

ORDER NO. E13-117

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF:

Proceedings by the Commissioner of)	
Banking and Insurance, State of New Jersey,)	CONSENT
with respect to IFA Insurance Company)	ORDER
NAIC No. 31062)	

TO: IFA Insurance Company
14 Walnut Ave
Clark, NJ, USA 07066

This matter, having been opened by the Commissioner of Banking and Insurance ("Commissioner"), of the Department of Banking and Insurance ("Department") State of New Jersey, upon information that IFA Insurance Company ("IFA"), an insurance company incorporated under the laws of the State of New Jersey and admitted to transact property and casualty insurance in New Jersey pursuant to N.J.S.A. 17:17-1 et seq., may have violated provisions of New Jersey insurance law; and

WHEREAS the Department filed a Market Conduct Examination Report ("the Report") containing the results of the examination of private passenger automobile insurance claims, underwriting, and rating practices of IFA for the review period of May 1, 2011 to April 30, 2012, performed pursuant to the authority provided at N.J.S.A. 17:23-20 et seq.; and

WHEREAS the market conduct examination revealed certain instances where IFA's practices did not accord fully with various provisions of New Jersey insurance statutes or

regulations. These instances, as fully set forth in the Report, are incorporated herein by reference; and

IT APPEARING that in certain instances, the findings of the Report were similar to findings issued in the final market conduct examination of IFA issued June 9, 2008; and

IT APPEARING that, as a result of the Department's examination, IFA has taken or will take corrective measures pursuant to the recommendations of the Report to address the instances of nonconformance set forth in the Report; and

IT FURTHER APPEARING that IFA has waived its right to a hearing on the aforementioned violations and has consented to an administrative sanction in the amount of \$50,000 in order to resolve the matter; and

IT FURTHER APPEARING that this matter may be resolved upon the consent of the parties to these proceedings without resort to formal hearing.

NOW, THEREFORE, IT IS on this 1st day of November, 2013

ORDERED AND AGREED that the attached Market Conduct Examination Report of IFA will be adopted and filed as an official record of the Department; and

IT IS FURTHER ORDERED AND AGREED that upon execution of this Consent Order, IFA shall remit to the Department a payment in the amount of \$50,000 in settlement of this matter. The payment shall be made to the New Jersey Department of Banking and Insurance, 20 West State Street P.O. Box 329 Trenton, N.J. 08625, attention Anne Marie Narcini, Chief of Market Regulation by wire transfer or company check payable to the State of New Jersey, General Treasury; and


IT IS FURTHER ORDERED AND AGREED that IFA will continue to monitor claim, underwriting and rating operations in order to identify and cure practices which may result in

instances of nonconformance with New Jersey insurance statutes and regulations and the recommendations contained in the Report; and

IT IS FURTHER ORDERED AND AGREED that IFA shall comply with New Jersey insurance statutes and regulations and the recommendations contained in the attached Report; and

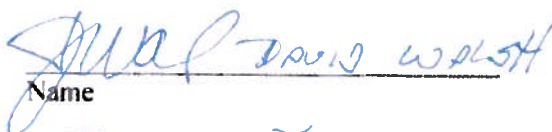
IT IS FURTHER ORDERED AND AGREED that the Department will commence a reexamination of IFA within twenty-four (24) months of the date of this Consent Order to determine if the company has complied with the recommendations contained in the attached Report; and

IT IS FURTHER ORDERED AND AGREED that pursuant to N.J.S.A. 17:23-24d(1), within 30 days of the adoption of the Report, IFA shall file an affidavit with the Department's Market Conduct Unit, stating under oath that its directors have received a copy of the adopted Report.



Peter Hart
Acting Director of Insurance

Consented to as to form, content and entry


Name _____
PRESIDENT
Title _____
Date: 10/16/2013

MARKET CONDUCT EXAMINATION

of the

IFA INSURANCE COMPANY

located in

CLARK, NEW JERSEY

as of

January 10, 2013

BY EXAMINERS

of the

STATE OF NEW JERSEY

DEPARTMENT OF BANKING AND INSURANCE

OFFICE OF CONSUMER PROTECTION SERVICES

**MARKET CONDUCT EXAMINATIONS and ANTI-FRAUD COMPLIANCE
SECTIONS**

DATE REPORT ADOPTED:

NOVEMBER 8, 2013

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I. INTRODUCTION

This is a report of the Market Conduct activities of the IFA Insurance Company (hereinafter referred to as “IFA” or “the Company”). In this report, examiners of the New Jersey Department of Banking and Insurance (NJDOBI) present their findings, conclusions and recommendations as a result of their examination.

A. SCOPE OF EXAMINATION

The scope of the examination included private passenger automobile insurance sold by the Company in New Jersey. The examiners evaluated the Company’s compliance with statutes and regulations applicable to first and third party automobile claims, underwriting, rating and policy terminations. Unless otherwise indicated, the review period for the examination was May 1, 2011 to April 30, 2012.

The examiners conducted their fieldwork at IFA’s office in Clark, New Jersey, between August 20, 2012 and November 30, 2012. On various dates following the fieldwork, the examiners completed additional review work and report writing in Trenton, N.J. The Market Conduct Examiners were Examiner-in-Charge Monica Koch, Robert Greenfield and Ralph Boeckman.

The examiners randomly selected files and records from computer listings and documents provided by the Company. The random selection process is in accordance with the National Association of Insurance Commissioner’s (NAIC) Market Regulation Handbook. The examiners used the NAIC Market Regulation Handbook, Chapters Sixteen (General Examination Standards) and Seventeen (Conducting the Property and Casualty Examination) as a guide to examine the Company and write this report.

B. ERROR RATIOS

Error ratios are the percentage of files reviewed which an insurer handles in error. A file is counted as an error when it is mishandled or the insured is treated unfairly, even if no statute or regulation is applicable. If a file contains multiple errors, the examiners will count the file only once in calculating error ratios. However, any file that contains more than one error will be cited more than once in the report. In the event that the insurer corrects an error as a result of a consumer complaint or due to the examiners’ findings, the error will be included in the error ratio. If the insurer corrects an error independent of a complaint or NJDOBI intervention, the error is not included in the error ratios.

There may be errors cited in this report that define practices as specific acts that an insurer commits so frequently that it constitutes an improper general business practice. Whenever the examiners find that the errors cited constitute an improper general business practice, they have stated this in the report.

The examiners sometimes find improper general business practices or errors of an insurer that may be technical in nature or which did not have an impact on a consumer. Even though such errors or practices would not be in compliance with law, the examiners do not count each of these files as an error in determining error ratios. Whenever such business practices or errors do have an impact on the consumer, each of the files in error will be counted in the error ratio. The examiners indicate in the report whenever they did not count particular files in the error ratio.

The examiners submitted written inquiries to Company representatives on the errors cited in this report. These inquiries provided IFA the opportunity to respond to the examiners' findings and to provide exceptions to the statutory and/or regulatory errors or mishandling of files reported. In response to these inquiries, IFA agreed with some of the errors cited in this report. On those errors with which the Company disagreed, the examiners evaluated the individual merits of each response and gave due consideration to all comments. In some instances, the examiners did not cite the files due to the Company's explanatory responses. In others, the errors remained as cited in the examiners' inquiries. For the most part, this is a report by exception.

C. COMPANY PROFILE

IFA Insurance Company is located in Clark, NJ, and was incorporated under the laws of New Jersey on December 11, 1972. Ownership of the outstanding stock resides with the sponsor, Independent Financial Agents, Inc. Financial Control of Independent Financial Agents resides with approximately 160 shareholders.

IFA Insurance Company writes private passenger automobile liability and physical damage coverage exclusively in New Jersey, Pennsylvania and Maryland. The company has been licensed in New Jersey since 1972. IFA started writing business in Pennsylvania on July 1, 2008 and Maryland on October 1, 2010.

II. CLAIMS REVIEW

A. INTRODUCTION

This review covers paid and denied Personal Injury Protection (PIP), collision, comprehensive and property damage claims submitted under private passenger automobile insurance. Any such New Jersey claim closed between May 1, 2011 and April 30, 2012 was subject to review. During the review period, IFA closed a total of 5,279 claims as follows: 1,727 PIP claims, 259 comprehensive claims, 1,205 collision claims and 2,088 property damage claims. Of these, the examiners randomly selected and reviewed 50 paid and 25 denied PIP claims, 120 paid and 40 denied first and third party partial loss automobile claims, 50 first and third party total loss claims (from a population of 176 total losses), for an overall random sample review of 285 claims. Unless otherwise indicated, the examiners randomly selected and reviewed one bill from each of the randomly selected paid and denied PIP claims.

