



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

125 South Webster • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 268-9935  
E-Mail: [information@oci.state.wi.us](mailto:information@oci.state.wi.us)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

HOMESITE INSURANCE COMPANY  
242 TRUMBULL ST  
HARTFORD CT 06103

dated April 1, 2011, and served upon the company on July 9, 2013, has been adopted as the final report,  
and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 3rd day of April, 2014.



Theodore K. Nickel  
Commissioner of Insurance

**STATE OF WISCONSIN  
OFFICE OF THE COMMISSIONER OF INSURANCE**

**MARKET CONDUCT EXAMINATION**

**OF**

**HOMESITE INSURANCE COMPANY  
BOSTON, MASSACHUSETTS**

**MARCH 21 – APRIL 1, 2011**

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April 1, 2011

Bureau of Market Regulation  
P.O. Box 7873  
Madison, Wisconsin 53707-7873  
(608) 266-3585 • (800) 236-8517  
Fax: (608) 264-8115  
E-Mail: oiccomplaints@wisconsin.gov  
Web Address: oci.wi.gov

Honorable Theodore K. Nickel  
Commissioner of Insurance  
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted March 21 to April 1, 2011, of:

HOMESITE INSURANCE COMPANY  
BOSTON, MASSACHUSETTES

and the following report of the examination is respectfully submitted.

#### I. INTRODUCTION

Homesite Insurance Company (Homesite or the company) is a stock company that was incorporated on January 31, 1985, as a fire and casualty insurance company. It is domiciled in Connecticut, with headquarters in Boston, Massachusetts.

Homesite Insurance Company was licensed in Wisconsin on February 28, 1989. In 1997, Homesite Insurance Company became part of Homesite Group Incorporated. At that time, Homesite Group Incorporated and its subsidiaries focused exclusively on the homeowner's market. It now writes homeowner, condominium owner, and renter insurance policies in 47 states and the District of Columbia.

The following table summarizes total direct national premium written in 2009 and 2008 as compared to the total direct premium written in Wisconsin.

**National Direct Premium Written to Wisconsin Direct Premium Written**

Year	National Direct Premium Written	WI Direct Premium Written	WI as a Percent of National Premium Written
2009	\$71,602,716	\$4,298,808	6%
2008	66,094,916	2,727,164	4

In each of these two years, the premium earned by the company in Wisconsin was for homeowner's insurance. The following tables summarize the premium earned and incurred losses in Wisconsin for 2009 and 2008 broken down by line of business.

**Wisconsin Direct Premium and Loss Summary**

2009				
Line of Business	Premium Earned	% of WI Total	Losses Incurred	Pure Loss Ratio
Homeowner's/ Farmowner's	\$3,431,721	100%	\$1,314,177	38%

2008				
Line of Business	Premium Earned	% of WI Total	Losses Incurred	Pure Loss Ratio
Homeowner's/ Farmowner's	\$2,018,606	100%	\$766,924	38%

In 2009, the company ranked as the 39<sup>th</sup> largest writer of homeowner's insurance in Wisconsin. In 2008, the company ranked as the 52<sup>nd</sup> largest writer of homeowner's insurance in Wisconsin.

The Office of the Commissioner of Insurance (OCI) received 25 complaints for the company from January 1, 2007, through December 31, 2009, inclusively. A complaint is defined as "a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent." The 2010 complaint data revealed no complaints filed until after July 31, 2010. The total number of complaints received in 2009 increased by 18% from the number of complaints received in 2008.

After July 31, 2010, 6 complaints were filed, that resulted in Homesite ranking 5<sup>th</sup> in complaint ratio above the average. Homesite was ranked number one for the number of

homeowner's complaints filed in both 2009 and 2008 out of all companies writing homeowner's business in Wisconsin. OCI's 2009 and 2008 Insurance Complaints and Administrative Actions reports lists the number of complaints to premiums written ratio as 48% for 2009 and 56% for 2008.

In attempts to reduce the number of complaints for Wisconsin, the company revised Wisconsin complaint handling to include a more thorough review of the complaint. Previously complaints were routed from the legal unit to the appropriate business department manager. Since 2010, Wisconsin complaints are now reviewed by the compliance manager to discern trends warranting operational changes that could reduce the Wisconsin complaint volume.

