without comment:

Recommendation
Recommendation #2 - I recommend the Company not use a driving record older than three years immediately preceding the issuance or renewal for the purpose of determining whether or not to issue or renew a policy and the calculation of rates in compliance with ORS 746.265(2).
Recommendation #3 - I recommend the Company's records accurately document all forms used with policies at the time of issuance in order to determine if the forms were filed and approved at the time of use in compliance with ORS 742.003.
Recommendation #6 - I recommend the Company provide the applicant or policyholder with the specific reason for an adverse underwriting decision in accordance with the provisions of ORS 746.650.

The following exceptions were noted.

Recommendation #1 - I recommend the Company maintain documentation of written rejection for higher limits of uninsured and underinsured motorist coverage in accordance with the provisions of ORS 742.502(2)(a) and OAR 836-054-0000(2).

Findings: Failed. 9% compliance. Fifty-one files (97%) failed this standard for the reasons shown below:

Number of Files	Reason for Failure
35	Company unable to locate signed waiver.
1	Election agreement for Uninsured/Underinsured Motorist Coverage (UM/UIM) was not completed at the time the limits were elected.
9	Election agreement is incomplete.
3	Election agreement is incomplete and was not completed at the time the limits were elected.
<u>3</u>	Election agreement is incomplete, was not completed at the time the limits were elected, and was not completed for the correct insurer.
<u>51</u>	Total

I recommend the Company obtain and maintain documentation of written rejection for higher limits of uninsured and underinsured motorist coverage in accordance with the provisions of ORS 742.502(2)(a) and OAR 836-054-0000(2).

Subsequent to the examination, the Company informed the examiner that it would be adjusting its business practice to comply with ORS 742.502(2)(a) and OAR 836-054-0000(2).

Recommendation #4 - I recommend the Company's documentation adequately support all decisions made by the underwriters and underwriting decisions made by agents in accordance with ORS 733.170.

Findings: Passed with comment. 99% compliance. One file (1%) failed this recommendation because the file documentation does not explain why the underwriter elected to place this coverage in this Company when it appears the applicant qualified for coverage in a preferred company.

Population Reviewed	# Units	# Passed Standard	# Failed Standard
New Business Issued	100	99	1
Policies non-renewed	<u>50</u>	<u>50</u>	<u>0</u>
Total	<u>150</u>	<u>149</u>	<u>1</u>

A failure rate of 1% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.

Recommendation #5 - I recommend the Company maintain documentation regarding the underwriting decisions to sufficiently demonstrate its underwriting practices are not unfairly discriminatory in accordance with ORS 746.015, ORS 746.018 and OAR 836-081-0030.

Findings: Passed with comment. 99% compliance. One file (1%) failed this recommendation because the file documentation does not explain why the underwriter elected to place this coverage in this Company when it appears the applicant qualified for coverage in a preferred company.

<u>Population Reviewed</u>	<u># Units</u>	<u># Passed Standard</u>	<u># Failed Standard</u>
New Business Issued	100	99	1
Policies non-renewed	<u>50</u>	<u>50</u>	<u>0</u>
Total	<u>150</u>	<u>149</u>	<u>1</u>

A failure rate of 1% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.

Recommendation #7 - I recommend the Company provide the insured at least 30 days advance notice of cancellation and include the specific reason for non-renewal in accordance with the provisions of ORS 753.564.

Findings: Passed with comment. 94% compliance. Six (6%) files failed this standard for the reasons shown below.

<u># Units</u>	<u>Reason</u>
4	Company canceled coverage following reinstatement when these cases actually should have been non-renewed. Additionally, the Company did not provide the insured with at least 30 days advance notice of this action.
1	Company determined coverage should be canceled within first 60 days of coverage, but failed to send notice during that time frame. This policy should have been non-renewed. The Company did not provide the insured with at least 30 days advance notice of this action.
<u>1</u>	Company did not provide insured with at least 30 days advance notice of non-renewal.
<u>6</u>	Total

A failure rate of 6% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.

