

OHIO DEPARTMENT OF INSURANCE

A

MARKET CONDUCT EXAMINATION AND RISK ASSESSMENT

OF

GRANGE MUTUAL CASUALTY COMPANY

NAIC #14060

**GRANGE PROPERTY AND CASUALTY INSURANCE
COMPANY**

NAIC #11982

GRANGE INDEMNITY INSURANCE COMPANY

NAIC #10322

TRUSTGARD INSURANCE COMPANY

NAIC #40118

As Of

December 31, 2008





Honorable Mary Jo Hudson
Director
Ohio Department of Insurance
50 West Town Street Suite 300
Columbus, Ohio 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 examination and risk assessment was conducted on the Ohio business of the following Grange Insurance Group of Companies:

Grange Mutual Casualty Company NAIC# 14060
Grange Property and Casualty Insurance Company NAIC# 11982
Grange Indemnity Insurance Company NAIC# 10322
Trustgard Insurance Company NAIC# 40118

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

650 South Front Street P.O. Box 1218
Columbus, Ohio 43216-1218

A report of the examination and risk assessment is enclosed.

Respectfully submitted,

Lynette Baker
Chief, Market Conduct Division

September 25, 2009
Date

TABLE OF CONTENTS

FOREWORD	1
SCOPE OF EXAMINATION.....	1
METHODOLOGY	1
SAMPLING	2
COMPANY HISTORY	2
COMPANY OPERATIONS.....	3
CERTIFICATE OF AUTHORITY.....	4
COMPLIANCE.....	4
SECURITY BREACHES	5
MARKETING AND ADVERTISING.....	5
UNDERWRITING	5
GENERAL CLAIM PRACTICES	9
SPECIFIC CLAIM REVIEW	10
POLICYHOLDER SERVICES	25
GRANGE MUTUAL CASUALTY INSURANCE COMPANY SUMMARY.....	27
GRANGE INDEMNITY INSURANCE COMPANY SUMMARY.....	27
TRUSTGARD INSURANCE COMPANY SUMMARY	27
ATTACHMENT.....	29

FOREWORD

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

SCOPE OF EXAMINATION

On January 2, 2009, the Market Conduct Division, Ohio Department of Insurance (“the Department”), opened an examination and risk assessment of the Grange group of companies (collectively referred to herein as “the Company”), which includes the Grange Mutual Casualty Company (“Grange Mutual”), Grange Property and Casualty Insurance Company (“Grange P&C”), Grange Indemnity Insurance Company (“Grange Indemnity”), and Trustgard Insurance Company (“Trustgard”), with a call letter and initial requests for information. On April 27, 2009, the on-site portion of the examination and risk assessment of the Company’s non-financial business practices began at the Company’s statutory home office in Columbus, Ohio.

The examination and risk assessment was restricted to a review of Company activities for Ohio private passenger automobile (“automobile”) and homeowner insurance policies for the period of January 1, 2008, through December 31, 2008. The Company’s financial responsibility bond writings were not included in this examination and risk assessment. The examination report is a report 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 and risk assessment included the following areas of the Company’s operations:

- A. Company History
- B. Company Operations
- C. Certificate of Authority
- D. Compliance
- E. Underwriting and Rating
- F. Claims
- G. Policyholder Services

METHODOLOGY

As part of the examination and risk assessment, the Department’s examiners reviewed the Company’s automobile and homeowner policy and claim files and the Company’s corresponding procedure manuals. This information was supplemented by interviewing Company managers and/or with written inquiries requesting clarification and/or additional information. The following areas were included as part of the interview process: Compliance, Complaint Handling, Agency Relations/Interface, Marketing, Underwriting, Claims, Enterprise Risk Management, Billing and Processing, Internal Audit, Business Continuity and Disaster Recovery, and Information Technology Security.

Only the 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 are 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.

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

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

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

SAMPLING

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

COMPANY HISTORY

In February 1933, the Town and Village Insurance Company Services worked under an agreement with Grange Insurance Services, Inc. to write automobile insurance for members of the Ohio State Grange. Grange Insurance Services, Inc. served as a general agent in Ohio and conducted all sales efforts and promotions. Town and Village Insurance Services then wrote business under a special automobile policy provided by the New Century Casualty Company of Chicago, Illinois.

On March 25, 1935, Grange Mutual Casualty Company was formed as a non-profit corporation under the General Code of Ohio and as such, assumed the book of business from Town and Village Insurance Services. Its principal business was writing property and casualty insurance coverage for policyholders as a mutual insurance company.

Grange Mutual was originally an assessment company and limited its sales to Ohio State Grange members. In 1942, a new hospitalization policy was introduced and offered to Grange members. In 1944, a general liability policy was added to the Grange line of products. Fire and extended coverages became available in 1955. By this time, Grange was a multiple line company. In 1958, Grange Mutual became independent of Ohio State Grange and offered its products to the general public within the State of Ohio.

On December 31, 1989, Grange Mutual purchased all the issued and outstanding shares of NWNL General Insurance Company, a Minnesota property and casualty insurance company. The name was changed to Trustgard Insurance Company effective February 28, 1990. Trustgard began the direct marketing of personal lines automobile and homeowners insurance in Missouri and Kansas in the early to mid 1990's. In 1996, Grange decided to convert Trustgard to an independent agency company. Currently, Trustgard writes primarily new and renewal non-standard automobile policies.

