

OHIO DEPARTMENT OF INSURANCE

A

MARKET CONDUCT EXAMINATION

OF

**AMERICAN FAMILY INSURANCE COMPANY
NAIC # 10386**

**AMERICAN STANDARD INSURANCE COMPANY OF OHIO
NAIC# 10387**

As Of

December 31, 2005





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

Ted Strickland, Governor
Mary Jo Hudson, Director

Honorable Mary Jo Hudson
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 market conduct examination was conducted on the Ohio business of:

American Family Insurance Company

NAIC# 10386

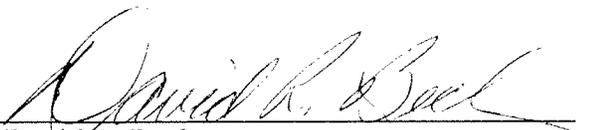
and

American Standard Insurance Company of Ohio

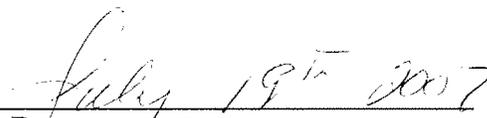
NAIC# 10387.

The examination was conducted at the Company's offices in Madison, Wisconsin, and Westerville, Ohio. A report of the examination is enclosed.

Respectfully submitted,



David R. Beck
Chief, Market Regulation Division



Date

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FOREWORD

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

SCOPE OF EXAMINATION

On March 1, 2006, the Market Regulation Division, Ohio Department of Insurance (“Department”), opened an examination into the non-financial business practices of American Family Insurance Company and American Standard Insurance Company of Ohio (“Companies”) by sending the Companies a call letter and initial request for information.

On June 12, 2006, the on-site portion of the examination was conducted at the Companies’ offices in Madison, Wisconsin, and Westerville, Ohio. The examination was restricted to a review of the Companies’ activities for Ohio private passenger automobile (“automobile”) insurance policies and homeowner insurance policies for the period of January 1, 2005, through December 31, 2005. The Companies’ financial responsibility bond writings were not included in this examination.

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 Companies’ operations:

- A. Company Operations
- B. Compliance
- C. Underwriting and Rating
- D. General Claim Practices
- E. Specific Claim Review
- F. Policyholder Services

METHODOLOGY

As part of the examination, the Department’s examiners reviewed the Companies’ automobile and homeowner policies and claim files and the Companies’ corresponding procedure manuals. This information was supplemented by interviewing Company managers and 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 Companies’ 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 Companies for an explanation. The Companies 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 Companies 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 or claims 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

American Family Insurance Company was incorporated on May 17, 1927, under the laws of Wisconsin as Farmers Mutual Automobile Insurance Company and began business on October 3, 1927. The automobiles of farmers were insured until April of 1933. Thereafter, the company began insuring the automobiles of the general public. Charter powers were broadened in January of 1950 to permit multiple line underwriting. The present name was adopted on March 5, 1963.

As part of a merger, American Family Mutual Insurance Company absorbed a former companion carrier, American Family General Insurance Company, on January 1, 1970. Financial control of two wholly owned subsidiaries, American Family Life Insurance Company (organized in 1957) and American Standard Insurance Company of Wisconsin (formed in 1961) was transferred on October 1, 1981, to a newly formed intermediate holding company, AmFam, Inc.

Currently, the American Family Insurance Group is comprised of eight companies led by American Family Mutual Insurance Company and its wholly owned subsidiaries, American Family Brokerage, Inc. and AmFam, Inc. American Standard Insurance Company of Ohio and American Family Insurance Company are subsidiaries of AmFam, Inc. Both of the property and casualty insurance company subsidiaries reinsure all of their business with American Family Mutual Insurance Company.

The American Family Insurance Group, headquartered in Madison, Wisconsin, operates in eighteen states, primarily in the Midwest region, and offers a broad range of personal and commercial coverages.

The American Family Insurance Company and American Standard Insurance Company of Ohio were incorporated on November 21, 1995, under the laws of the state of Ohio and commenced business on January 1, 1996.

COMPANY OPERATIONS

The Companies are licensed exclusively in Ohio and the statutory home office is located in Westerville, Ohio. In accordance with R.C. 3935.10 and 3937.12, the Companies' personal lines statistical loss experience is reported to the Property Casualty Insurers Association of America.

The Companies' year-end 2005 direct written premium and incurred loss information from the Companies' Financial Annual Statements are as follows:

<i>2005 Private Passenger Automobile Company</i>	<u>Ohio Direct Written</u>	<u>Ohio Incurred Losses</u>
American Family Insurance Company	\$107,257,909	\$62,479,853
American Standard Insurance Company	\$36,810,328	\$18,459,705

<i>2005 Homeowners Company</i>	<u>Ohio Direct Written</u>	<u>Ohio Incurred Losses</u>
American Family Insurance Company	\$49,654,781	\$20,788,846

As of December 31, 2005, the officers of the Companies were:

Chairman and Chief Executive Officer	Harvey Pierce
President and Chief Operating Officer	Dave Anderson
Executive Vice President	Dan DeSalvo
Executive Vice President/Secretary	Jim Eldridge
Executive Vice President/Treasurer	Brent Johnson
Executive Vice President	Al Meyer
Executive Vice President	Darnell Moore
Executive Vice President	Jack Salzwedel

CORPORATE COMPLIANCE

The Companies have an established regulatory compliance department, the Corporate Compliance Department ("Corporate Compliance"), located within the Government Affairs/Compliance Division. Corporate Compliance is responsible for conducting risk assessments of divisions, departments, and companies throughout the corporation. The primary purpose of these risk assessments is to identify and assist in addressing potential violations of state or federal law and regulations, as well as ethics and litigation risks. Corporate Compliance also coordinates market conduct examinations, insurance department inquiries, and Corporate and consumer complaints. Corporate Compliance has recently added staff to analyze complaints and provide assistance to business areas in resolving procedures and problems.

Internal audits are conducted by the American Family Internal Audit Staff ("Internal Audit"), whose duties include identifying and analyzing risks throughout the organization and identifying and evaluating the related internal controls. The managers of the various departments conduct individual audits. The department audits are designed to assure proper implementation of procedures and understanding of workflow within each area.

Internal Audit and Corporate Compliance partner on some projects, but operate independently of each other. Internal audits and corporate assessments are presented to the appropriate officers, who draft action plans for risk reduction. Annually, a compliance and ethics assessment is presented to the Board of Directors and the Audit Committee. These groups discuss all regulatory, ethical, and litigation concerns.

The officers are ultimately responsible for compliance. In addition, each division and sales state has a compliance liaison that is accountable to its officer and the Director of Compliance to communicate and implement processes and procedures designed to eliminate risks.