Subsequent to the examination, the Company explained that during the examination period, the Company had been operating under the belief that a 60-day discovery period applied to reinstated policies using the same policy number. The Company indicated that it

is changing its business practice to take action on those reinstated policies requiring action on renewal.

Recommendation #8 - I recommend the Company maintain its policy rating documentation and rate pages in such a manner that the rates for each policy can be easily and readily verified as filed rates in accordance with ORS 733.170.

Findings: Passed with comment. The examiner reviewed five of the new business issued sample policies to determine compliance with this recommendation.

The examiner was able to verify that the rates charged for these five policies did reconcile to the filed rates that were in use at the time coverage was issued. However, in the course of this review, the examiner discovered that the Company had misprinted a rate class factor on a rate page. After this was brought to the Company's attention, the Company found that two other deductible factors were also incorrect on the printed rate pages.

A recommendation does not appear to be warranted. The rate pages that contained the incorrect factors are now obsolete and from the information reviewed, it appears the rate factors that were loaded into the computer system which established the rates actually charged to the consumer were correct.

Additional Findings and Procedures

Forms

When reviewing the New Business Issued sample population for this examination, the examiner captured the form numbers issued for each policy. From this population, a list of

20 forms issued during the examination period was developed. The examiner asked the Company to provide evidence that each of these forms was filed with and approved for use by the Oregon Insurance Division. The Company was able to provide the requested documentation for 45% (nine) of the forms selected for review. The reasons the other eleven forms (55%) were not in compliance are set forth in the chart below:

# of Units	Reason for Non-compliance
5	Approval not recorded in Insurance Division records and Company unable to provide copy of perforated approval from Insurance Division.
<u>6</u>	Approval not recorded in Insurance Division records and approval form provided by Company is for another company, not Mid-Century Insurance Company.
<u>11</u>	Total

I recommend the Company file for approval by the Oregon Insurance Division all forms and endorsements forming a part of the contract in accordance with ORS 742.003.

The Company maintains that all of the forms currently used as part of the contract were approved by the Oregon Insurance Division. However, the Company was unable to provide documentation showing the approval dates for the forms referenced above. The Company informed the examiner that it is working with the Insurance Division on this matter and will re-file any form necessary in order to comply with ORS 742.003.

Compliance with ORS 742.562(2)

When reviewing the sample population of policies canceled during the examination period, the examiner found that the Company's procedures allowed for cancellation of reinstated policies within the first 60 days following reinstatement. ORS 742.562(2) allows for termination within the first 60 days only for coverage which has been in effect for less than

60 days at the time notice of cancellation is mailed. The Company indicated this issue has been referred to senior management to implement corrective action. The Company anticipates its procedures will be changed by December 2003.

I recommend the Company cancel policies in accordance with the provisions of ORS 742.562.

CLAIMS

Since the last Market Conduct Examination as of June 30, 1998, the Company changed the way it handles claims. While the changes are significant, it appears they remain transparent to both insureds and claimants. The Customer Restoration Network (CRN) was implemented effective August 15, 2001. CRN includes a paperless claims system, two Help Point Claim Centers in Oklahoma City, OK and Olathe, KS, and several national Centers of Excellence (COE) that specialize in specific types of claims.

This system moves the claim process forward by directing loss reports to the Help Point Center. The initial loss report is handled by a Customer Service Associate (CSA) in one of the Help Point Centers referenced above. The CSA performs triage and makes transfers to vendors, such as the Company's Circle of Dependability repair shops, Farmtow, and Fasglas. The CSA verifies coverage and has the claim assigned to a Claims Representative.

The Help Point Centers are open 24 hours a day, seven days a week and are staffed with Office Claims Representatives (OCR).

There are several classes of claims that OCRs do not handle. This includes auto thefts, fires, mold, water damage, earth movement, roof losses, and commercial losses. The Help

Point Center directs these types of losses to Field Claim Representatives electronically for prompt handling.

The Company provided a population of 1,012 total loss claims paid during the examination period from which a random sample of 50 claims (4.95%) was drawn.

Findings

The following exceptions were noted:

Recommendation #9 - I recommend the Company resolve claims in 30 days unless a delay letter (45 days) has been sent in accordance with OAR 836-080-0235(1) and (4).

