

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

United Service Automobile Association, 25941-16-929

USAA Casualty Insurance Company, 25968-16-930

USAA General Indemnity Company, 18600-16-931

Garrison Property and Casualty Insurance Company, 21253-16-932

9800 Fredericksburg Road

San Antonio, TX 78288

As of

June 30, 2016

Trinidad Navarro
Commissioner



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 June 30, 2016 on

**United Service Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company
Garrison Property and Casualty 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.


Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
**United Service Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company
Garrison Property and Casualty Insurance Company**
AS OF
June 30, 2016

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.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro
Insurance Commissioner

Table of Contents

EXECUTIVE SUMMARY	2
SCOPE OF EXAMINATION.....	3
METHODOLOGY	3
COMPANY OPERATIONS AND MANAGEMENT	3
COMPLAINT HANDLING	5
UNDERWRITING AND RATING.....	6
CLAIMS	8
CONCLUSION.....	11

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 Certificate of Examination Authority Numbers 25941-16-929; 25968-16-930; 18600-16-931; and 21253-16-932, and pursuant to statutory provisions including 18 Del. CODE §318-322, a market conduct examination has been conducted of the affairs and practices of:

**United States Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company
Garrison Property and Casualty Insurance Company**

The examinations were performed as of June 30, 2016. These USAA Companies are hereinafter referred to as the "Company" and were incorporated under the laws of Texas. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

9800 Fredericksburg Road
San Antonio, TX

The off-site examination phase 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

United Services Automobile Association (USAA) is a member-owned reciprocal inter-insurance exchange founded in 1922 to provide competitively priced insurance for its members. The USAA property & casualty group of insurers (USAA P&C) includes United Services Automobile Association, USAA Casualty Insurance Company, USAA General Indemnity Company, and Garrison Property and Casualty Insurance Company. All are domiciled in Texas.

On their 2015 annual statements filed with the Department the USAA property and casualty group of insurers reported total earned premiums for all lines of business in all states of \$15,982,862,458 of which Delaware has a market share of 0.44% or approximately \$70,915,788.

The examination focused on the Company's private passenger automobile and personal property business in the following areas of operation: Company Operations and Management (Limited Review), Complaint Handling, Underwriting and Rating, and Claims.

The following exceptions were noted:

- Complaints – 1 Exception - 18 Del. Code §2304(26) Unfair Practices In The Insurance Business - Failure to respond to regulatory inquiries
 - For failure to respond to a DDOI complaint in a timely manner
- Claims – Paid – 1 Exception -18 Del C. §902.1.2.1.5 – Prohibited Unfair Claims Settlement Practices
 - For failure to affirm or deny coverage with 30 days or provide reason for the inability to do so
- Claims – Paid – 1 Exception – 18 Del C §902.1.2.1.6 – Prohibited Unfair Claims Settlement Practices
 - For failure to attempt in good faith to equitably settle the claim in a timely manner.
- Claims – Denied – 2 Exceptions – 18 Del. C. §902.1.2.1.5 – Prohibited Unfair Claims Settlement Practices
 - For failure to affirm or deny coverage with 30 days or provide a reason for the inability to do so.

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, 2015 through June 30, 2016.

The examination was a target market conduct examination of the Company's private passenger automobile and personal property business in the following areas of operation: Company Operations and Management (Limited Review), Underwriting and Rating, Complaint Handling, 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 the examiners' report on the errors found in individual files, the focus is also 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, random sampling was utilized to select the files reviewed during 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 to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and review written summaries provided on the exceptions found.

COMPANY OPERATIONS AND MANAGEMENT

Company History

United Services Automobile Association is a member-owned reciprocal inter-insurance exchange founded in 1922 to provide competitively priced insurance for its members.

Market Conduct Examination Report
The USAA P&C Group of Companies

The USAA property & casualty group of insurers consists of United Services Automobile Association (USAA), USAA Casualty Insurance Company (CIC), USAA General Indemnity Company (GIC), and Garrison Property and Casualty Insurance Company (GAR). All are domiciled in Texas.