UNDERWRITING

Policy Cancellation and Non-Renewal—General Methodology

- The examiners reviewed all procedure manuals as part of the examination process.
- The Companies supplied a file of all policies in effect more than 90 days (60 days for homeowners policies) and subsequently terminated at the Companies' request for any reason during the examination period.
- The examiners identified three populations from the terminated policy data defined by termination reason:
 1. Policies cancelled for non-payment of premium;
 2. Policies cancelled at the Companies' request for any reason other than non-payment of premium; and,
 3. Policies that the Companies "refused to renew."
- The examiners tested a sample of the population of policies on all cancellations with the exception of automobile non-renewal cancellations for American Standard, in which the entire population of policies were tested.
- Multiple errors in a single record were counted as one error.

Automobile Policy Cancellations—Non-Payment of Premium

Standard: Cancellation notices comply with policy provisions, Company guidelines, and the applicable Ohio statutes and rules.

Test: Did the Company's cancellation procedures and practices for non-payment of premium conform to R.C. 3937.31, 3937.32, and 3927.33?

Test Methodology:

- The examiners removed and replaced one American Family file, because it was in force less than 90 days.
- The examiners considered the following to be exceptions:
 1. Any cancellation effective with less than 10 days notice; and,
 2. Any cancellation notice that failed to contain the statutorily required information and appeal notice.

Findings:

Company	Population	Sample	Yes	No	Standard	Compliance
American Family	39,097	100	100	0	90%	100%
American Standard	19,006	100	100	0	90%	100%

The standard of compliance is 90%. The Companies' practices met this standard.

Automobile Policy Cancellations—Other than Non-Payment of Premiums

Standard: Cancellation notices comply with policy provisions, Company guidelines, and the applicable Ohio statutes and rules.

Test: When the reason for cancellation is other than non-payment of premium, did the Company’s cancellation procedures and practices conform to R.C. 3937.31, 3937.32, and 3937.33?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any cancellation effective with less than 30 days notice to the insured;
 2. Any cancellation notice that failed to contain the required information and appeal notice; and,
 3. If the Companies did not indicate a “willingness to issue a new policy within the same insurer or within another insurer under the same ownership or management,” any notice to an insured which stated a reason for cancellation other than:
 - a. the insured moving to a state where the Company is not licensed to write automobile insurance;
 - b. loss of the insured’s driving privileges; or,
 - c. material misrepresentation by the insured.

Findings:

Company	Population	Sample	Yes	No	Standard	Compliance
American Family	924	50	24	26	90%	48%
American Standard	171	50	30	20	90%	60%

The standard for compliance is 90%. The Companies’ practices failed to meet this standard.

Examiner’s Comments:

The American Family exceptions resulted from cancellation notices that stated only that the insured “may” be eligible in an affiliated company. That wording does not indicate “willingness to issue.” As a result, those cancellations not processed for reasons permitted by R.C. 3937.31(A) were considered non-compliant with that statute. The Company has agreed to revise the wording of the cancellation notice to clearly state a “willingness to issue.”

The American Standard exceptions resulted from the Company canceling for a reason other than those provided by R.C. 3937.31.

Automobile Policy Cancellations — Non-Renewals

Standard: Non-renewal notices comply with policy provisions, Company guidelines, and the applicable Ohio statutes and rules.

Test: Did the Company’s non-renewal of the policy qualify as a “refusal to renew” as defined in R.C. 3937.31 and did the Company’s non-renewal procedures and practices conform to R.C. 3937.34?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any “refusal to renew” when a policy was in-force for a period of less than two years and the Companies did not indicate a willingness to issue a new policy within the same insurer or within another insurer under the same ownership or management;
 2. Any “refusal to renew” on any renewal other than the two-year anniversary and the Company did not indicate a willingness to issue a new policy within the same insurer or within another insurer under the same ownership or management;
 3. Any non-renewal notice lacking the required information; and,
 4. Any “refusal to renew” effective with less than 30 days notice.

Findings:

Company	Population	Sample	Yes	No	Standard	Compliance
American Family	1827	50	19	31	90%	38%
American Standard	110	110	93	17	90%	85%

The standard of compliance is 90%. The Companies’ practices failed to meet this standard.

Examiner’s Comments:

The American Family exceptions resulted from processing non-renewals on other than the two-year anniversary. Even though these cancellations do not meet the requirements for non-renewal, it is permissible to process these as cancellations if the insurer states a “willingness to issue” a new policy within the same insurer or within another insurer under the same ownership or management. The American Family notices stated only that the insured “may” be eligible in an affiliated company. That wording does not indicate a “willingness to issue.” As a result, those non-renewals not processed on the two-year anniversary were considered non-compliant with R.C. 3937.31(A). The Company has agreed to revise the wording of the cancellation notice to clearly state a “willingness to issue.” Non-renewals not processed on the two-year anniversary should be processed as cancellations rather than non-renewals.

The American Standard exceptions resulted from non-renewals on other than the two-year renewal required by R.C. 3937.31(A). Any American Standard non-renewal must follow the two-year cancellation requirements.

The examiners also found that for suspended licenses, the Companies processed these cancellations as non-renewals rather than cancellations. R.C. 3937.31 permits cancellation in those instances and these should not be included as non-renewals when the cancellation effective date is not on the two-year anniversary.

Examiner’s Additional Comments on Cancellations and Non-Renewals:

The examiners removed and replaced 72 American Family cancellations and 63 American Standard cancellations because they were non-payment of premium cancellations. The examiners also removed and replaced from the non-renewal sample four American Family and ten American Standard files because they were non-payment of premium cancellations. When a policy has been identified for underwriting cancellation at a future date, and a non-payment of premium cancellation occurs in the interim, the Companies’ practice is to cancel the policy for non-payment, then re-code the cancellation reason code from non-payment back to the applicable non-renewal or cancellation code. This is done in an attempt to prevent the policy

from being reinstated without first being reviewed by an underwriter. However, this re-coding prevents accurate identification of non-payment cancellations and underwriting cancellations, impacting the Market Conduct Annual Statement data submitted by the Companies' to the Department. The large number of replacements needed in the cancellation and non-renewal population resulted from this re-coding.

Examiner's Recommendations on Cancellations and Non-Renewals:

1. For any cancellation over 90 days or non-renewal where an affiliated company is being offered, the Companies should comply with R.C. 3937.31, unless there is an affirmative statement that the Companies are willing to issue coverage in another affiliated company.
2. The Companies should develop a cancellation code that properly reflects non-payment cancellations on which there should be no reinstatement for underwriting reasons, rather than simply changing the cancellation code to a non-renewal or cancellation code.
3. When canceling because of a suspended license on any date other than the two-year anniversary, the cancellations should be processed as a cancellation rather than as a non-renewal.

Automobile Rewrites

The procedures for rewriting policies from American Family to American Standard, and vice versa, were reviewed. These transfers from one company to another are referred to as "rewrites."

Standard: Cancellation notices comply with policy provisions, Company guidelines, and the applicable Ohio statutes and rules.

Test: Did the company's procedures for canceling (or non-renewing) and rewriting policies between companies conform to R.C. 3937.31?

Methodology: The examiners reviewed the Companies' procedure, interviewed Company personnel, and reviewed actual transactions to determine how rewrites and transactions between companies were handled.

