

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

CSAA General Insurance Company - Authority # 37770-18-HO-741

CSAA Affinity Insurance Company - Authority # 11681-18-HO-742

**3055 Oak Road
Walnut Creek, CA 94597**

As of

August 31, 2018

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of August 31, 2018 on

CSAA General Insurance Company
CSAA Affinity Insurance Company

is a true and correct copy of the document filed with this Department.

Attest By: _____



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 1ST day of October, 2019.

Trinidad Navarro
Insurance Commissioner

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION

OF THE

CSAA General Insurance Company
CSAA Affinity Insurance Company

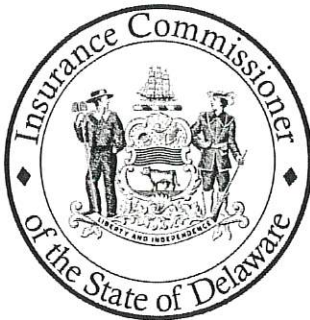
AS OF

August 31, 2018

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 15th day of October, 2019.

Trinidad Navarro
Insurance Commissioner

TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
SCOPE OF EXAMINATION.....	6
METHODOLOGY	6
COMPANY HISTORY AND PROFILE	7
COMPLAINT HANDLING	7
UNDERWRITING AND RATING.....	8
CLAIMS	11
CONCLUSION.....	12

Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Exam Authority Number 37770-18-HO-741 and 11681-18-HO-742, and pursuant to statutory provisions including 18 *Del. C.* §§ 318 - 322, a market conduct examination has been conducted of the affairs and practices of:

CSAA General Insurance Company - Authority # 37770-18-HO-741
CSAA Affinity Insurance Company - Authority # 11681-18-HO-742

The examination was performed as of August 31, 2018.

The examination consisted of an off-site phase, which was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

The examination of CSAA General Insurance Company and CSAA Affinity Insurance Company, hereinafter referred to as CSAA General or CSAA Affinity, respectively, was announced as part of a series of examinations of companies in the homeowner insurance marketplace in Delaware. The examination focused on the Companies homeowner insurance business in the following areas of operation: Complaint Handling, Underwriting and Rating, and Claims.

Special emphasis was placed on reviewing the steps involved in determining the Dwelling Coverage amount selected by the customer and the use of any Inflation Protection coverage provisions. This is discussed in the Underwriting and Rating section of this report.

All exceptions noted were in the area of Underwriting and Rating and Claims.

The following exceptions were noted.

- **1 Exception - CSAA General - New Business & Renewals**

- 18 Del. Admin. C. 702 §4.0 - Requirement of Disclosure**

- Insurers, upon initial delivery of a homeowners' policy terms and declaration page, and not less than once annually after delivery, shall provide a form to the policyholder entitled "Important Information About your Homeowners Insurance." The title of the document shall be in at least 30-point type.*

- 5.0 Content of Disclosure**

- 5.1 Each form presented pursuant to Section 4.0 of this Regulation shall make the following disclosures:*

- 5.1.1 Disclosure that the policy does not cover damage caused by flooding, and sufficient information to allow the policyholder to contact the National Flood Insurance Program in order to purchase flood insurance if so desired. The following language shall be sufficient to ensure compliance with this subsection 5.1: "This policy does not cover damage to your property caused by flooding. Flood insurance is available for communities and property that participate in the National Flood Insurance Program ("NFIP"). Not all communities participate in the NFIP. Flood insurance may be available even if you do not live in a flood hazard area as defined by the NFIP. Please call the NFIP at 1-800-427-4661 to see if your community and property are eligible for coverage. If your community does not participate in the NFIP, you may contact your insurance agent or broker to see if there is other flood insurance coverage available to you." The disclosure may also inform the policyholder that the insurer offers flood insurance as a participant in the NFIP's "Write Your Own" program. The disclosure required by this subsection shall be entitled "Flood Insurance," and the subsection title shall be in at least 18-point type.*

- 5.1.2 Disclosure that the policy may not cover the full cost of replacement without*

Delaware Market Conduct Examination Report
CSAA General Insurance Company
CSAA Affinity Insurance Company

depreciation of the property, and sufficient information to allow the policyholder to purchase such coverage from the carrier if it is offered by the carrier. The following language shall be sufficient to ensure compliance with this subsection 5.2: “This policy may not cover the full cost of replacing your home if your home should be destroyed in an event otherwise covered by this policy. You may purchase additional coverage from us sufficient to cover the full cost of replacing your home, at an additional cost.” The disclosure required by this subsection shall be entitled “Replacing Your Home,” and the subsection title shall be in at least 18- point type.

