

REPORT OF MARKET CONDUCT EXAMINATION

**DAIRYLAND INSURANCE COMPANY
NAIC #21164
EIN# 391047310**

1800 NORTH POINT DRIVE

STEVENS POINT, WI 54481

AS OF

SEPTEMBER 30, 2004

BY

KANSAS INSURANCE DEPARTMENT

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March 18, 2004

Honorable Sandy Praeger
Insurance Commissioner
Kansas Insurance Department
420 SW Ninth Street
Topeka, KS 66612-1678

Dear Commissioner Praeger:

In accordance with your respective authorization, and pursuant to K.S.A. 40-222, a market conduct examination has been conducted on the business affairs of:

Dairyland Insurance Company

NAIC# 21164 EIN# 391047310
ETS# KSO23#-M23

1800 North Point Dr.

Stevens Point, WI 54481

hereafter referred to as “Dairyland” or “the Company”, and the following report of such examination is respectfully submitted,

Lyle Behrens, CPCU, CIE, ARM
Market Conduct Supervisor

EXECUTIVE SUMMARY

The Kansas Insurance Department performed a targeted market conduct examination of Dairyland Insurance Company from January 1, 2002 – September 30, 2004. The report is written by test and violations are listed within each category. The exam team reviewed general operations, underwriting, claim, and complaint files in the company's home office in Stevens Point, WI. Meetings were held with DIC staff to discuss their procedures in these areas. File samples were selected for review to verify the Company procedures and practices in claims, complaints and underwriting.

The company passed most tests, and in terms of delivering good service to its insureds, the examiners were impressed with the overall positive and very professional performance by the Dairyland staff and management to their policyholders. However, the exam team made recommendations on the following issues.

LIST OF RECOMMENDATIONS

Complaints

The Company needs to update their system of logging complaints into a register to capture all items required by K.S.A. 40-2404 (10). The Company must submit to KID within thirty (30) days a detailed plan for updating this system to capture all necessary items on the complaint record, specifically disposition and the date of disposition, which are not currently being captured.

Underwriting

1. The Company must immediately file the driver classification underwriting rule defining how they classify the vehicles on a policy when there is more than one driver. Rule Guide Eff. 4/23/02 New Biz, 5/19/02 Renewals 2/Underwriting Rules Revised 4/23/03, page 3 states: "Each operator is rated separately...If more than one single car policy and/or multi-car policies in household, rate highest rated operator on the vehicle developing the highest premium, second highest rated operator to second highest rated vehicle, etc." This rule was not filed with the KID per K.S.A. 40-955 (a) (f).

Examiner's Note:

The company agreed and immediately filed it as a revision to their Kansas Automobile Manual.

2. Two auto policy non-renewals were due to the agent no longer being appointed by the Company and did not contain notice to the insured that the Company was willing to renew the policy per K.S.A. 40-276a (a) (6).

Examiner's Note:

As a result of this exam, the Company has updated the wording on these non-renewal notices to include a phone number where the insured can call to obtain the name of an agent in their area in order to continue coverage if desired.

SCOPE OF REVIEW

A targeted market conduct examination of Dairyland Insurance Company operations was completed per K.S.A. 40-222 to determine compliance with applicable statutes, regulations and bulletins of the state of Kansas from January 1, 2002 – September 30, 2004. The exam focused on the Company's general operations, non-standard auto program, motorcycle program, claims processing, complaint handling and underwriting practices. The examination was conducted according to the guidelines and procedures recommended in the NAIC Market Conduct Examiners Handbook.

The examination included, but was not **limited to the following:**

COMPANY OVERVIEW

History and Profile
Prior Market Conduct Examination Reports
Fines and/or Penalties
Company Operations and Management
Certificates of Authority
Internal Audit Procedures

COMPLAINT HANDLING

Record Keeping
Timely Response

UNDERWRITING

Use of Appropriate Forms
Promptness of Policy Issuance
Proper Maintenance of Underwriting Files

CLAIMS

Claim Processing
Timeliness and Accuracy of Claim Payment
Proper Maintenance of Claim Files

SUMMARY OF REVIEW

The market conduct examination focused on Dairyland Insurance Company, whose parent company is Sentry Insurance A Mutual Company, from January 1, 2002 to September 30, 2004.