In reviewing each claim, the examiners checked for compliance with all applicable statutes and regulations that govern timeliness requirements in settling first and third party claims. The examiners conducted specific reviews placing particular emphasis on N.J.S.A. 17:29B-4(9) and N.J.A.C. 11:2-17 (Unfair Claims Settlement Practices), N.J.A.C. 11:3-10 (Auto Physical Damage Claims), N.J.A.C. 11:16-2.4(a)2 (NICB reporting requirements). These requirements relate to Chapter Sixteen (General Exam Standards) and Chapter Seventeen (Property and Casualty Insurance Examinations) as outlined in the NAIC Market Regulation Handbook.

B. ERROR RATIOS

The examiners calculated the following error ratios by applying the procedure outlined in the introduction of this report. Error ratios are itemized separately based on the review samples as indicated in the following chart.

ERROR RATIO CHART

Auto Claims

	<u>Files Reviewed</u>	<u>Files in Error</u>	<u>Error Ratio</u>
Paid Claims			
PIP	50	31	62%
Collision	50	0	0
Comprehensive	25	0	0
Property Damage	<u>45</u>	<u>0</u>	0
Subtotal	170	31	18%

Denied Claims

PIP	25	2	8%
Collision	10	0	0
Comprehensive	15	2	13%
Property Damage	<u>15</u>	<u>0</u>	0
Subtotal	65	4	6%
Total Loss Review	50	50*	100%
Overall Totals	285	85	30%

*Error ratio includes two Improper General Business Practices that affected the entire total loss population. Not including these practices, the error ratio would have been 40%.

C. PERSONAL INJURY PROTECTION CLAIMS REVIEW

1. Failure to Settle PIP Claims Timely and Failure to Secure 45-Day Settlement Extension - 31 Paid Files in Error and 2 Denied Files in Error (Improper General Business Practice)

N.J.S.A. 39:6A-5(g) states that a claim “shall be overdue if not paid within 60 days after the insurer is furnished written notice of the fact of a covered loss...” N.J.A.C. 11:2-17.7(b) states that “The maximum period for all personal injury protection (PIP) claims shall be 60 calendar days after the insurer is furnished written notice of the fact of a covered loss...; provided however, that an insurer may secure a 45-day extension in accordance with N.J.S.A. 39:6A-5.” Where such an extension is requested, the maximum settlement period may not exceed 105 days.

The examiners reviewed 50 paid and 25 denied closed PIP claims and found that, contrary to the statute and regulation cited above, IFA failed to settle 26 paid and two denied claims (total of 28) within the maximum 60 calendar day time frame. IFA failed to issue delay notices that would have provided an additional period of 45 days to settle these claims. Delays ranged from a low of 15 days beyond 60 days to a high of 324 days beyond 60, with an average delay of 108 days.

The examiners found an additional five paid claims where the Company did request a 45-day extension, but failed to settle the claims within 105 days as specified in the statute and regulation referenced above. Delays ranged from a low of 36 days beyond 105 days to a high of 153 days beyond 105 days with an average delay of 83 days. IFA agreed with these findings in response to the examiners’ inquiries.

The examiners cited delayed PIP settlements as an improper general business practice in the 2008 Market Conduct Examination report.

Please See Appendix A1 for a list of Files in Error

2. Failure to Pay Interest on Delayed PIP Payments from Random Paid Sample - 13 Files in Error (Improper General Business Practice)

N.J.S.A. 39:6A-5(h) requires the payment of interest on all overdue benefits. Contrary to this requirement, IFA failed to pay interest on 13 out of 31 PIP claims, or 42% of the delay sample population cited in the previous section. IFA agreed with this error. Principal subject to interest ranged from a low of \$79.20 to a high of \$4,943.27.

The examiners cited failure to pay interest as an improper general business practice in the 2008 Market Conduct Examination report.

Please See Appendix A2 for a list of Files in Error

3. Failure to Process PIP Bills - Census Review of 73 Provider Bills on 9 Randomly Selected Closed Files (Improper General Business Practice)

As indicated in Section II.C.1 above, the examiners randomly selected 25 denied closed PIP claims for review. Of these, the examiners found nine closed claims that contained 73 open provider invoices that, while previously approved for payment, nevertheless remained unpaid for reasons not documented in the claim record. In response to the examiners' inquiries, IFA paid all 73 invoices with interest on October 1, 2012. The Company was unable to explain why these approved bills remained unpaid until discovered during this examination.

Due to the frequency of this error, the examiners conducted a census time study on all 73 bills to determine overall severity of delay. On 69 of the 73 invoices, IFA failed to request a 45-day extension. On these, delays ranged from a low of 113 days to a high of 373 days beyond 60, with an average payment delay of 220 days on an outstanding average principal balance of \$672. On the remaining four invoices, IFA did request a 45-day extension; however, delays ranged from a low of 95 to a high of 346 days beyond 105, with an average payment delay of 200 days on an outstanding average principal balance of \$337.

Based on these results, the examiners cited IFA for failure to comply with the maximum 60 and 105 day settlement periods mandated by N.J.S.A. 39:6A-5(g) and N.J.A.C. 11:2-17.7(b) on all 73 invoices. The examiners also cited IFA for failure to comply with N.J.S.A. 17:29B-4(9)(b), which required IFA to "...act reasonably promptly upon communications ..." such as provider billing notices and payment approvals within the claim file that remained idle until the examiners' intervention up to, on average, 200 days later. Additionally, IFA failed to comply with N.J.S.A. 17:29B-4(9)(f), which requires prompt settlement when liability is reasonably clear. Liability was clear since IFA approved payment.

Finally, the examiners noted a total unpaid principal of \$47,719 that resulted in \$162 in interest penalties that IFA paid at the 0.5% interest rate as determined by N.J.S.A. 39:6A-5(h). The average interest payment was \$2.22, with a low of \$0.08 to a high of \$42.06.

Please See Appendix A3 for a list of Files in Error

D. PRIVATE PASSENGER AUTOMOBILE CLAIMS REVIEW

4. Undocumented Settlement Delays and Failure to Issue Delay Notices on First Party Claims – 20 Total Loss and 2 Partial Loss Files in Error (Improper General Business Practice)

N.J.A.C. 11:3-10.5(a) and N.J.A.C. 11:2-17.7(c) state that unless clear justification exists, the maximum payment period for physical damage claims shall be 30 calendar days and 45 calendar days for property damage claims. N.J.A.C. 11:3-10.5(a) states that a payment period for physical damage claims is the period between the date of receipt of notice of loss by the insurer, and either the date the settlement check is mailed or the date on which the damaged vehicle is returned to use in cases where the insurer elects to have repairs made to the insured vehicle; or the date on which the damaged vehicle is replaced by the insurer. N.J.A.C. 11:3-10.5(b) and N.J.A.C. 11:2-17.7(e) state that, if the insurer is unable to settle the claim within the time periods specified, the insurer must send the claimant written notice by the end of the payment periods. This notice must specify the reason for the delay. N.J.A.C. 11:3-10.5(b) and N.J.A.C. 11:2-17.7(e) also require an insurer to send an updated written notice of delay thereafter, every 30 and 45 days, respectively, until all elements of the claim are paid or denied.

a. Settlement Delay Errors - 9 Files in Error

The examiners reviewed 140 paid, 50 total loss and 40 denied first and third party private passenger auto claims. On those claims where the insured or claimant was not the cause of delay, the examiners found that the Company failed to settle five paid total loss collision, three paid total loss comprehensive and one denied partial comprehensive claim within 30 days. IFA agreed with these errors.

Please See Appendix A4 for a list of Files in Error

b. Written Notice of Delay Errors - 22 Files in Error (Improper General Business Practice)

As indicated above, N.J.A.C. 11:3-10.5(b) and N.J.A.C. 11:2-17.7(e) require an insurer to issue a delay letter to the insured or third party claimant if the insurer is unable to settle the claim within the specified maximum

settlement time periods. As an improper general business practice, IFA did not send delay notices on any of the 22 claims settled beyond the maximum payment periods. IFA agreed that it failed to issue delay letters on all 22 claims.

The examiners cited delayed physical and property damage claim settlements and delay notice errors as an improper general business practice in the 2008 Market Conduct Examination report.

5. Failure to Issue Payment within 10 Working Days of Agreed Settlement – 4 Files in Error

According to N.J.A.C. 11:2-17.7(f), an insurer shall pay an amount agreed upon in settlement of a claim no later than 10 working days from receipt of agreement. On three comprehensive and one collision claim, IFA failed to issue payment within 10 working days of receiving all necessary documentation required to settle the claim. IFA agreed with this finding in response to the examiners' inquiries.