5.1.3 Disclosure of any limitations in the policy regarding reimbursement for items stolen from the property, including but not limited to jewelry, furs, fine art, etc., and sufficient information to allow the policyholder to purchase insurance which would not contain such limitation if such coverage is offered by the insurer. The following language shall be sufficient to ensure compliance with this subsection 5.3: “This policy may not cover the value of all items stolen from your home. Please carefully review your policy to determine which items stolen from your home are not covered by this policy.” The disclosure required by this subsection shall be entitled “Reimbursement for Stolen Items,” and the subsection title shall be in at least 18-point type.

5.1.4 Disclosure of any formal practice followed by the insurer regarding non-renewal of the policy on the occurrence of certain factors or on the basis of claims asserted by the policyholder. The following language shall be sufficient to ensure compliance with this subsection 5.4: “We have a policy of declining to renew homeowners’ insurance policies under the following circumstances: (list the claim activities or occurrences that are likely to cause non-renewal of a policyholder’s policy).” The disclosure required by this subsection shall be entitled “Non-Renewal of Your Policy,” and the subsection title shall be in at least 18-point type.

5.1.5 Disclosure of information regarding any required deductibles, which disclosure shall include the following information:

5.1.5.1 A description of what a deductible is, including a statement that the policyholder is responsible for payment of the entire amount of the deductible;

5.1.5.2 A full description of the circumstances that will trigger applicability of each deductible;

5.1.5.3 A description and example(s) of how each deductible will be calculated;

5.1.5.4 The following statement: “Deductibles are not required by state law and are not uniform across insurance companies, and therefore the charge for each deductible may vary between insurers.” The disclosure required by this subsection shall be entitled “Policyholder Payment of Deductibles: and the title shall be in at least 18-point type.

5.2 Where a policy provides full coverage for any of the items required by sections 5.1.1 through 5.1.3, or where the policy does not require payment of a deductible, the insurer may indicate that the disclosure, as to each such item, is not applicable or “N/A.”

At the time of initial delivery of the homeowner’s policy terms and declaration page,

Delaware Market Conduct Examination Report
CSAA General Insurance Company
CSAA Affinity Insurance Company

the Company failed to provide a form to the policyholder entitled “Important Information About your Homeowners Insurance” with subheadings in 18-point type.

- **27 Total Exceptions:**
 - 6 Exceptions - CSAA General - Denied**
 - 5 Exceptions - CSAA Affinity - Paid**
 - 9 Exceptions - CSAA Affinity - Denied**
 - 7 Exceptions - CSAA Affinity - Closed without Payment**

18 Del. Admin. C. 902 - Prohibited Unfair Claim Settlement Practices.

1.2.1.5 Failing to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements have been received by the insurer.

The Company failed to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements were received by the insurer.

- **6 Exceptions - CSAA Affinity - New Business**

18 Del. C. § 320 - Conduct of examination; access to records; correction.

(c) Every person being examined, the person's officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner's examiners, the accounts, records, documents, files, information, assets and matters of such person, in the person's possession or control, relating to the subject of the examination and shall facilitate the examination.

The Company failed to maintain a copy of the application in the New Business file.

- **35 Exceptions - CSAA Affinity Renewals**

18 Del. C. § 8307 (c) - Notification

(c) On an annual basis, the insurer shall inform its policyholders of their right to have their credit information reviewed to determine whether the use of the current credit report would result in a lower premium, in accordance with the procedures set forth in this chapter. This notification shall be in at least 18-point type and included with the renewal notice. The notification shall be accompanied by a form that the policyholder must complete and send to the insurer to request that the credit information be obtained and reviewed. The notification shall advise the policyholder that the request form must be mailed within 2 weeks of the date of mailing of the renewal notification by the insurer for a premium adjustment to be made for the upcoming policy period. The notification shall also advise the policyholder that they must comply with the renewal notice requirements

Delaware Market Conduct Examination Report
CSAA General Insurance Company
CSAA Affinity Insurance Company

regarding the payment amount and due date regardless of whether they choose to request a review of their credit report and that any decrease of premium as a result of the new credit report be effective on the upcoming renewal date provided in the renewal notice. This subsection does not apply to any renewal for which the insurer's filed rating plan does not use any credit information, including residual effect from the use of credit information at initial underwriting. An insurer that is exempt from this subsection shall advise its policyholder of the exemption and the reason for the exemption with the policyholder's renewal notice.