The following tables categorize the complaints received against the company by type of policy and complaint reason. There may be more than one type of reason for each complaint.

2009					
Reason Type	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Coverage Type	No.	No.	No.	No.	No.
Homeowner's/ Farmowner's	7	0	4	1	1

2008					
Reason Type	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Coverage Type	No.	No.	No.	No.	No.
Homeowner's/ Farmowner's	1	2	7	1	0

2007					
Reason Type	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Coverage Type	No.	No.	No.	No.	No.
Homeowner's/ Farmowner's	0	0	1	0	0

## II. PURPOSE AND SCOPE

A targeted examination was conducted to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from January 1, 2009, through July 31, 2010. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

The examination covered homeowner's business in Wisconsin and included a review of agent licensing appointments and terminations, claims paid and unpaid, new business issued and terminated, and homeowner's, condominium, and renter's policy rating. The report is prepared on an exception basis and includes comments on those areas of the company's operations where adverse findings were noted.

### III. CURRENT EXAMINATION FINDINGS

#### Claims

In settling claims under policies issued to Wisconsin insureds, the company primarily uses employee representatives to initiate the claim files. The company maintains online claim reporting and a toll-free number for its policyholders to report claims 24 hours a day, 7 days a week. The company also utilizes designated independent adjusters as needed.

The examiners reviewed 100 closed homeowner's claim files. Of these claims, 50 were paid homeowner's claims, and 50 were claims closed without payment. The company's claims handling practices and procedures were also reviewed. The following exception was noted.

The examiners found 1 paid claim file that did not contain proper documentation (estimate, etc.) to support the company's claim settlement amount, and 3 claim files where the claim was not paid, but did not contain written claim denial letters. Section Ins 6.11 (3) (a) 7., Wis. Adm. Code, states that it is an unfair claim settlement practice to fail to affirm or deny coverage of a claim within a reasonable amount of time. Absent written documentation, it is not possible to determine whether the company is in compliance.

1. **Recommendation:** It is recommended that the company promptly send a written denial letter and document each denied claim in order to comply with the requirements of s. Ins 6.11 (3) (a) 7., Wis. Adm. Code.

#### Producer Licensing

The company uses captive producers and independent producers. The captive producers are housed in the company's call center located in Ohio and Phoenix. The company entered into marketing agreements with other insurance companies ("marketing partners") to bundle the company's homeowner's products with the marketing partners' personal automobile products. The independent producers have dual appointments with the marketing partner and the company, who are then considered "partner call center representatives." These agreements enable the company and the marketing partners to offer multi-policy discounts to their

respective policyholders. The company also utilizes independent agents that are not partner call center representatives.

To review the company's obligation to notify the Commissioner of producers that are appointed or terminated, the examiners requested that the company provide a list consisting of all producers appointed or terminated to represent the company during the examination period under review. The company's list was then compared to the Commissioner's database of producers appointed to represent the company as of that date.

The examiners attempted to review 100 producer files. Of those files, 50 files represented producer appointments and the remaining 50 files represented producer terminations. The company's practices and procedures related to the appointment and termination of its representatives were evaluated to assess compliance with Wisconsin insurance statutes and rules regarding producer licensing. The following exceptions were noted.

The company provided 46 of the 50 producer appointment files requested and none of the 50 producer termination files. The company advised the examiners that they could not provide all the requested files because its producer tracking database was replaced in 2010 to improve the reconciliation process between the company's appointment and termination records against Siron's producer records for Homesite. The company indicated that during the new producer tracking database implementation, some producer records were purged due to 2 missing social security numbers or dates of birth. All of the missing producer records were due to the system record purge.

While reviewing the producer files provided, the examiners found that after the company appoints or terminates a producer who has a dual appointment with a marketing partner, the company sends an e-mailed or faxed notification to the marketing partner regarding the producer's appointment or termination. The company relies on the marketing partner to notify the producer of his/her appointment or termination with the company.

The examiners were provided a sample of e-mails it sends to marketing partners, but the company could not produce any copies of actual faxes or e-mails that were sent to marketing partners for Wisconsin producers that were appointed or terminated by the company during the examination period. In addition, the examiners found that the company could not supply any documentation that the marketing partner notified the Homesite producer of his/her appointment or termination with the company during the examination period.

