

OHIO DEPARTMENT OF INSURANCE

**A
MARKET CONDUCT EXAMINATION
OF
AUTO OWNERS INSURANCE COMPANY**

NAIC# 18988

AND

OWNERS INSURANCE COMPANY

NAIC# 32700

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, target market conduct examinations were conducted on the Ohio business of:

Auto Owners Insurance Company

NAIC Company Code 18988

and

Owners Insurance Company

NAIC Company Code 32700

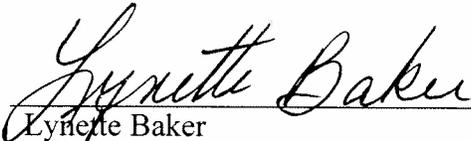
The examinations were conducted at the Companies' primary business location at:

6101 Anacapri Blvd.

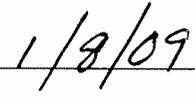
Lansing, MI 48917

A report of the examination is enclosed.

Respectfully submitted,



Lynette Baker
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 OSHIP 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 February 19, 2008, the Market Conduct Division, Ohio Department of Insurance (“Department”), opened an examination into the business practices of Auto Owners Insurance Company and Owners Insurance Company (“Companies”) by sending call letters. The Department requested and received responses to interrogatories concerning operations, administration, and claims. The Companies’ Ohio Private Passenger Automobile total loss Collision and Property Damage claims files were reviewed.

In 2002 Owners Insurance Company signed a consent order agreeing that, “Actual cash value on total loss settlements will be calculated consistent with O.A.C. Section 3901-1-54(H)(7)(e),” and that “The Company will pay applicable sales taxes on automobile total loss settlements consistent with O.A.C. Section 3901-1-54(H)(7)(e).”

On May 27, 2008, the on-site portion of the examination began at the Companies’ offices in Lansing, Michigan. The examination was restricted to a review of the Companies’ 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 Companies’ 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

Originally founded in 1916, Auto Owners Insurance Company began offering automobile insurance in the State of Ohio in 1935. Since 1975 the Companies have operated from corporate offices in Delta Township, west of Lansing, Michigan. This location also serves Auto Owners Life Insurance Company, Home Owners Insurance Company, Owners Insurance Company, Property Owners Insurance Company, and Southern Owners Insurance Company. The Companies are represented by more than 3300 employees and 5900 agents writing business in 25 states. The Companies currently have more than 4.2 million policies in force.

COMPANY OPERATIONS

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

Chairman and Chief Executive Officer	R.L. Looyenga
President	R.H. Simon
Executive Vice President	J.F. Harrold
Senior Vice President Personnel	D.J. Thelen
Senior Vice President, Secretary, and General Counsel	S.R. Birm
Senior Vice President Claims	R.J. Rupp
Vice President Claims	F.J. Sweeney
Vice President Home Office Claims	J.J. Walsh
Assistant Vice President Claims	T.J. Lynch

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. The examiners found that claims notes entered on claims files sometimes failed to document compliance with provisions of Ohio Adm. Code 3901-1-54. Specifically, the initial contact with first and third party claimants and the date that the title was received were frequently not indicated in the adjuster notes. The examiners required additional documentation to verify compliance.

Examiners' Recommendations:

Claims employees should be trained on the importance of detailed and proper adjuster notes that include:

- The initial contact dates with first and third party claimants to document compliance with Ohio Adm. Code 3901-1-54(F)(2).
- The date that a settlement agreement is reached and the date the titles are received should be noted in order to document the first date that the company has all necessary

agreements and titles to make payment. This will document compliance with Ohio Adm. Code 3901-1-54(G)(6) for first party claimants and 3901-1-07(C)(16) for third party claimants.

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 Companies’ procedure manuals, prior to the on-site visit, as part of the examination process.
- The examiners reviewed 100% of the supplied Auto Owners collision files to test for compliance.
- The examiners reviewed a sample of the supplied Owners 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:

Company	Population	Sample	Yes	No	Standard	Compliance
Auto Owners	37	37	37	0	93%	100%
Owners	252	55	54	1	93%	98%

The standard of compliance is 93%. Both Companies’ handling practices were above this standard.

Examiners’ Comments:

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

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:

Company	Population	Sample	Yes	No	Standard	Compliance
Auto Owners	37	37	37	0	93%	100%
Owners	252	55	53	2	93%	96%

The standard of compliance is 93%. Both Companies' handling practices were above this standard.

Examiners' Comments:

The exceptions 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:

The examiners determined that the valuations developed by the Companies provided for adequate settlement amounts. However, the process used was not in compliance with Ohio Admin. Code 3901-1-54(H)(7) as revised effective November 12, 2004. The consent order of 2002 was based on the prior rule. The rule as revised allows for the use of the average cost of two or more comparable automobiles in the local market area; in areas proximate to the local area; or the average of dealer quotes in the local area. It also allows the cost to be determined by a generally recognized used motor vehicle industry source such as NADA. However, it does not provide for averaging the local quotes with the NADA value. The examiners found that the Companies had a practice of averaging local quotes with the NADA value. The Company's interpretation of a recently revised rule resulted in non-compliance, and since the Department's

differing interpretation had not yet been communicated to the company, the Examiners determined that this test should not be included in this report.