In March of 1995, a new stock subsidiary of Grange Mutual named Grange Indemnity Insurance Company was formed in Ohio and currently writes primarily renewal non-standard automobile policies.

Grange Property and Casualty Insurance Company was formed in 2004 to write additional business in the Grange territories in Ohio, Kentucky, and Georgia. Grange Property and Casualty was created for the purpose of offering new personal lines products in the market and currently writes new and renewal homeowner policies.

COMPANY OPERATIONS

The Company is an Ohio domestic mutual company and maintains its statutory home office in Columbus, Ohio. The Company issues automobile, homeowner, life, business, and farm insurance through an independent agent system serving policyholders in Georgia, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Ohio Pennsylvania, South Carolina, Tennessee, Virginia, and Wisconsin. In accordance with R.C. 3935.10 and 3937.12, the Companies' personal lines statistical loss experience is reported to Independent Statistical Service.

The Company reported total private passenger automobile and homeowners direct written premium for the calendar year 2008 of \$651,650,428 and direct losses incurred for the same period of \$404,401,863. The Company's year-end 2008 written premium and loss information from the Company's Financial Annual Statements appear below.

<i>2008 Private Passenger Auto</i> <u>Company</u>	<u>Ohio</u> <u>Direct</u> <u>Written</u>	<u>Ohio</u> <u>Incurred</u> <u>Losses</u>	<u>National</u> <u>Direct</u> <u>Written</u>	<u>National</u> <u>Incurred</u> <u>Losses</u>
Grange Mutual Casualty Company	\$272,067,456	\$150,468,848	\$353,751,189	\$190,576,208
Grange Indemnity Insurance Company	\$21,328,821	\$13,226,313	\$39,864,536	\$25,138,835
Trustgard Insurance Company	<u>\$2,365,453</u>	<u>\$1,277,053</u>	<u>\$109,675,705</u>	<u>\$67,884,186</u>
Total Private Passenger Automobile	<u>\$295,761,730</u>	<u>\$164,972,214</u>	<u>\$503,291,430</u>	<u>\$283,599,229</u>

<i>2008 Homeowners</i>	Ohio	Ohio	National	National
<u>Company</u>	<u>Direct</u>	<u>Incurred</u>	<u>Direct</u>	<u>Incurred</u>
	<u>Written</u>	<u>Losses</u>	<u>Written</u>	<u>Losses</u>
Grange Mutual Casualty Company	\$96,762,678	\$82,218,815	\$136,918,687	\$115,338,670
Grange P&C Insurance Company	\$11,440,311	\$5,463,964	\$11,440,311	\$5,463,964
Total Homeowners	<u>\$108,202,989</u>	<u>\$87,682,779</u>	<u>\$148,358,998</u>	<u>\$120,802,634</u>

As of December 31, 2008, the officers of the Company were:

Chairman of the Board	Michael V. Parrott
President and Chief Executive Officer	Philip H. Urban
Vice President, Treasurer and Chief Financial Officer	Randall J. Montelone
Vice President, Secretary, and General Counsel	David T. Roark
Vice President, Chief Administrative Officer	Mark C. Russell

CERTIFICATE OF AUTHORITY

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

COMPLIANCE

The Company appears to have established an adequate compliance program and culture. The compliance program is an integral part of each department's activities. The compliance program is driven by the Office of General Counsel and Compliance, but encompasses several layers identified as a "matrix approach", including: the Grange Leadership Team, Internal Audit, department level compliance, compliance specialists, and a compliance steering committee. The matrix approach has personnel located throughout the enterprise that report on compliance activity purposes to corporate compliance and at the same time to their respective business heads. The Grange Leadership Team consists of all department Vice Presidents, who meet on a monthly basis to discuss the major issues or problem areas identified by the departments. The Office of General Counsel is responsible for the overall compliance framework, and communication, and the day-to day review of transactions, contracts, and filings. Internal Audit measures the performance of the compliance program. Each department conducts audits and has ownership in its compliance activities. The compliance specialists are designated key associates throughout the Company used to incorporate compliance efforts and activities as part of their performance duties. The Compliance Steering Committee is comprised of representative compliance specialists from each business unit for the purpose of highlighting the importance of compliance and promoting communication among and between the various business units. The committee meets on a quarterly basis to keep up on the current issues.

One key responsibility of the Office of General Counsel and Compliance is reviewing and consulting concerns and ensuring compliance with statutes. All potential compliance issues are reported to this group through a variety of sources, ranging from internal audits to employee feedback. All issues are documented, reviewed, then communicated using a nationally-known

intranet software to all departments. This software is also the tool utilized to communicate all statute changes throughout the enterprise.

An Enterprise Risk Management approach has been implemented to assist in the identification and mitigation of risks throughout the Company. It has proved to be a useful tool to keep management and the Board of Directors involved and up-to-date on the progress of the “external risk universe”.