Findings: The examiners found that policies being cancelled in one company and rewritten to another company followed procedures similar to other cancellations and non-renewals, e.g., the original company was cancelled or non-renewed. However, with transfers or "rewrites", an application is submitted to the affiliated company. It is then up to the policyholder to accept or reject the affiliated company.

Rewrites from American Family to American Standard: These were generally underwriting cancellations initiated by Underwriting. However, if the insured requested an SR-22 filing that could only be made by American Standard, the agent might obtain a cancellation from the insured and submit an application to American Standard. When Underwriting cancelled or non-renewed an American Family policy, it was up to the agent to submit the rewrite to American Standard. The Company did not initiate the new policy. Since this was a rewrite from a preferred company to a standard company, there generally were few subsequent underwriting actions taken on the applications submitted to American Standard.

Examiners' Comments:

The principal concern here was the same as with other cancellations. The notice should be reworded to clearly indicate a "willingness to issue" in an affiliated company.

Rewrites from American Standard to American Family: These were generally initiated by agents based on an insured becoming qualified for American Family based on the Company's Underwriting guidelines. The agent obtained a cancellation of the American Standard policy and submitted an application to American Family. Underwriting then reviewed the application for eligibility within 89 days. If Underwriting then rejected the application, the insured was permitted to reinstate the American Standard policy. The lower American Family rates, rather than the American Standard rates, were charged during the time that the American Family policy was in force.

Examiners' Comments: The Company's procedures for rewriting from American Standard to American Family may be creating unnecessary problems for both the Company and the insured. By allowing agents to rewrite prior to approval by Underwriting, it creates an opportunity for confusion by first being rewritten to American Family and then being reinstated once again in American Standard. It would be advisable to confirm eligibility prior to submitting the cancellation and rewrite. Without this clear "willingness to issue" in another Company, the cancellation or non-renewal may not be in compliance with R.C. 3937.31.

Examiners' Additional Comments: In the process of reviewing rewrite transactions, the examiners reviewed several transaction histories. The procedures utilized by the Companies' to assign policy numbers may lead to confusion with policy service and billing. The Companies use a "base eight" policy number and then add two digits to identify a specific policy in the household. However this numbering system becomes confusing when a policy is rewritten to another "number", a policy in the household is cancelled, or a driver leaves the household. In some cases, the policy numbers are reused if a policy has been cancelled for a certain period of time. The Company should consider analyzing the impact that this policy numbering system may have on complaints related to policy service and billing.

Homeowner Policy Cancellation—Nonpayment of Premium

Standard: Cancellation notices comply with policy provisions, statutes and rules, and Company guidelines.

Test: Did the Company's cancellation procedures for nonpayment of premium comply with its policy provisions as specified by R.C. 3935.04?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any cancellation effective with less than 10 days notice; and,
 2. Any cancellation notice that failed to contain the statutorily required information and appeal notice.

Findings:

Company	Population	Sample	Yes	No	Standard	Compliance
American Family	13,295	100	100	0	90%	100%

The standard of compliance is 90%. The Companies' met this standard.

Homeowner Policy Cancellation—Other than Nonpayment of Premium

Standard: Cancellation notices comply with policy provisions, applicable Ohio statutes and rules, and Company guidelines.

Test: Did the Company cancellation and non-renewal procedures conform to Ohio Adm.Code 3901-1-18(C)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any cancellation effective with less than 30 days notice; and
 2. Any cancellation notice that failed to contain the statutorily required information and did not contain procedures for making an application to the Ohio Fair Plan.

Findings:

Company	Population	Sample	Yes	No	Standard	Compliance
American Family	1,197	50	50	0	90%	100%

The standard of compliance is 90%. The Companies’ met this standard.

Homeowner Policy Cancellation—Non-Renewals

Standard: Non-Renewal notices comply with policy provisions, applicable Ohio statutes and rules, and Company guidelines.

Test: Did the Company non-renewal procedures conform to Ohio Adm.Code 3901-1-18(C)?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any cancellation effective with less than 30 days notice; and,
 2. Any cancellation notice that failed to contain the statutorily required information and did not contain procedures for making an application to the Ohio Fair Plan.

Findings:

Company	Population	Sample	Yes	No	Standard	Compliance
American Family	1,074	50	50	0	90%	100%

The standard of compliance is 90%. The Companies’ practices met this standard.

GENERAL CLAIM PRACTICES

The examiners reviewed the Companies’ claim procedures to determine whether the Companies’ have procedures in place which could reasonably be expected to meet the requirements of R.C. 3901.20, Ohio Adm.Code 3901-1-07, and Ohio Adm.Code 3901-1-54, to wit, timely investigation, denial of coverage, and reporting of apparent fraudulent claims. The examiners also reviewed Company procedures to assure compliance with R.C. 3999.41, which requires a company to adopt an antifraud program.

The examiners found that the Companies’ procedures were sufficient to establish compliance with Ohio statutes and rules.

Examiner Comments on Claims Coding:

In selecting samples for the various claims tests, it was necessary to remove and replace 96 claims because of incorrect coding.

Examiner Recommendations on Claims Coding:

The Companies should establish internal controls and audits to assure accurate claim coding.

SPECIFIC CLAIM REVIEW

Automobile Paid Claims

Methodology:

- The Company supplied reports of first and third party automobile claims closed during the examination period.
- Claims where the amount of the covered loss was less than the deductible were considered to be “paid” claims.
- The examiners reviewed samples to test for compliance with various sections of R.C. 3901.20 as defined by R.C. 3901.21 and Ohio Adm.Code 3901-1-07 and 3901-1-54.

1. Timely Initial Contact

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

Test: Upon receiving notice of the claim, did the Company respond within the time frame required by Ohio Adm.Code 3901-1-54(F)(2)?

Test Methodology:

- “Initial contact” included telephone notice to the Company from the insured, third party claimant, and/or legal representative.
- The examiners considered failure to contact the claimant within ten days from the date of notice of the claim to be an exception.

American Family Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Findings
Collision Partial	5,588	100	100	0	93%	100%
Collision Total	990	50	50	0	93%	100%
PD Partial	5,868	100	100	0	93%	100%
PD Total	374	50	50	0	93%	100%
BI Paid	1,706	50	50	0	93%	100%
UM/UIM BI Paid	415	50	50	0	93%	100%

American Standard Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Findings
Collision Partial	1,331	50	50	0	93%	100%
Collision Total	293	50	50	0	93%	100%
PD Partial	2,329	50	50	0	93%	100%
PD Total	149	50	50	0	93%	100%
BI Paid	912	50	50	0	93%	100%

Claim Feature	Population	Sample	Yes	No	Standard	Findings
UM/UIM BI Paid	168	50	50	0	93%	100%

The standard for compliance is 93%. The Companies' practices met this standard.

2. Timely Claim Settlement

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely settlement to claimants as required by Ohio statutes and rules?