Section Ins 6.80 (5) (a), Wis. Adm. Code, states, in part, that records for nondomestic insurers and its company operations in the state of Wisconsin for the preceding three years shall be maintained according to requirements under s. Ins 6.80 (4), Wis. Adm. Code, or the insurance regulatory agency of the insurer's state of domicile. Section Ins 6.80 (5) (b), Wis. Adm. Code, states, in part, that the requirements of the above-referenced rule pertaining to an insurer's operations in the state of Wisconsin may be met by compliance with the record retention law of its state of domicile. If no such law or regulation exists, an insurer may comply with this rule by presenting a statement attesting to the fact that its record retention system is acceptable to its state of domicile.

2. **Recommendation:** It is recommended that the company develop and implement a written procedure for retaining copies of all agent appointment and termination records in order to comply with s. Ins 6.80 (5) (a) and (b), Wis. Adm. Code.

In lieu of producing copies of termination letters for their captive agents and independent agents who are not partner call center producers, the company provided 29 termination notices that were mailed on August 2, 2010, to Wisconsin agents. The examiners found all of the termination notices were addressed to an agency rather than the individual agent. In addition, all of the termination notices failed to include a demand for returning all of the agency indicia. Section Ins. 6.57 (2), Wis. Adm. Code, requires an insurer to provide written notice to agents regarding termination of appointment. The notice shall indicate that the agent is no longer to be appointed as a representative of the company, and that he or she may not act

as its representative. The notice shall include a formal demand for the return of all indicia of agency.

3. **Recommendation:** It is recommended that the company provide each agent a written notice of termination that includes language stating that the agent is no longer appointed as a representative of the company, the agent may not act as the company's representative, and the notice must demand return of all indicia in order to comply with s. Ins 6.57 (2), Wis. Adm. Code.

### **Policy Forms**

The company is a subscriber to Insurance Services Organization (ISO) and has adopted and uses ISO policy forms and endorsements in combination with independently filed endorsements. For all of the company's homeowner's forms, the examiners reviewed 53 forms used during the period of review. The form review was conducted to verify that the provisions of the policy forms complied with Wisconsin insurance laws and regulations. The following exception was noted.

The examiners found that the company had not filed its online application form used for the examination period under review. Section 600.03 (21), Wis. Stat., defines a "Form" as a policy or application prepared for general use. Section 631.20 (1), Wis. Stat., states that no form may be used unless it has been filed with and approved by the Commissioner.

4. **Recommendation:** It is recommended that the company file all its forms, including its online application forms in order to comply with s. 631.20 (1), Wis. Stat.

### **Underwriting and Rating**

The examiners randomly selected and reviewed 100 homeowner's new business files and 100 homeowner's termination files in order to verify that the issuance and termination of policies comply with Wisconsin insurance laws and regulations.

The company uses independently filed company rates and rules. The examiners reviewed the company's homeowner's rate and rule filings, as well as the rating of 25 homeowner's new business policies to verify that the company is issuing policies using rates

and rate-related rules that have been filed for use in Wisconsin. The examiners also reviewed the company's homeowner's underwriting procedures and manuals. The following exceptions were noted.

While reviewing the new business files, the examiners found files that had subsequently been renewed and contained renewal packets. Upon reviewing the renewal notice in the renewal packet, the examiners found it contained a "Property Inspection" paragraph which states in part:

"This insurance policy may be cancelled within 60 days of the effective date for any reason that is not unfairly discriminatory or prohibited by law, if the property is determined to be an unacceptable risk to the insurer."

The examiners found 55 files in which a renewal packet was sent out containing the "Property Inspection" paragraph. Section 631.36 (2) and (4), Wis. Stat., provides for a 60-day period in which a new policy can be cancelled for any reason. However, once the policy is renewed, it can only be terminated by nonrenewal at the following renewal date, or cancelled mid-term for the reasons listed in the statute. The statute does not allow cancellation within 60 days after the renewal effective date. The company indicated it would revise the provision in renewal packets to remove the language allowing cancellation within 60 days of the renewal effective date.

- 5. Recommendation:** It is recommended that the company revise the "Property Inspection" provision in renewal packets to remove the language allowing cancellation within 60 days after the renewal date in order to comply with s. 631.36 (2) and (4), Wis. Stat.