Interrogatories requesting information on complaints, underwriting and claims were submitted to the Company for written response. The responses received adequately addressed the issues presented. Random samples were selected for review to verify the Company procedures and practices in claims, complaints and underwriting.

Violations of Kansas statutes and regulations are included within each category and recommendations to improve Company operations and compliance with KID requirements are listed within each category and the Executive Summary.

DESK EXAMINATION/ON-SITE EXAMINATION

COMPANY OVERVIEW

History and Operation

Dairyland Insurance Company is a stock property and casualty insurance company operating under ch. 611, Wis. Stat. It is the successor to Dairyland Mutual Insurance Company, which was incorporated on January 8, 1953, under then-existing Wisconsin law, and commenced business on February 27, 1953. On December 31, 1964, the Dairyland Mutual Insurance Company Board of Directors adopted a resolution to reorganize the company into a capital stock corporation. A plan was approved at a special meeting of the policyholders on March 19, 1965, and the Wisconsin Commissioner of Insurance issued an order approving the plan of reorganization on June 4, 1965. The new stock company, Dairyland Insurance Company (DIC), was incorporated in Wisconsin on June 11, 1965, and commenced business on August 1, 1965.

On March 2, 1978, The Sentry Corporation, a Sentry-affiliated holding company, became the sole shareholder of Dairyland Insurance Company. In 1986, The Sentry Corporation was dissolved and DIC became a wholly owned subsidiary of Sentry Insurance a Mutual Company (SIAMCO).

The Company's business consists of non-standard auto and preferred/standard motorcycle. Its products are distributed primarily through an independent agency force. It is authorized to do business in 44 states.

Dairyland conducts its business from its parent company's home office in Stevens Point, Wisconsin. Staffing and all support services are provided by the parent company under an inter-company servicing agreement. In addition to its direct business, the Company assumes 100% of the premiums written by Dairyland County Mutual Insurance Company of Texas, a mutual insurer affiliated by common management and control. All direct and assumed business, net of cessions to nonaffiliated reinsurers, is pooled with insurance company affiliates of Sentry Insurance a Mutual Company. In addition, DIC participates with its affiliated companies in a general expense allocation agreement, an inter-company settlement policy, and an income tax allocation agreement. Investment advisory services are provided pursuant to an agreement with the Company's affiliated company, Sentry Investment Management, Inc.

Other Claims Service Centers and Offices that handle DIC claims are located in Richmond, VA; Scottsdale, AZ; Westford, MA; and Davenport, IA. All underwriting is handled from the home office in Stevens Point, WI.

The Company's Board of Directors consists of five members, who are elected annually. Members of the Board may also serve on the Boards of Directors of the affiliated companies. Board members receive no compensation specific to their service on the Board because all are employees of DIC's parent company, SIAMCO. The Board meets once per year. Other actions of the Board are evidenced by consent resolutions signed by all of the Directors.

The members of Dairyland's Board of Directors are listed below:

Name and Residence	Principal Occupation	Term Expires
Dale R. Schuh Stevens Point, Wisconsin	Chairman of the Board, Chief Executive Officer and President of Sentry Insurance a Mutual Company	2005
Janet L. Fagan Stevens Point, Wisconsin	Vice President and Chief Actuary, Sentry Insurance a Mutual Company	2005
William J. Lohr Stevens Point, Wisconsin	Vice President and Treasurer, Sentry Insurance a Mutual Company	2005
William M. O'Reilly Stevens Point, Wisconsin	Vice President, General Counsel, and Corporate Secretary, Sentry Insurance a Mutual Company	2005
James J. Weishan	Vice President, Sentry	2005

Stevens Point, Wisconsin	Insurance a Mutual Company	
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Officers of the Company are elected annually by the Board of Directors. Current officers are listed in the following chart:

Name	Office
Dale R. Schuh	Chairman of the Board
Richard T. LaBelle	President
Janet L. Fagan	Vice President
William M. O'Reilly	Secretary
William J. Lohr	Treasurer

An organizational chart showing the relationship of Dairyland to Sentry and its affiliates is found in Table 1 on page 26 of this report.