USAA is licensed in all states, District of Columbia, the U.S. Virgin Islands, Guam and Puerto Rico.

USAA Casualty Insurance Company and USAA General Indemnity Company are licensed in all states, the District of Columbia and the U.S. Virgin Islands. In addition, USAA General Indemnity Company is licensed in Puerto Rico.

Garrison is currently licensed in all states and the District of Columbia.

USAA provides personal lines property and casualty insurance to its policyholders, which includes automobile, homeowners, renters, fire, (also referred to as rental property insurance, or RPI), umbrella, valuable personal property, and pleasure boat.

USAA has claims operations in San Antonio, TX, Chesapeake, VA, Tampa, FL, Colorado Springs, CO, and Phoenix, AZ.

On their 2015 annual statements filed with the Department the USAA property and casualty group of insurers reported total earned premiums for all lines of business in all states of \$15,982,862,458 of which Delaware has a market share of 0.44% or approximately \$70,915,788.

Internal Audit

The Company provided a list of all internal audits conducted within the last three (3) years. Internal audits include those audits completed by an internal audit functions within the company or conducted via a contracted vendor on behalf of the company.

A review of 10 different audit reports covering underwriting and claim operations and functions reveal no irregularities.

Anti-fraud and Special Investigation Units (SIU)

Anti-fraud procedures and annual reports were submitted by the Company for review. Interviews were conducted with chief Anti-Fraud and Special Investigation Unit personnel. The reviews and interview provided the examiner a more in-depth look at how the Company handles investigations.

A comparison was made between what the company has reported to the National Insurance Crime Bureau (NICB) and what the Delaware DOI has on files.

Market Conduct Examination Report
The USAA P&C Group of Companies

The Company was asked to submit a listing of closed SIU cases that had been referred to their fraud unit for further review. This list was compared to reported cases received by the DOI from the NICB. The examiners reviewed some cases and discussed with the Company suggestions for enhanced fraud reporting. As a result of the file review and interviews conducted, a meeting was conducted between the company's SIU/Anti-Fraud representatives and DOI members. This meeting enabled a dialog between the two entities for further understanding of Department expectations.

No inconsistencies or exceptions were noted.

Board of Directors

A review of the Company's Board of Directors agendas, minutes and attachments for all meeting held during the examination period. The review took place at the Company corporate office in San Antonio, TX

All information provided appeared to be in order and no abnormalities were discovered as a result of this review. No exceptions were noted.

COMPLAINT HANDLING

The Company has written procedures on handling all types of complaints and grievances. The examiners received 18 complaints from USAA, 23 complaints from CIC, 21 complaints from GIC and 10 complaints from GAR.

The complaint log was reviewed for compliance with 18 Del. C. §2304 (17). This section of the Code requires maintenance of a complete record of all complaints received since the date of its last examination. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with 18 Del. Admin. Code 902 §1.2.1.2.

The following exception was noted during the review:

1 Exception: 18 Del. C. §2304(26) *Unfair methods of competition and unfair or deceptive acts or practices defined. The following are hereby defined as unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:*

(26) Failure to respond to regulatory inquiries. – No person shall, with such frequency as to indicate a general business practice, fail to provide preliminary substantive responses to inquiries from the Department of Insurance regarding the denial of claims, cancellation, nonrenewal, or refusal of benefits, refusal to pre-authorize benefits, or violations of this title, with 21 calendar days of such inquiry. A response in compliance with this paragraph shall not preclude the provision of additional information responsive to the inquiry.

Market Conduct Examination Report
The USAA P&C Group of Companies

The Company failed to respond to inquiries from the Department of Insurance within 21 days.

Recommendation: The Company should revise its complaint handling procedures to ensure that all consumer complaints receive a response within 21 working days in accordance with 18 Del. C. §2304(26).

UNDERWRITING AND RATING

New Business Rating

The examiners were provided a total universe of 10,381 private auto policies and 7,173 personal property policies (homeowners and rental) for all companies under review that were written as new business during the examination period. The sampling of policies reviewed was selected according to the NAIC Market Coordinators Handbook guidelines. Random sampling was used through ACL programming. Examination of the underwriting and rating files was performed to verify the Company's compliance with NAIC guidelines and Delaware Insurance Department bulletins and regulations.