SECURITY BREACHES

The examiners interviewed key personnel and reviewed procedure manuals to verify that the Company has the necessary controls in place to assure the security of confidential non-public personal information. The examiners found that the Company’s controls included specific requirements for those individuals who travel and any employee’s use of PDA’s, flash drives, CD’s and other data storage mechanisms. Should there be a breach of this information, a procedure manual exists detailing the steps the Company will take to inform any affected customers, the attorney general, and the Department within the required time frames. A free credit monitoring service is established for individuals that could be affected by any breach.

The examiners found that the Company’s security procedures were sufficient to assure protection of confidential information and to take quick action as necessary.

MARKETING AND ADVERTISING

A review was conducted on the marketing and advertising materials utilized during the examination period and materials for the Company’s new branding strategy. Also, the Company provided a presentation of how its new brand was developed and the strategies that have been developed to support the new brand. The branding strategies focused on four areas: products and services, people, place, and communications. The drivers for this brand change stemmed from a review of demographic and geographic trends. Some of the ideas that drove the change were a commitment to the independent agent network, agents becoming more of a partner with the Company in helping them succeed with customers, and creating products and services that address the face of changing middle America insurance shopping needs. The Compliance area was involved throughout the brand development and approval process.

The examiners found that the Company’s marketing and advertising practices were sufficient to establish compliance with Ohio statutes and rules

UNDERWRITING

Policy Cancellation and Nonrenewal—General Methodology

- The examiners reviewed all procedure manuals as part of the examination process.
- The Company supplied a file of all automobile and homeowner policies in force more than 90 days (60 days for homeowner) and subsequently terminated at the Company’s request for any reason during the examination period.
- The examiners identified three populations from the terminated policy file defined by termination reason:

1. Policies cancelled for non-payment of premium;
 2. Policies cancelled at the Companies' request for any reason other than the non-payment of premium;
 3. Policies that the Companies' "refused to renew".
- The examiners tested either the entire population or a sample from each population as indicated in the findings below.
 - Multiple errors in a single record were counted as one exception.

Automobile Policy Cancellation—Nonpayment of Premium

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

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

Test Methodology:

- The examiners removed and replaced 25 Trustgard files because they were in force less than 90 days.
- The examiners considered any of the following to be exceptions:
 1. Any cancellation effective with less than 10 days notice;
 2. Any cancellation notice that failed to contain the statutorily required information and appeal notice.

Findings:

Company	Population	Sample	Yes	No	Standard	Compliance
Grange Mutual	11,759	100	100	0	90%	100%
Grange Indemnity	4,022	50	50	0	90%	100%
Trustgard	38	38	38	0	90%	100%

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

Automobile Policy Cancellation—Other than Nonpayment of Premium

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

Test: Did the Company cancellation procedures conform to R.C. 3937.30, 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 Company did not indicate a willingness to issue a new policy within the same insurer or within another insurer under the same ownership and management, any notice to an insured which stated under 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 driving privileges; or
 - c. material misrepresentation by the insured.

Findings:

Company	Population	Sample	Yes	No	Standard	Compliance
Grange Mutual	350	50	49	1	90%	98%
Grange Indemnity	59	59	57	2	90%	97%
Trustgard	1	1	1	0	90%	100%

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

Examiner’s Comments:

The examiners found several instances in which certain reasons for cancellation, for example “insured’s request”, “rewrite”, or “non-payment”, were misclassified as ‘underwriting cancellations’ and the Company was attempting to cancel the policy mid-term. The reasons used to cancel were not one of the four permissible reasons for mid-term cancellations. No exceptions were given, however, this issue was discussed with Company personnel and the Company made the decision to implement a review of all cancellation classifications. New guidelines will be developed for each employee to follow to assure correct assignment of reason codes and audits will be established as follow up to assure compliance with Ohio statutes and rules.

Automobile Policy Nonrenewal

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

Test: Did the Company’s nonrenewal 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 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;
 2. Any “refusal to renew” on any renewal other than the two year anniversary of the policy 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	Yes	No	Standard	Compliance
Grange Mutual	90	90	0	90%	100%
Grange Indemnity	46	46	0	90%	100%
Trustgard	4	4	0	90%	100%

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

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 an exception:
 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
Grange Mutual	4,771	50	50	0	90%	100%
Grange P&C	725	50	50	0	90%	100%

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

Homeowner Policy Cancellation—Other than Nonpayment of Premium

Standard: Cancellation notices comply with policy provisions, 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 an exception:
 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
Grange Mutual	907	50	48	2	90%	96%
Grange P&C	14	14	14	0	90%	100%

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

Examiner Comments:

The examiners found several instances in which certain reasons for cancellation, for example "insured's request" or "non-payment", were misclassified as 'underwriting cancellations' and the Company was attempting to cancel the policy mid-term. The reasons used to cancel were not one of the four permissible reasons for mid-term cancellations. No exceptions were given, however, this issue was discussed with Company personnel and the Company made the decision to implement a review of all cancellation classifications. New guidelines will be developed for each employee to follow to assure correct assignment of reason codes and audits will be established as follow up to assure compliance with Ohio statutes and rules.

Homeowner Policy Nonrenewal

Standard: Non-renewal notices comply with policy provisions, statutes and rules, and company guidelines.