Company Agreements

Ten internal agreements with SIAMCO and Dairyland County Mutual Insurance Company of Texas were reviewed and followed good business practices involving premium collection, reinsurance, account services, investments, income tax allocation and expense allocations.

An agreement with a glass vendor was reviewed and included training of claims personnel, processing claims, call centers, billing and auditing, payment for services, liability, management liability, performance criteria, fees and confidentiality.

This company does not use an MGA.

Internal Audits

Internal Audits:

Recommended annual audit schedules for internal audits are developed by the Director of Internal Audit, through ongoing communications with senior management of all areas of the company. Recommendations are shared with the CEO, CFO, and the SIAMCO audit committee. Input from these three areas is incorporated before determining the final schedule. Generally, each of the major claims paying offices is audited every three years but does not follow a specific schedule. This takes into consideration the coordination of the company's audit approach with the more frequent detail audit schedule followed by the Claims Dept. and standards audits.

Claims and Standards Audits:

Each of the Claim Centers is audited on a two-year rotation by Operational Services. Initial audits are performed and follow-ups, if needed, are conducted six months after the original audit. The Center then falls back into the line up, with their next audit around 18 months after the follow-up. If no follow-up is needed, the next audit will occur in about 24 months.

Prior Market Conduct Examination Report(s)

DIC provided the examiners with seven (7) market examination reports for review (closed from 1998 to 2001). There have been no exams closed since 2001. There were no recommendations in these previous exams that required a follow up by the market conduct unit.

Fines and/or Penalties

The NAIC I-Site database was reviewed and DIC was asked to provide a summary of all regulatory actions taken against it in the past five (5) years. There was nothing noted that warranted follow-up by this exam team.

Tests for Company Operations/Management

Standard 1

The company has an up-to-date, valid internal or external audit program.

During the exam period, seven internal audits were conducted on the four service centers and two processing areas. These audits were thorough and instructive for both the service center and home office personnel. Among other items reviewed, changes were made to the claims system, hardware and software acquired, and processes were improved on subrogation, duplicate claim payments, and training on coding processes.

The company passed Standard 1.

Standard 7

Records are adequate, accessible, consistent and orderly and comply with state record retention requirements. K.S.A. 40-222 (a)(b)(c)(g)

The company provided the exam team with the necessary records and documents in a timely fashion.

The company passed Standard 7.

Standard 8

The company is licensed for the lines of business that are being written. K.S.A. 40-216

The Certificate of Authority was reviewed and found to be in order, and the company was in compliance.

The company passed Standard 8.

Standard 9

The company cooperates on a timely basis with examiners performing the examinations. K.S.A. 40-222 (c)(g)

The company was very cooperative and provided the exam team with the items requested within the time frames established for this exam.

The company passed Standard 9.

Standard 10

The company has procedures for the collection, use, and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders. K.A.R. 40-1-46

SIAMCO has followed the NAIC privacy model in developing uniform procedures within all Sentry companies, including DIC. Sentry Bulletin P12604 "Security Procedures and Guidelines for all Teleprocessing Systems" was issued in 1994 to establish privacy practices. Procedures have been developed for both personal and commercial lines.

The company passed Standard 10.

Standard 11

The company had developed and implemented written policies, standards and procedures for the management of insurance information.

A distinction is made between consumers and customers and the privacy policy protects both categories. Customers and consumers must write to Corporate Compliance/Privacy to obtain answers to privacy questions. Producers can access and print the privacy policy from the website or PC rating disk application and must follow the same standards and procedures to maintain privacy

The company passed Standard 11.

Standard 12

The company has policies and procedures to protect the privacy of nonpublic information relating to its customers, former customers and consumers that are not customers.

