

OHIO DEPARTMENT OF INSURANCE

**A
MARKET CONDUCT EXAMINATION
OF
HASTINGS MUTUAL INSURANCE COMPANY
NAIC # 14176**

As Of

December 31, 2004



Bob Taft, Governor
Ann Womer Benjamin, Director

2100 Stella Court, Columbus, OH 43215-1067
(614) 644-2658 www.ohioinsurance.gov

Honorable Ann Womer Benjamin
Director
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a target market conduct examination was conducted on the Ohio business of:

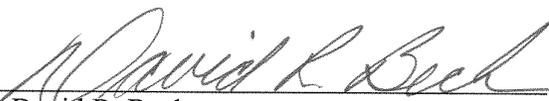
Hastings Mutual Insurance Company NAIC# 14176

The examination was conducted at the Company's statutory home office at:

404 East Woodlawn Avenue
Hastings, Michigan 49058-1091

A report of the examination is enclosed.

Respectfully submitted,



David R. Beck
Chief, Market Conduct Division



Date



Accredited by the National Association of Insurance Commissioners (NAIC)
) Consumer Hotline: 1-800-686-1526 Fraud Hotline: 1-800-686-1527 OSHIP Hotline: 1-800-686-1578

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FOREWORD

This examination was conducted under authority provided under Ohio Revised Code (“R.C.”) 3901.011.

SCOPE OF EXAMINATION

On January 31, 2005, the Market Conduct Division, Ohio Department of Insurance (“Department”), opened an examination into the non-financial business practices of Hastings Mutual Insurance Company (“Company”) by sending the Company a call letter and initial request for information. On May 16, 2005, the on-site portion of the examination began at the Company’s statutory home office in Hastings, Michigan.

The examination was restricted to a review of Company activities for Ohio private passenger automobile (“automobile”) and homeowner insurance policies for the period of January 1, 2004, through December 31, 2004. The Company’s financial responsibility bond writings were not included in this examination. The examination report is reported by test and was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) and the state of Ohio’s applicable statutes and rules.

Accordingly, the examination included the following areas of the Company’s operations:

- A. Company History
- B. Company Operations
- C. Certificate of Authority
- D. Compliance
- E. Comprehensive Loss Underwriting Exchange
- F. Underwriting and Rating
- G. Claims

METHODOLOGY

As part of the examination, the Department’s examiners reviewed the Company’s automobile and homeowner policy and claim files and the Company’s corresponding procedure manuals. This information was supplemented by interviewing Company managers and with written inquiries requesting clarification and/or additional information.

Only Ohio policyholders’ files were reviewed. A series of tests were designed and applied to these files to determine the Company’s level of compliance with Ohio’s insurance statutes and rules. These tests are described and the results noted in this report.

The examiners used the NAIC’s standard of:

- 7% error ratio on claim files (93% compliance rate)
- 10% error ratio on all other files (90% compliance rate)

to determine whether an apparent pattern or practice of non-compliance existed for any given test. The results of each test applied to a sample are reported separately. Each test is expressed as a “yes/no” question. A “yes” response indicates compliance, and a “no” response indicates a failure to comply.

In any instance where errors were noted, the examiners described the apparent error and asked

the Company for an explanation. The Company responded to the examiners and either:

- Concurred with the findings,
- Had additional information for the examiners to consider, and/or
- Proposed remedial action(s) to correct the apparent deficiency.

If applicable, the examiners' recommendations are included in this report.

SAMPLING

Upon request, the Company supplied reports of policy and claim data in file formats, which could be used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. The samples were pulled from populations consisting of Ohio policies and were selected using a standard business database application that provides a true random sample given that it supplies a random starting point from which to select the sample.

COMPANY HISTORY

The Hastings Mutual Insurance Company was originally incorporated in 1885 under the laws of Michigan as an assessment carrier with the title Michigan Mutual Windstorm Insurance Company. Amended and substituted articles of incorporation adopted on January 1, 1959, changed the form of operation to that of a non-assessable, fixed premium general mutual and provided for the adoption of the present title. From 1958 through 1978, fifteen small mutuals were merged into the Company.

COMPANY OPERATIONS

The Company is a Michigan mutual company, with its statutory home office in Hastings, Michigan. Hastings Mutual Insurance Company is licensed in Illinois, Indiana, Kentucky, Michigan, Ohio and Wisconsin.

The Company specializes in personal and commercial lines of insurance, particularly private passenger automobile, homeowners, farmowners, workers' compensation and commercial multi-peril coverages. Business is produced through approximately 950 independent agents. The company maintains a strong local market presence in its domiciliary state of Michigan, where it is one of the leading writers of farmowners and homeowners insurance. In accordance with R.C. 3935.10 and 3937.12, the Company's personal lines statistical loss experience is reported quarterly to the National Independent Statistical Service.