At the time of policy renewal, the company failed to disclose that any decrease of premium as a result of a new credit report (would) be effective on the upcoming renewal date provided in the renewal notice.

The following concern was also noted, while this does not rise to the level of an exception, the Company should address this issue.

- **8 Concerns- CSAA Affinity - Terminations**

DOMESTIC/FOREIGN INSURERS BULLETIN NO. 21 - REQUIRED NOTICES TO BE PROVIDED TO CONSUMERS IN THE STATE OF DELAWARE
Revised August 30, 2006

3. Any communication notifying a policyholder of the termination, as that term is defined in 18 Del C. § 4121, of a homeowners or commercial property insurance policy shall contain:

- (a) A prominent notification that the policyholder should immediately begin seeking alternative property insurance from a licensed Delaware insurance agent if the policyholder intends to avoid a lapse in coverage, and*
- (b) A prominent notification that the policyholder may be entitled to purchase insurance from the state's industry placement facility program (the FAIR Plan).*

The notification required by this paragraph shall contain the name and contact information for the state's industry placement facility program, and shall be in at least 18-point type, including the website address: <http://www.defairplan.com>.

4. The notification required by Paragraph 3 shall also be sent by the carrier terminating coverage to any producer through whom the policyholder purchased his or her insurance policy.

The company failed to maintain a copy of the FAIR Plan notification in the termination file, evidencing that said notification was communicated to the policyholder and to the producer.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 *Del. C.* §§ 318 - 322 and covered the experience period of January 1, 2016 through August 31, 2018. The purpose of the examination was to determine compliance by the Company with applicable Delaware laws and regulations.

The examination was a targeted market conduct examination of the Company's homeowner's insurance business in the following areas of operation: Complaint Handling, Underwriting and Rating, and Claims.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While examiners reported the errors found in individual files, the examiners also focused on general business practices of the Company.

The Company identified the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested, as warranted, to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and to review written summaries of the exceptions found.

COMPANY HISTORY AND PROFILE

CSAA General Insurance Company

CSAA General Insurance Company (CGIC) was formed on June 25, 1987 as a California stock insurer under the name Western United Insurance Company. The Company was acquired by CSAA Insurance Group in 1999. Effective December 31, 2008, CGIC re-domesticated as an Indiana stock insurer. Effective January 2014, CGIC changed its name from Western United Insurance Company to CSAA General Insurance Company. The Company is licensed to transact property and casualty insurance business in Arkansas, Arizona, California, Connecticut, Colorado, Delaware, District of Columbia, Idaho, Indiana, Kansas, Kentucky, Maryland, Montana, New Jersey, New York, Ohio, Oklahoma, Oregon, Pennsylvania, South Dakota, Utah, Virginia, Washington, West Virginia and Wyoming.

According to the 2016, 2017, and 2018 Annual Statements, CSAA General Insurance Company reported total direct premiums written in the amounts of \$11,809,598, \$14,993,985, and \$16,418,877, respectively, in the state of Delaware. According to the 2016, 2017, and 2018 Annual Statements, CSAA General Insurance Company reported total direct premiums written in the amounts of \$693,737,839, \$803,078,104, and \$862,823,486, respectively, in the United States.

CSAA Affinity Insurance Company

CSAA Affinity Insurance Company was formed on May 16, 1928 as a Pennsylvania stock insurer under the name Keystone Automobile Club Casualty Company. In 1958, the Company changed its name to Keystone Insurance Company. The Company was acquired by CSAA Insurance Group in 2011 and subsequently changed its name to CSAA Affinity Insurance Company in 2013. On January 1, 2016, the Company re-domesticated as an Arizona stock insurer. The Company is licensed to transact property and casualty insurance business in Arizona, Connecticut, Delaware, District of Columbia, Indiana, Kansas, Kentucky, Minnesota, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia.

According to the 2016, 2017, and 2018 Annual Statements, CSAA Affinity Insurance Company reported total direct premiums written in the amounts of \$6,847,609, \$3,712,736, and \$1,860,434, respectively, in the state of Delaware. According to the 2016, 2017, and 2018 Annual Statements, CSAA Affinity Insurance Company reported total direct premiums written in the amounts of \$138,029,099, \$112,377,101, and \$105,158,563, respectively, in the United States.