The Company maintains Resource Access Control Facility (RACF) to control access to the computer system. Employees must sign a Corporate Security Policy and Confidentiality Statement during odd-numbered calendar years. The practices

established in Sentry Bulletin P12604. A reminder is sent to employees during the even-numbered calendar years. The company does not sell customer lists or any personal information regarding customers and their policy prohibits disclosure of nonpublic personal information to third parties, except as permitted by law.

The company passed Standard 12.

Standard 13

The company provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

Consumers can request a privacy notice at the time a quote is offered.

Privacy notices are sent to new policyholders with the policy and to renewals with billings. Because DIC bills all renewal customers directly, they will receive a privacy notice annually. New business, new policy cancellations, transfers, rewrites and reinstatements for auto and motorcycle policies will always include privacy notices. Payroll Deduct policyholders will receive notices at renewal. A “catch-up” mailing is sent each November after matching previous mailing lists with personal lines policyholder lists. All mailing lists are maintained for one year.

The website privacy notice is located on every screen and is the same notice sent to policyholders.

The company passed Standard 13.

Standard 14

If the company discloses information subject to an opt out right, the company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers.

The company does not use an opt-out policy for confidential information.

Standard 15

The company’s collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations. K.A.R. 40-1-46

The company developed a privacy policy by using the NAIC model which was adopted by reference into Kansas law and was published in Sentry Bulletin P23389. An initial mass mailing of privacy notices was sent by 7/1/01 and has been sent each year according to company policy.

The company passed Standard 15.

Standard 17

Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

Sentry Bulletin P23389 explains in great detail the procedure for sending privacy notices to policyholders and includes an annual survey to each business area to insure no exceptions were made on the gathering or sharing of Nonpublic Personal Information without obtaining “consumer” or “customer” approval.

The computer system access is controlled by Resource Access Control Facility (RACF). Employee access is limited to areas where nonpublic information is needed to conduct the business of DIC.

The company passed Standard 17.

COMPLAINT HANDLING

Company Complaint Handling Procedures

The Company considers a “complaint” an oral or written communication which primarily expresses a grievance. All complaints are directed to and acknowledged by the Corporate Relations Technician. Written complaints received from insurance departments, third-parties, claimants or insureds via mail, email or fax are first date stamped and an acknowledgement letter is sent stating the name of the Consumer Affairs Representative who will be handling the complaint. A copy of the complaint letter, attachments and acknowledgement letter is faxed to the appropriate Consumer Affairs Representative. The complaint is also then recorded in the complaint log and complaint database. Telephone complaints go through the same procedure, and are documented on a phone communication form as well.

The Corporate Relations Technician assigns the complaint to a Consumer Affairs Representative or other appropriate person within the related function for investigation, resolution, response, and completion of a Complaint Record Sheet. This Sheet will be faxed to the Corporate Relations Technician upon completion of the complaint. Procedures note that insurance department responses must be submitted within the guidelines outlined in the state’s cover letter. The Company has a current standard in place to complete complaints within four working days. A daily follow-up is done and Consumer Affairs Representatives are notified via email or phone by the Corporate Relations Technician if a complaint is not completed within this time frame. The same procedures used in handling insurance department complaints are used in complaints received from insureds, claimants, or third-parties. The Corporate Relations Technician is responsible for entry in the Complaint Database upon receipt of the Complaint Record Sheets.

A central complaint file is maintained by the Corporate Relations Technician for seven years, and twelve month complete complaint files are maintained by Consumer Affairs Representatives on the complaints they have worked. Monthly reports are mechanically produced from the Computer Room. Summary pages compare current monthly and YTD counts with the same month the previous year and previous year YTD counts. Detail report pages list each complaint

individually for the current month and also provide detailed information for each complaint. The Corporate Relations Technician also gets daily output reports listing the previous day's input and a listing for four (4) day follow-ups. Monthly and quarterly reports are prepared and released by the Corporate Relations Technician.