For calendar year 2004, the Company reported total automobile and homeowners direct written premium of \$20,309,131 and direct losses incurred of \$12,381,581. The Company's year-end 2004 written premium and loss information from the Company's Financial Annual Statements is as follows:

<i>2004 Private Passenger Auto</i>	Ohio	Ohio
<u>Company</u>	<u>Direct Written</u>	<u>Incurred Losses</u>
Hastings Mutual Insurance Company	\$13,199,979	\$7,315,749
<i>2004 Homeowners</i>	Ohio	Ohio
<u>Company</u>	<u>Direct Written</u>	<u>Incurred Losses</u>
Hastings Mutual Insurance Company	\$7,109,152	\$5,065,832

As of December 31, 2004, the officers of the Company were:

President and Chief Executive Officer	William H. Wallace
Vice President, Treasurer and Chief Financial Officer	Joseph J. Babiak, Jr.
Vice President, General Counsel and Secretary	Michael J. Puerner
Vice President-Claims	Thomas Chmiel
Vice President-Information Technology	Robert J. Eshelbrenner
Vice President-Insurance Operations	Keith E. Jandahl
Vice President-Marketing	Charles A. Johnson
Vice President-Facility Services	Darrell L. Oldham
Vice President-Human Resources	Dana A. Walters

CERTIFICATE OF AUTHORITY

The Company operates under a Certificate of Authority issued in accordance with R.C. 3929.01, which permits it to transact appropriate business as defined by R.C. 3929.01(A). In the course of the examination, the examiners determined that the Company's operations were in compliance with its Certificate of Authority.

COMPLIANCE

The Company established a formal compliance program and staffed the position of Compliance Specialist, in the third quarter of 2004. Prior to the establishment of the formal compliance program, the Company did not conduct internal audits that strictly focused upon compliance issues.

The 2005 Corporate Plan, developed in the fourth quarter of 2004, identifies and prioritizes 2005 activity plans for the Compliance Team. The plan mandates implementation of comprehensive baseline compliance guidelines for Claims, Underwriting and Marketing. The Plan also requires internal compliance audits following the guidelines in sequence. The Compliance Team plans to conduct internal audits of Ohio Claims no later than July 1, 2005.

The Compliance Specialist, under oversight from the General Counsel, performs the internal audits. The results of internal compliance reviews are communicated to the General Counsel, Department Managers, and Functional Vice President. The General Counsel and/or Functional Vice President reports internal compliance review results at the monthly officers meetings.

The General Counsel has the ultimate responsibility for the audit results and improvements, as well as communicating compliance issues to senior management.

Any internal compliance audit results are relayed to the Departmental Liaison, Department Manager, Department Vice President, and General Counsel. The Department Vice President, and General Counsel has an opportunity to report those results at the monthly officers meeting chaired by the Chief Executive Officer. Additionally, the General Counsel has an opportunity to report the results in his General Counsel report to the Board of Directors.

Once a problem is identified and training on the deficiency is completed, a follow-up audit will be performed. If the problem continues, the deficiency will be directed to the Departmental Manager, Corporate Counsel, and the President. Continuing problems will be treated as a performance issue, which could lead to termination of employment.

Departmental compliance liaisons coordinate training of functional personnel on regulatory updates and guidelines issued from the Compliance Team. The Compliance Specialist may participate as needed. Each compliance audit report sets forth a corrective actions plan with a training component. The Compliance Specialist and compliance liaison, along with the department head and affected supervisors, will identify what specific training is needed along with the training method and will conduct the training. The Compliance Specialist will conduct a post audit to ensure that appropriate training has occurred and evaluate the results of the training.

COMPREHENSIVE LOSS UNDERWRITING EXCHANGE (C.L.U.E.)

C.L.U.E. information is utilized on all new business automobile and homeowner risks for underwriting and rating purposes. All new homeowners and new automobile business is sent to APlus for a search of all prior losses contained within their database. Any loss information uncovered through this source is reviewed for eligibility and pricing.

Business that is determined to be ineligible is rejected with the appropriate rejection letter sent.

Business that is accepted with prior losses is subject to filed pricing modifications. The Safe Driver Insurance Plan (SDIP) is applied on automobile policies, along with the Claim Surcharge on homeowner for certain prior losses. Losses on homeowners policies are only considered where the insured was responsible for the loss.

The Company does not reject business nor surcharge for losses of the prior owners of the subject property. The Company does not log inquiries regarding coverage, or how to proceed, as claims or sweep them into CLUE. If a call or coverage inquiry reveals aspects of covered exposures that merit Underwriting consideration and awareness, the sum and substance of those inquiries are recorded in Mainframe notes and thereby available for Underwriting review.