The examiners found 14 files showing the company mailed a Nonpay Intent to Cancel notice less than 12 days prior to the stated expiration date. Section 631.36 (2) (b), Wis. Stat., states that no cancellation is effective until at least 10 days after mailing. Because neither the mailing day nor the expiration day should be counted, a nonpay notice should be mailed out at least 12 days prior to the cited expiration date.

- 6. Recommendation:** It is recommended that the company implement and follow a procedure to ensure that all Nonpay Intent to Cancel notices are mailed at least 12 days prior to the projected date of cancellation in order to comply with s. 631.36 (2) (b), Wis. Stat.

The examiners found 24 terminations for nonpayment of premium that contained an Intent to Cancel notice that stated the following:

"Payment of the amount indicated above prior to the cancellation date will void this cancellation and keep your policy in effect."

Section 631.36 (4) (a), Wis. Stat., states, in part, that a notice for nonpayment of premium must state clearly the effect of nonpayment of premium by the due date. The company's notice states what will occur if payment is made by the due date not what will occur if the payment is not made.

- 7. Recommendation:** It is recommended that the company revise its Intent to Cancel notice to state clearly the effect of nonpayment of premium by the due date in order to comply with s. 631.36 (4) (a), Wis. Stat.

The examiners found that the company submitted rate/rule filings containing errors in the rules that are used to support premium rates. Rule 301.A.4, Pricing Class Definitions, includes a Shopper Pricing discount. The rule filed with the Commissioner for the Shopper Pricing discount incorrectly refers to the effective date rather than the termination date for determining when to apply the discount. Also, the Home First Class discount rule allows a new business discount, but the filed rule definitions associated with the discount factors are transposed.

The examiners found several rating rules where the company filed incomplete supplementary rate information as follows.

The examiners found that the company rates all policies using a Pricing Class factor (formerly known as a Claims/Credit Tier factor). The rule changing the name was filed during the exam period. This rating factor is based on the named insured's insurance score, which is derived from the named insured's credit score; however, the company did not file a rule to determine which credit score to use if there are two named insureds.

The examiners also found that the Protection/Construction rating factors include Classes 8, 9, and 10 rating factors based on the type of construction; however, there is no rule to define when to use the Classes 8, 9, or 10 rating factors and apply the factors to a specific construction code. Rule 107, Construction Definitions, lists and defines various types of exterior construction materials including the appropriate construction code type to use except for Classes 8, 9, and 10 rating factors.

The examiners found that the rate and rule manual are not sufficiently clear that latitude and longitude are always used to determine the location of the policyholder's insured premises within the defined territory boundaries, and that these boundaries are defined using zip code definitions from May 1998. The examiners found that the company offers an Affinity Marketing Program discount and assigns the Affinity Marketing Program member's account numbers. The filed Rule 481 indicates policyholders may receive the Affinity Marketing discount when coverage is placed with a Homesite affinity partner (marketing partner) or has a membership in an approved group. The rule was unclear as to the definition of a Homesite affinity partner.

The examiners found that the company offers a Superior Construction discount and is filed as Rule 401. This rule contains definitions for Frame, Masonry Veneer, and Masonry construction types. An unfiled table used by the company lists out construction material type, with 11 materials for the Frame sub-type; 8 materials for the Masonry sub-type; 2 materials for the Masonry Veneer sub-type; and 3 materials for the Superior sub-type. The filed rates give rating factors for only two of the construction types, which are Masonry and Frame. The company did not file the supplementary information that lists specific construction materials, the material sub-type, and the final construction type that provides the three Superior Construction material sub-types in order to determine the appropriate discount rate.

The examiners found that the company filed Rule 618 regarding an unsafe swimming pool premium, which states: "When an unsafe swimming pool is on the property, apply the

applicable premium shown on the state rate pages. " The company also filed Rule 617 regarding a dangerous dog premium, which states: "When a dangerous dog is present, apply the applicable premium shown on the state rate pages. " However, these filed rules do not define what constitutes an unsafe pool or a dangerous dog.

