

OHIO DEPARTMENT OF INSURANCE

**A
MARKET CONDUCT EXAMINATION
OF
WESTERN UNITED INSURANCE COMPANY**

NAIC# 37770

As Of

December 31, 2007





Ted Strickland, Governor
Mary Jo Hudson, Director

50 W Town St Ste 300, Columbus, OH 43215
(614) 644-2658 www.ohioinsurance.gov

Honorable Mary Jo Hudson
Director
Ohio Department of Insurance
50 W. Town St. Ste. 300
Columbus, OH 43215

Director:

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

Western United Insurance Company
NAIC Company Code 37770

A report of the examination is enclosed.

Respectfully submitted,


Lynette Baker
Chief, Market Conduct Division

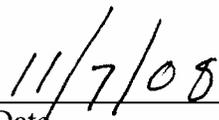

Date



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FOREWORD

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

SCOPE OF EXAMINATION

On February 15, 2008 the Market Conduct Division, Ohio Department of Insurance (“Department”), opened an examination into the business practices of Western United Insurance Company (“Company”) by sending a call letter. The Department requested and received responses to interrogatories concerning operations, administration, and claims. The Company’s Ohio Private Passenger Automobile total loss Collision and Property Damage claims files were reviewed.

On July 21, 2008, the file review portion of the desk examination began at the Department’s office in Columbus, Ohio. The examination was restricted to a review of the Company’s activities for Ohio private passenger auto total loss Collision and Property Damage claims for the period of January 1, 2007, through December 31, 2007. 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 a review of the Company’s operations and claims practices.

METHODOLOGY

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)

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.

The examiners’ recommendations are included in this report.

COMPANY HISTORY

Western United Insurance Company was formed in 1987 and currently provides policies to more than 150,000 drivers. The Company is a mid-sized, regional insurance carrier. The Company was purchased as a wholly-owned subsidiary by the California State Automobile Association in 1999.

COMPANY OPERATIONS

As of September 1, 2008, the officers of the Companies were:

President	Paula F. Downey
Secretary	Jamie E. Chung
Treasurer	Michael S. Day
Assistant Secretary	Ellen F. Braunreiter

GENERAL CLAIM PRACTICES

File Documentation

Ohio Administrative Code 3901-1-54 (D)(2) requires an insurer to be able to reconstruct its activities in regard to any claim, by documentation appropriate for the type and size of the claim. Some files provided by the company were initially incomplete with information such as payment copies or timely contact with claimants omitted from the file. This information was later provided by the Company. In general, files were adequately documented.

SPECIFIC CLAIM REVIEW

Collision Total Losses Paid

Methodology:

The Companies supplied a report of all Ohio collision total loss files that were closed during the specified examination period.

- The examiners reviewed the supplied Company's procedure manuals, prior to the on-site visit, as part of the examination process.
- The examiners reviewed all of the collision files to test for compliance.
- The examiners reviewed claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company's 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 (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:

- Any claimant not contacted within the required time frame was considered an exception.

Findings:

Population	Yes	No	Standard	Compliance
83	83	0	93%	100%

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

2. Timeliness of Claim Payments

Standard: Claims are resolved in a timely manner.

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

Test Methodology:

- Any claim payment not mailed within 10 days of reaching an agreement and receiving title to the auto was considered to be an exception.

Findings:

Population	Yes	No	Standard	Compliance
83	81	2	93%	98%

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

3. Vehicle Total Loss-Actual Cash Value

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

Test: Did the Company calculate actual cash value on total losses in a manner conforming with Ohio Adm. Code 3901-1-54(H)(6)(a)-(d) and (H)(7)(a)-(e)?

Test Methodology:

- Any calculation of actual cash value that was not calculated as required was considered to be an exception.