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

Test Methodology:

- The examiners considered the following to be an exception:
 1. Any non-renewal notice effective with less than 30 days notice; and,
 2. Any non-renewal 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
Grange Mutual	444	50	50	0	90%	100%

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

GENERAL CLAIM PRACTICES

The examiners reviewed the Company's claims procedures to determine whether the Company has 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 Company’s procedures were sufficient to establish compliance with Ohio statutes and rules.

File Sampling:

During the initial data gathering phase of this examination and risk assessment, there were several instances of the Company’s misclassification of claim features which caused problems with sample development. These issues required multiple questions to be addressed with the Company and data files to be submitted and resubmitted. The issues were discussed with the Company during interview sessions and the Company has acknowledged the various issues and has put in place steps to correct these problems going forward.

SPECIFIC CLAIM REVIEW

Automobile Paid Claims

Methodology:

- The Company supplied reports of first and third party automobile claims closed during the exam period.
- Claims where the amount of the covered loss was less than the deductible were considered to be “paid” claims.
- The examiners reviewed samples or the entire population 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.

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 any claim on which the Company did not contact the claimant within ten (10) days from the date of notification of the claim to be an exception.

Findings:

Grange Mutual:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	12,430	100	100	0	93%	100%
Collision Total	2,799	50	50	0	93%	100%
Property Damage Partial	12,059	100	100	0	93%	100%
Property Damage Total	1,662	50	50	0	93%	100%

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Comprehensive	6,209	100	100	0	93%	100%
Medical/Med Pay	3,383	50	50	0	93%	100%
Uninsured/Underinsured Motorists Property Damage	147	50	50	0	93%	100%
Bodily Injury	4,604	50	50	0	93%	100%

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

Grange Indemnity:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	716	50	50	0	93%	100%
Collision Total	264	50	50	0	93%	100%
Property Damage Partial	1,081	50	50	0	93%	100%
Property Damage Total	167	50	50	0	93%	100%
Comprehensive	308	50	50	0	93%	100%
Medical/Med Pay	405	50	50	0	93%	100%
Uninsured/Underinsured Motorists Property Damage	28	28	28	0	93%	100%
Bodily Injury	488	50	50	0	93%	100%

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

Trustgard:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	60	60	60	0	93%	100%
Collision Total	15	15	15	0	93%	100%
Property Damage Partial	100	100	100	0	93%	100%
Property Damage Total	12	12	12	0	93%	100%
Comprehensive	24	24	24	0	93%	100%
Medical/Med Pay	31	31	31	0	93%	100%
Uninsured/Underinsured Motorists Property Damage	3	3	3	0	93%	100%
Bodily Injury	97	97	97	0	93%	100%

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

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 by a lienholder or a salvage title was required to settle an automobile claim, the examiners did not consider the claim “payable” until the Company received the required document(s).
- The examiner considered the following to be an exception:
 1. Any claim on which the Company failed to make payment to a first party claimant in ten (10) days once the amount was known and agreed as required by Ohio Adm.Code 3901-1-54(G)(6); and,
 2. Any claim on which the Company failed to make payment to a third party claimant in five (5) working days once the amount was known and agreed as required by Ohio Adm.Code 3901-1-07(C)(16).

Findings:**Grange Mutual**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	12,430	100	100	0	93%	100%
Collision Total	2,799	50	50	0	93%	100%
Property Damage Partial	12,059	100	100	0	93%	100%
Property Damage Total	1,662	50	49	1	93%	98%
Comprehensive	6,209	100	100	0	93%	100%
Medical/Med Pay	3,383	50	49	1	93%	100%
Uninsured/Underinsured Motorists Property Damage	147	50	50	0	93%	100%
Bodily Injury	4,604	50	50	0	93%	100%

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

Grange Indemnity:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	716	50	50	0	93%	100%
Collision Total	264	50	50	0	93%	100%
Property Damage Partial	1,081	50	50	0	93%	100%
Property Damage Total	167	50	50	0	93%	100%
Comprehensive	308	50	50	0	93%	100%
Medical/Med Pay	405	50	50	0	93%	100%
Uninsured/Underinsured Motorists Property Damage	28	28	28	0	93%	100%
Bodily Injury	488	50	50	0	93%	100%

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

Trustgard:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	60	60	60	0	93%	100%

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Total	15	15	15	0	93%	100%
Property Damage Partial	100	100	100	0	93%	100%
Property Damage Total	12	12	12	0	93%	100%
Comprehensive	24	24	24	0	93%	100%
Medical/Med Pay	31	31	31	0	93%	100%
Uninsured/Underinsured Motorists Property Damage	3	3	3	0	93%	100%
Bodily Injury	97	97	97	0	93%	100%

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

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 parts which were not manufactured by the Original Equipment Manufacturer ("OEM") and was the mandatory statutory disclosure wording included on the estimate s 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 wording required when non-OEM parts are used to repair a vehicle.

Findings:

Grange Mutual:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	12,430	100	100	0	93%	100%
Property Damage Partial	12,059	100	99	1	93%	99%

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

Grange Indemnity

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	716	50	50	0	93%	100%
Property Damage Partial	1,081	50	50	0	93%	100%

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

Trustgard:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	60	60	60	0	93%	100%
Property Damage Partial	100	100	100	0	93%	100%

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

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 estimate included "Like Kind and Quality" ("LKQ") parts and the name and location of the licensed salvage dealer where the parts were 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.