COMPLAINT HANDLING

The Companies provided the following information and/or documentation for review:

Delaware Market Conduct Examination Report
CSAA General Insurance Company
CSAA Affinity Insurance Company

- A copy of each company's complaint register.
- A total of seventeen (17) complaint files, which included five (5) consumer complaints and twelve (12) Department of Insurance complaints.
- A statement regarding the companies' definition of "complaint"
- A copy of the companies' complaint handling guidelines and procedures.
- A sample copy of the complaint report or summary prepared on a regular recurring basis that is provided for review by the companies' management.

The information was reviewed to determine compliance with applicable Delaware laws and regulations.

No exceptions were noted.

UNDERWRITING AND RATING

Determination of the Coverage A Amount and Inflationary Factors

The Companies' policies and procedures pertaining to determination of Coverage A, or dwelling coverage amount, were reviewed. According to management, the Coverage A amount from the original quote/application is based on Construction Cost Data provided by Verisk (Verisk360). The agent walks the customer through the Verisk valuation tool, obtaining details of the property in order to calculate the estimated replacement cost. The Coverage A amount from the original quote/application is based on the valuation tool amount and this is reflected on the new business Declarations page. One hundred percent (100%) replacement cost is required, with the option for the customer to increase the limit if needed for mortgagee purposes.

The valuation tool contains the following data points:

- Primary Information:
 - Year built
 - Number of stories
 - Square footage of home
 - Quality grade
 - Foundation type
- Exterior:
 - Roof shape
 - Roof construction
 - Roof cover
 - Wall construction
 - Exterior wall finish
- Interior:
 - Average wall height
 - Floor coverings
 - Wall material

Delaware Market Conduct Examination Report
CSAA General Insurance Company
CSAA Affinity Insurance Company

- Key rooms
- Kitchens
- Bathrooms
- Bedrooms
- Attached Structures:
 - Garage, etc.
- Systems:
 - Central air, etc.

The amount derived is reflected on the new business Declarations page. Insureds may request higher amounts of Coverage A to satisfy mortgage requirements (this also applies to HO-6 policies).

For Condo policy Coverage A, the valuation tool is also used, with the agent walking the customer through the data points. The tool is modified for use with HO-6 policies. HO-4 is based on the customer-requested amount, subject to minimum and maximum amounts.

Subsequent terms are increased by an inflation factor. The 4% inflation guard percentage was developed by taking into account inflationary economic trends as noted in the Company's 2009 filing. The filing (SERFF# *AMDA-126365002*,) was a reduction from the prior percentage of 7%. These changes were effective for February 2010 renewals. No additional changes have been made since that 2009 filing. This decrease was made across the MAIG footprint. There were no objections or questions connected to the filing relating to the percentage amount or review frequency

For CSAA Affinity, inflation protection is automatically applied, with mandatory inflation guard endorsement applicable to HO-2, HO-3 and HO-5. HO-243 is increased 4% (no index). For CSAA General, inflation factor is automatically applied; Coverage A is based on the Construction Cost Index for HO-3, HO-6 and DP-3. Coverage C is based on the Consumer Price Index (HO-4 and HO-6).

At any time, an insured can contact the Service Agent and have their replacement cost reviewed and recalculated.

CSAA General and CSAA Affinity - Underwriting and Rating - File Review

For the experience period of January 1, 2016 through August 31, 2018, the table below shows the Company-identified universes of policies, along with the random sample sizes, for the following categories: New Business, Renewal Business, and Terminations. The files identified in the random samples were requested, received, and reviewed. The files were reviewed to determine compliance with applicable Delaware laws and regulations. In addition to review of the files, for each category, ten (10) New Business policies and ten (10) Renewal Business policies were selected for manual calculation of both homeowners' and renters' premiums to determine whether the premiums charged were in accordance with filed rates.

Delaware Market Conduct Examination Report
CSAA General Insurance Company
CSAA Affinity Insurance Company

	New Business	Renewal Business	Terminations
	Universe/Sample	Universe/Sample	Universe/Sample
CSAA General	3,488/114	2,139/114	7/7
CSAA Affinity	725/86	11,819/116	15/15

The following concerns and exceptions were noted:

8 Concerns - CSAA Affinity - Terminations

Domestic/Foreign Insurers Bulletin No. 21

The Company failed to maintain a copy of the FAIR Plan notification in the termination file, evidencing that said notification was communicated to the policyholder and to the producer.