Findings:

Population	Yes	No	Standard	Compliance
83	83	0	93%	100%

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

4. Vehicle Total Loss-Sales Tax

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

Test: 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 an exception:

- Failure to notify the insured at time of settlement of the right to submit within 33 days appropriate documentation for reimbursement of sales tax as required by Ohio Adm. Code 3901-1-54(E)(1) and (H)(7).
- Informing the claimant of the reimbursement of sales tax prior to acceptance of an offer, but not at the time the loss is paid.
- Failure to use local sales tax percentage rates.

Findings:

Population	Yes	No	Standard	Compliance
83	83	0	93%	100%

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

Property Damage Total Losses Paid

Methodology:

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

- The examiners reviewed the supplied company procedure manuals, prior to the on-site visit, as part of the examination process.
- The examiners reviewed all of the property damage files to test for compliance.
- The examiners reviewed claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company's 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 (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:

- Any claimant not contacted within the required time frame was considered an exception.

Findings:

Population	Yes	No	Standard	Compliance
48	48	0	93%	100%

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

2. Timeliness of Claim Payments

Standard: Claims are resolved in a timely manner.

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

Test Methodology:

- Any required contact or investigation that was not done within the required time frame was considered to be an exception.

Findings:

Population	Yes	No	Standard	Compliance
48	47	1	93%	98%

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

Examiners comments:

The exception resulted from inadequate file documentation to confirm compliance as described above in "File Documentation."

3. Vehicle Total Loss-Actual Cash Value

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

Test: Did the Company calculate actual cash value on total losses in a manner conforming with Ohio Adm. Code 3901-1-54(H)(6)(a)-(d) and (H)(7)(a)-(e)?

Test Methodology:

- Any calculation of actual cash value that was not calculated as required was considered to be an exception.

Findings:

Population	Yes	No	Standard	Compliance
48	48	0	93%	100%

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

4. Vehicle Total Loss-Sales Tax

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

Test: 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 an exception:

- Failure to notify the insured at time of settlement of the right to submit within 33 days appropriate documentation for reimbursement of sales tax as required by Ohio Adm. Code 3901-1-54(E)(1) and (H)(7).
- Informing the claimant of the reimbursement of sales tax prior to acceptance of an offer, but not at the time the loss is paid.
- Failure to use local sales tax percentage rates.

Findings:

Population	Yes	No	Standard	Compliance
48	48	0	93%	100%

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

This concludes the report of the Market Conduct Examination of Western United Insurance Company. The examiners, Ben Hauck, and Angela Dingus would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.

Ben Hauck

11-7-08

Ben Hauck
Examiner-in-Charge

Date

COMPANY RESPONSE



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October 29, 2008

Daniel J. Atkisson, CPCU, CIDM, CIE
Insurance Compliance Supervisor
Ohio Department of Insurance
2100 Stella Court
Columbus, OH 43215-1067

Re: Draft Report for the Market Conduct Examination of Western United Insurance Company

Dear Mr. Atkisson:

Thank you for providing us with the opportunity to comment on the draft report of examination.

First, on behalf of both Western United and me, we wish to thank Mr. Hauck, Ms. Porto and Ms. Yoakum-Dingus for the courtesies extended during the course of the examination. This was the Company's first market conduct examination in the State of Ohio since commencing business there, and we appreciated the willingness of those individuals to help us determine appropriate ways to ascertain and provide the requested data.

We are also pleased that the findings of the examination, as set forth in the draft report, were that the Company was in 100% compliance in 6 out of 8 categories, with the remaining 2 categories showing 98% compliance.

Nonetheless, we wish to assure the Ohio Department of Insurance that we are not complacent with the finding of any errors, as we strive for 100% compliance in all matters. To that end, the few errors noted in the report will be used as training aids for staff, with the goal of eliminating any such errors in the future.

Sincerely,

A handwritten signature in black ink, appearing to read 'Douglas A. Lutgen', with a stylized flourish at the end.

Douglas A. Lutgen, CPCU
Manager, Regulatory Affairs
Western United Insurance Company