Please See Appendix A5 for a list of Files in Error

6. Failure to Report Salvage Disposition to the National Insurance Crime Bureau on Total Loss Files – 50 Files in Error (Improper General Business Practice)

N.J.A.C. 11:16-2.4(a)2 requires an insurance company to report all vehicle salvage losses to the National Insurance Crime Bureau (NICB) or its member companies within five working days after the salvage sale; or, if the insured is permitted to retain salvage, within five working days after the loss payment date. The examiners found that IFA failed altogether to report the salvage disposition on 29 collision, 17 comprehensive and 4 property damage claims as required by N.J.A.C. 11:16-2.4(a)2. Failure to report the disposition of salvage on the 50 claims reviewed constitutes an improper general business practice. IFA agreed with this error.

Please See Appendix A6 for a list of Files in Error

7. Deficient Rights of Recourse Notice – 50 Total Loss Files in Error (Improper General Business Practice)

N.J.A.C. 11:3-10.4(c) requires insurers to provide first or third party claimants with a written notice of the rights of recourse at the time a total loss settlement draft is issued and to retain a copy of the notice in the claim file. Additionally, N.J.A.C. 11:2-17.10(a) specifically states that the requirements for this section apply to automobile property damage third party claims from the time that liability becomes reasonably clear and are in addition to those of

N.J.A.C. 11:3-10.1 through **10.4** for automobile physical damage first party claims. Lastly, N.J.A.C. 11:3-10.4(b)1-4 requires the insurer to reopen a claim if the insured writes to the Company within 30 days of the settlement draft to advise of the inability to purchase a comparable vehicle. In response, the insurer must either: 1) locate a similar vehicle; 2) pay the difference on an insured located similar vehicle; 3) offer a replacement; or 4) settle under contract appraisal.

The examiners determined that IFA provided claimants with a Rights of Recourse notice that contained information referenced in N.J.A.C. 11:3-10.4(b). However, the letters failed to identify the rights available to the insured/claimant as specified in N.J.A.C. 11:3-10.4(b)1 (locate similar vehicle); **2** (pay the difference on an insured located similar vehicle); **3** (offer of replacement); and **4** (settle under contract appraisal). IFA agreed with this error in response to the examiners' inquiries, and provided the examiners with a revised notice that included all options.

The examiners cited this error as an improper general business practice since this error occurred on all notices issued to consumers.

Please See Appendix A7 for a list of Files in Error

III. UNDERWRITING AND RATING

A. INTRODUCTION

The examiners reviewed randomly selected policy files from IFA's database run of 25,599 renewals and 9,807 new business policies that were in force during the review period May 1, 2011 to April 30, 2012. The examiners checked for compliance with specific statutes and regulations, including N.J.S.A. 17:29 A-6 and 15 (filed and approved rating methodologies), N.J.S.A. 17:29A-38 (reduction of rates for operators 65 years or older), N.J.S.A. 17:29A-46 (uniform application of underwriting guidelines), N.J.A.C. 11:3-15 (coverage selection forms), N.J.A.C. 11:3-8.12 (Acceptance Criteria), N.J.S.A. 39:6A-4.1 and N.J.A.C. 11:3-21 (PIP rate discounts). These requirements are related to NAIC Standards outlined in Chapter Seventeen, "Conducting Property and Casualty Insurance Examinations" of the NAIC Market Regulation Handbook.

B. ERROR RATIOS

The examiners calculated error ratios for each random sample by applying the procedure outlined in the introduction of this report. Error ratios are itemized separately for the review samples as indicated in the chart that follows.

<u>Random Sample</u>	<u>Files Reviewed</u>	<u>Files in Error</u>	<u>Error Ratio</u>
New Business	75	14	19%
Renewals	<u>75</u>	<u>14</u>	19%
Random Review Total	150	28	19%
<u>Rating Sample</u>			
New Business	18	1	6%
Renewal	<u>42</u>	<u>5</u>	<u>12%</u>
Rating Review Total	60	6	10%
Overall Totals	210	34	16%

C. EXAMINERS' FINDINGS

1. Unfair Rating Practices Caused by Tier Downcoding – 23 Random Sample Files in Error and 6 Rating Sample Files in Error (Improper General Business Practice Leading to Premium Deficits)

N.J.S.A. 17:29A-6 and 15 require insurers to charge only those rates that are filed with and approved by the Commissioner. Under tier definitions outlined on pages PV-E-13a and PV-e-13B of IFA's rating manual, the insured must meet certain criteria in order to qualify for one of 11 available tiers and

the applicable rating factors associated with those tiers. Notably, tiers IA, IB, IC, ID and IE all require the insured to maintain collision and comprehensive coverage, and tiers IA through ID all require coverage with IFA for the immediately preceding year. Each tier includes a primary rate factor that is less than 1.0, which results in a discounted premium factor that ranges from .70 to .85.

The examiners reviewed 210 policies and found 13 new and 16 renewed policies (total of 29 policies, or 14% of the 210 policy review sample) that IFA incorrectly assigned to tiers IA through IE. On each policy, IFA undercharged the insured. As an example, some policies did not include comprehensive or collision coverage. As such, IFA should have rated these policies with a factor of at least 1.0 or more in accordance with its approved tier definitions. On other policies, IFA disregarded mileage, surcharge points and minimum driving experience requirements. The Company rated all 29 policies in violation of N.J.S.A. 17:29A-6 and 15 since IFA failed to apply its rating system as filed with and approved by the Commissioner.

IFA agreed with these errors in response to the examiners' inquiries, and stated that these policies "... were placed into a better Tier rate after an underwriter reviewed the risk and applied a better Tier to reduce the premium for the consumer." In other inquiry responses, IFA stated that these policies "... were rated at our Tier IA with a lower rate in an effort to encourage the applicant to switch to IFA." Further, IFA stated that some of the policies "... were placed in Tier IC in an effort to encourage the applicant to switch to IFA ..." On one policy, IFA stated that it "... forgave (2 driver surcharge points) for the better Tier consideration." IFA further advised that it corrected this error by implementing system controls.

Because unapproved rate reductions were offered to some policyholders and not others based solely on informal underwriting discretion, IFA inconsistently rated risks with essentially similar characteristics; any insured that IFA rated "correctly", e.g., in accordance with its approved rate plan, was charged a higher rate compared to those in which IFA reduced premium in order to secure a policy contract. Accordingly, IFA failed to comply with N.J.S.A. 17:29A-4, which prohibits unfair discrimination "... between risks ... involving essentially the same hazards and expense elements ..."

Lastly, IFA failed to comply with N.J.S.A. 17:29B-3, which prohibits an insurer from engaging in any trade practice that constitutes an unfair method of competition. IFA's rating methodology created opportunity to channel business from other carriers by offering improper inducements and premium discounts that were inconsistent with its approved rating system.

In response to the examiners' inquiries, IFA stated that it corrected this error by eliminating underwriter overrides that permit Tier adjustments. The

Company also advised that it filed an amendment to its rate plan to permit greater flexibility in assigning risks to tiers.

Please See Appendix B1 for a list of Files in Error

2. Failure to Adhere to Company's Acceptance Criteria - 4 Files in Error

N.J.A.C. 11:3-8.12(a) states that Acceptance Criteria are the written standards by which an insurer may accept or reject new business, and/or renew or non-renew existing business. Page one of the Company's Acceptance Criteria states that IFA will not write a policy when the number of vehicles on the policy is equal to or exceeds the number of drivers on the policy by a ratio of two to one. Specifically, the Company's Acceptance Criteria state that, "...we will not write a policy with 2 or more vehicles and one driver." Contrary to this criterion and N.J.A.C. 11:3-8.12(a), the examiners found two new business and two renewal policies that included one driver and two vehicle households. IFA agreed with this error in response to the examiner's inquiries. IFA subsequently modified its Acceptance Criteria to permit two cars in one driver households.

Please See Appendix B2 for a list of Files in Error

3. Failure to Assign Correct Class Code Resulting in Premium Overcharge of \$430 - 1 File in Error

N.J.S.A. 17:29-6 and 15 require insurers to charge rates in strict conformity with its rating system as filed with and approved by the Commissioner. The examiners noted that the Company did not update the correct classification code for policy number I 52364. The correct class code, 826110 (Female, Age 17 or less, with driver training), was properly assigned at the inception of the policy on April 29, 2009. However, the 2010, 2011, 2012 renewals were incorrectly issued with the same code. Contrary to N.J.S.A. 17:29-6 and 15, IFA failed to re-classify the insured to a lower class rate based on additional driving experience that accrued from 2009 through 2012.

IFA agreed with this error in response to the examiners' inquiries and further attributed this overcharge to underwriter error in which a manual class code update never occurred. While researching this error, IFA discovered two additional policies where class codes and driver training discounts were not updated over time; the Company advised that it credited these accounts as well. Lastly, IFA stated that it corrected this process to avoid future recurrence.

The examiners cited two policies in which IFA applied an incorrect class in the 2008 Market Conduct Examination report.

Please See Appendix B3 for a list of Files in Error

IV. TERMINATIONS

A. INTRODUCTION

During the review period May 1, 2011 to April 30, 2012, IFA non-renewed 576 automobile policies, mid-term cancelled 4,047 automobile policies, cancelled 1,094 new business policies within the first 60 days and declined 29 applications. Errors, described by type, appear in the chart that follows in the next subsection. The scope of review included N.J.A.C. 11:3-8 (nonrenewal of automobile policies), N.J.S.A. 17:29C-7 and 10 (automobile insurance cancellations) and N.J.S.A. 17:23A-10 (adverse underwriting decisions). The examiners also checked for compliance with NAIC standards as outlined in Chapter Sixteen – General Examination standards and Chapter Seventeen - Conducting Property and Casualty Insurance Examinations of the Market Regulation Handbook

B. ERROR RATIOS

The examiners calculated error ratios for each random sample by applying the procedure outlined in the introduction of this report. Error ratios are itemized separately for the review samples as indicated in the chart below.

<u>Type of Review</u>	<u>Files Reviewed</u>	<u>Files in Error</u>	<u>Error Ratio</u>
Nonrenewals	100	8	8%
Mid-Term Cancellations	50	3	6%
First 60 Day Cancellations	50	11	22%
Declined Quotes	<u>10</u>	<u>3</u>	30%
Totals	210	25	12%

C. EXAMINERS FINDINGS

1. **Failure to Provide Specific Reason for Declination and Cancellation on Termination Notices – 13 Files in Error (Improper General Business Practice)**

a. Declinations (2 Files in Error)

N.J.S.A. 17:33B-16 requires insurers to inform the applicant of the specific reason for declination of coverage. In addition, N.J.S.A. 17:23A-10(a) states that, in the event of an adverse underwriting decision such as a declination of coverage, the insurer is required to provide the policyholder with the specific reason or reasons for the adverse underwriting decision. The examiners found two declined applications in which IFA failed to provide a specific reason for ineligibility. As an example on application 00198110, IFA's declination notice stated in part that, "...Application is not complete,

missing information.” Failure to specify the required missing information is contrary to N.J.S.A. 17:33B-16 and N.J.S.A. 17:23A-10(a).

b. First 60-Day Cancellations and Midterm Cancellations (11 Files in Error)

Pursuant to N.J.A.C. 11:3-8.11(c), insurers must include the specific reason for cancellation on the notice of termination. Contrary to this requirement, the examiners found that IFA failed to provide the specific reason on one mid-term policy cancellation and 10 policies that IFA cancelled within the first 60 days of coverage. The Company’s notices merely stated “Non-disclosure of information” and “Non-disclosure of other drivers in household.” These reasons are vague and non-specific to the extent that IFA failed to identify the information that the insured omitted, as well as the other household drivers that were purportedly undisclosed. In response to an inquiry, the company agreed with this error and indicated that it “... will address the issue regarding the lack of detail with all underwriters.”

The examiners cited IFA for failure to provide the specific reason for nonrenewal on nonrenewal notices as an improper general business practice in the 2008 Market Conduct Examination report. The examiners also cited this same error on mid-term and first 60-day cancellation notices.

Please See Appendix C1 for a list of Files in Error

2. Failure to Advise Insured that Failure to Complete and Return Renewal Questionnaire may Result in Nonrenewal of the Policy at the Next Renewal Period (Improper General Business Practice Affecting 25,599 Renewal Policies)

According to N.J.A.C. 11:3-8.7(b), no insurer shall non-renew a policy for failure to complete and return a renewal questionnaire without having first given written notice to the policyholder one full policy cycle period prior to the issuance of the notice of nonrenewal stating that:

1. At the next renewal, the insurer shall send the policyholder a renewal questionnaire, which must be completed and returned; and
2. Failure to complete and return that renewal questionnaire may result in the nonrenewal of the policy.

As an improper general business practice, the examiners found that IFA’s renewal questionnaire fails to advise the insured that failure to complete and return the questionnaire may result in nonrenewal of the policy at the expiration of the next renewal period. While IFA’s questionnaire states “Failure to complete this questionnaire may result in the nonrenewal of your

policy,” it does not inform the insured that the nonrenewal would occur at the expiration of the next renewal period.

IFA agreed to correct this error during the compliance phase of the 2008 exam. In its June 19, 2008 compliance response to the final report, the Company stated that, “... we have amended our renewal questionnaire to reflect that failure to complete and return the questionnaire may result in nonrenewal at the next renewal period.” However, current findings confirm that the Company failed to implement this correction.

As indicated in Section IV.C3 below, IFA actually nonrenewed policies where the insured did not return a renewal questionnaire within the current renewal period.

3. Invalid Nonrenewals Based on Failure to Provide One Full Policy Cycle to Respond to Renewal Questionnaire – 7 Files in Error

As addressed above, N.J.A.C. 11:3-8.7(b) states that no insurer shall non-renew a policy for failure to complete and return a renewal questionnaire without having first given written notice to the policyholder one full policy cycle period prior to the issuance of the notice of nonrenewal. Contrary to this regulation, the examiners found that IFA non-renewed seven policies without providing one full policy cycle prior to the issuance of the nonrenewal notice.

On four policies the Company received the questionnaire after the requested date but before the termination date; IFA nonrenewed these policies nevertheless. In response to an inquiry, IFA stated that its procedure is to maintain the nonrenewal even if the notice is received after the requested date but before the termination date. The examiners note that such a procedure constitutes an eligibility or acceptance criterion governed by N.J.A.C. 11:3-8.12. Specifically, N.J.A.C. 11:3-8.12(c) requires all acceptance criteria to be maintained in writing and dated as to effective date. The examiners reviewed IFA’s written acceptance criteria and found no prohibition on accepting the renewal questionnaire prior to actual termination. Page 11 of the Company’s *Restricted In-Force Business* criteria dated January 24, 2011 merely state that IFA “... will not renew a policy when the named insured fails to return an IFA renewal questionnaire ...” The examiners note that these insureds did not “fail to return” the questionnaire. Rather, they affirmatively returned these documents prior to actual contract termination. Accordingly, the examiners cited IFA for failure to comply with N.J.A.C. 11:3-8.12(d), which permits an insurer to terminate a contract based only on those Acceptance Criteria in effect at the time of notice.

Additionally, the examiners found another three policies that the Company non-renewed for failure to complete and return the renewal questionnaire. In

response to an inquiry, the company admitted that these policies were in effect for only one policy term and should not have been non-renewed. The Company further stated that, “We will implement some type of system restriction to prevent first year policies from being cancelled for renewal questionnaire.”

Please See Appendix C2 for a list of Files in Error

4. Failure to Include Mandatory Complaint Right Notification Language on Nonrenewal Notice - 7 Files in Error

N.J.A.C. 11:3-8.6(b)1 states that notices of nonrenewal shall include or be accompanied by specific language that clearly advises consumers of the right to file a complaint with the New Jersey Department of Banking and Insurance. The required disclosure states that, “If you have reason to believe that our decision to nonrenew your policy is not in compliance with New Jersey Regulation N.J.A.C. 11:3-8, you may file a written complaint with the New Jersey Department of Banking and Insurance, Office of Consumer Protection Services, PO Box 329, Trenton, NJ 08625-0329, or electronically at www.njdobi.org. Your written complaint should indicate the facts on which you are basing your complaint.”

Contrary to the above stated regulation, IFA failed in entirety to include the above-required language on seven nonrenewal notices. In response to an inquiry, the company agreed and stated that “We noticed an inconsistency with some of the non-renewal notices in regards to the complaint statement...” IFA further stated that it corrected this error prior to the examination. Consequently, the examiners did not include these files in the error ratio.

Please See Appendix C3 for a list of Files in Error

5. Invalid Midterm Cancellations due to Misapplication of Acceptance Criteria – 2 Files in Error

Pursuant to N.J.S.A. 17:29C-7(A)(a) through (d), an insurer may cancel a policy for nonpayment of premium; license or vehicle registration, suspension or revocation of a named insured or other customary or household operator; material misrepresentation; and failure to meet the insurer’s acceptance criteria, so long as notice is issued within the first 60 days of coverage. N.J.A.C. 11:3-8.12(c) governs an insurer’s use of Acceptance criteria, which are defined as “ ... the written standards by which an insurer accepts or rejects new business, and/or renews or nonrenews existing business ...” The examiners found two policies in which IFA erroneously utilized its Acceptance Criteria to cancel coverage at midterm.

On policy number F146074, the insured, while intoxicated, permitted a 16-year old, non-resident, non-customary operator to drive the insured vehicle. A collision ensued. In response, IFA canceled the policy at midterm. The reason on the notice stated “Material Misrepresentation, allowing an unlicensed operator to drive the insured vehicle.” The notice also identified insufficient driver experience due to an Acceptance Criterion that requires a minimum one-year driving record for all operators. The examiners note, however, that IFA’s Acceptance Criteria specifies that the one-year driving record applies to all named insured, resident or customary operators. The 16-year old unlicensed driver was neither a named insured nor a customary operator named on the policy. The examiners also note that extending permission to the minor driver was not a material misrepresentation at the time of application. Accordingly, this termination is defective to the extent that IFA’s termination did not meet any of the standards outlined in N.J.S.A. 17:29C-7(A)(a) through (d) or its Acceptance Criteria relative to N.J.A.C. 11:3-8.12.

On policy number F141673, IFA issued a midterm cancellation under that portion of the Company’s Acceptance Criteria that requires the insured vehicle to be garaged at the named insured’s residence. The examiners note, however, that vehicle garage location does not meet any of the permissible midterm cancellation standards outlined in N.J.S.A. 17:29C-7(A)(a) through (d) as outlined above. As such, IFA failed to comply with this statute. The examiners also note that IFA failed to recognize that the vehicle in question was assigned not to the named insured, but to the named insured’s son, who took possession of the vehicle when moving to another address. The named insured remained eligible under IFA’s Acceptance Criteria pursuant to N.J.A.C. 11:3-8.12. This termination is therefore invalid.

Please See Appendix C4 for a list of Files in Error

6. Improper Declinations Due to Delayed Notices of Declination - 2 Files in Error

N.J.A.C. 11:3-8.12(a) states that “Acceptance criteria are written standards by which an insurer accepts or rejects new business, and/or renews or nonrenews existing business.” Page 5, *New Business Application Requirements*, paragraph 2 of IFA’s written Acceptance Criteria, states that “Coverage will be bound or a written denial of coverage (will be) issued within five business days from the date a completed application is received by the company.”

The examiners found two applications in which IFA issued notices of declination beyond the maximum five business day period specified in its Acceptance Criteria. Days delayed ranged from a low of seven to a high of 17 business days beyond five. IFA agreed with this error in response to the

examiners' inquiries and further advised that corrective action would be taken. The examiners cited IFA for failure to comply with N.J.A.C. 11:3-8.12(a) and its own acceptance criteria.

Please See Appendix C5 for a list of Files in Error

7. Failure to Issue Nonrenewal Notice – 1 File in Error

N.J.A.C. 11:3-8.6(a) states that a notice of nonrenewal shall not be valid unless it is mailed or delivered by the insurer to the insured no less than 60 days and no more than 90 days prior to the expiration of the current policy. The Company scheduled a policy to non-renew on February 21, 2012. The file, however, did not contain a copy of the notice as required by N.J.A.C. 11:3-8.6(c)3. In response to an inquiry, the Company admitted that the IFA representative did enter the notice into the system for nonrenewal but failed to generate and mail the notice. The insured's agent, having prior knowledge of the pending nonrenewal, placed the insured with another carrier with no lapse in coverage. Failure to issue a nonrenewal notice is contrary N.J.A.C. 11:3-8.6(a).

Please See Appendix C6 for a File in Error

V. RECOMMENDATIONS

IFA should inform all responsible personnel and third party entities who handle the files and records cited as errors in this report of the examiners' recommendations and remedial measures that follow in the report sections indicated. The examiners also recommend that IFA establish procedures to monitor compliance with these measures.

Throughout this report, the examiners cite and/or discuss all errors found. If the report cites a single error, the examiners often include a "reminder" recommendation because if a single error is found, additional errors may have occurred.

Non-compliant activity was identified in this report which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to New Jersey law and regulations. When applicable, corrective action for other jurisdictions should be addressed.

The examiners acknowledge that during the examination IFA agreed and already complied with, either in whole or in part, some of the recommendations. For the purpose of obtaining proof of compliance and for the Company to provide its personnel with a document they can use for future reference, the examiners have listed all recommendations below.

A. GENERAL INSTRUCTIONS

All items requested for the Commissioner and copies of all written instructions, procedures, recommended forms, etc., should be sent to the Commissioner, c/o Clifton J. Day, Manager of the Market Conduct Examinations and Anti-Fraud Compliance Unit, Mary Roebing Building, 20 West State Street, PO Box 329, Trenton, N.J. 08625, within thirty (30) days of the date of the adopted report.

On all policies to be reopened with premium credits or refunds, or additional claim payments, IFA should provide the insured with a cover letter that contains the following first paragraph (variable language is included in parentheses):

1. Premium Credits

"During a review of our policy files by Market Conduct Examiners of the New Jersey Department of Banking and Insurance, they found that we failed to correctly rate your policy. Enclosed is our (payment/credit) in the amount of (insert amount) to correct our error."

2. Underpaid Claims

“During a review of your claim by Market Conduct Examiners of the New Jersey Department of Banking and Insurance, they found that we (failed to pay a provider bill on your Personal Injury Protection claim) (failed to pay interest on your Personal Injury Protection claim). Enclosed is our payment in the amount of (insert amount) to correct our error.”

3. Terminations

During a review of your claim by Market Conduct Examiners of the New Jersey Department of Banking and Insurance, they found that we improperly terminated your insurance policy. Please contact us at (insert toll free phone number) if you would like to be considered for a new policy based on your current underwriting status in relation to our Acceptance Criteria.”

B. CLAIMS

1. IFA must issue written instructions to all appropriate claims personnel stating that pursuant to N.J.S.A. 39:6A-5 and N.J.A.C. 11:2-17.7(a), all PIP claims must be settled (paid, denied, compromised) within 60 days unless an extension of 45 days is requested in writing, within this 60-day period, for a total period not to exceed 105 days from the notice of loss. Where settlement exceeds these time frames, interest is required pursuant to N.J.S.A. 39:6A-5(h).

2. In order to avoid unnecessary settlement delays, IFA must establish procedures to ensure that:

a) PIP bills are entered into its computerized claim system in a timely manner. A copy of these procedures should be provided to the Commissioner;

b) PIP bills approved for payment are in fact paid in a timely manner. IFA should include a monitoring component in these written procedures to assure that any approved but unpaid bills are identified and processed in accordance with N.J.S.A. 39:6A-5, N.J.A.C. 11:2-17.7(a) and N.J.S.A. 39:6A-5(h).

3. In order to assure compliance with N.J.S.A. 39:6A-5, N.J.A.C. 11:2-17.7(a) and N.J.S.A. 39:6A-5h, IFA must review its open and closed PIP claim population and issue the appropriate payments on any bills that remain unsettled, as well as those that have previously been approved for payment but remain unpaid. The Company must also calculate and issue interest payments where applicable. A spreadsheet showing the claim number, principal amount paid, interest amount paid where applicable, and total days delayed, should be forwarded to the Commissioner. See General Instructions for language to be included in the cover letter to be sent with the payment.

4. Pursuant to N.J.S.A. 39:6A-5h, IFA must calculate and pay interest on PIP claims settled beyond the time frames specified Section II.C.2. The Company must provide to the Commissioner a spreadsheet listing the claim number, principal paid and amount of interest paid for each claim.

5. IFA must issue written instructions to all appropriate claims personnel stating that:

a) According to N.J.A.C. 11:3-10.5(a) and N.J.A.C. 11:2-17.7(c), unless clear justification exists, the maximum payment period for physical damage claims shall be 30 calendar days and 45 calendar days for property damage claims. N.J.A.C. 11:3-10.5(a) states that a payment period for physical damage claims is the period between the date of receipt of notice of loss by the insurer, and either the date the settlement check is mailed, the date on which the damaged vehicle is returned to use in cases where the insurer elects to have repairs made to the insured vehicle, or the date on which the damaged vehicle is replaced by the insurer.

b) Pursuant to N.J.A.C. 11:3-10.5(b) and N.J.A.C. 11:2-17.7(c), an insurer must send the insured/claimant a written notice by the end of the payment periods, if the insurer is unable to settle the claim within the time periods specified above in N.J.A.C. 11:3-10.5(a) and N.J.A.C. 11:2-17.7(c). This notice must specify the reason for the delay.

c) N.J.A.C. 11:3-10.5(b) and N.J.A.C. 11:2-17.7(e) require an insurer to send an updated, written notice of delay every 30 and 45 days, respectively, until all elements of the claim are paid or denied.

d) Pursuant to N.J.A.C. 11:16-2.4(a)2, the Company must report all vehicle salvage loss sales to the National Insurance Crime Bureau within five working days of the salvage sale or loss payment date if the salvage is retained by the owner.

6. IFA must issue written instructions to all appropriate claims personnel stating that pursuant to N.J.A.C. 11:2-17.7(f), an insurer shall pay an amount agreed upon in settlement of a claim no later than 10 working days from receipt of agreement.

7. IFA should provide a copy of its revised Rights of Recourse letter to the Commissioner to demonstrate compliance with N.J.A.C. 11:3-10.4(b)1-4.

C. UNDERWRITING AND RATING

8. IFA must issue written instructions to all appropriate underwriting personnel stating that:

- a) Pursuant to N.J.S.A. 17:29A-6 and **15** and the Company's own tier definitions, IFA must underwrite all risks and assign the insured to the appropriate tier as warranted by the written Acceptance Criteria in effect at the time of application.
- b) To the extent that IFA deviates from its Acceptance Criteria in a manner that provides rates favorable to some but not all applicants, IFA is in violation of N.J.S.A. 17:29A-4, which prohibits unfair discrimination between risks involving essentially the same hazards and expense elements. Moreover, such rate deviation is further in violation of N.J.S.A. 17:29B-4(d), which prohibits unfair rate discrimination " ... in the issuance or acceptance of any application ... "in a manner that ... violates " ... any applicable rate classification filed with and approved by the [C]ommissioner."
- c) In order to comply with N.J.S.A. 17:29A-6 and **15**, IFA must assign the correct class code to all policies.

9. IFA must research its in-force policy population to identify all policies where the youthful operator class codes were manually applied and the policy was purchased online (or others if applicable). The Company must then identify those policies where the class code was not updated and apply the appropriate refund/credit for the affected policy periods. Results of this research should be provided to the Commissioner in a spreadsheet showing the policy number, the affected policy periods and amount of the credit/refund for each policy period, including the two policies listed in appendix B3 of this report. See general instructions for language to be included in the cover letter to be sent with the credit/refund (documentation for policy I 52364 has already been provided).

D. TERMINATIONS

10. The Company must issue written instructions to all appropriate staff, advising that, pursuant to N.J.S.A. 17:33B-16, N.J.S.A. 17:23A-10(a), the specific reason for adverse underwriting decisions on declinations must be stated on the notice to the insured. Where IFA cancels a policy within the first 60 days or at midterm, the specific reason for termination must be stated in the notice in accordance with N.J.A.C. 11:3-8.11(a) and N.J.S.A. 17:23A-10(a).

11. In order to comply with N.J.A.C. 11:3-8.7(b), the Company's must amend its current renewal questionnaire advising the insured that failure to complete

and return the questionnaire may result in nonrenewal at the next renewal period so that the policyholder is informed of the specific time frame that a nonrenewal may occur in the event the questionnaire is not returned. A copy of the revised questionnaire should be forwarded to the Commissioner.

12. Pursuant to N.J.A.C. 11:3-8.7(b), the Company must instruct all appropriate personnel that no policy can be non-renewed for failure to return the renewal questionnaire unless notice of one full policy cycle is provided to the policyholder prior to the issuance of the termination notice.

13. IFA must advise appropriate staff that N.J.A.C. 11:3-8.12(d) permits insurers to terminate a contract based only on those criteria in effect at the time of notice. Such advisement should emphasize that, under current Acceptance Criteria, IFA may not terminate a policy when an insured returns a renewal questionnaire prior to the effective date of termination. In order to correct this and other termination errors, IFA should offer coverage to the insured on all policies cited in Section IV.C.3 and 5 of this report. See General Instructions.

14. The Company must remind all appropriate personnel that nonrenewal notices must include specific language regarding the insured's right to file a complaint with the New Jersey Department of Banking and Insurance pursuant to N.J.A.C. 11:3-8.6(b)1. A copy of the revised notice should be forwarded to the Commissioner.

15. Pursuant to N.J.S.A. 17:29C-7 the Company must remind all personnel that policies cancelled mid-term (in excess of 60 days) are valid only for the following reasons: nonpayment of premium, suspension or revocation of driver's license or vehicle registration, material misrepresentation and/or failure to meet the insurer's approved underwriting guidelines.

16. Pursuant to N.J.A.C. 11:3-8.12 and the Company's written Acceptance Criteria, IFA must remind all personnel that new business applications/quotes that do not meet the company's acceptance criteria must be declined within 5 working days.

17. The Company must remind all personnel that, in order for a nonrenewal notice to be valid, the company must mail or have delivered by the insurer to the insured no less than 60 days and no more than 90 days prior to the expiration of the current policy pursuant to N.J.A.C. 11:3-8. IFA failed altogether to issue a notice on one nonrenewal.

E. QUARTERLY COMPLIANCE REPORTS

18. On the transactions listed below, IFA should provide the Commissioner

with quarterly compliance reports for one 12-month cycle beginning April 1, 2014 based on the following schedule:

First Reporting Quarter – April 1, 2014 to June 30, 2014 and due July 31, 2014.

Second Reporting Quarter – July 1, 2014 to September 30, 2014 and due October 31, 2014.

Third Reporting Quarter – October 1, 2014 to December 31, 2014 and due January 31, 2015.

Fourth Reporting Quarter – January 1, 2015 to March 31, 2015 and due April 30, 2015.

These reports should include, which may subject to modification after discussion with the Department:

a) Excel spreadsheet that lists all PIP bills received by claim number, invoice number, date of receipt, date paid, principal paid and interest paid where applicable. Based on a limited random selection process, the examiners may randomly select bills to request additional information.

b) Excel spreadsheet that lists all policies renewed by policy number. Based on a limited random selection process, the examiners will randomly select policies to request copies of renewal packages to confirm proper renewal questionnaire disclosure.

c) Excel spreadsheet that lists all policies terminated for failure to return a renewal questionnaire, including policy number, date of inception, date of notice and date of termination.

APPENDIX A
Private Passenger Automobile Claims Errors

1. Failure to Settle PIP Claims Timely and Failure to Secure 45-Day Settlement Extension - 31 Paid Files in Error and 2 Denied Files in Error

<u>Claim Number</u>	<u>Bill Number</u>	<u>Date Bill Received</u>	<u>Date Bill Entered</u>	<u>Date PIP App Received</u>	<u>Date Bill Paid</u>	<u>Days over 60</u>
72295	101070	9/20/2011	9/27/2011	5/5/2011	5/21/2012	184
71878	104837	12/5/2011	12/15/2011	8/15/2011	9/15/2012	225
72458	96948	7/7/2011	7/14/2011	6/13/2011	12/5/2011	91
74777	104367	10/26/2011	12/2/2011	11/18/2011	2/1/2012	15
75030	107112	12/12/2011	1/19/2012	11/21/2011	3/12/2012	31
74710	106931	12/9/2011	1/18/2012	11/7/2011	7/23/2012	167
72090	99246	7/15/2011	8/25/2011	4/20/2011	11/1/2011	49
72914	99536	6/28/2011	8/30/2011	8/9/2011	1/16/2012	100
73403	103334	9/6/2011	11/8/2011	8/8/2011	1/2/2012	58
74413	105105	10/7/2011	12/21/2011	10/20/11	6/5/2012	169
74983	111509	1/17/2012	3/30/2012	10/10/11	6/5/2012	80
70825	116541	5/11/2012	5/31/2012	2/7/2011	8/20/2012	41
72578	102641	8/4/2011	10/25/2011	6/8/2011	1/23/2012	112
74910	114629	1/27/2012	5/7/2012	12/21/2011	5/14/2012	48
73479	114127	12/28/2011	5/1/2012	8/15/2011	5/21/2012	85
70554	102878	3/25/2011	10/28/2011	1/18/2011	12/5/2011	195
71406	93875	5/19/2011	5/20/2011	3/7/2011	8/23/2011	36
71045	96785	7/5/2011	7/8/2011	2/9/2011	7/23/2012	324
70907	88865	2/25/2011	2/28/2011	2/22/2011	3/1/2012	310
75850	110320	3/12/2012	3/14/2012	1/27/2012	7/2/2012	52
72745	101581	8/12/2011	10/6/2011	6/17/2011	1/2/2012	83
74151	104913	10/5/2011	12/19/2011	9/19/2011	2/20/2012	78
74101	111562	9/21/2011	4/2/2012	9/23/2011	4/23/2012	153
74643	112634	11/1/2011	4/12/2012	3/9/2012	9/5/2012	120
73177	100963	8/29/2011	9/26/2011	9/9/2011	1/2/2012	55
72864	97419	6/23/2011	7/25/2011	7/1/2011	12/12/2011	104
72676*	111948	1/6/2012	4/6/2012	6/20/2011	4/6/2012	31
72339*	101942	7/18/2011	10/13/2011	6/15/2011	10/13/2011	27