Test Methodology:

- Where a release from a lienholder or a salvage title was required to settle an automobile claim, a claim was not "payable" until the Company received the required document(s).
- The examiners considered the following to be an exception:
 1. Any claim paid to a first party claimant more than 10 calendar days after the amount was known and agreed as required by Ohio Adm.Code 3901-1-54(G)(6); and,
 2. Any claim paid to a third party claimant more than five working days after the amount was known and agreed as required by Ohio Adm.Code 3901-1-07(C)(16).

American Family Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Findings
Collision Partial	5,588	100	100	0	93%	100%
Collision Total	990	50	50	0	93%	100%
PD Partial	5,868	100	100	0	93%	100%
PD Total	374	50	49	1	93%	98%
BI Paid	1,706	50	50	0	93%	100%
UM/UIM BI Paid	415	50	49	1	93%	98%

American Standard Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Findings
Collision Partial	1,331	50	50	0	93%	100%
Collision Total	293	50	49	1	93%	98%
PD Partial	2,329	50	50	0	93%	100%
PD Total	149	50	50	0	93%	100%
BI Paid	912	50	50	0	93%	100%
UM/UIM BI Paid	168	50	50	0	93%	100%

The standard for compliance is 93%. The Companies' practices met this standard.

3. Use Of Non Original Equipment Manufacturer Parts In Repair Estimates

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

Test: Where applicable, did repair estimates, prepared by the Company, or prepared on the Company's behalf, clearly indicate when the repair estimate included replacement crash parts which were not manufactured by the Original Equipment Manufacturer ("OEM") and was the mandated statutory disclosure wording included on the estimate as required by Ohio Adm.Code 3901-1-54(H)(4)?

Test Methodology:

- The examiners considered the following to be an exception:
 1. A repair estimate that failed to clearly show that non-OEM parts were included in the estimate; and,
 2. A repair estimate that failed to include the statutory mandated disclosure required when non-OEM parts are used to repair a vehicle.

American Family Findings:

Claim Feature	Population	Sample	Non-OEM	Yes	No	Standard	Findings
Collision Partial	5,588	100	72	58	14	93%	81%
PD Partial	5,868	100	47	44	3	93%	94%

American Standard Findings:

Claim Feature	Population	Sample	Non-OEM	Yes	No	Standard	Findings
Collision Partial	1,331	50	38	32	6	93%	84%
PD Partial	2,329	50	26	25	1	93%	96%

The standard for compliance is 93%. Both Companies’ practices were below this standard in one claim feature tested.

Examiners’ Recommendations:

To assure compliance when using non-OEM parts, the examiners recommend that the Companies implement annual internal audit practices to monitor that the repair estimates being utilized contain the required statutory wording.

4. Use Of “Like Kind and Quality” Parts In Repair Estimates

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

Test: Where applicable, did repair estimates, prepared by the Company, or prepared on the Company’s behalf, clearly indicate when the repair estimated included “Like Kind and Quality” (“LKQ”) parts and the name and location of the licensed salvage dealer where the parts were to be obtained as required by Ohio Adm.Code 3901-1-54(H)(4)?

Test Methodology:

- The examiners considered the following to be an exception:
 1. Any repair estimate that failed to disclose that LKQ parts were used in the estimate; and,
 2. Any repair estimate that failed to clearly show the name and location of the licensed salvage dealer where the LKQ parts were to be obtained.

American Family Findings:

Claim Feature	Population	Sample	LKQ	Yes	No	Standard	Findings
Collision Partial	5,588	100	26	1	25	93%	4%
PD Partial	5,868	100	20	3	17	93%	15%

American Standard Findings:

Claim Feature	Population	Sample	LKQ	Yes	No	Standard	Findings
Collision Partial	1,331	50	15	4	11	93%	27%
PD Partial	2,329	50	15	8	7	93%	53%

The standard for compliance is 93%. The Companies’ practices failed to meet this standard.

Examiners' Recommendations:

To assure compliance with the statutory requirements when using LKQ parts, the examiners recommend that the Companies implement annual internal audit practices to monitor that the repair estimates being utilized provide the address of the licensed salvage parts dealer.

5. Vehicle Total Loss—Actual Cash Value

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

Test: Did the Company's actual cash value ("ACV") total loss settlement calculations conform with Ohio Adm.Code 3901-1-54(H)(7)(a)-(e)?

American Family Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Findings
Collision Totals	990	50	49	1	93%	98%
PD Totals	374	50	49	1	93%	98%

American Standard Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Findings
Collision Totals	293	50	50	0	93%	100%
PD Totals	149	50	50	0	93%	100%

The standard for compliance is 93%. The Companies' practices met this standard

6. Vehicle Total Loss—Sales Tax

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

Test: Did the Company pay and/or reimburse sales tax on vehicle total loss settlements as required by Ohio Adm.Code 3901-1-54(H)(7)(f)?

Test Methodology:

- The examiners considered the following to be an exception:
 1. Any failure to pay or reimburse sales tax payment/reimbursement as per Ohio Adm.Code 3901-1-54(H)(7)(f); and,
 2. Any failure to use local sales tax rates when paying sales tax on ACV.

Findings:

American Family Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Findings
Collision Totals	990	50	50	0	93%	100%
PD Totals	374	50	50	0	93%	100%

American Standard Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Findings
Collision Totals	293	50	50	0	93%	100%
PD Totals	149	50	49	1	93%	98%

The standard for compliance is 93%. The Companies' claim practices met this standard.

7. Personal Injury 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: Were the Company's claim settlements free of unfair claim settlement practices prohibited by R.C. 3901.20 and as defined in R.C. 3901.21, Ohio Adm.Code 3901-1-07(C)(6) and (8), and Ohio Adm.Code 3901-1-54(G)(9) and (10)?

Test Methodology:

- The examiners considered the following to be an exception:
 1. Any indication of a pattern settlement;
 2. Any indication of the Company's action to compel a first-party claimant to litigate;
 3. Failure to document that the settlement amount offered and/or paid was fair and reasonable;
 4. Any indication that the Company compelled claimant to accept less than amount awarded in arbitration; and,
 5. Failure to document the application of comparative negligence to any claim settlement OR any indication that the Company failed to fully disclose such information to a claimant upon the claimant's written request.

American Family Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Findings
BI Paid	1,706	50	50	0	93%	100%
UM/UIM BI Paid	415	50	50	0	93%	100%

American Standard Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Findings
BI Paid	912	50	50	0	93%	100%
UM/UIM BI Paid	168	50	50	0	93%	100%

The standard for compliance is 93%. The Companies' claim practices met this standard.

Automobile Denied Claims

The examiners attempted to obtain complete samples. However, denied claims could not be identified separately from other claims closed without payment. Due to the difficulty in locating and identifying denied claims, the tests were concluded with less than 50 claims.

Standard: "*Denied*" claims are handled in accordance with policy provisions and state statutes and rules.

Test: When a claim was denied, did the Company's practices conform with Ohio Adm.Code 3901-1-54(G)(1),(2),(3) and (5), 3901-1-54(E)(1), and 3901-1-07(C)(14)?