Findings:**Grange Mutual**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	12,430	100	99	1	93%	99%
Property Damage Partial	12,059	100	98	2	93%	98%

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

Grange Indemnity

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	716	50	49	1	93%	98%
Property Damage Partial	1,081	50	48	2	93%	96%

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

Trustgard

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	60	60	58	2	93%	97%
Property Damage Partial	100	100	99	1	93%	99%

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

Examiner Comments (all Companies):

The Company should update its claim handling procedures on partial losses when using LKQ parts, so that the licensed salvage dealer’s address is listed on the repair estimate.

Vehicle Partial Loss—Fair and Reasonable Settlements

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

Test: Did the Company offer to claimants who have made fair and reasonable claims and in which liability has become 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 including payment of all sales tax required per Ohio Adm.Code 3901-1-07(C)(6)?

Findings:

Grange Mutual:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	12,430	100	100	0	93%	100%
Property Damage Partial	12,059	100	99	1	93%	99%
Comprehensive	6,209	100	97	3	93%	97%

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

Grange Indemnity

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	716	50	50	0	93%	100%
Property Damage Partial	1,081	50	50	0	93%	100%
Comprehensive	308	50	50	0	93%	100%

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

Trustgard:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	60	60	60	0	93%	100%
Property Damage Partial	100	100	100	0	93%	100%
Comprehensive	24	24	24	0	93%	100%

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

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 (H)(7)(a)-(e)?

Test Methodology:

The examiners considered the following to be an exception:

1. Failure to document that the settlement amount offered and/or paid was fair and reasonable.

Findings:**Grange Mutual:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Total	2,799	50	48	2	93%	96%
Property Damage Total	1,662	50	48	2	93%	96%

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

Grange Indemnity:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Total	264	50	50	0	93%	100%
Property Damage Total	167	50	49	1	93%	98%

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

Trustgard:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Total	15	15	15	0	93%	100%
Property Damage Total	12	12	12	0	93%	100%

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

Examiner Comments (Grange Mutual and Grange Indemnity):

The Company should develop procedures clarifying that if multiple sources are considered for claim settlement amount, that these sources cannot be averaged. It is allowable to average the cost of two or more automobiles in the local market, but electronic database information cannot be averaged with any source. Whichever source that is chosen for use, must be used on a consistent basis.

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) and (g)?

Test Methodology:

The examiners considered the following to be an exception:

1. Any failure to pay or reimburse sales tax on vehicle total loss settlements as required by Ohio Adm.Code 3901-1-54(H)(7)(f) and (g); and,

- Any failure to use local sales tax rates when paying sales tax on ACV.

Findings:

Grange Mutual

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Total	2,799	50	13	37	93%	26%
Property Damage Total	1,662	50	18	32	93%	36%

The standard of compliance is 93%. The Company’s claim practices did not meet this standard.

Grange Indemnity

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Total	264	50	15	35	93%	30%
Property Damage Total	167	50	20	30	93%	40%

The standard of compliance is 93%. The Company’s claim practices did not meet this standard

Trustgard

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Total	15	15	6	9	93%	40%
Property Damage Total	12	12	9	3	93%	75%

The standard of compliance is 93%. The Company’s claim practices did not meet this standard.

Examiner Recommendations (all Companies):

The Company should revise its claim handling procedures on total losses to require that notice be given “simultaneously with the conveyance of the settlement check to the claimant” as required by Ohio Adm.Code 3901-1-54(H)(7)(g). In all cases where sales tax is paid, the claim file should be documented.

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:

- Any indication of a pattern settlement;
- Any indication of the Company’s actions to compel a first party claimant to litigate;
- 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 request.

Findings:

Grange Mutual

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Uninsured/Underinsured Motorists Property Damage	147	50	50	0	93%	100%
Bodily Injury-Paid	4,604	50	50	0	93%	100%
Medical	3,383	50	50	0	93%	100%

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

Grange Indemnity

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Uninsured/Underinsured Motorists Property Damage	28	28	28	0	93%	100%
Bodily Injury-Paid	488	50	50	0	93%	100%
Medical	405	50	50	0	93%	100%

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

Trustgard

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Uninsured/Underinsured Motorists Property Damage	3	3	3	0	93%	100%
Bodily Injury-Paid	97	97	97	0	93%	100%
Medical	31	31	31	0	93%	100%

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

Automobile Denied and Closed Without Payment Claims

Methodology:

- The Company supplied reports of first and third party automobile claims denied or closed without payment during the exam period.
- The examiners reviewed samples or the entire population 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.

Standard: “Denied” claims are properly handled in accordance with policy provisions and applicable Ohio 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 examiners considered the following to be an exception:

- Failure to make a decision on whether to pay or deny the claim, or ask for additional information within 21 days of receipt of a properly executed proof of loss;
- The Company denied the claim solely on the basis that the proof of loss is not on the insurer’s usual form when the form of the proof of loss is not material;
- Failure to notify the Department of any indication of fraud within 60 days of proof of loss;
- Failure to include in its denial a specific reference to the provision, exclusion, or condition that was the basis for the claim denial;
- A claim denied to a first party claimant on consideration that others should assume the responsibility for payment;
- Failure to provide claimant with at least 60 days notice of statute of limitations expiration when the claimant was not represented by legal counsel;
- Any denial based on the insured’s request to do so, without independent evaluation of insured’s liability;
- Failure of the Company to disclose all coverages and benefits available to the claimant.