Tests for Complaint Handling

Standard 1

All complaints are recorded in the required format on the company complaint register.
K.S.A. 40-2404 (10)

The Company did provide a complaint register. There were a total of 42 KID complaints and 4 direct consumer complaints for the exam period, all of which were reviewed. The Company does not currently capture the dispositions or the date of dispositions on the complaint record as required by K.S.A. 40-2404 (10).

K.S.A. 40-2404, (10) Failure to maintain complaint handling procedures. Failure of any person, who is an insurer on an insurance policy, to maintain a complete record of all the complaints which it has received since the date of its last examination under K.S.A. 40-222, and amendments thereto; but no such records shall be required for complaints received prior to the effective date of this act. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaints, the date each complaint was originally received by the insurer and the date of final disposition of each complaint. For purposes of this subsection, "complaint" means any written communication primarily expressing a grievance related to the acts and practices set out in this section.

The company failed Standard 1.

Standard 2

The company has adequate complaint handling procedures in place and communicates such procedures to policyholders.

The procedures written into the company policies are adequate and generally work quite well. Overall, the Company is very timely in responses to complaints. The Company guideline for responding to complaints is within four business days. The Company does a good job working within these timelines.

The company passed Standard 2.

Standard 3

The company should take adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
KID Complaints	42	0	100%

Consumer Complaints	4	0	100%
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The company passed Standard 3.

Standard 4

The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations. K.A.R. 40-1-34 6(b)

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
KID Complaints	42	1	98%
Consumer Complaints	4	0	100%

The Company failed to notify the Department with an adequate response to an inquiry for settlement figures on a claim.

The company passed Standard 4.

Recommendation:

1. The Company needs to update their system of logging complaints into a register to capture all items required by K.S.A. 40-2404 (10). The Company must submit a plan to KID within thirty (30) days detailing their plan for updating this system to capture all necessary items on the complaint record, specifically disposition and the date of disposition, which are not currently being captured.

UNDERWRITING

Underwriting Procedures

New Business

For both automobile policies and motorcycle policies, new business applications can be conducted electronically or the agent can mail the application and check to the company to be manually entered. Credit scoring and tier placement are not used for any product lines in Kansas.

If the application is done electronically, there are audits in the systems that will error out anything that does not fit the criteria for that item being entered. Those errors are processed the following day and the error is corrected if possible. If the error cannot be fixed, a letter is sent to the insured in an attempt to get the correct information. Motor vehicle reports are ordered from ChoicePoint on all rated drivers. When the MVR comes back, the name, date of birth and gender bump up against the system and if they do not match, there is a question mark (?) next to the information that is wrong. The Underwriter will verify the information and change it if

necessary. If the MVR comes back as a no-hit, a letter is sent to the agent and insured requesting the correct drivers' license number. This letter requests a response within twenty (20) days. If the correct drivers' license number is received within thirty (30) days and the MVR is good, the company will go back to the original effective date and add or delete the surcharges that are not applicable. If the information comes back after thirty (30) days, a new MVR will be ordered and applicable surcharges will be added effective the next renewal. Surcharges are dropped on the renewal following the 36th month of the event.

When an application is manually entered, it is the responsibility of the Underwriter to follow the rules in the Rule Guide for Kansas. If there is wrong information listed on the application, a letter will be generated to the agent and the insured asking them to review and correct the information. MVRs are ordered on all rated drivers. When the MVRs come back and are processed, the policy is completed and declarations, filings and ID cards are sent. If any additional violations or accidents were found on the MVR, that information is passed on to the insured and agent through the declaration page and on a letter sent to the agent and insured. ISO is used for vehicle identification numbers on auto policies.

Violations and/or accidents are not surcharged on cycle policies, but are used to determine which motorcycle program the applicant qualifies for, if any. Sentry has created its own database to verify if the motorcycle VIN number is correct. The symbol associated with the VIN number is used as part of the rating structure of the policy.

Renewals

When a policy renews, it goes through a re-rating segment. The system checks to see if any surcharges will fall off or should be added. Other items are also checked, such as the age of the insured, the symbol of the vehicle, and whether the policy was rated correctly. CLUE reports are ordered only if there is a question as to what was paid on a claim with another company.