Test Methodology:

- The Companies could not identify denied claims separately from closed without payment claims.
- The examiners considered the following to be an exception:
 1. Failure to respond to a demand for payment within 21 days of receipt of a properly executed proof of loss when the claim amount was known and not in dispute;

2. A claim denied solely on the basis the proof of loss is not on the insurer's usual form when the form of the proof of loss was not material;
3. Failure to notify the Department of any indication of fraud within 60 days of proof of loss;
4. Failure to include in its denial a specific reference to the provision, condition or exclusion that was the basis for the claim denial;
5. A claim denied to a first party on consideration that others should assume the responsibility for payment;
6. Failure to provide the claimant with at least 60 days notice of any statute of limitations expiration when the claimant was not represented by legal counsel;
7. Any denial based solely on the insured's request to do so without making an independent evaluation of the insured's liability; and,
8. Failure of the Companies' to disclose all coverages and benefits available to the claimant.

American Family Findings:

Claim Feature	Closed without pay population	Files reviewed to identify denied claims	Identified denied claims	Yes	No	Standard	Compliance
Collision	4,240	400	4	4	0	93%	100%
Property Damage	1,627	400	15	15	0	93%	100%
Uninsured Motorist/Underinsured Motorists Bodily Injury	244	244	6	6	0	93%	100%
Bodily Injury	1,003	700	31	31	0	93%	100%

American Standard Findings:

Claim Feature	Closed without pay population	Files reviewed to identify denied claims	Identified denied claims	Yes	No	Standard	Compliance
Collision	1,049	400	8	8	0	93%	100%
Property Damage	627	400	27	27	0	93%	100%
Uninsured Motorist/Underinsured Motorists Bodily Injury	137	137	3	3	0	93%	100%
Bodily Injury	521	521	32	32	0	93%	100%

The standard for compliance is 93%. The Companies' claim practices met this standard.

Examiners' Recommendations:

Although the Companies passed these tests, the Companies should establish procedures and practices to distinguish denied claims from the closed without payment claims, so that denied claims can be identified for audit and review.

Automobile Litigated Files

Methodology:

- The Companies supplied reports of first and third party litigated files that were closed during the examination period.
- The examiners reviewed samples of litigated files for third party claims and the total population for first party claims files to test for compliance with various sections of the Ohio Adm.Code 3901-1-54 and 3901-1-07.
- When found to be outside the scope of the examination, the examiners removed and replaced two American Family third party files. Nine American Family and five American Standard first party files were removed, but not replaced.

1. Fair and Reasonable

Standard: Claims 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 Companies' offer to claimants who have made fair and reasonable claims and 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 so offered were within policy limits in accordance with policy provisions and in which liability has become reasonably clear per Ohio Adm.Code 3901-1-07(C)(6)?

Test Methodology:

- The examiners considered any file where the documentation failed to support the settlement amount being offered as fair and reasonable to be an exception.

American Family Findings:

Claim Type	Population	Sample	Yes	No	Standard	Compliance
First Party	69	69	69	0	93%	100%
Third Party	742	50	50	0	93%	100%

American Standard Findings:

Claim Type	Population	Sample	Yes	No	Standard	Compliance
First Party	20	20	20	0	93%	100%
Third Party	564	50	50	0	93%	100%

The standard for compliance is 93%. The Companies' claim practices met this standard.

2. Compelling Claimants to Accept Settlements or Compromises

Standard: Claims handling practices do not compel claimants 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 Companies' comply with Ohio Adm.Code 3901-1-07(C)(7) which prohibits companies from attempting to compel claimants to accept settlements or compromises less than the amount rewarded in arbitration by making known a policy of appealing arbitration awards in favor of claimants per Ohio Adm.Code 3901-1-07(C)(8)?

Test Methodology:

- The examiners considered to be an exception any indication that the Companies' compelled claimants to accept settlements or compromises by making known a policy of appealing arbitration awards in a favor of claimants.

American Family Findings:

Claim Type	Population	Sample	Yes	No	Standard	Compliance
First Party	69	69	69	0	93%	100%
Third Party	742	50	50	0	93%	100%

American Standard Findings:

Claim Type	Population	Sample	Yes	No	Standard	Compliance
First Party	20	20	20	0	93%	100%
Third Party	564	50	50	0	93%	100%

The standard for compliance is 93%. The Companies' claim practices met this standard.

3. Compelling Claimants to Institute Litigation

Standard: Claims 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 insurer use settlement practices that resulted in compelling first party claimants to litigate by offering substantially less than the amounts claimed compared to the amount ultimately recovered in actions brought by such claimants per Ohio Adm.Code 3901-1-54(G)(10)?

Test Methodology:

- The examiners considered any indication in the file documentation of the Companies' deliberate action to compel claimants by offering amounts substantially less than the amounts ultimately recovered in actions brought by claimants an exception.

American Family Findings:

Claim Type	Population	Sample	Yes	No	Standard	Compliance
First Party	69	69	69	0	93%	100%
Third Party	742	50	50	0	93%	100%

American Standard Findings:

Claim Type	Population	Sample	Yes	No	Standard	Compliance
First Party	20	20	20	0	93%	100%
Third Party	564	50	50	0	93%	100%

The standard for compliance is 93%. The Companies' claim practices met this standard.

Homeowner Paid claims (American Family only)

Methodology:

The Company supplied a report of all American Family Homeowner Structure and Contents paid claims that were closed during the examination period.

- The examiners reviewed a sampling of claims files to test for compliance.
- The claims files were reviewed to verify dates in the claims settlement process.
- The claims files were reviewed to verify the Company claim settlement practices.

1. Timely Initial Contact

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

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

Test Methodology:

- The examiners considered any claim on which the required contact or investigation was not done in the required time frames to be an exception.

American Family Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Structure	3,215	50	50	0	93%	100%
Contents	1,988	50	50	0	93%	100%

The standard for compliance is 93%. The Company's claim practices met this standard.

2. Timely Claim Payments

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (within 10 days of acceptance) 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.

American Family Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Structure	3,215	50	50	0	93%	100%
Contents	1,988	50	50	0	93%	100%

The standard for compliance is 93%. The Company’s claim practices met this standard.

3. Settlement Amounts/Sales Tax Requirements

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

Test: Did the Company calculate the settlement amount in a manner that conforms to Ohio Adm.Code 3901-1-54(I) and its contracts?

Test Methodology:

- The examiners considered the following to be exceptions:
 1. Any claims on which the Company’s calculation of the settlement amount was done incorrectly; and,
 2. Any claim on which the Company’s claim file did not document the payment of sales tax as required.

American Family Findings:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Structure	3,215	50	50	0	93%	100%
Contents	1,988	50	50	0	93%	100%

The standard for compliance is 93%. The Company’s claim practices met this standard.

Homeowner Denied Claims (American Family only)

The examiners reviewed the entire population of closed without payment files in an attempt to identify the denied claims in each feature. The number of actual denied files sampled is indicated in the tables.

Standard: “*Denied*” claims are handled in accordance with policy provisions and state statutes and rules.