Findings:

Grange Mutual:

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partial	6,161	100	100	0	93%	100%
Collision Totals	27	27	27	0	93%	100%
Property Damage Partial	2,814	50	50	0	93%	100%
Property Damage Totals	21	21	21	0	93%	100%
Comprehensive	1,134	100	100	0	93%	100%
Medical/Med Pay	1,512	50	49	1	93%	98%
Uninsured/Underinsured Motorists Property Damage	96	96	96	0	93%	100%
Bodily Injury	915	50	49	1	93%	98%

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

Grange Indemnity

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partials	423	50	50	0	93%	100%

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Totals	11	11	11	0	93%	100%
Property Damage Partials	256	50	50	0	93%	100%
Property Damage Totals	3	3	3	0	93%	100%
Comprehensive	92	92	92	0	93%	100%
Medical/Med Pay	209	50	50	0	93%	100%
Uninsured/Underinsured Motorists Property Damage	18	18	18	0	93%	100%
Bodily Injury	99	99	99	0	93%	100%

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

Trustgard

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Collision Partials	39	39	39	0	93%	100%
Collision Totals	1	1	1	0	93%	100%
Property Damage Partials	26	26	25	1	93%	96%
Property Damage Totals	1	1	1	0	93%	100%
Comprehensive	2	2	2	0	93%	100%
Medical/Med Pay	20	20	20	0	93%	100%
Uninsured/Underinsured Motorists Property Damage	6	6	6	0	93%	100%
Bodily Injury	23	23	23	0	93%	100%

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

Examiner Comments (Grange Mutual and Trustgard):

The Company should revise its claim handling procedures to assure a decision to pay the claim, deny the claim, or request additional investigation time is completed within 21 days of receipt of properly executed proof of loss. Also, each denied claim file should have a copy of the denial letter as applicable per Ohio statutes and rules.

Homeowner Paid Claims (Grange Mutual and Grange P&C only)

Methodology:

The Company supplied a report of all Grange Mutual and Grange P&C Homeowner, Dwelling Fire, Mobile Home, and Other Structure and Contents paid claims that were closed during the exam period. The examiners reviewed a sampling of claims file, or the entire population of claim files, to test for compliance. Please note that there were no files sampled on Grange P&C Dwelling Fire (ACV) Structure claims, Dwelling Fire (ACV) and Mobile Home (ACV) Contents claims.

- The claims files were reviewed to verify dates in the claims settlement process.
- The claims files were reviewed to verify the Company's claim settlement practices.

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 required time frames to be an exception.

Findings:

Grange Mutual:

Claim Feature-Structure	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	9,851	100	100	0	93%	100%
Dwelling Fire (ACV)	571	50	50	0	93%	100%
Mobile Home (ACV)	182	50	50	0	93%	100%
Other (ACV)	450	50	50	0	93%	100%

Claim Feature-Contents	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	4,845	50	50	0	93%	100%
Dwelling Fire (ACV)	5	5	5	0	93%	100%
Mobile Home (ACV)	61	61	61	0	93%	100%
Other (ACV)	110	50	50	0	93%	100%

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

Grange P&C:

Claim Feature-Structure	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	509	50	50	0	93%	100%
Mobile Home (ACV)	3	3	3	0	93%	100%
Other (ACV)	52	52	52	0	93%	100%

Claim Feature - Contents	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	349	50	50	0	93%	100%
Other (ACV)	16	16	16	0	93%	100%

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

Timely Claim Payments

Standard: Claims are resolved in a timely manner.

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

Test Methodology:

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

Grange Mutual:

Claim Feature-Structure	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	9,851	100	100	0	93%	100%
Dwelling Fire (ACV)	571	50	50	0	93%	100%
Mobile Home (ACV)	182	50	50	0	93%	100%
Other (ACV)	450	50	50	0	93%	100%

Claim Feature-Contents	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	4,845	50	49	1	93%	98%
Dwelling Fire (ACV)	5	5	5	0	93%	100%
Mobile Home (ACV)	61	61	60	1	93%	98%
Other (ACV)	110	50	50	0	93%	100%

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

Grange P&C:

Claim Feature-Structure	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	509	50	50	0	93%	100%
Mobile Home (ACV)	3	3	3	0	93%	100%
Other (ACV)	52	52	52	0	93%	100%

Claim Feature-Contents	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	349	50	50	0	93%	100%
Other (ACV)	16	16	16	0	93%	100%

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

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 any of the following to be exceptions:

- Any claim on which the Company's calculation of settlement amount was done incorrectly; and,
- Any claim on which the Company's claim file did not document the payment of sales tax as required.