Auto

DIC auto policies are written in 1, 2, 3, and 6 month policy terms. MVRs are ordered every other year, normally ordered 60 to 90 days before the anniversary renewal date. If the last digit of the policy number is an even number, those policies get MVRs ordered for that year and the next year the odd number policies will have MVRs ordered.

Cycle

DIC cycle policies are written in 3, 6, and 12 month policy terms in Kansas.

Cancellation & Non-Renewal

When the company cancels a policy, the insured is provided with a cancellation declaration plus a notice of cancellation stating the reason for the cancellation. These documents are sent out 33

days prior to the cancellation date. When the policy is being non-renewed, the insured is provided with a non-renewal notice, which is sent out 33 days prior to the non-renewal date.

Tests for Underwriting & Rating

Standard 1: Rating Practices

The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plan.

Rule Guide Eff. 4/23/02 New Biz, 5/19/02 Renewals 2/Underwriting Rules Revised 4/23/03, page 3 for driver assignment was not filed with the KID per K.S.A. 40-955 (a) (f). The company agreed and immediately filed the "Driver Assignment" rule as a revision to the Kansas Automobile Manual.

The company failed Standard 1.

Standard 2: Rating Practices

Disclosures to insureds concerning rates and coverage are accurate and timely.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
New Business	24	0	100%
Renewals	25	0	100%

The company passed Standard 2.

Standard 4: Rating Practices

Credits and deviations are consistently applied on a non-discriminatory basis.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
New Business	24	0	100%
Renewals	25	0	100%

The company passed Standard 4.

Standard 11: Underwriting Practices

The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
New Business	24	0	100%
Cancellations	60	0	100%

The company passed Standard 11.

Standard 12: Underwriting Practices

All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the department of insurance (if applicable).

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
New Business	24	0	100%
Renewals	25	0	100%

The company passed Standard 12.

Standard 14: Underwriting Practices

Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
New Business	24	0	100%
Renewals	25	0	100%
Cancellations	60	0	100%

The company passed Standard 14.

Standard 15: Underwriting Practices

File documentation adequately supports decisions made.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
New Business	24	0	100%
Renewals	25	0	100%
Cancellations	60	0	100%
Non-Renewals	50	0	100%

The company passed Standard 15.

Standard 16: Underwriting Practices

Policies and endorsements are issued or renewed accurately, timely and completely.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
New Business	24	0	100%
Renewals	25	0	100%

The company passed Standard 16.

Standard 22: Termination Practices

Rejections/Declinations Rejections and declinations are not unfairly discriminatory.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Cancellations	60	0	100%
<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Renewals	50	0	100%

The company passed Standard 22.

Standard 23: Termination Practices

Cancellation/Non-renewal and Declination notices comply with policy provisions and state laws and company guidelines.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Cancellations	60	0	100%
Non-Renewals	50	0	100%

The company passed Standard 23.

Standard 24: Termination Practices

Cancellation/Non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.

K.S.A. 40-276a

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Cancellations	60	0	100%
Non-Renewals	50	2	96%

Two auto policy non-renewals were due to the agent no longer being appointed by the Company and did not contain notice to the insured that the Company was willing to renew the policy per K.S.A. 40-276a (a) (6). As a result of this exam, the Company has updated the wording on these non-renewal notices to include a phone number where the insured can call to obtain the name of an agent in their area in order to continue coverage if desired.

The company passed Standard 24.

Standard 25: Termination Practices

Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Cancellations	60	0	100%

The company passed Standard 25.

**Underwriting
Recommendations:**

1. The Company must immediately file the driver classification underwriting rule defining how they classify the vehicles on a policy when there is more than one driver. Rule Guide Eff. 4/23/02 New Biz, 5/19/02 Renewals 2/Underwriting Rules Revised 4/23/03, page 3 states: "Each operator is rated separately...If more than one single car policy and/or multi-car policies in household, rate highest rated operator on the vehicle developing the highest premium, second highest rated operator to second highest rated vehicle, etc." This rule was not filed with the KID per K.S.A. 40-955 (a) (f).