<u>Claim Number</u>	<u>Bill Number</u>	<u>Date Bill Received</u>	<u>Date Bill Entered</u>	<u>Date PIP App Received</u>	<u>Date Bill Paid</u>	<u>Days over 105</u>
68568	93346	3/21/2011	5/12/2011	9/9/2010	8/9/2011	36
74297	105005	9/30/2011	12/20/2011	9/9/2011	4/9/2012	87

73339	102205	7/22/2011	10/18/2011	7/26/2011	4/9/2012	153
72495	101043	6/9/2011	9/27/2011	8/9/2011	1/23/2012	62
73987	106704	12/7/2011	1/16/2012	11/7/2011	6/5/2012	76

*Denied PIP Claim

2. Failure to Pay Interest on Delayed PIP Payments from Random Paid Sample - 13 Files in Error

<u>Claim Number</u>	<u>Date Bill Received</u>	<u>Date Bill Paid</u>	<u>Days in Error</u>	<u>Amount Paid</u>	<u>Interest owed</u>
68568	03/21/11	08/09/11	36 >105	\$1,986.50	\$0.98
70554	03/25/11	12/05/11	195	\$79.20	\$0.21
72458	07/07/11	12/05/11	91	\$129.09	\$0.16
72495	08/09/11	01/23/12	62 >105	\$172.71	\$0.15
72578	08/04/11	01/23/12	112	\$391.66	\$0.60
72745	08/12/11	01/02/12	83	\$299.00	\$0.34
72864	07/01/11	12/12/11	104	\$84.61	\$0.12
72914	08/09/11	01/16/12	100	\$230.32	\$0.32
73177	09/99/11	01/02/12	55	\$1,473.80	\$1.11
73403	09/06/11	01/02/12	58	\$987.05	\$0.78
74151	10/05/11	02/20/12	78	\$237.60	\$0.25
74777	10/26/11	02/01/12	38	\$4,943.27	\$2.57
75030	12/12/11	03/12/12	31	\$294.36	\$0.13

3. Failure to Process PIP Bills – Census Review of 73 Provider Bills on 9 Randomly Selected Closed Files

<u>Claim Number</u>	<u>Bill Number</u>	<u>Date Bill Received</u>	<u>Date PIP App Received</u>	<u>Date Bill Entered</u>	<u>Days beyond 60*</u>	<u>Days beyond 105*</u>
73633	106161	12/19/11	08/16/11	10/01/12	NA	182
	106164	12/23/11	08/16/11	10/01/12	NA	178
	110740	03/15/12	08/16/11	10/01/12	NA	95
72676	102456	07/08/11	06/20/11	10/21/11	NA	346
	102474	08/10/11	06/20/11	10/21/11	358	NA
	102490	09/16/11	06/20/11	10/21/11	321	NA
	104949	10/24/11	06/20/11	12/19/11	283	NA
	105710	11/07/11	06/20/11	01/02/12	269	NA
	104951	11/30/11	06/20/11	12/19/11	246	NA
	104954	12/14/11	06/20/11	12/19/11	232	NA
	104955	12/14/11	06/20/11	12/19/11	232	NA
	104956	12/14/11	06/20/11	12/19/11	232	NA
	117829	12/16/11	06/20/11	06/19/12	230	NA
105705	12/21/11	06/20/11	01/02/12	225	NA	
105708	12/22/11	06/20/11	01/02/12	224	NA	

	105707	12/27/11	6/20/11	1/2/12	219	NA
	105713	12/27/11	6/20/11	1/2/12	219	NA
	105717	12/30/11	6/20/11	1/2/12	216	NA
74673	108556	12/09/11	12/05/11	2/14/12	237	NA
	108563	01/10/12	12/05/11	2/14/12	205	NA
	108565	01/10/12	12/05/11	2/14/12	205	NA
	108566	01/10/12	12/05/11	2/14/12	205	NA
	108562	01/24/12	12/05/11	2/14/12	191	NA
	108567	01/27/12	12/05/11	2/14/12	188	NA
	112828	02/03/12	12/05/11	4/15/12	181	NA
	112471	02/17/12	12/05/11	4/11/12	167	NA
	112473	02/21/12	12/05/11	4/11/12	163	NA
	112474	02/22/12	12/05/11	4/11/12	162	NA
	112476	02/24/12	12/05/11	4/11/12	160	NA
	112599	02/29/12	12/05/11	4/12/12	155	NA
	112601	03/01/12	12/05/11	4/12/12	154	NA
	112603	03/01/12	12/05/11	4/12/12	154	NA
	112604	03/12/12	12/05/11	4/12/12	143	NA
	112605	03/19/12	12/05/11	4/12/12	136	NA
	112823	03/22/12	12/05/11	4/15/12	133	NA
	112606	03/23/12	12/05/11	4/12/12	132	NA
	112607	03/23/12	12/05/11	4/12/12	132	NA
	112608	03/23/12	12/05/11	4/12/12	132	NA
	112830	04/02/12	12/05/11	4/15/12	122	NA
	112831	04/06/12	12/05/11	4/15/12	118	NA
	112832	04/11/12	12/05/11	4/15/12	113	NA
72905	102723	10/20/11	8/10/11	10/26/11	287	NA
	102725	10/20/11	8/10/11	10/26/11	287	NA
72488	98494	07/26/11	5/24/11	8/12/11	373	NA
	98495	07/26/11	5/24/11	8/12/11	373	NA
	98498	08/08/11	5/24/11	8/12/11	360	NA
	101989	08/23/11	05/24/11	10/13/11	345	NA
72814	105838	10/17/11	09/08/11	01/03/12	290	NA
	105842	10/24/11	09/08/11	01/03/12	283	NA
	105845	10/24/11	09/08/11	01/03/12	283	NA
	105846	11/14/11	09/08/11	01/03/12	262	NA
	105848	11/18/11	09/08/11	01/03/12	258	NA
	105849	12/02/11	09/08/11	01/03/12	244	NA
	105850	12/02/11	09/08/11	01/03/12	244	NA
	105851	12/05/11	09/08/11	01/03/12	241	NA
	105854	12/08/11	09/08/11	01/03/12	238	NA
	105856	12/19/11	09/08/11	01/03/12	227	NA
	113389	01/26/12	09/08/11	04/20/12	189	NA
	113391	02/04/12	09/08/11	04/20/12	180	NA
	113392	02/27/12	09/08/11	04/20/12	157	NA
	113394	02/28/12	09/08/11	04/20/12	156	NA

73256	106984	01/06/12	07/29/11	01/18/12	209	NA
	106986	01/17/12	07/29/11	01/18/12	198	NA
72607	102397	10/19/11	06/27/11	10/20/11	288	NA
	107731	11/14/11	06/27/11	01/31/12	262	NA
	107738	12/06/11	06/27/11	01/31/12	240	NA
	107742	01/05/12	06/27/11	01/31/12	210	NA
	107744	01/13/12	06/27/11	01/31/12	202	NA
	107746	01/19/12	06/27/11	01/31/12	196	NA
73689	104991	10/31/11	10/06/11	10/01/11	276	NA
	109680	02/07/12	10/06/11	10/01/12	177	NA
	114711	03/13/12	10/06/11	10/01/12	142	NA
	118492	06/19/12	10/06/11	10/01/12	44	NA

*All bills were paid 10/1/2012 per Company in response to an inquiry

4. Undocumented Settlement Delays and Failure to Issue Delay Notices on First Party Claims – 20 Total Losses and 2 Partial Loss Files in Error

<u>Claim Number</u>	<u>Policy Coverage</u>	<u>Notice Date</u>	<u>Settlement Date</u>	<u>Days Beyond 30</u>	<u>Days to Pay</u>
74331	Collision	09/23/2011	11/16/2011	24	54
75712*	Collision	12/29/2011	02/02/2012	5	35
75303	Collision	11/29/2011	01/04/2012	6	36
75804	Collision	01/06/2012	02/16/2012	11	41
74804	Collision	11/30/2011	01/12/2012	13	43
75372	Collision	12/05/2011	01/26/2012	22	52
75272*	Collision	11/28/2011	01/04/2012	7	37
75788*	Collision	01/05/2012	02/09/2012	5	35
76017*	Collision	01/19/2012	02/23/2012	5	35
75474*	Collision	12/09/2011	01/12/2012	4	34
74606	Collision	10/14/2011	12/01/2011	18	48
72488	Collision	05/09/2011	07/07/2011	29	59
74254	Comprehensive	09/19/2011	11/03/2011	15	45
74040*	Comprehensive	09/02/2011	10/13/2011	11	41
73996	Comprehensive	08/30/2011	11/10/2011	42	72
74045*	Comprehensive	09/02/2011	10/06/2011	4	34
74456	Comprehensive	10/03/2011	11/22/2011	20	50
73953	Comprehensive	08/30/2011	10/06/2011	7	37
73938	Comprehensive	08/29/2011	10/27/2011	29	59
75453*	Comprehensive	12/08/2011	01/12/2012	5	35
74054^	Comprehensive	09/02/2011	10/07/2011	5	35
77070*^	Comprehensive	04/05/2012	07/20/2012	76	106

*These claims were cited as delayed settlements with no delay notices.

^Denied Comprehensive Partial Loss

*^Denied Comprehensive Partial Loss with delayed settlement and no delay notice

5. Failure to Issue Payment within 10 Working Days of Agreed Settlement – 4 Files in Error

<u>Claim Number</u>	<u>Policy Coverage</u>	<u>Date File Completed</u>	<u>Date of Payment</u>	<u>Working Days Beyond 10</u>
74331	Collision	10/26/2011	11/16/2011	5
74040	Comprehensive	09/26/2011	10/13/2011	3
73996	Comprehensive	10/07/2011	11/10/2011	14
73953	Comprehensive	09/20/2011	10/06/2011	2

6. Failure to Report Salvage Disposition to the National Insurance Crime Bureau on Total Loss Files – 50 Files in Error

<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>
72448	73953	74254	74835	75453
73099	73980	74331	74918	75474
73720	73989	74423	74959	75513
73777	73992	74456	75090	75712
73879	73993	74463	75154	75788
73938	73996	74606	75167	75804
73944	74040	74624	75272	75937
73947	74045	74763	75303	76017
73948	74172	74804	75371	76348
73949	74179	74828	75372	76424

7. Deficient Rights of Recourse Notice - 50 Files in Error

<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>
72448	73953	74254	74835	75453
73099	73980	74331	74918	75474
73720	73989	74423	74959	75513
73777	73992	74456	75090	75712
73879	73993	74463	75154	75788
73938	73996	74606	75167	75804
73944	74040	74624	75272	75937
73947	74045	74763	75303	76017
73948	74172	74804	75371	76348
73949	74179	74828	75372	76424

APPENDIX B Underwriting and Rating

1. Unfair Rating Practices Caused by Tier Downcoding – 23 Random Sample Files in Error and 6 Rating Sample Files in Error

New Business Policies

<u>Policy Number</u>	<u>Tier Assigned by IFA</u>	<u>Vehicle/Model</u>	<u>Reviewed Period</u>	<u>Reason Vehicle Does Not Qualify for Tier</u>
F 154618	1A	Kia Forte	11/21/11	No prior insurance w/IFA
A 40241*	1A	Volkswagen Rabbit	06/19/12	No Comp and Coll
F 154569	1A	Jeep Grand Cherokee	10/29/11	No prior insurance w/IFA
F 154321	1A	Scion TC	10/16/11	No prior insurance w/IFA
I 68135	1C	Nissan Altima 2.5BA	03/08/12	No prior insurance w/IFA
I 68076	1C	Chevy Trailblazer	03/03/12	No prior insurance w/IFA
I 67736	1C	Cadillac	02/09/12	No prior insurance w/IFA
I 67690	1C	Nissan Pathfinder	02/07/12	No prior insurance w/IFA
I 67167	1C	Honda Accord	12/20/11	No prior insurance w/IFA
I 65635	1C	Chevy Malibu	07/24/11	No prior insurance w/IFA
F 153488	1D	Ford Fusion	07/29/11	No prior insurance w/IFA
F 156029	1D	2009 Mercedes	03/11/12	No prior insurance w/IFA
F 153177	1D	Mercedes Benz SLK 320	06/29/11	No prior insurance w/IFA

Renewal Policies

I 58929	1A	Lexus GS400	5/29/12-5/29/13	No Comp and Coll, Driver Surcharge Points
F 150036	1A	Jeep Cherokee	10/12/11-10/12/12	No Comp and Coll, Driver Surcharge Points
F 143714	1A	Chevy Cavalier	10/20/11-10/20/12	No Comp and Coll
I 53886	1A	Chevy Silverado	8/8/12-8/8/13	No Comp and Coll
F 133635	1A	Nissan Sentra	9/15/11-9/15/12	No Comp and Coll
F 138350	1A	Ford Taurus	12/17/11-12/17/12	No Comp and Coll
F 123219	1A	Nissan Maxima	4/19/12 – 4/19/13	No Comp and Coll
F 103701	1A	Volkswagen Jetta	1/14/12 – 1/14/13	No Comp and Coll
F 139917	1A	Toyota Corolla	3/14/12 – 3/14/13	No Comp and Coll
F 128145	1A	GMC 2500 Pickup	3/22/12 – 3/22/13	No Comp and Coll
A 40194*	1A	Jeep Grand Cherokee	8/13/12 – 8/13/13	No Comp and Coll
F 143641*	1A	Ford Expedition	10/12/11- 10/12/12	No Comp and Coll
F 137535*	1A	Nissan Altima	10/19/11 – 10/19/12	No Comp and Coll

F 136398*	1A	Dodge Caravan	7/11/12 – 7/11/13	No Comp and Coll
F 35370	1D	Nissan Altima	7/12/12 – 7/12/13	All members of household not licensed at least 3 years
F 153230*	3A	VW GTI	7/8/11 – 7/8/12	Licensed less than three years

*Rating Sample

2. Failure to Adhere to Company's Acceptance Criteria – 4 Files in Error

<u>Policy Number</u>	<u>Review Sample</u>
I 64332	Renewal
F 140991	Renewal
F 152903	New Business
F 154632	New Business

3. Failure to Assign the Correct Class Code – 1 File in Error

<u>Policy Number</u>
I 52364
I 47267*
I 46142*

*Not included in the Error Ratio. These policies were found by IFA while it was researching this error.

APPENDIX C

Terminations

1. Failure to Provide Specific Reason for Declination and Cancellation on Termination Notices – 13 Files in Error

Policy Number	Policy Number
F 154312	F 151798
F 155419	F 152553
I 65771	F 154669
A 40242	F 126579
I 67006	00198110*
F 155707	00208648
F156043^	

*=Declined quotes

^=Midterm cancellation

2. Invalid Nonrenewals Based on Failure to Provide One Full Policy Cycle to Respond to Renewal Questionnaire – 7 Files in Error

Policy Number	Policy Number
I 63889	F 97844
I 63483	F 140473
I 63130	F 145667
I 56385	

3. Failure to Include Mandatory complaint Right Notification Language on Nonrenewal Notice - 7 Files in Error

Policy Number	Policy Number
F 135969	F 123761
I 60387	F 128671
F 142533	F 133934
F 137106	

4. Improper Midterm Cancellations due to Misapplication of Acceptance Criteria – 2 Files in Error

Policy Number	Policy Number
F 141673	F 146074

5. Improper Declinations Due to Delayed Notices of Declination - 2 Files in Error

Quote Number	App Date	Declination Date	Days > 5
00216866	11/16/11	12/19/11	17
00207660	09/29/11	09/29/11	07

6. Failure to Issue Nonrenewal Notice – 1 File in Error

Policy Number
F 131871


VI. VERIFICATION PAGE

I, Monica Koch, am the Examiner-in-Charge of the Market Conduct Examination of IFA Insurance Company conducted by examiners of the New Jersey Department of Banking and Insurance. This verification is based on my personal knowledge as acquired in my official capacity.

The findings, conclusions and recommendations contained in the foregoing report represent, to the best of my knowledge, a full and true statement of the Market Conduct examination of IFA Insurance Company as of January 10, 2013.

I certify that the foregoing statements are true. I am aware that if any of the foregoing statements made by me is willfully false, I am subject to punishment.

4/25/2013
Date


Monica Koch
Examiner-In-Charge
New Jersey Department
of Banking and Insurance