Findings:**Grange Mutual:**

Claim Feature-Structure	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	9,851	100	97	3	93%	97%
Dwelling Fire (ACV)	571	50	50	0	93%	100%
Mobile Home (ACV)	182	50	48	2	93%	96%
Other (ACV)	450	50	47	3	93%	94%

Claim Feature-Contents	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	4,845	50	48	2	93%	96%
Dwelling Fire (ACV)	5	5	5	0	93%	100%
Mobile Home (ACV)	61	61	58	3	93%	95%
Other (ACV)	110	50	48	2	93%	96%

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

Grange P&C:

Claim Feature-Structure	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	509	50	50	0	93%	100%
Mobile Home (ACV)	3	3	3	0	93%	100%
Other (ACV)	52	52	52	0	93%	100%

Claim Feature-Contents	Population	Sample	Yes	No	Standard	Compliance
Homeowner (repl. cost)	349	50	49	1	93%	98%
Other (ACV)	16	16	16	0	93%	100%

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

Examiner Comments (all Companies):

The Company should establish the following procedures to improve its claim handling practices on Structure and Contents paid claims:

- The claim file documentation should include all the information used to determine the loss.

- The claim file should document clearly the date the settlement amount was agreed on by all parties.
- The claim file documentation should clearly show how loss settlements were calculated.
- Estimates used in settlement should match settlement amount.

Homeowner Denied Claims (Grange Mutual and Grange P&C only)

Methodology:

The Company supplied a report of all Homeowner Structure and Contents claims files denied and closed without payment that occurred during the examination period. The examiners reviewed a sampling of claims file, or the entire population of claim files, to test for compliance. Please note that all homeowner features (Homeowners, Condos, Renters) were included as part of the ‘Homeowner’ population. There were no files sampled on Grange P&C Dwelling Fire (ACV) Structure claims and, Dwelling Fire (ACV) Contents claims.

Standard: “Denied” claims are properly handled in accordance with policy provisions and applicable Ohio statutes and rules.

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

Test Methodology:

The examiners considered any of the following to be exceptions:

- Failure to make a decision on whether to pay or deny the claim, or ask for additional information within 21 days of receipt of a properly executed proof of loss;
- The Company denied the claim solely on the basis that the proof of loss is not on the insurer’s usual form when the form of the proof of loss is not material;
- Failure to notify the Department of any indication of fraud within 60 days of proof of loss;
- Failure to include in its denial a specific reference to the policy provision, condition, or exclusion that was the basis for the denial;
- A claim denied to a first party on consideration that others should assume the responsibility of the payment;
- 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;
- Any denial based solely on the insured’s request to do so, without making an independent evaluation of the insured’s liability;
- Failure of the Company to disclose all coverages and benefits available to the claimant.

Findings:

Grange Mutual:

Claim Feature- Structure	Population	Sample	Yes	No	Standard	Compliance
All Homeowner (repl. cost)	3,420	50	49	1	93%	98%
Dwelling Fire (ACV)	259	50	50	0	93%	100%
Mobile Home (ACV)	57	57	57	0	93%	100%

Claim Feature-Contents	Population	Sample	Yes	No	Standard	Compliance
All Homeowner (repl. cost)	1,250	50	50	0	93%	100%
Dwelling Fire (ACV)	2	2	2	0	93%	100%
Mobile Home (ACV)	30	30	30	0	93%	100%

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

Grange P&C:

Claim Feature-Structure	Population	Sample	Yes	No	Standard	Compliance
All Homeowner (repl. cost)	177	50	50	0	93%	100%
Mobile Home (ACV)	5	5	5	0	93%	100%

Claim Feature-Contents	Population	Sample	Yes	No	Standard	Compliance
All Homeowner (repl. cost)	102	50	50	0	93%	100%
Mobile Home (ACV)	3	3	3	0	93%	100%

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

Examiner Comments (Grange Mutual):

The Company should establish the following procedures to improve its claim handling practices on Structure and Contents denied and closed without payment claims:

- Procedures should be established to assure all claims are handled in a timely manner and that decision to pay, deny, or request additional time to investigate is completed within 21 days of receipt of a properly executed proof of loss.

POLICYHOLDER SERVICES

Consumer Complaints

The examiners reviewed all Department and internal complaints received by the Company in 2007 and 2008. The examiners identified possible areas of concern in claims handling while reviewing Department complaints. There were twenty-two claims (out of approximately 250 complaints reviewed or 9%) involving an additional payment being made to a claimant after filing a complaint. These issues were discussed with the Company during personnel interviews. The Company reviewed the findings and provided adequate support documentation that addressed the concerns. No specific trends were identified during review of the internal complaints. The Company's definition of "complaint" tracks with the Ohio statutes and rules.

The Company appears to have adequate controls in place for handling complaints. All complaints are received in the Office of General Counsel and Compliance. The administrative assistant is responsible for logging the complaint and forwarding to the appropriate department for handling. A designated person in each unit has the responsibility of receiving, distributing, and reviewing each complaint. Once the complaints are returned to the Office of General Counsel and Compliance, they are reviewed for completeness and accuracy and to assure that all responses are delivered in the time frame required by Ohio statutes and rules. The Company needs to improve complaint response reviews to assure that every response includes a policy or claim chronology, adequate documentation of the situation, and reasons for any action taken.