Examiner's Note:

The company agreed and immediately filed it as a revision to their Kansas Automobile Manual.

2. Two auto policy non-renewals were due to the agent no longer being appointed by the Company and did not contain notice to the insured that the Company was willing to renew the policy per K.S.A. 40-276a (a) (6).

Examiner's Note:

As a result of this exam, the Company has updated the wording on these non-renewal notices to include a phone number where the insured can call to obtain the name of an agent in their area in order to continue coverage if desired.

CLAIMS PROCESSING

Company Claim Handling Procedures

When a loss is first reported, it is sent electronically to a claims manager who then assigns the claim to a claims representative. The claims representative is to make prompt and meaningful contact with any party containing information with regards to coverage, liability, and damages. Vehicle appraisals are requested as appropriate.

The claims representative first investigates whether coverage was in effect at the time of loss. Any coverage issues are documented in the system and memorialized with recorded statements. A Reservation of Rights letter is sent to the insured outlining coverage issues if appropriate. The claims representative obtains recorded statements from the parties involved in the accident if liability is in dispute and also to document injury and treatment details. A police report is also obtained to provide additional information, including witnesses. The results of the investigation is recorded in the system and updated as new information is obtained. The damage documentation also includes an assessment of the comparative fault between the parties. Third party damages are paid based upon any comparative fault between the parties.

If the investigation reveals that an adverse party is responsible for the accident, a notification of intent to subrogate payment of the insured damages is sent to the individual or, if insured, it is sent to the individual's insurance carrier. Once all damages have been paid on behalf of the

insured, documentation showing the amounts paid are submitted to the adverse party with a request for reimbursement for damages. The claims representative or the subrogation department documents all subrogation activity in the system.

When the claims representative electronically requests an appraiser assignment to evaluate vehicle damage, it is routed to a dispatcher. The dispatcher electronically assigns the loss to a field staff appraiser if one is located in the area of the vehicle. If there is not one in the area, the assignment is sent to the inside appraisal manager who electronically assigns it to an inside appraiser. This appraiser determines if the loss can be handled with photos and estimates or assigns out to an independent appraiser.

For accidents involving injuries, the claims representative determines the priority of No-Fault benefits for individuals in the insured vehicle. The No-Fault application is sent to qualified individuals. For individuals in the adverse vehicle that are injured and the negligence is against the insured driver, the claims representative provides a medical authorization form so that the medical bills and records can be obtained to evaluate the claim for bodily injury settlement. The information obtained regarding the damages resulting from the accident is documented in the system. Also, information from any injured individual is submitted to the Index Bureau. Medical bills are reviewed for reasonableness, necessity of the treatment and relatedness of the treatment to the accident prior to payment. If the amount of the payments exceeds the No-Fault limits, the first party claimant and medical providers are advised that benefits have been exhausted. No-Fault payment logs showing the provider, the amount, and date paid are kept in the claim file.

For bodily injury claims involving third party claimants, the claims representative determines if the bodily injury threshold is met. Once it is met, the claims representative obtains applicable medical bills and records. Comparative fault is taken into consideration when settling the claim. Once the settlement has been agreed upon, appropriate checks and releases are sent to the third party claimant for signature. If an attorney represents the third party claimant and if the settlement exceeds \$5,000, written notification providing facts of the settlement agreement is sent to the third party claimant.

Tests for Claims

Standard 1

The initial contact by the company with the claimant is within the required time frame. K.A.R. 40-1-34 Section 6(a) & (d)

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	0	100%
Paid	49	0	100%

The company passed Standard 1.

Standard 2

Timely investigations are conducted. K.A.R. 40-1-34 Sections 7 & 8(c)

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	2	96%
Paid	49	0	100%

The claim investigations were not completed within thirty days after notification per K.A.R. 40-1-34, Section 7

The company passed Standard 2.