Recommendation: It is recommended the Company revise its procedures to ensure a copy of the FAIR Plan notification is maintained in the termination file, evidencing that said notification was communicated to the policyholder and to the producer in accordance with *Domestic/Foreign Insurers Bulletin No 21*.

1 Exception - Notifications - CSAA General - New Business & Renewals

18 Del. Admin. C. 702 §§ 4.0 - 5.0

At the time of either initial delivery or renewal of the homeowner’s policy terms and declaration page, the Company failed to provide a form to the policyholder entitled “Important Information About your Homeowners Insurance” with subheadings in 18-point type.

Recommendation: It is recommended the Company revise its procedures to ensure that, at the time of initial delivery and renewal of the homeowner’s policy terms and declaration page, the Company provides a form to the policyholder entitled “Important Information About your Homeowners Insurance” with subheadings in 18 point type in accordance with 18 Del. Admin. C. 702 §§ 4.0 - 5.0.

6 Exceptions - CSAA Affinity - New Business

18 Del. C. § 320 (c)

The Company failed to maintain a copy of the application in the New Business file.

Recommendation: It is recommended the Company revise its procedures to ensure a copy of the application is maintained in the New Business file in accordance with 18 Del. C. § 320 (c).

35 Exceptions – Notifications - CSAA Affinity - Renewals

18 Del. C. § 8307 (c)

At the time of policy renewal, the Company failed to provide a disclosure which

Delaware Market Conduct Examination Report
CSAA General Insurance Company
CSAA Affinity Insurance Company

communicated that any decrease in premium as a result of a new credit report would be effective on the upcoming renewal date provided in the renewal notice.

Recommendation: It is recommended the Company revise its procedures to ensure that, at the time of policy renewal, a disclosure is provided which communicates that any decrease in premium as a result of a new credit report would be effective on the upcoming renewal date provided in the renewal notice in accordance with 18 *Del. C.* § 8307 (c).

CLAIMS

For the experience period of January 1, 2016 through August 31, 2018, the table below shows the Company-identified universes of policies, along with the random sample sizes, for the following categories: Paid, Denied/Not Paid, and Closed Without Pay. The files identified in the random samples were requested, received, and reviewed. The files were reviewed to determine compliance with applicable Delaware laws and regulations.

	Paid	Denied/Not Paid	Closed Without Payment
	Universe/Sample	Universe/Sample	Universe/Sample
CSAA General	107/76	69/69	31/31
CSAA Affinity	687/83	329/76	162/76

The following exceptions were noted:

27 Total Exceptions:

6 Exceptions - CSAA General - Denied

5 Exceptions - CSAA Affinity - Paid

9 Exceptions - CSAA Affinity - Denied/Not Paid

7 Exceptions - CSAA Affinity - Closed without Payment

18 *Del. Admin. C.* 902 § 1.2.1.5 - Prohibited Unfair Claim Settlement Practices.

The Company failed to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements were received by the insurer.

Recommendation: It is recommended the Company revise its procedures to ensure affirmation or denial of coverage or a claim, or claim status update, be afforded the person presenting the claim in writing, or other proper legal manner, within 30 days after proof of loss statements are received by the insurer in accordance with 18 *Del. Admin. C.* 902 § 1.2.1.5.

CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended the Company revise its procedures to ensure that at the time of initial delivery and renewal of the homeowner's policy terms and declaration page, the Company provides a form to the policyholder entitled "Important Information About Your Homeowners Insurance" with subheadings in 18 point type in accordance with 18 *Del. Admin. C.* 702 §§ 4.0 - 5.0.
2. It is recommended the Company revise its procedures to ensure that coverage, or a claim, is either affirmed or denied, or the person presenting the claim is advised of the reason for the inability to do so, in writing, or other proper legal manner, within 30 days after proof of loss statements were received by the insurer in compliance with 18 *Del. Admin. C.* 902. (Claims)
3. It is recommended the Company revise its procedures to ensure a copy of the application is maintained in the New Business file in accordance with 18 *Del. C.* § 320 (c).
4. It is recommended the Company revise its procedures to ensure that, at the time of policy renewal, a disclosure is provided which communicates that any decrease in premium as a result of a new credit report would be effective on the upcoming renewal date provided in the renewal notice in accordance with 18 *Del. C.* § 8307 (c).

The examination was conducted by Joseph Krug, Steve Misenheimer, Ray Hartsfield, and Linda Armstrong.

This report is respectfully submitted.



Linda Armstrong, JD, MCM
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance