

REPORT OF MARKET CONDUCT EXAMINATION

**KANSAS AUTOMOBILE ASSIGNED CLAIMS PLAN
2930 SW WANAMAKER DRIVE
SUITE 4
TOPEKA, KS 66604-0087**

AS OF

JUNE 30, 2006

BY

KANSAS INSURANCE DEPARTMENT

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July 12, 2007

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:

Kansas Automobile Assigned Claims Plan

2930 SW Wanamaker Drive
Suite 4.
Topeka, KS 66604-0087

Hereafter referred to as KAACP or “the Plan”, and the following report of such examination is respectfully submitted,

Lyle Behrens, CPCU, CIE, ARM
Market Conduct Supervisor

PURPOSE AND SCOPE OF REVIEW

A targeted market conduct examination of the Kansas Automobile Assigned Claims Plan (KAACP) on its Personal Injury Protection (PIP) claims processing was conducted on closed claims from January 1, 2001 – June 30, 2006, to determine compliance with applicable statutes, regulations and bulletins of the state of Kansas. Although Kansas statutes do not require such an examination, we agree with KAACP that a periodic review of the claims handled by these Kansas companies is in the best interests of Kansas citizens and provides an opportunity to review company and KAACP procedures.

The examination was conducted utilizing the guidelines and procedures recommended in the NAIC Market Regulation Handbook 2006 (Handbook). The exam team selected sixty-seven files from the three domestic insurers who process these claims to verify the Plan's procedures and practices as measured against certain applicable claims standards. An acceptable tolerance standard of 7% as stated in the Handbook was used for claim procedures. The report is written by test rather than by exception which means all standard tests are described and all results are reported.

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

PIP CLAIMS

PIP Claim Processing
Timeliness and Accuracy of PIP Claim Payments
Proper Maintenance of PIP Claim Files
Proper Maintenance of PIP Claim Register

EXECUTIVE SUMMARY

The Kansas Insurance Department (KID) performed a targeted market conduct examination of the Personal Injury Protection (PIP) claims paid by the Kansas Automobile Assigned Claims Plan (KAACP) from January 1, 2001 – June 30, 2006. The report is written by test and violations are listed within each category.

Although Kansas statutes do not require such an examination, we agree with KAACP that a periodic review of the claims handled by these Kansas companies is in the best interests of Kansas citizens and provides an opportunity to review company and KAACP procedures.

Three Kansas domestic automobile insurers process claims for the Plan for two years on a rotating schedule. Farmers Alliance Mutual Insurance Company (2001, 2006), Farmers Insurance Company, Inc. (2002, 2003) and Farm Bureau Mutual Insurance Company (2004, 2005), shared the claims processing responsibilities during the exam period. The exam team selected sixty-seven files from these three automobile insurers to verify the Plan's procedures and practices in claims processing. Denied and paid claims were combined in the sample databases rather than examined separately. Meetings were held with the KAACP staff at the Plan's office in Topeka, KS, and phone conversations were conducted with the three Claims Managers to discuss the claim procedures and any questions that arose during the claims review.

Violations of Kansas statutes and regulations are included within each standard and recommendations to improve Company operations and compliance with KID requirements are listed below and under each applicable standard.

The company passed all tests, and in terms of delivering good service to its applicants, the examiners were impressed with the overall positive and professional performance by the KAACP staff, management and board. The exam team made recommendations on the following issues.

LIST OF RECOMMENDATIONS

General Recommendations

1. The initial claim information in all files maintained by one company needs to include a received date stamp on each page. It appears that the cover letter from KAACP is date stamped upon receipt but is then separated and redistributed within the claim file which makes it difficult to follow the sequence of events during the resolution of the claim.
2. The claims log maintained by one company needs complete detail on each claim. Critical data such a receipt date, amount paid or denied and resolution date were missing on a majority of the entries. This information should have been kept up to date as each claim was resolved, not upon the request by KID to review the log.
3. Open files should be reviewed on a more regular basis by all three companies. The examiners noticed a tendency to wait for long periods of time (in excess of 30-45 days) without reminders when requesting information from medical providers, employers or attorneys. This causes files to remain open after the company's two-year payment period and in some cases unnecessary delays in resolving a claim.

DESK EXAMINATION/ON-SITE EXAMINATION

PLAN OVERVIEW

The Kansas Automobile Assigned Claims Plan was created under K.S.A. 40-3116 to organize and maintain an assigned claims plan to provide that any person, who suffers injury in this state may obtain personal injury protection benefits through such plan if: ...(1) Personal injury protection benefits are not available to the injured person, ...(2) Motor vehicle liability insurance or self-insurance applicable to the injury cannot be identified;... (3) Personal injury protection benefits applicable to the injury are inadequate to provide the contracted-for benefits because of financial inability of an insurer or self-insurer to fulfill its obligation...

A governing committee represented by nine members from foreign and domestic companies, independent agents and the general public meets three times a year to review and prescribe operating rules for the Plan as required by K.A.R. 40-3-35.

Plan Agreements

Three Kansas domestic automobile insurers process claims for the Plan for two years on a rotating schedule. Farm Bureau Mutual Insurance Company, Farmers Alliance Mutual Insurance Company and Farmers Insurance Company, Inc. shared the claims processing responsibilities during the exam period.

Prior Market Conduct Examination Report

In 2000, KID conducted a market conduct examination of the PIP claims paid from 1/1/1994 through 3/31/1999. The recommendations listed in that report were considered in the current examination. An improvement in paying claims within 30 days and in verifying that claims were filed within the two-year time frame is noted by the examiners.

CLAIMS PROCESSING

Company Claim Handling Procedures

A PIP claim is reported to KAACP and then forwarded to the domestic automobile insurer currently processing claims. The insurer designates a person to handle these specific claims with the claimant, their representatives and any other agencies involved. Claims are handled according to company procedures and in particular according to statutes regarding PIP claims. Each company maintains a claim register and submits reports to KAACP. A claim file is maintained with all documentation pertinent to the claim including checks sent, dates of all communications, copies of all correspondence and the resolution of the claim.

KAACP prepares a report three times a year for the Governing Committee and also consults with the companies on any claim processing situations that arise.

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>
PIP	67	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>
PIP	67	2	97%

Two files did not notify the claimant that more time or information was needed to complete the investigation per K.A.R. 40-1-34, Section 8(c).

Recommendation:

The initial claim information in all files maintained by one company needs to include a received date stamp on each page.

The company passed Standard 2.

Standard 3

Claims are resolved in a timely manner. K.A.R. 40-1-34 Section 8 (a) & (c); K.S.A. 40-3110

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
PIP	67	2	97%

The company did not send a denial letter within 15 working days of receipt of proof of loss per K.A.R. 40-1-34 Section 8(a).

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>
PIP	67	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>
PIP	67	1	99%

One 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.

Recommendation:

Open files should be reviewed on a more regular basis by all three companies.

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. 40-3101-3121, K.S.A. 40-2,126.

<u>Type</u>	<u>Sample</u>	<u>Violations</u>	<u>%Pass</u>
PIP	67	0	100%

The company passed Standard 6.

Standard 9

Company claim forms are appropriate for the type of product.

The application forms were up to date and signed by the claimant in a timely manner.

The company passed Standard 9.

General Recommendation:

The claims log maintained by one company needed complete detail on each claim.

SUMMARIZATION

Only claims standards that typically pertain to processing PIP claims were used during this targeted examination. Reservation of rights, excess loss letters, deductible reimbursement upon subrogation recovery reserves were noted and followed by the examiners if presented during a claim.

CONCLUSION

I would like to acknowledge the cooperation and courtesy extended to the examination team by Gary Domer, Manager, and Kathy Andler, Administrative Assistant.

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

Market Conduct Division

Mary Lou Maritt
Examiner-In-Charge

Tate Flott
Market Conduct Examiner

Respectfully submitted,

Mary Lou Maritt
Examiner-In-Charge