Findings: Failed. 90% compliance. Five files (10%) failed this standard for the reasons shown below.

<u># Files</u>	<u>Reason</u>
3	Company unable to provide original claim documentation for the examiner's review.
<u>2</u>	Claim not processed within 30 days and no delay letter mailed.
<u>5</u>	Total

I recommend the Company resolve claims in 30 days unless a delay letter (45 days) has been sent in accordance with OAR 836-080-0235(1) and (4).

Recommendation #10 - I recommend the Company respond to claim correspondence within 30 days in accordance with the provisions of OAR 836-080-0215 and ORS 733.170.

Findings: Passed with comment. 94% compliance. Three files (6%) failed this recommendation because the Company was unable to produce the original files for the examiner's review.

A failure rate of 6% does not appear to represent a pattern of noncompliance; therefore, no recommendation is warranted.

Recommendation #11 - I recommend the Company adequately document claim files in accordance with the provisions of OAR 836-080-0215 and ORS 733.170.

Findings: Failed. 86% compliance. Seven files (14%) failed this recommendation for the reasons shown below.

# Files	Reason
4	Company unable to provide original claim documentation for the examiner's review.
1	Documentation didn't support total loss claim.
1	File lacks documentation regarding reason for claim delay.
<u>1</u>	File lacks documentation regarding independent adjuster's communication with claimant.
<u>7</u>	Total

I recommend the Company adequately document claim files in accordance with the provisions of OAR 836-080-0215 and ORS 733.170.

Recommendation #12 - I recommend the Company promptly and equitably settle claims in which liability has become reasonably clear pursuant to the provisions of ORS 746.230(1)(f), (h), and (L).

Findings: Failed. 92% compliance. Four files (8%) failed this recommendation for the reasons shown below.

# Files	Reason
3	Company unable to provide original claim documentation for the examiner's review.
<u>1</u>	Claim not processed within 30 days and Company is unable to explain the reason for the claim delay.
<u>4</u>	Total

I recommend the Company promptly and equitably settle claims in which liability has become reasonably clear pursuant to the provisions of ORS 746.230(1)(f), (h), and (L).

Subsequent to the examination, the Company informed the examiner that the claims-related record keeping issues have been permanently resolved with the implementation of CRN where all files are stored electronically and can be quickly retrieved. The Company stated the other claim processing deficiencies noted above have been addressed through meetings between the Oregon State Claims Manager and the five Oregon Claims offices. The Company indicated these issues would be reinforced through continuous training during office meetings, case reviews, and file audits.

Recommendation #13 - I recommend the Company process total loss settlements in accordance with policy provisions and applicable rules and regulations pursuant to OAR 836-080-0240(1).

Findings: Failed. 48% compliance. Twenty-six files (52%) failed this recommendation for the reasons shown below.

<u># Files</u>	<u>Reason</u>
3	Company unable to provide original claim documentation for the examiner's review.
<u>23</u>	Company did not include payment of registration fees in the claim settlement process.
<u>26</u>	Total

I recommend the Company process total loss settlements in accordance with policy provisions and applicable rules and regulations pursuant to OAR 836-080-0240(1).

Subsequent to the examination, the Company confirmed that it hasn't paid the cost of registration fees when processing total loss settlements. The Company explained that it did not believe it was required to include this reimbursement on total losses because, according to the Company's interpretation of OAR 836-080-0240(1), the registration fee is not incident to the transfer of evidence of ownership of a vehicle in the State of Oregon. As a matter of compromise, the Company has agreed to begin payment of the unused portion of registration fees when resolving total loss claims.

CONCLUSIONS/RECOMMENDATIONS

#	RECOMMENDATION	PAGE
1	I recommend the Company obtain and maintain documentation of written rejection for higher limits of uninsured and underinsured motorist coverage in accordance with the provisions of ORS 742.502(2)(a) and OAR 836-054-0000(2).	7
2	I recommend the Company file for approval by the Oregon Insurance Division all forms and endorsements forming a part of the contract in accordance with ORS 742.003.	11
3	I recommend the Company cancel policies in accordance with the provisions of ORS 742.562.	12
4	I recommend the Company resolve claims in 30 days unless a delay letter (45 days) has been sent in accordance with OAR 836-080-0235(1) and (4).	13
5	I recommend the Company adequately document claim files in accordance with the provisions of OAR 836-080-0215 and ORS 733.170.	14
6	I recommend the Company promptly and equitably settle claims in which liability has become reasonably clear pursuant to the provisions of ORS 746.230(1)(f), (h), and (L).	15
7	I recommend the Company process total loss settlements in accordance with policy provisions and applicable rules and regulations pursuant to OAR 836-080-0240(1).	15

ACKNOWLEDGMENT

The cooperation and assistance rendered by the officers and employees of the Company during this examination is hereby acknowledged and appreciated.

A special thanks is extended to the Examination Coordinator for his courtesy and assistance providing, correlating, or coordinating all requested documents and statistics necessary to ensure a smooth transition during the overall Examination process. The responsibilities that were undertaken during this examination were in addition to the scope of his regular assigned duties.

In addition to the undersigned, Kathleen Kalk, AIE and Gary M. Stephenson, AIE, AIRC, participated in this examination.

Respectfully submitted,

Gayle L. Woods, AIE
Chief Market Conduct Examiner
Market Conduct Section
Insurance Division
Department of Consumer and Business Services
State of Oregon

APPENDIX A

**Mid-Century Insurance Company
Market Conduct Follow-up Examination**

Underwriting

<u>Rec. #</u>	<u>Phase</u>	<u>Recommendation</u>	<u>Findings</u>
1	Underwriting	I recommend the Company maintain documentation of written rejection for higher limits of uninsured and underinsured motorist coverage in accordance with the provisions of ORS 742.502(2)(a) and OAR 836-054-0000(2).	Failed
2	Underwriting	I recommend the Company not use a driving record older than three years immediately preceding the issuance or renewal for the purpose of determining whether or not to issue or renew a policy and the calculation of rates in compliance with ORS 746.265(2).	Passed
3	Underwriting	I recommend the Company's records accurately document all forms used with policies at the time of issuance in order to determine if the forms were filed and approved at the time of use in compliance with ORS 742.003.	Passed
4	Underwriting	I recommend the Company's documentation adequately support all decisions made by the underwriters and underwriting decisions made by agents in accordance with ORS 733.170.	Passed with comment
5	Underwriting	I recommend the Company maintain documentation regarding its underwriting decisions to sufficiently demonstrate its underwriting practices are not unfairly discriminatory in accordance with ORS 746.015, ORS 746.018 and OAR 836-081-0030.	Passed with comment
6	Underwriting	I recommend the Company provide the applicant or policyholder with the specific reason for an adverse underwriting decision in accordance with the provisions of ORS 746.750.	Passed
7	Underwriting	I recommend the Company provide the insured at least 30 days advance notice of cancellation and include the specific reason for nonrenewal in accordance with the provisions of ORS 742.564.	Passed with comment
8	Underwriting	I recommend the Company maintain its policy rating documentation and rate pages in such a	Passed with

		manner that the rates for each policy can be easily and readily verified as filed rates in accordance with ORS 733.170.	comment
--	--	---	---------

Claims

9	Claims	I recommend the Company resolve claims in 30 days unless a delay letter (45 days) has been sent in accordance with OAR 836-080-0235(1) and (2).	Failed
10	Claims	I recommend the Company respond to claim correspondence within 30 days in accordance with the provisions of OAR 836-080-0225.	Passed with comment
11	Claims	I recommend the Company adequately document claim files in accordance with the provisions of OAR 836-080-0215 and ORS 733.170.	Failed
12	Claims	I recommend the Company promptly and equitably settle claims in which liability has become reasonably clear pursuant to the provisions of ORS 746.230(1)(f), (h), and (L).	Failed
13	Claims	I recommend the Company process total loss settlements in accordance with policy provisions and applicable rules and regulations pursuant to OAR 836-080-0240(1).	Failed