Section 625.13 (1), Wis. Stat., states, in part, that every authorized insurer shall file with the Commissioner all rates and supplementary rate information and all changes and amendments made by it within 30 days after they become effective. Section 625.02 (3), Wis. Stat., defines supplementary rate information, in part, as including any rating rule and rate-related underwriting rule.

8. **Recommendation:** It is recommended that the company submit rate and rule filings to the Commissioner within 30 days after they become effective which contain complete and accurate rates and supplementary rate information in order to comply with ss. 625.13 (1) and 625.02 (3), Wis. Stat., and file the corrected rules listed in this report with the Commissioner.

## **Complaints**

The on-site examination did not include a formal complaint review; however, the company's number one ranking on Wisconsin's above average complaint list in both 2008 and 2009 was discussed during the exit interview. In addition, the pre-exam Level 2 analysis complaint review revealed that the company did not respond timely to OCI for 7 out of 13 complaints in 2009. Also, OCI received 13 complaints in 2009, which was an increase of 64% from the number of complaints in 2008. In 2008 the number of complaints to premiums written ratio increased 56% from 2007. In 2009, 30.77% of Wisconsin complaints were filed regarding claims. In 2008, 64.64% of Wisconsin complaints were filed regarding claims.

During the interview, the examiners asked if the company had developed a strategy for reducing the number of complaints in Wisconsin and complaint handling improvement. The company responded that in efforts to reduce and improve its handling of Wisconsin complaints, the company's complaint handling procedure was revised for Wisconsin complaints.

Before revising Wisconsin complaint handling, the company procedure was as follows. Any state department of insurance complaints are routed to the legal department and logged into a complaint processing database. Then the complaint was assigned to the appropriate business unit for review within two business days. If necessary, the complaint could be re-routed to another business unit. The assigned business unit processed the complaint within the required time frame. If the complaint identified issues needing review and action, the business unit manager addressed these issues through that particular business unit's compliance process.

Recognizing its above average complaints ranking and high percentage of claim complaints in Wisconsin, the company revised complaint handling processes for Wisconsin complaints. Wisconsin complaints are routed directly to the compliance officer for review and then assigned to a particular business unit. If a pattern of complaints is observed or complaints are above average for revenue, the compliance officer may develop a plan of action to revise business unit operations that negatively affect policyholder service.

In 2010 Homesite ranked 5<sup>th</sup> on OCI's above average complaint list, with half of the complaints filed for claims issues. While the company demonstrated complaint handling improvement with a lower complaint to premium ratio for 2010, the company's above average complaint history merits improving complaint and claim handling strategies.

Section Ins 6.11 (3), Wis. Adm. Code, states, in part, any acts defined in the code are considered unfair claims handling practices. The purpose of the rule is to promote the fair and equitable treatment of policyholders, claimants and insurers by defining certain claim adjustment practices which are considered to be unfair methods and practices in the business of insurance.

9. **Recommendation:** It is recommended that the company create and implement stringent quality control procedures for handling Wisconsin complaints and, in particular, claims complaints in order to comply with s. Ins 6.11 (3), Wis. Adm. Code.

#### IV. CONCLUSION

A total of nine recommendations were made as a result of this targeted examination relating to the company's need to modify claims, producer licensing, policy forms, underwriting and rating, and complaints.

The company needs to ensure written claim denials are sent when the claim is initially verbally denied. The company also must retain documentation (estimate, etc.) to support the company's claim settlement amount. Appropriate documentation is required in order to justify fair claim settlements pursuant to s. Ins 6.11 (3) (a) 7., Wis. Adm. Code. In addition, the company needs to ensure written claim communication and processing is done timely, whether for denials or settlements, to comply with s. 628.46, Wis. Stat.

The company must develop and implement a more thorough procedure to ensure that it retains accurate, complete, and retrievable agent appointment and termination notices, and implement verification procedures when companies for whom Homesite underwrites homeowner's insurance forward appointment and termination notices. The company needs to create and implement a record storage software quality control procedure, which includes maintaining original data without losing it when migrating data between programs. The company must be able to provide records to the Commissioner to comply with s. Ins 6.80 (5) (a) and (b), Wis. Adm. Code.

The company needs to send written notice of appointment and termination to include return of company indicia to ensure compliance with s. Ins 6.57 (2), Wis. Adm. Code.