PRIVATE PASSENGER AUTOMOBILE UNDERWRITING AND RATING

Automobile Underwriting Cancellations

Standard: Cancellation notices comply with policy provisions, Company guidelines, and the required Ohio statutes and rules.

Test: Did the Company's cancellation procedures conform to R.C. 3937.30, 3937.31, 3937.32, and 3937.33?

Test Methodology:

The Company supplied a report of all Ohio auto policies in force during the examination period and subsequently cancelled for underwriting reasons.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review the entire population of files to test for compliance.
- The examiners removed 1 file because the cancellation was made outside of the examination period.
- Any effective date of the cancellation that was less than 30 days from the date of mailing was considered an exception.

- If the reason for cancellation was not provided, the examiners considered the file to be an exception.
- If the reason for cancellation was not permitted, the examiners considered the file to be an exception.
- If the information regarding the “right to appeal” was not provided in the notice, the examiners considered the file to be an exception.
- If the text of the cancellation notice that did not contain required information, including the policy number, or that was not sent to the last known address, the examiners considered the file to be an exception.

Findings:

Population	Yes	No	Standard	Compliance
70	50	20	90%	71%

The standard of compliance is 90%. The Company’s handling practices were below this standard.

Comments:

The Company agrees with the Department’s examination findings regarding improper notice due to less than thirty days. The Company’s review discovered that there was a delay between the time the cancellation was set up by the underwriter and the time it was entered into the system. The Company states that it was unable to determine a reason for the delay. It has been noted, by the Company, that it has implemented a new paperless workflow system, which will allow for improved document tracking. All underwriters will be retrained on the thirty-day requirement within the next thirty days. Additionally, the Company will conduct an internal audit, within the next ninety days, to ensure compliance with the Ohio Revised Code.

It is acknowledged by the Company that the “right to appeal” notice is to be included on all automobile cancellation notices. A data processing project has been initiated to automatically add the proper language to all automobile cancellation notices (including non-payment, agent’s request, insured’s request, etc.). The data processing project is to be conducted on a priority basis and is expected to be completed and in the Company’s production system within thirty days in an effort to comply with R.C. 3937.32.

The Company additionally affirms that policies were cancelled by utilizing grounds for cancellation prohibited under R.C. 3937.31. In view of this noted deficiency, the Company will retrain its underwriting staff, regarding this issue, within the next thirty days. An internal compliance review will be performed within ninety days to confirm that the Company is complying with this statute.

Examiner Recommendations:

- The Company should provide the Department with a copy of the outline used by the Company to retrain underwriters concerning the thirty-day requirement and the cancellation of policies for reasons not permitted in R.C. 3937.31.
- The Company should forward the results of the Company’s internal audit regarding the thirty-day requirement to the Department upon completion.
- Documentation should be furnished by the Company verifying that the data processing project, with regard to the “right to appeal” notice, has been completed and that the proper language has been added to all automobile cancellation notices.
- The Company should furnish the internal audit findings on the cancellation of policies for reasons not permitted under R.C. 3937.31 to the Department.

Automobile Policy Cancellation—Non-Payment of Premium

Standard: Cancellation notices comply with policy provisions, Company guidelines, and the required Ohio statutes and rules.

Test: Did the Company’s cancellation procedures conform to R.C. 3937.31, 3937.32, and 3937.33?

Test Methodology:

The Company supplied a report of all Ohio auto policies in force during the examination period and subsequently cancelled for non-payment of premium.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected a sampling of files to test for compliance.
- Any policy that terminated for non-payment of premium with less than ten (10) days notice prior to the effective date was an exception.
- Any policy termination notice that did not contain the reason for cancellation was an exception.
- Any notice that did not include the “right to appeal” statement was an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1,205	50	0	50	90%	0%

The standard of compliance is 90%. The Company’s handling practices were below this standard.

Comments:

The Company agrees with the Department’s finding that the “right to appeal” statement should be included on all cancellation notices for non-payment of premium. A data processing project has been initiated by the Company to add the proper language to all non-payment cancellation notices. The Company provided the examiner with the project request and test, which is being conducted on a priority basis. It is expected to be in the production system within thirty days.

Examiner Recommendation:

- The Company should supply the Department with a copy of the proper language to all non-payment cancellation notices upon completion of being entered into the production system.

Automobile Policy — Non-Renewals

Standard: Non-renewal notices comply with policy provisions, Company guidelines, and the required Ohio statutes and rules.

Test: Did the Company’s non-renewal procedures conform to R.C. 3937.30, 3937.31 and 3937.34?

Test Methodology:

The Company supplied a report of all Ohio automobile policies in force during the examination period and subsequently non-renewed.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected a sampling of files to test for compliance.
- The examiners removed 1 file from the non-renewed automobile policies because the cancellation was an underwriting cancellation and not a non-renewal.
- Any policy that was not renewed on other than the second annual expiration of the policy was an exception.
- Any notice that was mailed less than 30 days prior to the expiration date of the policy was an exception.
- Any notice that did not include the “reason for non-renewal” was an exception.
- If the text of the non-renewal notice did not contain required information, including the policy number, or was not sent to the last known address, the examiners considered the file to be an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
263	50	37	13	90%	74%

The standard of compliance is 90%. The Company’s handling practices were below this standard.

Comments:

The Company acknowledges the Department’s finding that its non-renewal procedures were in violation of the “two year” rule.

The Company indicates that it is currently retraining the underwriting staff on:

- Compliance with the “two year” rule;
- The necessity of providing a reason for non-renewal; and
- The thirty-day notice requirement.

The Company also stated that an internal audit, for the purpose of compliance, will be performed within the next ninety days to assess the effectiveness of the training.

Examiner Recommendations:

To assure compliance with R.C. 3937.30, 3937.31 and 3937.34:

- The Company should furnish the Department with a copies of materials used in the retraining of the underwriting staff.
- The Company should provide a copy of its internal audit to assess the effectiveness of the retraining to the Department.

HOMEOWNER POLICY CANCELLATIONS

Homeowner Policy Cancellation—Non-Payment of Premium

Standard: Cancellation notices comply with policy provisions, Company guidelines, and the required Ohio statutes and rules.

Test: Did the Company’s cancellation procedures for non-payment of premium conform to R.C. 3937.03?

Test Methodology:

The Company supplied a report of all Ohio homeowner policies in force during the exam period and subsequently cancelled for non-payment of premium.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected a sampling of files to test for compliance.

Findings:

Population	Sample	Yes	No	Standard	Compliance
509	50	50	0	90%	100%

The standard of compliance is 90%. The Company’s handling practices were above this standard.

Homeowner Policy Cancellation/Non-Renewal—Other than Non-Payment of Premium Cancellations

Standard: Cancellation notices comply with policy provisions, Company guidelines, and the required Ohio statutes and rules.

Test: Did the Company’s cancellation procedures conform to Ohio Adm.Code 3901-1-18(C)?

Test Methodology:

The Company supplied a report of all Ohio homeowner policies in force during the exam period and subsequently cancelled for underwriting reasons.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected a sampling of files to test for compliance.
- Any non-renewal notice that was mailed less than 30 days prior to the expiration date of the policy was an exception.
- Any notice that did not contain procedures for making application to the Ohio Fair Plan was an exception.

Findings:

Population	Sample	Yes	No	Standard	Compliance
341	50	6	44	90%	12%

The standard of compliance is 90%. The Company’s handling practices were below this standard.

Comments:

The Company is in agreement with the Department's findings that certain policies did not have the "Fair Plan" notice included with the cancellation. The Company had a procedure in place that required the underwriter, when completing a 'Cancellation Order,' to indicate the Ohio Fair Plan on the order. The underwriter failed to insert the Page 6 proper code on 30% of them. In the other 70%, the underwriter listed the proper code but it was not entered into the Company's policy letter system.

The Company's internal review in March 2005 discovered deficiencies in their Fair Plan Notification procedure. A data processing project was initiated to automatically produce the proper Fair Plan language without any human intervention. The project was tested and put into production on May 4, 2005. The Company submitted a copy of this project to the examiner.

Examiner Recommendation:

- The Company should furnish the Department with a copy of the data processing project test results to ensure compliance with Ohio Adm.Code 3901-1-18(C).

GENERAL CLAIM PRACTICES

File Documentation

It was extremely difficult to determine or verify the dates in the claims handling process, particularly the initial contact date with the claimant. The quality of file documentation varied depending on the claims adjuster assigned to the claim. The Company is not in compliance with Ohio Adm.Code 3901-1-54(D)(1) and (2), which states that an insurer shall maintain claim data that is accessible and retrievable for examination, and for which an insurer must be able to reconstruct its activities in regard to any claim, by documentation appropriate for the type and size of the claim.

Comments:

The Company acknowledged in writing that it has areas of inadequate file documentation, especially with regard to claim files. The deficiencies are a result in part of inadequate adjuster file maintenance discipline, insufficient supervision, and training. Deficiencies have also resulted from challenges in acclimating to the Company's new automated claims system ("Claims Center"). Claims Center contains "check the box" work plans in addition to claim notes. Some adjusters are in the habit of checking off a task in the work plan upon completion, such as first contact, without entering a corresponding claim note describing that activity in appropriate detail.

The Company states that:

- It has issued a directive specifying and reinforcing the requirements for proper file documentation. A copy of this directive has been furnished to the examiner.
- Claim supervisors are conducting specific training to ensure compliance with this specific directive.

In 2004, an automated workflow and imaging system ("OnBase") was implemented for Underwriting. The Company asserts that the system, which employs a sophisticated document routing and indexing protocol, substantially improves efficiency and completeness in directing file documentation to the responsible underwriter and policy file. Additionally, the system facilitates cross-referencing of documentation between files along with reliable document retrieval and review. The Company is at mid-process of installing a similar OnBase imaging and

workflow system for Claims. The Claims system will produce similar benefits to those realized in Underwriting. The new system will eliminate separate files and file “locations” between the home office and field adjusters. All documents will be routed and indexed to the same master file.

The Company notes that documentation and handling deficiencies occurred among independent adjusters. Some files, lacking adequate documentation within ten days of notice of loss, were independent adjusters accounts. The Company states that it has notified the independent adjusters of these issues.

The Company intends to conduct internal reviews of Claims documentation, which focuses upon the deficiencies discovered as a result of this examination, in approximately six months (enabling a sufficient number of testable new claim files to develop).

Examiner Recommendations:

- The Company should provide the Department with a copy of the outline being utilized by supervisors in training staff members with regard to documentation compliance.
- The Company should furnish a copy of its independent adjusters notification of documentation within ten days notice of loss.
- The Company should supply a copy of its Claims documentation internal audit to the Department upon its completion in approximately six months.

Fraud Reporting and Anti-Fraud Plan

The examiners reviewed the Company’s claims procedure manual to assure compliance with the fraud reporting requirements of Ohio Adm.Code 3901-1-54(G)(1) and R.C. 3999.41. The Company was in compliance. The Company’s fraud plan specifically states that the Fraud Division is to be notified if the Company believes a claimant was involved in possible fraud.

PRIVATE PASSENGER AUTOMOBILE CLAIM SETTLEMENTS

Auto Collision Partial Losses Paid

Test Methodology:

The Company supplied a report of all Ohio auto collision partial loss files that were closed during the examination period.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected a sampling of files to test for compliance.
- The examiners removed 3 files because 2 claims were not a partial loss and 1 claim was not an Ohio policy.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- Any required contact or investigation that was not done within the required time frames was an exception.
- Any Company estimate that did not contain the location of the salvage dealer when “like kind and quality” parts were involved was an exception.
- Any Company estimate that did not contain the exact statutory wording when Non-Original Equipment Manufacturer Aftermarket Crash Parts were involved was an exception.

Standard 1: The initial contact by the Company with the claimant is within required time frames.

Timely Initial Contact

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
627	50	49	1	93%	98%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Standard 2: Claims are resolved in a timely manner.

Timeliness of Claim Settlement

Test: Did the Company make timely payments (10 days after accepting) to first party claimants in compliance with Ohio Adm.Code 3901-1-54(G)(6)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
627	50	49	1	93%	98%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Standard 3: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Use Of “Like Kind and Quality” Parts In Repair Estimates

Test 1: When applicable, did the estimate by or on behalf of the insurer clearly indicate the location of the licensed salvage dealer where the “like kind and quality” parts are to be obtained per Ohio Adm.Code 3901-1-54(H)(4)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
627	50	45	5	93%	90%

The standard of compliance is 93%. The Company’s handling practices were below this standard.

Comments:

The Company agrees that the salvage parts location address is to be included on the estimate and has indicated that it has notified its adjusters and all outside appraisal firms that the address must be included.

Examiner Recommendation:

- The Company should provide the Department with a sample copy of the letter to the adjusters and outside appraisal firms, which states that the address of the salvage parts

location must be included on all estimates when applicable.

Use Of Non-Original Equipment Manufacturer Parts In Repair Estimates

Test 2: When applicable, did the written estimate by or on behalf of the insurer clearly indicate the use of Non-OEM Equipment Manufacturer Aftermarket Crash Parts in compliance with Ohio Adm.Code 3901-1-54(H)(4) and was the required statutory wording included in the required disclosure per R.C. 1345.81?