The rate testing consisted of manual rating to ensure the amount of premium being generated by the Company's computer system is in accordance with the Company's file and approved rates. This process involved the use of a rating worksheet with algorithms matching the rating manuals. Due to the complexity and time-consuming nature of manually rating, the selections for private auto and personal property were reduced to 5 randomly selected policies for each company to be tested for rating accuracy.

The Company agreed that should there be any inconsistencies noted additional policies would be requested for testing.

The examiners were able to test and verify the rating of private auto and personal property policies in accordance with the Company's file and approved rates.

No exceptions were noted during review.

Renewal Business Rating

The examiners were provided a total universe of 90,657 private auto policies and 30,377 personal property policies (homeowners and rental) for all companies under review that were written as new business during the examination period. The sampling of policies reviewed was selected according to the NAIC Market Coordinators Handbook guidelines. Random sampling was used through ACL programming. Examination of the underwriting and rating files was performed to verify the Company's compliance with NAIC guidelines and Delaware Insurance Department bulletins and regulations.

Market Conduct Examination Report
The USAA P&C Group of Companies

The rate testing consisted of manual rating to ensure the amount of premium being generated by the Company's computer system is in accordance with the Company's file and approved rates. This process involved the use of rating worksheet with algorithms matching the rating manuals. Due to the complexity and time consuming nature of manually rating, the selections for private auto and personal property were reduced to 5 randomly selected policies for each company to be tested for rating accuracy.

The Company agreed that should there be any inconsistencies noted additional policies would be request for testing.

The examiners were able to test and verify the rating of private auto and personal property policies in accordance with the Company's file and approved rates.

No exceptions were noted during review.

Nonrenewals

The examiners were provided a total universe of 121 private automobile nonrenewals and 136 personal property nonrenewals issued for all companies under review during the examination period. All files were selected for reviewed. The files were reviewed in compliance with 18 Del. C. §§ 3904 and 3905. The files were also reviewed for compliance with standards from Chapter 17 of the NAIC Market Regulation Handbook.

No exceptions were noted during the review.

Cancellations

The examiners were provided a total universe of 6,804 private automobile cancellations and 5,100 personal property cancellations issued for all companies under review during the examination period. In an effort to streamline the examination process, a random sample of 150 private auto files and 150 personal property files were chosen for review rather than 422 private auto and 398 personal property files recommended by the NAIC Market Regulation Handbook. The files review where randomly chosen through the use of ACL. All files were reviewed for compliance with 18 Del. C. §§ 3904 and 3905. The files were also reviewed for compliance with standards from Chapter 17 of the NAIC Market Regulation Handbook.

No exceptions were noted during the review.

Declinations

The Company identified a total universe of 567 private automobile declinations and 952 personal property declinations issued during the examination period. In accordance with the NAIC Market Regulation Handbook the examiners reviewed 86 private auto files and 86 personal property files. The files review where randomly chosen through the use of

Market Conduct Examination Report
The USAA P&C Group of Companies

ACL. All files were reviewed for compliance with 18 Del. C. §§ 3904 and 3905. The files were also reviewed for compliance with standards from Chapter 17 of the NAIC Market Regulation Handbook.

No exceptions were noted during the review.

Forms

A listing of all forms used for underwriting, rating and claims was submitted by the Company for review. During the course of the review, forms were examined for their content and their approval for use by the DOI.

No exceptions were noted.

CLAIMS

Paid Claims

The Company was asked to provide the total number of personal property paid claims during the examination period. The company identified 1,245 paid personal property claims from all USAA property and casualty group of insurers. In an effort to streamline the examination process, the examiners reviewed a random combined sample of 250 claim files from each company rather than the 510 files that would have been reviewed under NAIC guidelines, with the provision that if inconsistencies were discovered, additional files would be called for review. The files were reviewed for compliance with 18 Del. C. §§ 902, 903, and 18 Del. C. § 2304. The files were also reviewed for compliance with NAIC Market Regulation Handbook standards from Chapters 16 and 17.

The following exception was noted:

1 Exception – The Company failed to deny the claim in writing or other means in order to provide a reason for the inability. Claim was not settled until 61 days after receipt of proof of loss.

18 Del. Admin. Code §902 1.2.1.5 – 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

Recommendation: The Company shall revise its claim handling procedures to ensure to affirm, deny, or provide a reason for the inability to make a claim decision within 30 days of receipt of proof of loss in accordance with 18 Del. Admin. Code § 902 Prohibited Unfair Claim Settlement Practices

1 Exception – The Company also did not attempt in good faith to equitably settle the claim in a timely manner. Entire claim process took a total of 86 days to complete.

18 Del. Admin. Code §902 1.2.1.6 – Prohibited Unfair Claim Settlement Practices

1.2.1.6 Not attempting in good faith to effectuate prompt, fair and equitable settlement of claims in which liability has become clear.

Recommendation: The Company shall revise its claim handling procedures to ensure all attempts will be made to settle all claims in good faith and to effectuate prompt, fair and equitable settlements in accordance with 18 Del. Admin. Code 902 § Prohibited Unfair Claim Settlement Practices.

Claims Closed without Payment

The Company was asked to provide the total number of personal property paid claims during the examination period. The company identified 1,250 claims closed without payment from all USAA property and casualty group of insurers. In an effort to streamline the examination process, the examiners reviewed a random combined sample of 250 claim files from all companies rather than the 459 files that would have been reviewed under NAIC guidelines with the provision that if inconsistencies were discovered, additional files would be called for review. The files were reviewed for compliance with 18 Del. C. §§ 902, 903, and 18 Del. C. § 2304. The files were also reviewed for compliance with NAIC Market Regulation Handbook standards from Chapters 16 and 17.

No exceptions were noted during the review.

Denied Claims

The Company identified 15 personal property claims were with denied during the examination period. The examiners reviewed all 15 claims.. The files were reviewed for compliance with 18 Del. C. §§ 902, 903, and 18 Del. C. § 2304. The files were also reviewed for compliance with NAIC Market Regulation Handbook standards from Chapters 16 and 17.

The following exceptions were noted during the review.

2 Exceptions – Failure to affirm or deny coverage within 30 days or provide reason for the inability to do so. Denial letters were not sent until 31 and 75 days after the notice of loss.

18 Del. C. §902.1.2.1.5 – Prohibited Unfair Claims 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.

Recommendation: The Company shall revise its claim handling procedures to ensure to affirm, deny, or provide a reason for the inability to make a claim decision within 30 days of receipt of proof of loss in accordance with 18 Del. Admin. Code 902 Prohibited Unfair Claim Settlement Practices.

CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the exception noted in the Report.

1. It is recommended that the Company revise its complaint handling procedures to ensure that all consumer complaints receive a response within 21 working days in accordance with 18 Del. C. §2304(26). (Complaints)
2. It is recommended that the Company revise its claim handling procedures to ensure to promptly pay, affirm, deny, or provide a reason for the inability to make a claim decision within 30 days of receipt of proof of loss in accordance with 18 Del. Admin. Code § 902.1.2.1.5 Prohibited Unfair Claim Settlement Practices. (Claims Paid & Claims Denied)
3. It is recommended that the Company revise its claim handling procedures to ensure all attempts will be made to settle all claims in good faith and to effectuate prompt, fair and equitable settlements in accordance with 18 Del. Admin. Code § 902.1.2.1.6 Prohibited Unfair Claim Settlement Practices. (Claims Paid)

The Examiners would like to express their appreciation for the cooperation and considerations the Company and its representatives have shown throughout the course of this examination. With their outstanding service, this exam was completed in a timely fashion.

The examination conducted by Shelly Schuman, James Myers, Gwen Douglas, Steve Misenheimer and Jack Rucidlo is respectfully submitted.

A handwritten signature in black ink, appearing to read "James R. Myers", is written over a light blue rectangular background.

James R Myers, AMCM
Examiner-in-Charge