The company should file a copy of any application form(s) it uses in the course of business—including any online application forms—to comply with ss. 600.03 (21) and 631.20 (1), Wis. Stat.

The company should revise the "Property Inspection" provision in renewal packets to remove the language allowing cancellation within 60 days of the effective date in order to comply with the requirements of s. 631.36 (2) and (4), Wis. Stat., and s. 628.34 (1), Wis. Stat.

Homesite should revise cancellation notices to state what will occur if payment is not made to comply with s. 631.36 (4) (a), Wis. Stat. In addition, the company needs to implement and follow a procedure to ensure that all Nonpay intent to Cancel notices are mailed at least 12 days prior to the projected date of cancellation in order to comply with s. 631.36 (2) (b), Wis. Stat.

The company should create a quality control program and implement it to ensure filed rules do not contain errors and to correctly cross reference rate and supplementary rating rule definitions in the rating rule handbook. In addition, the company should file corrected and complete rule definitions and supplementary rule definitions that affect rating premiums in order to comply with ss. 625.13 (1) and 625.02 (3), Wis. Stat.

The company needs to implement quality control procedures for handling Wisconsin complaints and, in particular, claims complaints to reduce the number of complaints in order to comply with s. Ins 6.11 (3), Wis. Adm. Code.

## V. SUMMARY OF RECOMMENDATIONS

### Claims

- Page 5 1. It is recommended that the company promptly send a written denial letter and document each denied claim in order to comply with the requirements of s. Ins 6.11 (3) (a) 7., Wis. Adm. Code.

### Producer Licensing

- Page 7 2. It is recommended that the company develop and implement a written procedure for retaining copies of all agent appointment and termination records in order to comply with s. Ins. 6.80 (5) (a) and (b), Wis. Adm. Code.
- Page 8 3. It is recommended that the company provide each agent a written notice of termination that includes language stating that the agent is no longer appointed as a representative of the company, the agent may not act as the company's representative, and include a demand for return of all indicia in order to comply with s. Ins 6.57 (2), Wis. Adm. Code.

### Policy Forms

- Page 8 4. It is recommended that the company file all its forms, including any online application forms in order to comply with s. 631.20 (1), Wis. Stat.

### Underwriting and Rating

- Page 9 5. It is recommended that the company revise the "Property Inspection" provision in renewal packets to remove the language allowing cancellation within 60 days of the renewal date in order to comply with s. 631.36 (2) and (4), Wis. Stat.
- Page 10 6. It is recommended that the company implement and follow a procedure to ensure that all Nonpay Intent to Cancel notices are mailed at least 12 days prior to the projected date of cancellation in order to comply with s. 631.36 (2) (b), Wis. Stat.
- Page 10 7. It is recommended that the company revise its Intent to Cancel notice to state clearly the effect of nonpayment of premium by the due date in order to comply with s. 631.36 (4) (a), Wis. Stat.
- Page 12 8. It is recommended that the company submit rate and rule filings to the Commissioner within 30 days after they become effective which contain complete and accurate rates and supplementary rate information in order to comply with ss. 625.13 (1) and 625.02 (3), Wis. Stat., and file the corrected rules listed in this report with the Commissioner.
- Page 13 9. It is recommended that the company create and implement stringent quality control procedures for handling Wisconsin complaints and, in particular, claims complaints in order to comply with s. Ins 6.11 (3), Wis. Adm. Code.

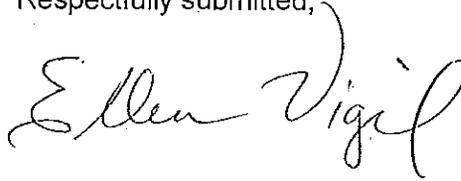
## VI. ACKNOWLEDGMENT

The courtesy and cooperation extended to the examiners during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Name	Title
Karen Becker, MCM	Insurance Examiner-Journey
Drew Hunkins, MCM	Insurance Examiner-Journey
Gary Morris	Insurance Examiner-Journey
Rebecca Rebholz	Insurance Examiner-Journey

Respectfully submitted,

A handwritten signature in cursive script that reads "Ellen Vigil". The signature is written in black ink and is positioned below the phrase "Respectfully submitted,".

Ellen Vigil, MCM  
Examiner-in-Charge