Test: Did the Company conform to the standards for denial of payment of claims as required per Ohio Adm.Code 3901-1-54(G)(1)-(3), and (5) and 3901-1-07(C)(14)?

Test Methodology:

- The Company supplied a report of all American Family homeowner structure and contents claims that were denied and closed without payment during the examination period.
- The examiners considered the following to be an exception:
 1. Failure to respond to a demand for payment within 21 days of receipt of a properly executed proof of loss when the claim amount was known and not in dispute;

2. A claim denied solely on the basis the proof of loss is not on the insurer's usual form when the form of the proof of loss was not material;
3. Failure to notify the Department of any indication of fraud within 60 days of proof of loss;
4. Failure to include in its denial a specific reference to the provision, condition or exclusion that was the basis for the claim denial;
5. A claim denied to a first party on consideration that others should assume the responsibility for payment;
6. Failure to provide the claimant with at least 60 days notice of any statute of limitations expiration when the claimant was not represented by legal counsel;
7. Any denial based solely on the insured's request to do so without making an independent evaluation of the insured's liability; and,
8. Failure of the Company to disclose all coverages and benefits available to the claimant.

American Family Findings:

Claim Feature	Closed without pay population	Population of denied claims	Identified denied claims	Yes	No	Standard	Compliance
Structure	1,709	142	50	50	0	93%	100%
Contents	862	209	50	50	0	93%	100%

The standard for compliance is 93%. The Company's claim practices met this standard.

Examiners' Recommendations:

Although the Companies passed these tests, the Companies should establish procedures and practices to identify denied claims from the closed without payment claims so that denied claims can be identified for audit and review.

POLICYHOLDER SERVICES

Consumer Complaints Methodology:

The frequency of complaints registered by the Companies' during the examination period was above the average for the industry. The examiners reviewed the complaints reported to the Department and the Companies' internal complaints. From that review, interviews were conducted with Company personnel. The three broad areas that generated a significant number of complaints were underwriting, billing statements, and agency service.

Underwriting Findings:

- The Companies were not in compliance with the two-year cancellation statute (R.C. 3937.31). The cancellation notice stated only that the insured "may" be eligible in another company rather than stating a "willingness to issue" in another company within the group
- The appeal statement contained in the cancellation notice contained incorrect wording for those consumers wishing to file an appeal, which had the unintended effect of generating complaints to the Department that could have been resolved directly by the Companies.
- When a non-payment cancellation occurs during the time that a mid-term or non-renewal cancellation is pending, the Company processes the cancellation as non-payment. However, the Company subsequently re-codes the cancellation as an underwriting cancellation to prevent reinstatement, leaving an inaccurate reason code in the cancellation records.

The Companies subsequently have agreed to revise the cancellation notice with the required changes. The Companies are currently reviewing all cancellation reason coding for any changes to assure future compliance.

Billing Statement Findings:

The Companies' billing statement has all automobiles and homeowner policies in the household on one bill. Although not a violation, the examiners found the billing statement to be confusing and hard to understand, especially when the policyholder makes partial payments. However, the Companies had made changes to the statement prior to the examination that will make the statement easier to understand. The Companies are currently reviewing the form for further changes.

Agent Service Findings:

Several complaints involved policyholder or claimant's having difficulty reaching their agent, the unresponsiveness of their agent, and the lack of assistance provided by their agent. The Companies were already investigating the problem, and had already begun to take actions against agents identified as not providing adequate service.

Examiner Comments:

The Companies were attentive, cooperative, and willing to listen to suggestions for reducing the number of complaints, and have already taken actions in 2006 that will have a positive impact. The Companies' did a good job of logging the complaint files and providing a response to each one in the required time frames. However, more effective action to trend complaints and recognize root causes would reduce the frequency of complaints in the future.

Examiner Recommendations:

The Companies should take pro-active steps to reduce the number of complaints by analyzing the complaints, then revising systems and procedures to minimize and eliminate any complaints that arise from inadequate forms, procedures, or controls. Recurring problems should be quickly identified and solutions developed to resolve those problems. The Companies should conduct periodic audits to confirm effectiveness of procedures and systems.

AMERICAN FAMILY SUMMARY

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

<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
<p>Automobile Other than Non-Payment Cancellations Did the Company’s cancellation procedures and practices, when the reason for cancellation is other than non-payment of premium conform to R.C. 3937.31, 3937.32, and 3927.33?</p>	90%	48%
<p>Automobile Non-Renewal Cancellations Did the Company’s non-renewal of the policy qualify as a “refusal to renew” as defined in R.C. 3937.31 and did the Company’s non-renewal procedures and practices conform to R.C. 3937.34?</p>	90%	38%
<p>Collision Partial Losses Paid When applicable, did repair estimates, prepared by the Company, or prepared on the Company’s behalf, clearly indicate when the repair estimate includes replacement crash parts which were not manufactured by the Original Equipment Manufacturer (“OEM”)and was the mandated statutory disclosure wording included on the estimate as required by Ohio Adm.Code 3901-1-54(H)(4)?</p>	93%	81%
<p>Collision Partial Losses Paid Where applicable, did repair estimates, prepared by the Company, or prepared on the Company’s behalf, clearly indicate when the repair included “Like, Kind, and Quality” (“LKQ”) parts and the name and location of the licensed salvage dealer where the parts are to be obtained as required by Ohio Adm.Code 3901-1-54(H)(4)?</p>	93%	4%
<p>Property Damage Partial Losses Paid Where applicable, did repair estimates, prepared by the Company, or prepared on the Company’s behalf, clearly indicate when the repair included “Like, Kind, and Quality” (“LKQ”) parts and the name and location of the licensed salvage dealer where the parts are to be obtained as required by Ohio Adm.Code 3901-1-54(H)(4)?</p>	93%	15%

AMERICAN STANDARD SUMMARY

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

Areas of Review

Compliance
Standard

Compliance
Rate

Automobile Other than Non-Payment Cancellations

Did the Company's cancellation procedures and practices, when the reason for cancellation is other than non-payment of premium conform to R.C. 3937.31, 3937.32, and 3927.33?

90%

60%

Automobile Non-Renewal Cancellations

Did the Company's non-renewal of the policy qualify as a "refusal to renew" as defined in R.C. 3937.31 and did the Company's non-renewal procedures and practices conform to R.C. 3937.34?

90%

85%

Collision Partial Losses Paid

When applicable, did repair estimates, prepared by the Company, or prepared on the Company's behalf, clearly indicate when the repair estimate includes replacement crash parts which were not manufactured by the Original Equipment Manufacturer ("OEM") and was the mandated statutory disclosure wording included on the estimate as required by Ohio Adm.Code 3901-1-54(H)(4)?

93%

84%

Collision Partial Losses Paid

Where applicable, did repair estimates, prepared by the Company, or prepared on the Company's behalf, clearly indicate when the repair included "Like, Kind, and Quality" ("LKQ") parts and the name and location of the licensed salvage dealer where the parts are to be obtained as required by Ohio Adm.Code 3901-1-54(H)(4)?

93%

27%

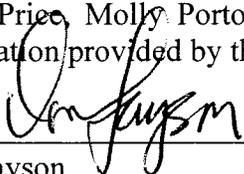
Property Damage Partial Losses Paid

Where applicable, did repair estimates, prepared by the Company, or prepared on the Company's behalf, clearly indicate when the repair included "Like, Kind, and Quality" ("LKQ") parts and the name and location of the licensed salvage dealer where the parts are to be obtained as required by Ohio Adm.Code 3901-1-54(H)(4)?

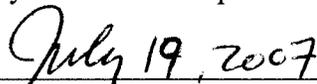
93%

53%

This concludes the report of the Market Conduct Examination of American Family Insurance Company and American Standard Insurance Company of Ohio. The examiners, Don Layson, Laura Price, Molly Porto, and Angela Dingus would like to acknowledge the assistance and cooperation provided by the management and the employees of the Companies.



Don Layson
Examiner-in-Charge



Date

ATTACHMENT



2/1/2007

Daniel J. Atkisson, CPCU, CIDM, CIE
Insurance Compliance Supervisor
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215

Re: Response to the examination of AFIC and ASICO

Dear Dan,

On Behalf of American Family Insurance Company NAIC # 10386 and American Standard Insurance Company of Ohio NAIC # 10387 I would like to thank you for the courtesy and professionalism displayed by your staff throughout this difficult exam process. The team was very attentive and thorough in its gathering of information and adapted readily to the learning of our systems.

While the examiners pointed out a number of issues that need our attention, we appreciate their interest in working with the company in resolving the issues identified. The corporate team working with the examiners has implemented a number of the recommendations and is reviewing the system issues to determine the best way to address them.

The remainder of the response will address the issues raised in the examination. Our response will also include documentation of the changes that have been implemented.

Automobile Policy Cancellations — Non-Renewals

Standard: Non-renewal notices comply with policy provisions, Company guidelines, and the applicable Ohio statutes and rules.

1. For any cancellation over 90 days or non-renewal where an affiliated company is being offered, the Companies should comply with R.C. 3937.31, unless there is an affirmative statement that the Companies are willing to issue coverage in another affiliated company.

American Family agrees with the examiners' recommendation and has corrected its cancellation and non-renewal letters to include language demonstrating a willingness to continue to cover cancelled or non-renewed policies in our affiliated company.

2. The Companies should develop a cancellation code that properly reflects non-payment cancellations on which there should be no reinstatement for underwriting reasons, rather than simply changing the cancellation code to a non-renewal or cancellation code.

American Family is reviewing the process used to post cancellations and non-renewals that combine non payment and other underwriting reasons. Operation's staff and customer billing will seek a solution that will accurately reflect cancellations based upon non-payment of premium.

3. When canceling because of a suspended license on any date other than the two-year anniversary, the cancellations should be processed as a cancellation rather than as a non-renewal.

American Family will review the process for cancellations based upon license suspensions and work to assure the system accurately terminates the policy. In addition, American Family will work to assure such terminations are reported accurately.

Other Underwriting Issues

Rewrites

The Company's procedures for rewriting from American Standard to American Family may be creating unnecessary problems for both the Company and the insured. By allowing agents to rewrite prior to approval by Underwriting, it creates an opportunity for confusion by first being rewritten to American Family and then being reinstated once again in American Standard. It would be advisable to confirm eligibility prior to submitting the cancellation and rewrite.

American Family has stressed to its agents the importance of checking eligibility prior to rewriting policies. Agents are typically very thorough upon contemplating a transfer. Some circumstances occur that prevent the agent from gaining knowledge that would identify ineligibility, intervening tickets or accidents or misreporting of MVR or clue reports. In those situations, not much can be done. American Family will continue to remind agents to thoroughly review a customer's eligibility prior to a transfer/rewrite.

In addition, American Family is aware of the confusion the base 8 system caused in the exam. American Family is evaluating the costs and benefits of our current system and is considering viable alternatives. American Family appreciates the examiners' patience.

Claims

3. Use Of Non Original Equipment Manufacturer Parts In Repair Estimates

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

Examiners' Recommendations:

To assure compliance when using non-OEM parts, the examiners recommend that the Companies implement annual internal audit practices to monitor that the repair estimates being utilized contain the required statutory wording.

American Family has implemented quality auditing. In the current sample, the examiners have demonstrated that such auditing is important to avoid making technical errors. American Family claim management and staff will review the non-OEM parts disclosure and reinforce the importance of including the disclosure in correspondence where non-OEM parts are utilized.

In contrast, we feel the examiners have discounted American Family's efforts to comply with assisting customers with locating the providers of LKQ parts. The statute clearly requires the company to list the location of the LKQ part provider for the customers benefit in investigating the background and quality of the parts utilized in the repair.

The prior vendor that produced the document listed the provider's name and telephone number. While technically the telephone number is not the location of the provider, it has been the experience of American Family that the phone number is most often more helpful for a customer in the investigation of the background of a LKQ part.

While the majority of parts are obtained locally, most consumers would consider inquiring in person impractical. Inquiring by mail, with the address, is often slow and unreliable. The customer that wants to take advantage of the investigation of an LKQ part is arguably, in this internet era, better served with phone numbers, websites and E-mail addresses.

In order to more effectively assist our customers and comply with the strict wording of the statute, American Family will provide the street address as well as the phone number to our customers. We have instructed our vendor and they have agreed to include the address and phone numbers for future letters

Examiners' Recommendations:

Although the Companies passed these tests, the Companies should establish procedures and practices to distinguish denied claims from the closed without payment claims, so that denied claims can be identified for audit and review.

American Family acknowledges the Department's difficulty in examining the claims that were denied. American Family's claim philosophy is to try to find coverage for a loss; rather than to try to deny coverage. Most claims that are handled by insurers are complex and best handled by looking various opportunities to provide coverage under the contract. In cases where no coverage exists, American Family can then close that aspect of coverage without totally denying the claim.

In many cases, American Family has been able to close parts of a claim without payment, but, indemnify other aspects where coverage exists. While this method is more difficult to review, it provides better service for our customers. American Family will continue to review this concern and work to assist regulators in the review of these unpaid claims.

Policyholder Services

The Examiners thoughtfully analyzed all aspects of American Family's Auto and Homeowner's insurance business to identify unintentional acts or omissions that could drive higher than average utilization of the Department's Consumer Services Division. The remainder of the response will address those findings and American Family's steps to reduce the Department's direct involvement with customer/company complaints.

Underwriting Findings

As listed above and demonstrated in Attachment One, American Family has revised the language in its cancellation and non-renewal letters to accurately reflect our willingness to continue to cover insureds in our affiliate company ASICO. We direct the customers to contact their agents to address coverage limits and deductibles, but clearly demonstrate our desire to continue coverage.

American Family has also reviewed the appeal language in the statute and redrafted the language to match the statutory language. The appeal language is also included in Attachment One.

Additionally, as stated above, American family is continuing to address the confusion associated with insureds that are cancelled for non payment but also are ineligible for reinstatement due to underwriting reasons. American Family will update the department as that plan is finalized and implemented.

Billing Statement Findings:

American Family acknowledges the confusion caused by the billing statement and has already taken steps to clarify the same and previously provided the improved statements to the Department.

Agent Service Findings

American Family agrees with the examiners' findings related to agent service and would add that careful scrutiny of service issues is now a major component of the agency's compensation package.

Complaint Data Mining

American Family continues to improve its ability to review complaint data and proactively implement processes that will reduce repetitious mistakes and other issues. Personal Lines, Claims and Corporate Compliance are exploring efforts to effectively utilize the data received and stored in the Company's databases. American Family is committed to improving our ability to service customer inquiry and complaints and reduce the consumers desire to seek assistance from the Department in disputes that arise.

Conclusion

On Behalf of American Family Insurance Company and American Standard Insurance Company of Ohio, I would like to thank the Ohio Insurance Department and its examiners for their professional service and patience. In addition, I would like to commend the Commissioner for the "business partner" approach to the examination. The Department demonstrated a sincere desire to solve a problem; rather than an opportunity to make an example of the industry. This approach made the communication and sharing of data collegial and the implementation of recommendations positive.

Respectfully submitted,



Michael Smith
Compliance Assessor
American Family Insurance
6000 American Parkway Q10C
Madison, WI 53783-0001
(800)374-0008 x 32630
msmi26@amfam.com

DIN#: 288825
PAYER: American Family Mutual Inc
CHECK/MO #: 0004134829
AMOUNT: \$45,000.00
DATE RCVD: 06/29/2007 14:10
COMMENTS:

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

IN THE MATTER OF : **CONSENT ORDER**
AMERICAN FAMILY INSURANCE :
COMPANY, NAIC # 10386, AND :
AMERICAN STANDARD INSURANCE :
COMPANY OF OHIO, NAIC # 10387 :
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."). American Family Insurance Company and American Standard Insurance Company of Ohio ("Companies") are authorized to engage in the business of insurance in the State of Ohio and, as such, are under the jurisdiction of the Superintendent and the Department. The Companies both are subsidiaries of AmFam, Inc. The Department conducted a joint examination of the Companies' private passenger automobile insurance business and homeowner insurance business in the State of Ohio for the period of January 1, 2005, through December 31, 2005.

SECTION I

BASED UPON THE EXAMINATION, THE SUPERINTENDENT DETERMINED THAT:

The Companies were found to be in violation of Ohio statutes and regulations in the files and claims sampled.

American Family Insurance Company ("American Family"):

- A. To wit, American Family's cancellation notice failed to state affirmatively a "willingness to issue" in an affiliated company. As a result, American Family failed cancellation tests by canceling for reasons not permitted by R.C. 3937.31(A).
- B. To wit, American Family's non-renewal notices failed to state affirmatively a "willingness to issue" in an affiliated company. As a result, those non-renewals not processed on the two-year anniversary or for the reasons permitted by R.C. 3937.31(A) failed the non-renewal tests.

- C. To wit, American Family failed to include statutory wording on collision partial loss estimates that certain replacement crash parts were not manufactured by the Original Equipment Manufacturer (“OEM”) as required by Ohio Admin. Code 3901-1-54(H)(4).
- D. To wit, American Family failed to provide the address of the licensed salvage parts dealer on collision and property damage liability partial loss estimates for “like kind and quality” (“LKQ”) parts as required by Ohio Admin. Code 3901-1-54(H)(4).

American Standard Insurance Company of Ohio (“American Standard”):

- A. To wit, American Standard failed cancellation tests by canceling for reasons not permitted by R.C. 3937.31(A).
- B. To wit, American Standard processed non-renewals that were not on the two-year anniversary as required by R.C. 3937.31(A).
- C. To wit, American Standard failed to include statutory wording on collision partial loss estimates that certain replacement crash parts were non-OEM parts as required by Ohio Admin. Code 3901-1-54(H)(4).
- D. To wit, American Standard failed to provide the address of the licensed salvage parts dealer on collision and property damage liability partial loss estimates for LKQ parts as required by Ohio Admin. Code 3901-1-54(H)(4).

SECTION II

It is hereby agreed to by the parties that:

- A. The Superintendent and the Companies enter into this Consent Order to resolve the allegations as set forth in Section I of this order. Further, the Companies neither admit nor deny the allegations as set forth in Section I.
- B. The Companies have been advised that they have the right to a hearing before the Superintendent pursuant to R.C. Chapter 119; that, at a hearing, the Companies would be entitled to appear in person, to be represented by an attorney, or other representative who is permitted to practice before the Department; and that, at a hearing, the Companies would be entitled to present their position, arguments or contentions in writing and to present evidence and examine witnesses appearing for and against the Companies. The Companies hereby waive all such rights.

- C. The Companies consent to the jurisdiction of the Superintendent and the Department to determine the issues set forth herein. The Companies expressly waive any prerequisites to jurisdiction that may exist.
- D. The Companies have represented to the Department that American Family Insurance Company has corrected its cancellation and non-renewal letters to include language affirmatively stating a “willingness to issue” coverage for cancelled or non-renewed policies in an affiliated company if the cancellation or non-renewal is not otherwise in compliance with R.C. 3937.31.
- E. The Companies have represented to the Department that, when there is no “willingness to issue” in an affiliated company, cancellations and non-renewals will comply with R.C. 3937.31.
- F. The Companies have represented to the Department that the Companies have revised their procedures to include the appropriate disclosure in correspondence where a non-OEM part is used, as required by Ohio Admin. Code 3901-1-54(H)(4).
- G. The Companies have represented to the Department that the Companies have revised their procedures to include the address of the licensed salvage dealer in correspondence where a LKQ part is used, as required by Ohio Admin. Code 3901-1-54(H)(4).
- H. The Companies each will pay a Market Conduct penalty. The penalty for American Family Insurance Company is \$30,000, and the penalty for American Standard Insurance Company of Ohio is \$15,000. Each penalty is to be paid by check or money order made payable to the “Ohio Department of Insurance” and is due to the Department no later than thirty days after the date of execution of this Consent Order by the Superintendent.
- I. The Companies will pay for the expenses of the examination. Expense reimbursement is invoiced during the normal quarterly billing cycle.
- J. The Companies waive any and all causes of action, claims or rights, known or unknown, that the Companies 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.
- K. The Companies have read and understand this Consent Order. The Companies further understand that they have the right to seek counsel of their choice and to have counsel review this Consent Order.
- L. 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 Companies to any and all remedies available to the Superintendent.

- M. 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.
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Date: 6/27/07 David R. Anderson
David R. Anderson
Chief Executive Officer
American Family Insurance Company

Date: 6/27/07 David R. Anderson
David R. Anderson
Chief Executive Officer
American Standard Insurance Company
of Ohio

Date: 17 July 2007 Mary Jo Hudson
Mary Jo Hudson
Superintendent of Insurance