Findings:

Population	Sample	Yes	No	Standard	Compliance
627	50	49	1	93%	98%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Property Damage Partial Losses Paid

Test Methodology:

The Company supplied a report of all Ohio property damage partial loss files that were closed during the examination period.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected a sampling of files to test for compliance.
- The examiners removed 8 files because 3 claims were not partial losses, 2 claims involved subrogation, and 3 claims were non-vehicle losses.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company's claim settlement practices.
- Any required contact or investigation that was not done within the required time frame was an exception.
- Any Company estimate that did not contain the location of the salvage dealer when "like kind and quality" parts were involved was an exception.
- Any Company estimate that did not contain the exact statutory wording when Non-Original Equipment Manufacturer Aftermarket Crash Parts were involved was an exception.

Standard 1: The initial contact by the Company with the claimant is within required time frames.

Timely Initial Contact

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
532	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Standard 2: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Use Of “Like Kind and Quality” Parts In Repair Estimates

Test 1: When applicable, did the estimate by or on behalf of the insurer clearly indicate the location of the licensed salvage dealer where the “like kind and quality” parts are to be obtained per Ohio Adm.Code 3901-1-54(H)(4)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
532	50	49	1	93%	98%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Use Of Non-Original Equipment Manufacturer Parts In Repair Estimates

Test 2: When applicable, did the written estimate by or on behalf of the insurer clearly indicate the use of Non-OEM Equipment Manufacturer Aftermarket Crash Parts in compliance with Ohio Adm.Code 3901-1-54(H)(4) and was the required statutory wording included in the required disclosure per R.C. 1345.81?

Findings:

Population	Sample	Yes	No	Standard	Compliance
532	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Standard 3: Claims are resolved in a timely manner.

Timeliness of Claim Settlement

Test: Did the Company make timely payments (5 working days of receipt of agreement) to third party claimants in compliance with Ohio Adm.Code 3901-1-07(C)(16)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
532	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Auto Collision Total Losses Paid

Test Methodology:

The Company supplied a report of all Ohio auto collision total loss files that were closed during the exam period.

- The examiners reviewed all company procedure manuals as part of the examination process.

- The examiners selected to review the entire population of files to test for compliance.
- The examiners removed 4 files because 1 claim was a partial loss, 2 files were removed because they were ‘travel trailer’ losses, and 1 file was removed because it was paid under loan/lease payoff coverage rather than valued as a collision loss.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company’s claim settlement practices.
- Any required contact or investigation that was not done within the required time frame was an exception.
- Any calculation of actual cash value that was not calculated as required was an exception.
- Any claim file that did not show any indication of sales tax being paid as required was an exception.

Standard 1: The initial contact by the Company with the claimant is within required time frames.

Timely Initial Contact

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Findings:

Population	Yes	No	Standard	Compliance
93	92	1	93%	99%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Standard 2: Claims are resolved in a timely manner.

Timeliness of Claim Payments

Test: Did the Company make timely payments (10 days after acceptance) to first party claimants in compliance with Ohio Adm.Code 3901-1-54(G)(6)?

Findings:

Population	Yes	No	Standard	Compliance
93	91	2	93%	98%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Standard 3: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Vehicle Total Loss—Actual Cash Value

Test 1: Did the Company calculate actual cash value on total losses in a manner conformed to Ohio Adm.Code 3901-1-54(H)(6) and (H)(7)?

Findings:

Population	Yes	No	Standard	Compliance
93	87	6	93%	94%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Vehicle Total Loss-Sales Tax

Test 2: Did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(H)(6)(c) and (H)(7)(e)?

Findings:

Population	Yes	No	Standard	Compliance
93	77	16	93%	83%

The standard of compliance is 93%. The Company's handling practices were below this standard.

Comments:

The Company confirms the Department's findings and it is taking steps to rectify this deficiency.

- All sales tax on all auto collision total losses, for 2004 to current, are currently being recalculated. The Company indicates that all additional amounts will be sent to the insureds on a timely basis.
- The Company staff has been notified on the need to properly calculate sales tax. A copy of the notification has been provided to the examiner.
- The Company will be auditing claim files, within the next six months, for verification that sales tax is being properly paid.

Examiner Recommendations:

To assure compliance with Ohio Adm.Code 3901-1-54(H)(6)(c) and (H)(7)(c):

- The Company should provide a list of all recalculated auto collision total losses sales tax to the Department including the amounts and dates paid.
- The Company should furnish the Department with the results of the internal audit regarding proper payment of sales tax upon completion within the next six months.

Property Damage Total Losses Paid**Test Methodology:**

The Company supplied a report of all Ohio property damage total loss files that had a date closed during the exam period

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review the entire population of files to test for compliance.
- The examiners removed 1 file because it was a non-vehicle loss.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company's claim settlement practices.

- Any required contact or investigation that was not done within the required time frame was an exception.
- Any calculation of actual cash value that was not calculated as required was an exception.
- Any claim file that did not show any indication of sales tax being paid as required was an exception.