Standard 3

Claims are resolved in a timely manner. K.A.R. 40-1-34 Section 8 (a) & (c)

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	0	100%
Paid	49	2	96%

One file showed a lapse of 35 working days to notify claimant of acceptance of claim and 56 days from notification of claim until the claim was paid instead of the 15 working days required by K.A.R. 40-1-34, 8 (a)

The company did not provide written notification that more time was needed to conduct the investigation per K.A.R. 40-1-34 8 (c)

The company passed Standard 3.

Standard 4

The company responds to claim correspondence in a timely manner. K.A.R. 40-1-34 Section 6 (a) & (d)

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	0	100%
Paid	49	0	100%

The company passed Standard 4.

Standard 5

Claim files are adequately documented.
K.A.R.40-1-34 Sections 4, 6(a) & K.A.R. 40-1-34 Section 8 (b)

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	1	98%
Paid	49	0	100%

File does not contain sufficient notes and work papers to adequately reconstruct the events of the claim file as required by K.A.R. 40-1-34, Section 4.

The company passed Standard 5.

Standard 6

Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations. K.A.R. 40-1-34 Sections 5(a), 8, & 9, K.S.A. 40-3110, K.S.A. 40-2,126.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	0	100%
Paid	49	1	98%

Company failed to pay PIP benefits within 30 days per K.S.A. 40-3110 (b).

The company passed Standard 6.

Standard 7

Company uses the reservation of rights and excess of loss letters, when appropriate.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	0	100%
Paid	49	0	100%

The company passed Standard 7.

Standard 8

Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner. K.A.R. 40-1-34 Section 9 (d)

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	0	100%
Paid	49	0	100%

The company passed Standard 8.

Standard 9

Company claim forms are appropriate for the type of product.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	0	100%
Paid	49	0	100%

The company passed Standard 9.

Standard 10

Claim files are reserved in accordance with the companies' established procedures.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	0	100%
Paid	49	0	100%

The company passed Standard 10.

Standard 11

Denied and closed-without-payment claims are handled in accordance with policy provisions and state law. K.A.R. 40- 1-34 Section 8 (a), (b) & (c)

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	0	100%

The company passed Standard 11.

Standard 12

Cancelled benefit checks and drafts reflect appropriate claim handling practices. Checks were coded for proper payment and were cashed in a timely manner by the claimant.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Cancelled Checks	25	0	100%

The company passed Standard 12.

Standard 13

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. K.S.A. 40-2404 (9) (f) & (g)

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
Non-Paid	50	0	100%
Paid	49	0	100%

The company passed Standard 13.

GENERAL COMMENTS

Complaints

The Company needs to update their system of logging complaints into a register to capture all items required by K.S.A. 40-2404 (10). DIC must submit a plan to KID within thirty (30) days detailing their plan for updating this system to capture all necessary items on the complaint record, specifically disposition and the date of disposition, which are not currently being captured.

Underwriting

Rule Guide Eff. 4/23/02 New Biz, 5/19/02 Renewals 2/Underwriting Rules Revised 4/23/03, page 3 for driver assignment was not filed with the KID per K.S.A. 40-955 (a) (f).

Examiner's Note:

The company agreed and immediately filed it as a revision to their Kansas Automobile Manual.

2. Two auto policy non-renewals were due to the agent no longer being appointed by the Company and did not contain notice to the insured that the Company was willing to renew the policy per K.S.A. 40-276a (a) (6).

Examiner's Note:

As a result of this exam, the Company has updated the wording on these non-renewal notices to include a phone number where the insured can call to obtain the name of an agent in their area in order to continue coverage if desired.

CONCLUSION

I would like to acknowledge the cooperation and courtesy extended to the examination team by Sue Phillips, Compliance Director, and the staff (of Sentry and Dairyland Insurance Company) who are responsible for Dairyland Insurance Company operations.

The following examiners of the Office of the Commissioner of Insurance in the State of Kansas participated in the review:

Market Conduct Division

Lyle Behrens
Supervisor

Mary Lou Maritt
Examiner-In-Charge

Stacy Rinehart
Market Conduct Examiner

Respectfully submitted,

Lyle Behrens, CPCU, CIE, ARM