Examiners’ Recommendations:

The Companies should establish procedures going forward whereby NADA values are not included when local market quotes are averaged to establish value. Conversely, when NADA is used to value vehicles, this value should not be averaged with local market quotes.

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:

Company	Population	Sample	Yes	No	Standard	Compliance
Auto Owners	37	37	37	0	93%	100%
Owners	252	55	55	0	93%	100%

The standard of compliance is 93%. Both Companies’ handling practices were above this standard.

Examiners Comments:

The results of the sales tax tests indicate that the Companies were in full compliance with the 2002 consent order.

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 100% of the supplied Auto Owners property damage files to test for compliance.

- The examiners reviewed a sample of the supplied Owners 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:

Company	Population	Sample	Yes	No	Standard	Compliance
Auto Owners	23	23	22	1	93%	96%
Owners	165	55	55	0	93%	100%

The standard of compliance is 93%. Both Companies’ handling practices were above this standard.

Examiners comments:

The exceptions resulted from inadequate file documentation to confirm compliance as described above in “File Documentation.”

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:

Company	Population	Sample	Yes	No	Standard	Compliance
Auto Owners	23	23	23	0	93%	100%
Owners	165	55	53	2	93%	96%

The standard of compliance is 93%. Both Companies' handling practices were above this standard.

Examiners comments:

The exceptions 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:

The examiners determined that the valuations developed by the Companies provided for adequate settlement amounts. However, the process used was not in compliance with Ohio Admin. Code 3901-1-54(H)(7) as revised effective November 12, 2004. The consent order of 2002 was based on the prior rule. The rule as revised allows for the use of the average cost of two or more comparable automobiles in the local market area; in areas proximate to the local area; or the average of dealer quotes in the local area. It also allows the cost to be determined by a generally recognized used motor vehicle industry source such as NADA. However, it does not provide for averaging the local quotes with the NADA value. The examiners found that the Companies had a practice of averaging local quotes with the NADA value. The Company's interpretation of a recently revised rule resulted in non-compliance, and since the Department's differing interpretation had not yet been communicated to the company, the Examiners determined that this test should not be included in this report.

Examiners' Recommendations:

The Companies should establish procedures going forward whereby NADA values are not included when local market quotes are averaged to establish value. Conversely, when NADA is used to value vehicles, this value should not be averaged with local market quotes.

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:

Company	Population	Sample	Yes	No	Standard	Compliance
Auto Owners	23	23	23	0	93%	100%
Owners	165	55	55	0	93%	100%

The standard of compliance is 93%. Both Companies' handling practices were above this standard.

Examiners' Comments:

The results of the sales tax test indicated that the Companies were in full compliance with the 2002 consent order.

SUMMARY

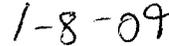
Although the Companies failed certain tests for timeliness related to initial contact and claims payment, the exceptions were the result of inadequate file documentation. Where files were adequately documented, no timeliness exceptions were identified. The Companies should implement the necessary training for adjusters to assure compliance with Ohio Administrative Code 3901-1-54(D)(2).

Ohio Adm. Code 3901-1-54 was revised on November 12, 2004, and again on April 5, 2007. The Examiners believe the Companies made a good faith effort to comply with the revised requirements of the rule. Modification of claim procedures to eliminate averaging of NADA values with local values on a going forward basis will bring the company into compliance.

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



Ben Hauck
Examiner-in-Charge



Date

COMPANY RESPONSE

AUTO-OWNERS INSURANCE COMPANY
AUTO-OWNERS LIFE INSURANCE COMPANY
HOME-OWNERS INSURANCE COMPANY
OWNERS INSURANCE COMPANY
PROPERTY-OWNERS INSURANCE COMPANY
SOUTHERN-OWNERS INSURANCE COMPANY



- Serving Our Policyholders and Agents for More Than 90 Years -

P.O. BOX 30660, LANSING, MICHIGAN 48909-8160
PH 517-323-1200 • FAX 517-323-8796 • WWW.AUTO-OWNERS.COM

January 7, 2009

Ohio Department of Insurance
Attn: Mr. Daniel J. Atkisson, CPCU, CIDM, CIE
50 W Town St Suite 300
Columbus OH 43215

RE: Company Comments Regarding the Examination of Ohio Private Passenger Automobile
Total Loss Collision and Property Damage Claims

Dear Mr. Atkisson:

We would like to thank you and various other individuals at the Department for all of the time and effort spent working together during this Examination. We are pleased with the overall results in the October 22, 2008 Draft Report.

We have reviewed the General Claim Practices - Examiner's Recommendations section, which includes comments about improving documentation of initial contact with first and third party claimants and the date that titles were received and/or settlements reached.

We appreciate the Department recognizing the complexities involved in the interpretation of the recently revised rule encompassed within in Ohio Administrative Code 3901-1-54(H)(7), and clarifying that criticisms are limited to "initial" calculations and not negotiated settlements. As you know, we had an extensive discussion about how the rule is subject to more than one interpretation.

Nonetheless, even though we may not be in agreement about how the rule applies to averaging, without admitting non-compliance and for the purpose of settling this matter, our companies agree to not use averages of NADA and local market quotes during the initial calculation of actual cash value.

Once again, we appreciate the Department's cooperation and assistance in resolving this matter.

Very truly yours,

AUTO-OWNERS INSURANCE COMPANY

Ronald J. Brittain
Senior Attorney
direct dial: (517)886-1906

RJB/jlc

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