Standard 1: The initial contact by the Company with the claimant is within required time frames.

Timely Initial Contact

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Findings:

Population	Yes	No	Standard	Compliance
38	37	1	93%	97%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Standard 2: Claims are resolved in a timely manner.

Timeliness of Claim Payments

Test: Did the Company make timely payments (5 working days of receipt of agreement) to third party claimants in compliance with Ohio Adm.Code 3901-1-07(C)(16)?

Findings:

Population	Yes	No	Standard	Compliance
38	34	4	93%	89%

The standard of compliance is 93%. The Company’s handling practices were below this standard.

Comments:

The Company agrees with the Department’s findings. The Company declares that its staff and independent adjustors are being educated on making payments within five working days. The Company has provided the examiner with a copy of the notification with regard to this issue. The Company will conduct a claims audit within the next six months to verify compliance.

Examiner Recommendation:

- The Company should verify that the internal claims audit have been completed and the results of the audit should be provided to the Department.

Standard 3: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Property Damage Total Loss—Actual Cash Value

Test 1: Did the Company calculate actual cash value on total losses in a manner conformed to

Ohio Adm.Code 3901-1-54(H)(6) and (H)(7)?

Findings:

Population	Yes	No	Standard	Compliance
38	35	3	93%	92%

The standard of compliance is 93%. The Company's handling practices were below this standard.

Comments:

The Company is in agreement with the Department's position. The Company asserts that it will educate its staff on proper file documentation with regard to the basis of the valuation. The results of this education will be monitored as part of the Company's internal audit to be done within the next six months.

Examiner Recommendation:

- The results of the Company's internal audit on proper file documentation concerning the valuation basis should be furnished to the Department upon completion.

Property Damage Total Loss-Sales Tax

Test 2: Did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(H)(6)(c) and (H)(7)(e)?

Findings:

Population	Yes	No	Standard	Compliance
38	25	13	93%	66%

The standard of compliance is 93%. The Company's handling practices were below this standard.

Comments:

The Company accepts the findings of the Department. It is noted that the Company is taking several steps to rectify this deficiency. It is recalculating sales tax on all auto property damage total losses for 2004 to current. All additional amounts will be sent to the claimants on a timely basis.

Additionally, the Company has educated its staff on the need to properly calculate sales tax. A claim files audit to verify that the sales tax is being paid properly will be conducted within the next six months.

Examiner Recommendations:

- The Company should provide a list of all recalculated property damage total losses sales tax to the Department, including the amounts and dates paid.
- The Company should furnish the Department with the results of the internal audit regarding proper payment of sales tax upon completion within the next six months.

Automobile Collision Claims Denied

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Denial of Payments

Test: Did the Company conform to the standards for denial of payments in compliance with Adm.Code 3901-1-54(G)(1-3) and (5), and 3901-1-07(C)(14)?

Test Methodology:

The Company supplied a report of all Ohio auto collision denied claims files, which had a close date that occurred during the exam period. The population used to test for compliance is the number of denied claims identified.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review the entire population of files to test for compliance.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company’s claim settlement practices.
- Any required contact or investigation that was not done within the required time frame was an exception.
- Any claim file denied solely on the claimant not providing proof of loss was an exception.
- Any claim file where there was a reasonable belief that fraud contributed to the loss and the Company did not notify the Department of Insurance within 60 days was an exception.
- Any claim file where a policy provision, condition, or exclusion was utilized to deny the claim, but no reference was made to specific provision, condition, or exclusion was an exception.
- Any claim file where the Company denied payments because of consideration that others should assume the responsibility of payment was an exception.

Findings:

Population	Yes	No	Standard	Compliance
1	1	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

Property Damage Claims Denied

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Denial of Payments

Test: Did the Company conform to the standards for denial of payments in compliance with Adm.Code 3901-1-54(G)(1-3) and (5) and 3901-1-07(C)(14)?

Test Methodology:

The Company supplied a report of all Ohio property damage denied claims files, which had a close date that occurred during the exam period. The population used to test for compliance is the number of denied claims identified.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review the entire population of files to test for compliance.
- The examiners removed 1 file because it was a non-vehicle loss.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company’s claim settlement practices.
- Any required contact or investigation that was not done within the required time frame was an exception.
- Any claim file denied solely on the claimant not providing proof of loss was an exception.
- Any claim file where there was a reasonable belief that fraud contributed to the loss and the Company did not notify the Department of Insurance within 60 days was an exception.
- Any claim file where a policy provision, condition, or exclusion was utilized to deny the claim, but no reference was made to specific provision, condition, or exclusion was an exception.
- Any claim file where the Company denied payments solely based upon the insured’s request to do so without an independent evaluation of the insured’s liability was an exception.