The Company utilizes a computerized complaint log that can be used as a tracking device. Company-wide trending of complaints is done to compare the number being received on a month-to-month and year-to year basis. The Claims division does an additional review of first party claimant complaints. The Company indicated that procedures will be revised to include a review of third party claimant responses going forward. The Company has a thorough complaint handling procedure manual that is available for all employee use.

GRANGE MUTUAL CASUALTY INSURANCE COMPANY 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>
AUTOMOBILE		
Collision Total Paid Loss Claims		
Did the file document that sales tax was paid on total loss settlements to conform with Ohio Adm.Code 3901-1-54(H)(7)(f) and (g)?	93%	26%
Property Damage Total Paid Loss Claims		
Did the file document that sales tax was paid on total loss settlements to conform with Ohio Adm.Code 3901-1-54(H)(7)(f) and (g)?	93%	36%

GRANGE INDEMNITY INSURANCE COMPANY 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>
AUTOMOBILE		
Collision Total Paid Loss Claims		
Did the file document that sales tax was paid on total loss settlements to conform with Ohio Adm.Code 3901-1-54(H)(7)(f) and (g)?	93%	30%
Property Damage Total Paid Loss Claims		
Did the file document that sales tax was paid on total loss settlements to conform with Ohio Adm.Code 3901-1-54(H)(7)(f) and (g)?	93%	40%

TRUSTGARD INSURANCE COMPANY 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>
AUTOMOBILE		
Collision Total Paid Loss Claims		
Did the file document that sales tax was paid on total loss settlements to conform with Ohio Adm.Code 3901-1-54(H)(7)(f) and (g)?	93%	40%
Property Damage Total Paid Loss Claims		
Did the file document that sales tax was paid on total loss settlements to conform with Ohio Adm.Code 3901-1-54(H)(7)(f) and (g)?	93%	75%

This concludes the report of the Market Conduct examination and risk assessment of Grange Mutual Insurance Company, Grange Indemnity Insurance Company, Grange Property and Casualty Insurance Company, and Trustgard Insurance Company. The Examiners, Don Layson, John Pollock, Laura Price, Ben Hauck and Angela Dingus would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



Don Layson
Examiner in Charge

September 25, 2009
Date

ATTACHMENT



671 South High Street
P.O. Box 1218
Columbus, Ohio 43216-1218
614.445.2900 or 1.800.422.0550
grangeinsurance.com

Office of General Counsel and Compliance

David T. Roark, CPCU
Vice President, General Counsel
Direct Line 614.445.2481
Fax 614.449.7109
roarkd@grangeinsurance.com

LaVawn D. Coleman, CPCU, ARe
Vice President, Asst. General Counsel
Direct Line 614.445.2649
Fax 614.449.7150
colemanl@grangeinsurance.com

Beth W. Murphy, CPCU
Assistant Vice President,
Legal and Regulatory Compliance
Direct Line 614.449.3740
Fax 614.542.8126
murphyb@grangeinsurance.com

September 17, 2009

Ohio Department of Insurance
Attn: Daniel J. Atkisson
Insurance Compliance Supervisor
50 West Town Street
Third Floor, Suite 300
Columbus, OH 43215

Re: Grange Mutual Casualty Company
Grange Indemnity Insurance Company
Trustgard Insurance Company
Grange Property & Casualty Insurance Company

Dear Mr. Atkisson:

Thank you for allowing us to respond to the draft Report regarding the above-referenced Companies. I first wanted to express our sincere appreciation for the diligent and thorough work of Examiner In Charge, Don Layson, and his team, Laura Price, Ben Hauck, John Pollack, and Angela Dingus. Their insight and feedback has been very valuable as Grange strives to give its policyholders and claimants exceptional service.

With respect to the specific Recommendation in the draft Report to revise our claims' handling procedures to ensure that the required sales tax letter be sent "simultaneously with the conveyance of the settlement check to the claimant," Grange has already corrected this procedure. Furthermore, to ensure future compliance, the claims Quality Control/Quality Assurance checklist has been revised to specifically include this requirement. Please note that Grange had been sending this required letter prior to issuing a settlement check in an effort to be proactive and to give the claimant the information as soon as possible. However, Grange understands and acknowledges the importance of sending this letter simultaneously with the settlement check and as previously mentioned, has already revised its procedures to fully comply with this requirement. Although it appears as though there are six (6) separate areas of non-compliance on the draft Report, Grange would simply point out that this one particular issue affected

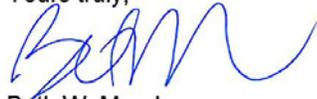
Grange Mutual Casualty Co. | Grange Life Insurance Co. | Grange Indemnity Insurance Co. | Grange Property & Casualty Insurance Co.
Grange Insurance Co. of Michigan | Trustgard Insurance Co. | Integrity Mutual Insurance Co. | Integrity Property & Casualty Insurance Co.

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all of our Companies for both collision and property damage losses. It is also important to note that our non-compliance did not arise out of any failure to pay the sales tax or failure to pay the correct amount of sales tax.

On all other issues, the Companies' compliance percentages were outstanding and we are very pleased with the outcome of this examination. All Examiner Comments will be reviewed and addressed appropriately. Again, thank you for the opportunity to review the draft Report and to address the issues.

Yours truly,



Beth W. Murphy