

OHIO DEPARTMENT OF INSURANCE

A

MARKET CONDUCT EXAMINATION

OF

PERSONAL SERVICE INSURANCE COMPANY

NAIC # 12289

As Of

December 31, 2004





Bob Taft, Governor
Ann Womer Benjamin, Director

2100 Stella Court, Columbus, OH 43215-1067
(614) 644-2658 www.ohioinsurance.gov

Honorable Ann Womer Benjamin
Director
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a target market conduct examination was conducted on the Ohio business of:

Personal Service Insurance Company NAIC# 12289.

The examination was conducted at the Company's statutory home office at:

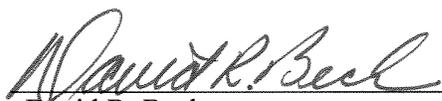
2760 Airport Drive
Columbus, Ohio 43219

And at the Company's claims office at:

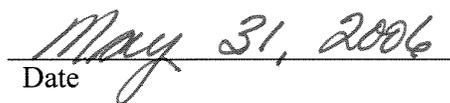
1000 River Road
Conshohocken, Pennsylvania 19428.

A report of the examination is enclosed.

Respectfully submitted,



David R. Beck
Chief, Market Conduct Division



Date



Accredited by the National Association of Insurance Commissioners (NAIC)
) Consumer Hotline: 1-800-686-1526 Fraud Hotline: 1-800-686-1527 OSHIIP Hotline: 1-800-686-1578

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FOREWORD

This examination was conducted under authority provided under Ohio Revised Code (“R.C.”) 3901.011.

SCOPE OF EXAMINATION

On August 23, 2004, the Market Conduct Division, Ohio Department of Insurance (“Department”), opened an examination into the non-financial business practices of Personal Service Insurance Company (“Company”) by sending the Company a call letter and initial request for information.

On May 16, 2005, the on-site underwriting portion of the examination began at the Company’s statutory home office in Columbus, Ohio. On June 13, 2005, the on-site claims portion of the examination began at the Company’s claims office in Conshohocken, Pennsylvania.

The examination was restricted to a review of Company activities for Ohio private passenger automobile (“automobile”) insurance policies for the period of January 1, 2004, through December 31, 2004. The examination report is reported by test and was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) and the state of Ohio’s applicable statutes and rules.

Accordingly, the examination included the following areas of the Company’s operations:

- A. Company History
- B. Company Operations
- C. Certificate of Authority
- D. Compliance
- E. Comprehensive Loss Underwriting Exchange
- F. Credit Scoring
- G. Underwriting and Rating
- H. Claims
- I. Policyholder Service

METHODOLOGY

As part of the examination, the Department’s examiners reviewed the Company’s automobile policy and claim files and the Company’s corresponding procedure manuals. This information was supplemented by interviewing Company managers and/or with written inquiries requesting clarification and/or additional information.

Only Ohio policyholders’ files were reviewed. A series of tests were designed and applied to these files to determine the Company’s level of compliance with Ohio’s insurance statutes and rules. These tests are described and the results noted in this report.

The examiners used the NAIC's standard of:

- 7% error ratio on claim files (93% compliance rate)
- 10% error ratio on all other files (90% compliance rate)

to determine whether an apparent pattern or practice of non-compliance existed for any given test. The results of each test applied to a sample are reported separately. Each test is expressed as a "yes/no" question. A "yes" response indicates compliance, and a "no" response indicates a failure to comply. A "no" response may be referred to in this report as an "exception."

In any instance where errors were noted, the examiners described the apparent error and asked the Company for an explanation. The Company responded to the examiners and either:

- Concurred with the findings,
- Had additional information for the examiners to consider, and/or
- Proposed remedial action(s) to correct the apparent deficiency.

If applicable, the examiners' recommendations are included in this report.

SAMPLING

Upon request, the Company supplied reports of policy and claim data in file formats, which could be used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. The samples were pulled from populations consisting of Ohio policies and were selected using a standard business database application that provides a true random sample given that it supplies a random starting point from which to select the sample.

COMPANY HISTORY

According to A.M. Best Report, Personal Service Insurance Company was incorporated October 11, 1967, under the laws of Ohio and also began business in 1967. On September 30, 1970, it acquired all of the assets and liabilities, including in-force business, of the Pioneer Mutual Casualty Company of Ohio, Columbus, Ohio. On September 1, 1999, Personal Service Insurance Company was purchased by GuideOne Insurance, West Des Moines, Iowa. On November 30, 2002, Personal Service Insurance Company was purchased by Arch Capital.

COMPANY OPERATIONS

A.M. Best Report states that Personal Service Insurance Company is a member of the Arch Capital Group Incorporated. Arch Capital Group Limited is a Bermuda public limited liability company that provides insurance and reinsurance on a worldwide basis through its wholly owned subsidiaries.

Arch Capital Group Limited was formed in September 2000 and became the sole shareholder of Arch Capital Group Incorporated. Arch Capital Group Limited classifies its businesses into two underwriting segments—reinsurance and insurance—and a corporate and other segment (non-underwriting). In the U.S., the principal insurance subsidiaries are Arch Insurance Company (formerly known as First American Insurance Company), Arch Excess & Surplus Insurance

Company (formerly known as Cross River Insurance Company) and Arch Specialty Insurance Company (formerly known as Rock River Insurance Company).

The principal office in the U.S. is located in New York City, with offices also located in Atlanta, Georgia, Chicago, Illinois, Kansas City, Missouri, Morristown, New Jersey, San Francisco, California, St. Paul, Minnesota, and Stamford, Connecticut. In addition, through American Independent and Personal Service Insurance Company, Arch Capital Group Limited underwrites non-standard personal automobile liability and physical damage lines of insurance, primarily in Pennsylvania and Ohio, as well as in Maryland and Delaware.

The Personal Service Insurance Company is licensed in Indiana and Ohio. The company has been writing non-standard automobile business in Ohio since 1992, following a change in the Ohio automobile insurance laws which required stricter enforcement and a reduction in uninsured motorists. Business is produced through over 540 independent agents throughout Ohio.

The Company conducts underwriting business at its Columbus, Ohio offices and conducts claims review business at its Conshohocken, Pennsylvania offices.

The Company's year-end 2003 and 2004 written premium and loss information from the Company's Financial Annual Statements is as follows:

<i>2003 Private Passenger Auto</i>	Ohio <u>Direct Written</u> \$14,273,228	Ohio <u>Incurred Losses</u> \$5,931,719
<i>2004 Private Passenger Auto</i>	Ohio <u>Direct Written</u> \$16,247,478	Ohio <u>Incurred Losses</u> \$5,617,116

As of December 31, 2004, the officers of the Company were:

President	William Lockhorn
Treasurer	Mark Keyser
Secretary	Bruce Arneson

CERTIFICATE OF AUTHORITY

The Company operates under a Certificate of Authority issued in accordance with R.C. 3929.01, which permits it to transact appropriate business as defined by R.C. 3929.01(A). In the course of the examination, the examiners determined that the Company's operations were in compliance with its Certificate of Authority.

COMPLIANCE

The Personal Service Insurance Company does not have a compliance department. Therefore, the Company President has the ultimate responsibility for compliance and quality results. The Company does not conduct internal audits, which focuses upon compliance issues.

COMPREHENSIVE LOSS UNDERWRITING EXCHANGE (C.L.U.E.)

The Company does not use C.L.U.E. information on any automobile new business risks for underwriting and rating purposes, nor does it report automobile loss information to C.L.U.E.

CREDIT SCORING

The Company does not utilize credit scoring on Ohio new business policies.

PRIVATE PASSENGER AUTOMOBILE UNDERWRITING AND RATING

Automobile New Business — Credits and Surcharges

Methodology:

The Company supplied the following report of all new Ohio auto policies with an inception date during the exam period.

- The examiners reviewed all Company procedure manuals as part of the examination process.
- The examiners selected to review a sampling of automobile new business files to test for compliance.
- The examiners reviewed all credits and surcharges, car symbols, and rate class administration.
- The examiners considered the following to be exceptions:
 1. Any credits and/or surcharges that were not applied or removed per statutes and rules or Company filings.
 2. Any vehicle or driver classifications that were applied incorrectly.
 3. Any file that was incomplete or missing.

Standard: The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plan.

Test 1: Did the Company conform to R.C. 3937.03(H) and classify drivers and vehicles per the rates and manuals of classification filed in accordance with R.C. 3937.03(A)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
9,854	100	100	0	90%	100%

The standard for compliance is 90%. The Company's new business practices were above this standard.

Test 2: Did the Company conform to R.C. 3937.03(H) and apply surcharge "credits/debits" as per the rates and manuals of classification filed in accordance with R.C. 3937.03(A)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
9,854	100	100	0	90%	100%

The standard for compliance is 90%. The Company’s handling practices were above this standard.

In-Force Automobile Policies — Credits and Surcharges

Methodology:

The Company supplied a report of all Ohio in-force automobile policies with premium surcharges and/or premium credits that occurred during the examination period.

- The examiners reviewed all Company procedure manuals as part of the examination process.
- The examiners selected a sampling of existing business files to test for compliance.
- The examiners considered the following to be exceptions:
 1. Any credits and/or surcharges not applied or removed per statutes and rules or Company filings.
 2. Any file that was incomplete or missing.

Standard: Credits and deviations are consistently applied on a non-discriminatory basis.

Test 1: Did the Company conform to R.C. 3937.03(H) and classify drivers and vehicles per the rates and manuals of classification filed in accordance with R.C. 3937.03(A)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
6,671	100	100	0	90%	100%

The standard for compliance is 90%. The Company’s surcharges and credits practices were above this standard

Test 2: Did the Company conform to R.C. 3937.03(H) and apply surcharge “credits/debits” as per the rates and manuals of classification filed in accordance with R.C. 3937.03(A)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
6,671	100	100	0	90%	100%

The standard for compliance is 90%. The Company’s surcharges and credits practices were above this standard

Policy Cancellation and Nonrenewal

Methodology:

All Ohio automobile policies in-force more than 90 days and subsequently terminated at the Company’s initiative, for any reason, during the examination period were supplied by the Company.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners segmented the terminated policy file by termination reason into four populations:
 1. Policies canceled by the Company for non-payment of premium;
 2. Policies canceled by the Company for underwriting reasons;

- 3. Policies not renewed by the Company; and,
- 4. Policies not renewed by the Company due to terminated agents.
- The examiners selected a random sample from each population.
- The examiners considered any file that was incomplete or missing to be an exception.

1. Automobile Policy Cancellations — Non-Pay Cancellations

Standard: Cancellation/non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.

Test: Did the Company cancellation procedures conform to R.C. 3937.30, R.C. 3937.31, R.C. 3937.32 and R.C. 3937.33?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any policy that terminated for non-payment of premium with less than ten days notice.
 2. Any policy termination notice that did not contain the reason for cancellation or that did not include a statement that such explanation would be provided within five days after the insured’s written request.
 3. Any notice that did not include the “right to appeal” statement.

Findings:

Population	Sample	Yes	No	Standard	Compliance
13,457	100	99	1	90%	99%

The standard of compliance is 90%. The Company’s cancellation practices were above this standard.

2. Automobile Policy Cancellations — Underwriting Cancellations

Standard: Cancellation/non-renewal and declination notices comply with policy provisions and state laws and company guidelines.

Test: Did the Company cancellation procedures conform to R.C. 3937.30, R.C. 3937.31, R.C. 3937.32 and R.C. 3937.33?

Test Methodology:

- The examiners selected the entire population of 71 files to test for compliance.
 1. A total of 39 files were removed from the sample because they were either cancelled in the initial 90 days or they were not underwriting cancellations.
- The examiners considered the following to be exceptions:
 1. Any policy that terminated with less than 30 days notice.
 2. Any policy termination notice that did not contain the reason for cancellation or that did not include a statement that such explanation would be provided within five days after the insured’s written request.
 3. Any policy termination notice that did not include the “right to appeal” statement.

4. Any policy termination notice that failed to contain the required information, including the policy number, and was not sent to the last known address.
5. Any notice on which the reason for cancellation did not conform to R.C. 3937.31, R.C. 3937.32 and R.C. 3937.33.

Findings:

Population	Sample	Yes	No	Standard	Compliance
71	32	22	10	90%	69%

The standard for compliance is 90%. The Company’s cancellation practices were below this standard.

Comments:

The Company agrees with the Department’s examination findings with regards to the allowable time required to cancel a policy within the underwriting period and how much notice time to be given is necessary. It is noted that the Company has corrected the problem with a new training guide and revision of the applicable section of the Underwriters Training Manual. The Company has provided the Department with a copy of the new training guide and the applicable section of the Underwriters Training Manual. The Company affirms that it will conduct internal audits regarding the thirty-day requirement and cancellation of policies for reasons not permitted under R.C. 3937.31, and forward the results to the Department upon completion of the First Quarter Audit.

3. Automobile Policy Non-Renewals — Underwriting Non-Renewals

Standard: Cancellation/non-renewal and declination notices comply with policy provisions and state laws and company guidelines.

Test: Did the Company’s non-renewal procedures conform to R.C. 3937.30, R.C. 3937.31, and R.C. 3937.34?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any policy that was not non-renewed in two-year increments.
 2. Any policy that was non-renewed with less than 30 days notice prior to expiration date of the policy.
 3. Any non-renewal for which the reason for non-renewal was not provided at the time of notice or that did not include a statement that the notice would be sent within five days after the insured’s written request.
 4. Any policy non-renewal notice that failed to contain the required information, including the policy number, and was not sent to the last known address.

Findings:

Population	Sample	Yes	No	Standard	Compliance
184	50	43	7	90%	86%

The standard for compliance is 90%. The Company’s cancellation practices were below this standard.

Comments:

The Company acknowledges the Department's finding that its non-renewal procedures were in violation of the "two year" rule and the thirty-day notice requirement.

The Company indicates that it is currently retraining the underwriting staff on:

- Compliance with the "two year" rule; and
- The thirty-day notice requirement.

Additionally, the Company has provided the Department with a new section of its training manual.

The Company states that, for the purpose of compliance to R.C. 3937.31, R.C. 3937.32 and R.C. 3937.34, an internal audit will be performed within the next 90 days to assess the effectiveness of the training. The Company will forward the results to the Department upon completion of the First Quarter Audit to confirm that it is complying with these statutes.

GENERAL CLAIM PRACTICES

Status of Investigations

To assure that procedures were in place to comply with Ohio Adm.Code 3901-1-54(G)(1), the examiners reviewed the Company's claims procedure manuals. The examiners found the Company was in compliance with its procedures for accepting or denying claims within 21 days after receiving properly executed proof of loss. This area was also tested by sample under the claims section.

Denial of Coverage

To assure that procedures were in place to comply with Ohio Adm.Code 3901-1-54(G)(2), the examiners reviewed the Company's claims procedure manuals and denial forms. The examiners found that the Company was in compliance with procedures applicable to denial of claims and the requirement to state the specific provision, condition, or exclusion when utilized. This area was also tested by sample under the claims section.

Statute of Limitations

To assure that procedures were in place to comply with Ohio Adm.Code 3901-1-54(G)(5), the examiners reviewed the Company's claims procedure manuals. The Company was compliant with procedures applicable to the required notification to unrepresented claimants at least 60 days prior to expiration of a statute of limitation or contractual limit.

Procedure Manual Review

The examiners reviewed the Company's claims procedure manual to evaluate its overall claims handling practices. There were two purposes for this review:

1. To assure the Company's procedures were compliant with statutes and rules; and,
2. To assure procedures were being followed by the claims adjusters.

The examiners determined that the Company's actual implementation of its claim handling practices was compliant with required statutes and rules. The procedures were tested by sample under the claims section.

Fraud Reporting and Anti-Fraud Plan

To assure that procedures were in place to comply with the fraud reporting requirements of Ohio Adm.Code 3901-1-54(G)(1), and R.C. 3999.41, the examiners reviewed the Company's claims procedure manual. The Company was in compliance. The Company's fraud plan specifically states that the Fraud Division is to be notified if the Company believes a claimant was involved in possible fraud.

PRIVATE PASSENGER AUTOMOBILE CLAIM SETTLEMENTS

Auto Collision Partial Losses Paid

Test Methodology:

The Company supplied a report of all Ohio auto collision partial loss files that were closed during the examination period.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review a sampling of automobile claim files to test for compliance.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners considered the following to be exceptions:
 1. Any required contact or investigation that was not done within the required time frames.
 2. Any Company estimate that did not contain the location of the salvage dealer when "like kind and quality" parts were involved.
 3. Any Company estimate that did not contain the exact statutory wording when Non-Original Equipment Manufacturer Aftermarket Crash Parts were involved.
 4. Any file that was incomplete or missing.

1. Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Did the Company make timely contact (within 10 days from receipt of notice) with claimants following the report of a claim as specified by Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- The examiners considered initial contact to have been made by the Company upon receiving any notification from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim on which the Company did not contact the claimant within ten days from the date of notification of the claim to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
535	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

2. Timeliness of Claim Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (10 days after acceptance of the claim) to first party claimants as specified by Ohio Adm.Code 3901-1-54(G)(6)?

Test Methodology:

- Where a release by a lienholder or a salvage title was required to settle an automobile claim, the examiners did not consider the claim “payable” until the claimant submitted the required document(s).
- The examiners considered any claim on which the Company failed to make payment to a first party claimant in ten days once the amount was known and agreed to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
535	50	49	1	93%	98%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

3. Use of “Like Kind and Quality” Parts In Repair Estimates

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: When applicable, did the written estimate by or on behalf of the insurer clearly indicate the location of the licensed salvage dealer where the “like kind and quality” (“LKQ”) parts are to be obtained as specified by Ohio Adm.Code 3901-1-54(H)(4)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any claim on which the Company failed to clearly show on its repair estimate that LKQ parts were used in the repair estimate.
 2. Any claim on which the Company failed to clearly show on its repair estimate the location of the licensed salvage dealer where the LKQ parts were to be obtained.

Findings:

Population	Sample	Yes	No	Standard	Compliance
535	50	48	2	93%	96%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

4. Use of Non-Original Equipment Manufacturer Parts In Repair Estimates

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: When applicable, did the written estimate by or on behalf of the insurer clearly indicate the use of Non-Original Equipment Manufacturer Aftermarket Crash Parts (“Non-OEM”) in accordance with Ohio Adm.Code 3901-1-54(H)(4)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any claim on which the Company failed to clearly show on its repair estimate when Non-OEM parts were included in the repair estimate.
 2. Any claim on which the Company’s written estimate did not contain the following language required by R.C. 1345.81: “This estimate has been prepared based upon the use of one or more aftermarket crash parts supplied by a source other than the manufacturer of your motor vehicle. Warranties applicable to these aftermarket crash parts are provided by the parts manufacturer or distributor rather than by your own motor vehicle manufacturer.”

Findings:

Population	Sample	Yes	No	Standard	Compliance
535	50	47	3	93%	94%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

Auto Collision Total Losses Paid

Test Methodology:

The Company supplied a report of all Ohio auto collision total loss files that were closed during the exam period.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review a sampling of automobile claim files to test for compliance.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company’s claim settlement practices.
- The examiners considered the following to be exceptions:
 1. Any required contact or investigation that was not done within the required time frame.
 2. Any calculation of actual cash value that was not calculated as required.
 3. Any claim file that did not show any indication of sales tax being paid as required.
 4. Any file that was incomplete or missing.

Standard 1: The initial contact by the Company with the claimant is within required time frames.

1. Timely Initial Contact

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- The examiners considered initial contact to have been made by the Company upon receiving any notification from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim on which the Company did not contact the claimant within ten days from the date of notification of the claim to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
177	50	49	1	93%	98%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

2. Timeliness of Claim Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payment (10 days after acceptance of the claim) to first party claimants per Ohio Adm.Code 3901-1-54(G)(6)?

Test Methodology:

- The examiners considered any claim on which the claim payment was not made in the required time frame to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
177	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

3. Vehicle Total Loss — Actual Cash Value

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: For claims closed prior to 11/12/2004, did the Company calculate actual cash value (“ACV”) on total losses in a manner that conformed to Ohio Adm.Code 3901-1-54(H)(6)(a)-(d) and Ohio Adm.Code 3901-1-54 (H)(7)(a)-(e)? For claims closed 11/12/2004 and later, did the Company calculate actual cash value (“ACV”) on total losses in a manner that conformed to Ohio Adm.Code 3901-1-54(H)(7)(d)-(e)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. For claims closed prior to 11/12/2004, any claim on which the Company’s ACV calculation did not conform to the requirements of Ohio Adm.Code 3901-1-54(H)(6)(a)-(d) and Ohio Adm.Code 3901-1-54(H)(7)(a)-(e).

2. For claims closed 11/12/2004 and later, any claim on which the Company's ACV calculation did not conform to the requirements of Ohio Adm.Code 3901-1-54(H)(7)(d)-(e).
3. Any claim which the Company failed to adequately document the total loss settlement valuations.

Findings:

Population	Sample	Yes	No	Standard	Compliance
177	50	50	0	93%	100%

The standard of compliance is 93%. The Company's claim practices were above this standard.

4. Vehicle Total Loss — Sales Tax

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: For claims closed prior to 11/12/2004, did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H(7)(e)? For claims closed 11/12/2004 and later, did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H(7)(f)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. For claims closed prior to 11/12/2004, any claim on which the Company's sales tax payment/reimbursement did not conform to the requirements of Ohio Adm.Code 3901-1-54(H)(6)(c) and Ohio Adm.Code 3901-1-54(H)(7)(e).
 2. For claims closed 11/12/2004 and later, any claim on which the Company's sales tax payment/reimbursement did not conform to the requirements of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H(7)(f).
 3. Any claim on which the Company failed to use local sales tax rates.

Findings:

Population	Sample	Yes	No	Standard	Compliance
177	50	49	1	93%	98%

The standard of compliance is 93%. The Company's claim practices were above this standard.

Property Damage Partial Losses Paid

Test Methodology:

The Company supplied a report of all Ohio property damage partial loss files that were closed during the examination period.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected a sampling of files to test for compliance.
- The examiners reviewed the claim files to verify dates in the claims settlement process.

- The examiners reviewed the claim files to verify the Company’s claim settlement practices.
- The examiners considered any file that was incomplete or missing to be an exception.

1. Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Did the Company make timely contact (within 10 days from receipt of notice) with claimants following the report of a claim as specified by Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- The examiners considered initial contact to have been made by the Company upon receiving any notification from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim on which the Company did not contact the claimant within ten days from the date of notification of the claim to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,187	50	49	1	93%	98%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

2. Timeliness of Claim Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (5 working days after acceptance of the claim) to third party claimants as specified by Ohio Adm.Code 3901-1-07(C)(16)?

Test Methodology:

- Where a release by a lienholder or a salvage title was required to settle an automobile claim, the examiners did not consider the claim “payable” until the claimant submitted the required document(s).
- The examiners considered any claim on which Company failed to make payment to a third party claimant in five working days once the amount was known and agreed to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,187	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

3. Use of “Like Kind and Quality” Parts In Repair Estimates

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: When applicable, did the written estimate by or on behalf of the insurer clearly indicate the location of the licensed salvage dealer where the “like kind and quality” (“LKQ”) parts are to be obtained as specified by Ohio Adm.Code 3901-1-54(H)(4)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any claim on which the Company failed to clearly show on its repair estimate that LKQ parts were used in the repair estimate.
 2. Any claim on which the Company failed to clearly show on its repair estimate the location of the licensed salvage dealer where the LKQ parts were to be obtained.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,187	50	43	7	93%	86%

The standard of compliance is 93%. The Company’s claim practices were below this standard.

Comments:

The Company is in agreement with the Department’s examination findings concerning the use of “Like Kind and Quality” parts in repair estimates and has taken steps to rectify this deficiency. The Company has provided the Department with a copy of an email, which was sent to all independent appraisal firms utilized by Personal Service Insurance Company in Ohio. The email directs all of the independent appraisal firms used by Personal Service Insurance Company, in every instance, to indicate the location of the licensed salvage dealer where the “Like Kind and Quality” parts are to be obtained in compliance with Ohio Adm.Code 3901-1-54(H).

The Company has also submitted written documentation that it has instructed all of its independent appraisal firms to comply with Ohio Adm.Code 3901-1-54, which states that the written estimate on behalf of the insurer must clearly indicate the use of Non-Original Equipment Manufacturer Aftermarket Crash Parts when applicable.

4. Use of Non-Original Equipment Manufacturer Parts In Repair Estimates

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: When applicable, did the written estimate by or on behalf of the insurer clearly indicate the use of Non-Original Equipment Manufacturer Aftermarket Crash Parts (“Non-OEM”) in accordance with Ohio Adm.Code 3901-1-54(H)(4)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any claim on which the Company failed to clearly show on its repair estimate when Non-OEM parts were included in the repair estimate.
 2. Any claim on which the Company’s written estimate did not contain the following language required by R.C. 1345.81: “This estimate has been prepared based upon the use of one or more aftermarket crash parts supplied by a source other than the manufacturer of your motor vehicle.

Warranties applicable to these aftermarket crash parts are provided by the parts manufacturer or distributor rather than by your own motor vehicle manufacturer.”

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,187	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices were below this standard.

Property Damage Partial Loss Financial Responsibility Bond

Test Methodology:

The Company supplied a report of all Ohio property damage financial responsibility bond files that had a first payment date during the exam period

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected the entire population of 84 files to test for compliance.
 1. A total of 15 files were removed from the sample because the claim was a total loss or another carrier processed the claim.
- The examiners reviewed the claim files to verify dates of first payment.
- The examiners reviewed the claim files to verify the Company’s claims activities.
- The examiners considered any file that was incomplete or missing to be an exception.

1. Timely Initial Contact

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- The examiners considered initial contact to have been made by the Company upon receiving any notification from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim on which the Company did not contact the claimant within ten days from the date of notification of the claim to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
84	69	66	3	93%	96%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

2. Timeliness of Claim Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (5 working days from receipt of agreement) to third party claimants as specified by Ohio Adm.Code 3901-1-07(C)(16)?

Test Methodology:

- Where a release by a lienholder or a salvage title was required to settle an automobile claim, the examiners did not consider the claim “payable” until the claimant submitted the required document(s).
- The examiners considered any claim on which Company failed to make payment to a third party claimant in five working days once the amount was known and agreed to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
84	69	67	2	93%	97%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

3. Property Damage Partial Loss Financial Responsibility Bond — Use of “Like Kind and Quality” Parts In Repair Estimates

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: When applicable, did the written estimate by or on behalf of the insurer clearly indicate the location of the licensed salvage dealer where the “like kind and quality” (“LKQ”) parts are to be obtained as specified by Ohio Adm.Code 3901-1-54(H)(4)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any claim on which the Company failed to clearly show on its repair estimate that LKQ parts were used in the repair estimate.
 2. Any claim on which the Company failed to clearly show on its repair estimate the location of the licensed salvage dealer where the LKQ parts were to be obtained.

Findings:

Population	Sample	Yes	No	Standard	Compliance
84	69	66	3	93%	96%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

4. Property Damage Partial Loss Financial Responsibility Bond — Use of Non-Original Equipment Manufacturer Parts In Repair Estimates

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: When applicable, did the written estimate by or on behalf of the insurer clearly indicate the use of Non-Original Equipment Manufacturer Aftermarket Crash Parts (“Non-OEM”) in accordance with Ohio Adm.Code 3901-1-54(H)(4)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any claim on which the Company failed to clearly show on its repair estimate when Non-OEM parts were included in the repair estimate.

2. Any claim on which the Company’s written estimate did not contain the following language required by R.C. 1345.81: “This estimate has been prepared based upon the use of one or more aftermarket crash parts supplied by a source other than the manufacturer of your motor vehicle. Warranties applicable to these aftermarket crash parts are provided by the parts manufacturer or distributor rather than by your own motor vehicle manufacturer.”

Findings:

Population	Sample	Yes	No	Standard	Compliance
84	69	67	2	93%	97%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

Property Damage Total Losses Paid

Test Methodology:

The Company supplied a report of all Ohio property damage total loss files that had a date closed during the exam period

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review a sampling of automobile claim files to test for compliance.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company’s claim settlement practices.
- The examiners considered any file that was incomplete or missing to be an exception.

1. Timely Initial Contact

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- The examiners considered initial contact to have been made by the Company upon receiving any notification from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim on which the Company did not contact the claimant within ten days from the date of notification of the claim to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
164	50	49	1	93%	98%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

2. Timeliness of Claim Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (5 working days from receipt of such agreement) to third party claimants as specified by Ohio Adm.Code 3901-1-07(C)(16)?

Test Methodology:

- Where a release by a lienholder or a salvage title was required to settle an automobile claim, the examiners did not consider the claim “payable” until the claimant submitted the required document(s).
- The examiners considered any claim on which Company failed to make payment to a third party claimant in five working days once the amount was known and agreed to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
164	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

3. Property Damage Total Loss — Actual Cash Value

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: For claims closed prior to 11/12/2004, did the Company calculate actual cash value (“ACV”) on total losses in a manner that conformed to Ohio Adm.Code 3901-1-54(H)(6)(a)-(d) and Ohio Adm.Code 3901-1-54 (H)(7)(a)-(e)? For claims closed 11/12/2004 and later, did the Company calculate actual cash value (“ACV”) on total losses in a manner that conformed to Ohio Adm.Code 3901-1-54(H)(7)(d)-(e)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. For claims closed prior to 11/12/2004, any claim on which the Company’s ACV calculation did not conform to the requirements of Ohio Adm.Code 3901-1-54(H)(6)(a)-(d) and Ohio Adm.Code 3901-1-54(H)(7)(a)-(e).
 2. For claims closed 11/12/2004 and later, any claim on which the Company’s ACV calculation did not conform to the requirements of Ohio Adm.Code 3901-1-54(H)(7)(d)-(e).
 3. Any claim which the Company failed to adequately document the total loss settlement valuations.

Findings:

Population	Sample	Yes	No	Standard	Compliance
164	50	47	3	93%	94%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

4. Property Damage Total Loss — Sales Tax

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: For claims closed prior to 11/12/2004, did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H(7)(e)? For claims closed 11/12/2004 and later, did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H(7)(f)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. For claims closed prior to 11/12/2004, any claim on which the Company's sales tax payment/reimbursement did not conform to the requirements of Ohio Adm.Code 3901-1-54(H)(6)(c) and Ohio Adm.Code 3901-1-54(H)(7)(e).
 2. For claims closed 11/12/2004 and later, any claim on which the Company's sales tax payment/reimbursement did not conform to the requirements of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H(7)(f).
 3. Any claim on which the Company failed to use local sales tax rates.

Findings:

Population	Sample	Yes	No	Standard	Compliance
164	50	41	9	93%	82%

The standard of compliance is 93%. The Company's claim practices were below this standard.

Comments:

The Company confirms the Department's Property Damage Total Loss - Sales Tax examination findings. The Company's review discovered that appropriate sales tax may not have been processed for certain insureds and claimants whose vehicles had been declared a total loss as a result of an automobile loss in Ohio. The source of this oversight was an error in the revision of the Company's "Total Loss Settlement Form Letter" by an Inside Property Supervisor in early 2004. While making enhancements to the form letter, the "Sales Tax Notification" paragraph was inadvertently deleted from the master copy of the "Total Loss Settlement Form Letter." Therefore, from January 2004 to October 2004, incorrect information was relayed to claimants concerning resolution of their Automobile Total Losses. Once the Company became aware of the situation, it conducted a complete and thorough review of all total loss claim files for the examination period of January 1, 2004, through December 31, 2004 to properly and fairly resolve the error. A "Tax Reimbursement Letter" was sent to applicable insureds and claimants. The Company recalculated sales tax on all property damage total losses for 2004 to current, which resulted in proper tax reimbursement being paid to all individuals who responded to the "Tax Reimbursement Letter."

A correct "Total Loss Form Letter" was distributed to the Property Unit Staff upon discovery of the oversight. The Property Unit Staff has received a refresher training class on the processing and resolution of total losses. In addition, the Company has implemented a Quality Review Process to audit and review claim files to verify that sales tax is being paid properly. The Company will forward a summary of the results of its Quality Review Process within the next six months.

Property Damage Total Loss Financial Responsibility Bond

Test Methodology:

The Company supplied a report of all Ohio property damage financial responsibility bond files that had a first payment date during the exam period

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected the entire population of 11 files to test for compliance.
 1. A total of 4 files were removed from the sample because they were not a total loss or another carrier processed the claim.
- The examiners reviewed the claim files to verify dates of first payment.
- The examiners reviewed the claim files to verify the Company's claims activities.
- The examiners considered any file that was incomplete or missing to be an exception.

1. Timely Initial Contact

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- The examiners considered initial contact to have been made by the Company upon receiving any notification from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim on which the Company did not contact the claimant within ten days from the date of notification of the claim to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
11	7	7	0	93%	100%

The standard of compliance is 93%. The Company's claim practices were above this standard.

2. Timeliness of Claim Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (5 working days after acceptance of such agreement) to third party claimants as specified by Ohio Adm.Code 3901-1-07(C)(16)?

Test Methodology:

- Where a release by a lienholder or a salvage title was required to settle an automobile claim, the examiners did not consider the claim "payable" until the claimant submitted the required document(s).
- The examiners considered any claim on which Company failed to make payment to a third party claimant in five working days once the amount was known and agreed to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
11	7	7	0	93%	100%

The standard of compliance is 93%. The Company's claim practices were above this standard.

3. Property Damage Total Loss Financial Responsibility Bond — Actual Cash Value

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: For claims closed prior to 11/12/2004, did the Company calculate actual cash value ("ACV") on total losses in a manner that conformed to Ohio Adm.Code 3901-1-54(H)(6)(a)-(d) and Ohio Adm.Code 3901-1-54 (H)(7)(a)-(e)? For claims closed 11/12/2004 and later, did the Company calculate actual cash value ("ACV") on total losses in a manner that conformed to Ohio Adm.Code 3901-1-54(H)(7)(d)-(e)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. For claims closed prior to 11/12/2004, any claim on which the Company's ACV calculation did not conform to the requirements of Ohio Adm.Code 3901-1-54(H)(6)(a)-(d) and Ohio Adm.Code 3901-1-54(H)(7)(a)-(e).
 2. For claims closed 11/12/2004 and later, any claim on which the Company's ACV calculation did not conform to the requirements of Ohio Adm.Code 3901-1-54(H)(7)(d)-(e).
 3. Any claim which the Company failed to adequately document the total loss settlement valuations.

Findings:

Population	Sample	Yes	No	Standard	Compliance
11	7	7	0	93%	100%

The standard of compliance is 93%. The Company's claim practices were above this standard.

4. Property Damage Total Loss Financial Responsibility Bond — Sales Tax

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: Did the Company conform to sales tax provisions as specified by Ohio Adm.Code 3901-1-54(H)(6)(c) and Ohio Adm.Code 3901-1-54(H)(7)(e)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any claim on which the Company's sales tax payment/reimbursement did not conform to the requirements of Ohio Adm.Code 3901-1-54(H)(6)(c) and Ohio Adm.Code 3901-1-54(H)(7)(e).
 2. Any claim on which the Company failed to use local sales tax rates.

Findings:

Population	Sample	Yes	No	Standard	Compliance
11	7	7	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

Automobile Bodily Injury Claims Paid

Methodology:

The Company supplied reports of all Ohio automobile bodily injury claims closed during the exam period.

- The examiners reviewed all Company procedure manuals as part of the exam process.
- The examiners reviewed the claim files to verify dates of first payment.
- The claim files were reviewed to verify dates in the claim settlement process.
- The examiners selected to review a sampling of automobile bodily injury claims to test for compliance.
- The examiners considered any file that was incomplete or missing to be an exception.

1. Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Did the Company make timely contact (within 10 days from receipt of notice) with claimants following the report of a claim as specified by Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- The examiners considered initial contact to have been made by the Company upon receiving any notification from the insured, third party claimant, and/or legal representative.
- The examiners any claim on which the Company did not contact the claimant within ten days from the date of notification of the claim to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
562	50	48	2	93%	96%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

2. Timeliness of Claim Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (5 working days from receipt of agreement) to third party claimants as specified by Ohio Adm.Code 3901-1-07(C)(16)?

Test Methodology:

- The examiners considered any claim on which Company failed to make payment to a third party claimant in five working days once the amount was known and agreed to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
562	50	48	2	93%	96%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

3. Fair and Reasonable Claim Settlement Amounts

Standard: Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

Test: Did the Company offer to claimants, in which liability has become reasonably clear, amounts which were fair and reasonable as shown by the insurer’s investigation of the claim, providing the amounts offered were within policy limits, in accordance with policy provisions and in compliance with Ohio Adm.Code 3901-1-07(C)(6)?

Test Methodology:

- The examiners considered any claim on which the Company’s claim file did not document that the settlement amount offered and/or paid was fair and reasonable to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
562	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

4. Application of Comparative Negligence

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: Did the Company’s claim file document the application of comparative negligence and disclose such information upon the claimant’s written request as specified by Ohio Adm.Code 3901-1-54(G)(9)?

Test Methodology:

- The examiners considered any claim on which the Company applied comparative negligence and failed to adequately document the claim file or failed to provide this information to the claimant upon request to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
562	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

Uninsured/Underinsured Motorists Claims Paid

Methodology:

The Company supplied reports of all Ohio automobile paid uninsured/underinsured motorists claims closed during the exam period.

- The examiners reviewed all Company procedure manuals as part of the exam process.
- The examiners selected the entire population of 93 files to test for compliance.
 1. A total of 7 files were removed from the sample because the claim settlement date was outside the examination period.
- The examiners reviewed the claim files to verify dates of first payment.
- The claim files were reviewed to verify dates in the claim settlement process.
- The examiners considered any file that was incomplete or missing to be an exception.

1. Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Did the Company make timely contact (within 10 days from receipt of notice) with claimants following the report of a claim as specified by Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- The examiners considered initial contact to have been made by the Company upon receiving any notification from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim on which the Company did not contact the claimant within ten days from the date of notification of the claim to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
93	86	84	2	93%	98%

The standard of compliance is 93%. The Company's claim practices were above this standard.

2. Timeliness of Claim Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (10 days after acceptance) to first party claimants as specified by Ohio Adm.Code 3901-1-54(G)(6)?

Test Methodology:

- The examiners considered any claim on which Company failed to make payment to a first party claimant in ten working days once the amount was known and agreed to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
93	86	85	1	93%	99%

The standard of compliance is 93%. The Company's claim practices were above this standard.

3. Fair and Reasonable Claim Settlement Amounts

Standard: Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

Test: Did the Company offer to claimants, in which liability has become reasonably clear, amounts which were fair and reasonable as shown by the insurer's investigation of the claim, providing the amounts offered were within policy limits, in accordance with policy provisions and in compliance with Ohio Adm.Code 3901-1-07(C)(6)?

Test Methodology:

- The examiners considered any claim on which the Company's claim file did not document that the settlement amount offered and/or paid was fair and reasonable to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
93	86	86	0	93%	100%

The standard of compliance is 93%. The Company's claim practices were above this standard.

4. Application of Comparative Negligence

Standard: Claims are properly handled in accordance with policy provisions and applicable rules and regulations.

Test: Did the Company's claim file document the application of comparative negligence and disclose such information upon the claimant's written request as specified by Ohio Adm.Code 3901-1-54(G)(9)?

Test Methodology:

- The examiners considered any claim on which the Company applied comparative negligence and failed to adequately document the claim file or failed to provide this information to the claimant upon request to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
93	86	86	0	93%	100%

The standard of compliance is 93%. The Company's claim practices were above this standard.

Collision Closed Without Payment Claims — Settlement Standards**Methodology:**

The Company supplied a report of all Ohio closed automobile closed without payment claims that occurred during the exam period.

- The examiners reviewed all Company procedure manuals as part of the exam process.
- The examiners selected the entire population of 3 files to test for compliance.
 1. A total of 1 file was removed from the sample because the claim was not closed without payment.
- The claims files were reviewed to verify dates in the claims settlement process.
- A claim files were reviewed to verify the Company’s claims settlement practices.
- The examiners considered the following to be exceptions:
 1. The file did not comply with the section of the rule tested; or
 2. Any file that was incomplete or missing.

Standard: Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

Test: Did the Company conform to the standards for denied claims as required in Ohio Adm.Code 3901-1-54(G)(1)-(3) and (5)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
3	2	2	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices were above this standard.

Property Damage Claims Denied

Methodology:

The Company supplied a report of all Ohio property damage claims that were denied during the exam period.

- The examiners reviewed all Company procedure manuals as part of the exam process.
 - The examiners selected the entire population of 65 files to test for compliance.
 1. A total of 9 files were removed from the sample due to the denials being outside the examination period and a loss occurring outside of Ohio.
-
- The claims files were reviewed to verify dates in the claims denial process.
 - A claim files were reviewed to verify the Company’s claims denial practices.
 - The examiners considered the following to be exceptions:
 1. The Company denied the claim based solely on claimant not providing proof of loss on the insurer’s usual form.
 2. Any claim on which a policy provision, condition, or exclusion was utilized to deny the claim, but no reference was made to the specific provision, condition, or exclusion.
 3. The Company failed to notify the claimant of the expiration of any statute of limitations when legal counsel did not represent claimant.
 4. The Company denied payments solely based on the insured’s request to do so, without independent evaluation of insured’s liability.
 5. Any file that was incomplete or missing.

Standard: Denied claims are handled in accordance with policy provisions and state law.

Test: Did the Company's claim denial procedures conform to Ohio Adm.Code 3901-1-54(G)(1)-(2) and (5), and Ohio Adm.Code 3901-1-07(C)(14)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
65	56	56	0	93%	100%

The standard of compliance is 93%. The Company's claim practices were above this standard.

Bodily Injury Claims Denied

Methodology:

The Company supplied a report of all Ohio bodily injury claims that were denied during the exam period.

- The examiners reviewed all Company procedure manuals as part of the exam process.
- The examiners selected the entire population of 27 files to test for compliance.
 1. A total of 3 files were removed from the sample due to the loss occurring outside of Ohio and claim was not a denial.
- The claims files were reviewed to verify dates in the claims denial process.
- A claim files were reviewed to verify the Company's claims denial practices.
- The examiners considered the following to be exceptions:
 1. The Company denied the claim based solely on claimant not providing proof of loss on the insurer's usual form.
 2. Any claim on which a policy provision, condition, or exclusion was utilized to deny the claim, but no reference was made to the specific provision, condition, or exclusion.
 3. The Company denied a claim because of consideration that others should assume the responsibility of the payment.
 4. The Company failed to notify the claimant of the expiration of any statute of limitations when legal counsel did not represent claimant.
 5. The Company denied payments solely based on the insured's request to do so without independent evaluation of insured's liability.
 6. Any file that was incomplete or missing.

Standard: Denied claims are handled in accordance with policy provisions and state law.

Test: Did the Company conform to the standard for denial/closed-without-payment of claims as required in Ohio Adm.Code 3901-1-54(G)(1)-(3) and (5), and Ohio Adm.Code 3901-1-07(C)(14)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
27	24	24	0	93%	100%

The standard of compliance is 93%. The Company's claim practices were above this standard.

Subrogation Recovery

Methodology:

The Company supplied a report of all paid automobile subrogation claims files closed during the examination period for which the Companies made demands to third parties on paid collision losses.

- The examiners reviewed all Company procedure manuals as part of the exam process.
- The examiners selected the entire population of 46 files to test for compliance.
 1. A total of 12 files were removed from the sample due to being outside the examination period or the claim is still open.
- The claims files were reviewed to verify the Company's claims settlement practices.
- The examiners considered the following to be exceptions:
 1. Any subrogation on which the Company did not return the first party claimant's deductible upon recovery of its subrogation demand.
 2. Any subrogation on which partial recovery occurred, but the Company did not return the partial amount recovered.
 3. Any file that was incomplete or missing.

Standard: To assure prompt, fair, and equitable settlements, an insurer shall include the first party claimant's deductible, if any, in subrogation demands.

Test: Did the Company include the first party claimant's deductible, if any, in its subrogation demands to conform with Ohio Adm.Code 3901-1-54(H)(10)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
46	34	34	0	93%	100%

The standard of compliance is 93%. The Company's claim practices were above this standard.

POLICYHOLDER SERVICES

Consumer Complaints

The examiners reviewed a listing of 20 complaints for the Personal Service Insurance Company on file with the Consumer Services Division of the Ohio Department of Insurance, for complaints filed during the examination period. Of the 20 complaints, all were identified as complaints for the Company.

- The examiners reviewed all Company complaint procedure manuals and internal bulletins as part of the examination process.
- The examiners reviewed the complaint files to determine if any trends exist for any particular line of business or for any product/service provided by the Company.

The Company supplied a list of Department complaints, which was compared to the complaints on file with Consumer Services Division, to verify accuracy of reporting by the Company.

The basis for the complaints are as follows:

Claim Delay	11	55%
Unsatisfactory Settlement Offer	5	25%
Claim Handling Issue	2	10%
Claim Denial	1	5%
Premium Refund	1	5%

The Company also tracks internal complaints that do not result in ODI complaints.

Comments:

The majority of the complaints reviewed focused on claim settlement delays.

The examiners found that the nature and volume of complaints indicates that claim handling procedures need to be scrutinized by the Company. As a result of the Department’s findings, an increased emphasis on claims customer service has been instituted by a new Claims Manager and Claims Supervisor to assure compliance with Ohio Adm.Code 3901-1-54(G)(6) and Ohio Adm.Code 3901-1-07(C)(16).

PERSONAL SERVICE INSURANCE COMPANY SUMMARY

The examination found the Company to be out of compliance in the following areas:

<u>Areas of Review</u>	Compliance Standard	Compliance Rate
UNDERWRITING AND RATING		
Automobile Policy Cancellations – Underwriting Cancellations		
Did the Company cancellation procedures conform to R.C. 3937.30, R.C. 3937.31, R.C. 3937.32 and R.C. 3937.33?	90%	69%
Automobile Policy Non-Renewals – Underwriting Non-Renewals		
Did the Company’s non-renewal procedures conform to R.C. 3937.30, R.C. 3937.31, R.C. 3937.32, and R.C. 3937.34?	90%	86%
CLAIM SETTLEMENTS		
Automobile Paid Claims		
Property Damage Partial Losses Paid		
When applicable, did the written estimate by or on behalf of the insurer clearly indicate the location of the licensed salvage dealer where the “like kind and quality” (“LKQ”) parts are to be obtained as specified by Ohio Adm.Code 3901-1-54(H)(4)?	93%	86%
Property Damage Total Losses Paid		
For claims closed prior to 11/12/2004, did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H)(7)(e)? For claims closed 11/12/2004 and later, did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H)(7)(f)?	93%	82%

This concludes the report of the Market Conduct Examination of Personal Service Insurance Company. The examiners, John Pollock, Roger Hinkle, and Angie Dingus would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



Larry C. Stovall
Examiner-in-Charge (Acting)
for Brett Helf



Date

STATE OF OHIO
DEPARTMENT OF INSURANCE
2100 Stella Court
Columbus, Ohio 43215

IN THE MATTER OF : **CONSENT ORDER**
THE PERSONAL SERVICE :
INSURANCE COMPANY :
MARKET CONDUCT EXAMINATION :

The Superintendent of the Ohio Department of Insurance ("Department") is responsible for administering Ohio insurance laws pursuant to Section 3901.011 of the Ohio Revised Code ("R.C."). The Department conducted a market conduct examination of the Personal Service Insurance Company ("Company"). The Company is authorized to engage in the business of insurance in the State of Ohio and, as such, is under the jurisdiction of the Superintendent and the Department. The Department examined the Company's private passenger automobile insurance business in the State of Ohio for the period of January 1, 2004, through December 31, 2004.

SECTION I

As a result of the market conduct examination, the Superintendent alleges:

- A. The Company's cancellation/non-renewal and declination notices failed to conform to R.C. 3937.30, R.C. 3937.31, R.C. 3937.32 and R.C. 3937.33.
- B. The Company's notices of nonrenewal did not provide 30 days notice as required by R.C. 3937.34 and/or were not effective on the biennial anniversary of the inception of the policy as required by R.C. 3937.31(A).
- C. The Company accepted and processed property damage partial loss claims without the inclusion of the location of the licensed salvage dealer, where "like kind and quality" parts were utilized, as required by Ohio Adm. Code 3901-1-54(H)(4).
- D. For claims closed prior to 11/12/2004, the Company failed to comply with the sales tax payment/reimbursement requirements of Ohio Adm.Code 3901-1-54(H)(6)(c) and Ohio Adm.Code 3901-1-54(H)(7)(e). For claims closed 11/12/2004 and later, the Company did not conform to the sales tax payment/reimbursement requirements of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H(7)(f).
- E. A Company listing of consumer complaints, for complaints filed during the examination period, was reviewed. The majority of the complaints reviewed focused on claim settlement delays. The nature and volume of complaints indicates that claim handling procedures need to be scrutinized by the Company to assure compliance with Ohio Adm.Code 3901-1-54(G)(6) and Ohio Adm.Code 3901-1-07(C)(16).

SECTION II

It is hereby agreed to by the parties that:

- A. The Superintendent and the Company enter into this Consent Order to resolve the allegations as set forth in Section I of this order. Further, the Company admits to the allegations set forth in Section I.
- B. The Company has been advised that it has a right to a hearing before the Superintendent pursuant to R.C. Chapter 119; that, at a hearing, it would be entitled to appear in person, to be represented by an attorney or other representative who is permitted to practice before the agency; and that, at a hearing, it would be entitled to present its position, arguments or contentions in writing and to present evidence and examine witnesses appearing for and against it. The Company hereby waives all such rights.
- C. The Company consents to the jurisdiction of the Superintendent and the Department to determine the issues set forth herein. The Company expressly waives any prerequisites to jurisdiction that may exist.
- D. The Company represents that its cancellation/non-renewal and declination notices procedures have been corrected and that it will conduct internal audits regarding the thirty-day requirement and cancellation of policies for reasons not permitted under R.C. 3937.31, and forward the results to the Department upon completion of the First Quarter Audit.
- E. The Company has instituted policies, procedures and controls for necessary changes to correct the Company's notices of nonrenewal that did not provide 30 days notice as required by R.C. 3937.34 and/or were not effective on the biennial anniversary of the inception of the policy as required by R.C. 3937.31(A). An internal audit will be performed within the next 90 days and the Company will forward the results to the Department upon completion of the First Quarter Audit to confirm that it is complying with these statutes
- F. The Company represents that policies, procedures and controls have been established, and are currently being implemented, to include the location of the licensed salvage dealer where "like kind and quality" parts were utilized for property damage partial loss claims as required by Ohio Adm. Code 3901-1-54(H)(4).
- G. The Company has instituted policies, procedures and controls to ensure that for claims closed prior to 11/12/2004, the Company complies with the sales tax payment/reimbursement requirements of Ohio Adm.Code 3901-1-54(H)(6)(c) and Ohio Adm.Code 3901-1-54(H)(7)(e), and for claims closed 11/12/2004 and later, the sales tax payment/reimbursement requirements of Ohio Adm.Code 3901-1-54(E)(1), (H)(6)(c), and (H(7)(f).

- H. The Company indicates that it has instituted policies, procedures and controls for an increased emphasis on claims customer service to assure compliance with Ohio Adm.Code 3901-1-54(G)(6) and Ohio Adm.Code 3901-1-07(C)(16).
- I. The Company will pay an administrative fine in the amount of \$25,000.00 by check or money order made payable to the "Ohio Department of Insurance" no later than thirty (30) days after the date of execution of this Consent Order.
- J. The Company will pay all administrative costs of the investigation by check or money order made payable to the "Ohio Department of Insurance" no later than thirty (30) days after the date of execution of this Consent Order.
- K. The Company waives any and all causes of action, claims or rights, known or unknown, which it may have against the Department, and any employees, agents, consultants, contractors or officials of the Department, in their individual and official capacities, as a result of any acts or omissions on the part of such persons or firms arising out of this matter.
- L. The Company has read and understands this Consent Order. The Company further understands that it has the right to seek counsel of its choice and to have counsel review this Consent Order.
- M. This Consent Order has the full force and effect of an Order of the Superintendent. Failure to abide by the terms of this agreement shall constitute an actionable violation in and of itself without further proof and may subject the Company to any and all remedies available to the Superintendent.
- N. This Consent Order shall be entered in the Journal of the Ohio Department of Insurance. All parties understand and acknowledge that this Consent Order is a public document pursuant to R.C. 149.43.

Date: _____

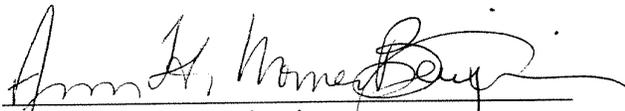
5/22/06



William B. Lockhorn
President
Personal Services Insurance Company

Date: _____

5/31/06



Ann H. Womer Benjamin
Superintendent of Insurance