Findings:

Population	Yes	No	Standard	Compliance
16	16	0	93%	100%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

HOMEOWNER CLAIM SETTLEMENTS**Homeowner Paid Claims—Structure and Content****Test Methodology:**

The Company supplied a report of all Ohio homeowner structure and contents paid claims files that were closed during the examination period.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected a sampling of files to test for compliance.
- The examiners removed 1 file because it was a non-vehicle loss.
- The Company was unable to distinguish whether claim payment was made under structure or content coverage; therefore, a sample of files was selected containing both coverages. Of the samples reviewed, 52 files were structure loss claims and 48 files were content loss claims.

- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company's claim settlement practices.
- Any required contact or investigation that was not done within the required time frame was an exception.
- Any settlement amount that was not calculated as required was an exception.
- Any claim file that did not show any indication of sales tax being paid as required was an exception.

Standard 1: The initial contact by the Company with the claimant is within required time frames.

Timely Initial Contact

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm.Code 3901-1-54(F)(2)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
803	100	97	3	93%	97%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Standard 2: Claims are resolved in a timely manner.

Timeliness of Claim Payments

Test: Did the Company make timely payments (10 days after acceptance) to first party claimants in compliance with Ohio Adm.Code 3901-1-54(G)(6)?

Findings:

Population	Sample	Yes	No	Standard	Compliance
803	100	97	3	93%	97%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Standard 3: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Settlement Amounts/Sales Tax Requirements

Test: Did the Company calculate the settlement amount in a manner that conforms to Ohio Adm.Code 3901-1-54(I) and their contracts?

Findings:

Population	Sample	Yes	No	Standard	Compliance
803	100	100	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

Homeowner Claims Denied—Structure and Content

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Denial of Payments

Test: Did the Company conform to the standards for denial of payments in compliance with Adm.Code 3901-1-54(G)(1-3) and (5)?

Test Methodology:

The Company supplied a report of all Ohio homeowner structure and content denied and closed without pay claims files, which had a close date that occurred during the exam period. The population used to test for compliance is the number of denied claims identified.

- The examiners reviewed all company procedure manuals as part of the examination process.
- The examiners selected to review the entire population of files to test for compliance.
- The examiners removed 25 files because the original files did not meet the exam scope definition of ‘denied’ claims. These were identified as being ‘closed without pay’ files.
- The Company was unable to distinguish whether claim payments were made under structure or contents coverages therefore a total population of 74 files were selected containing both coverages. Of the remaining files reviewed, 43 files were structure loss claims and 6 files were content loss claims.
- The examiners reviewed the claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company’s claim settlement practices.
- Any required contact or investigation that was not done within the required time frame was an exception.
- Any claim file denied solely on the claimant not providing proof of loss was an exception.
- Any claim file where there was a reasonable belief that fraud contributed to the loss and the Company did not notify the Department of Insurance within 60 days was an exception.
- Any claim file where a policy provision, condition, or exclusion was utilized to deny the claim, but no reference was made to specific provision, condition, or exclusion was an exception.
- Any claim file where the Company denied payments because of consideration that others should assume the responsibility of payment was an exception.

Findings:

Population	Yes	No	Standard	Compliance
49	46	3	93%	94%

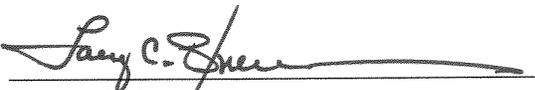
The standard of compliance is 93%. The Company’s handling practices were above this standard.

HASTINGS MUTUAL INSURANCE COMPANY SUMMARY

The examination found the Company to be out of compliance in the following areas:

<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
AUTOMOBILE		
Underwriting Cancellations		
Did the Company's cancellation procedures conform to R.C. 3937.30, 3937.31, 3937.32, and 3937.33?	90%	71%
Non-Payment Cancellations		
Did the Company's cancellation procedures conform to R.C. 3937.31, 3937.32, and 3937.33?	90%	0%
Non-Renewals		
Did the Company's non-renewal procedures conform to R.C. 3937.30, 3937.31 and 3937.34?	90%	74%
Collision Partial Losses Paid		
When applicable, did the estimate by or on behalf of the insurer clearly indicate the location of the licensed salvage dealer where the "like kind and quality" parts are to be obtained per Ohio Adm.Code 3901-1-54(H)(4)?	93%	90%
Collision Total Losses Paid		
Did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(H)(6)(c) and (H)(7)(e)?	93%	83%
Property Damage Total Losses Paid		
Did the Company make timely payments (5 working days of receipt of agreement) to third party claimants in compliance with Ohio Adm.Code 3901-1-07(C)(16)?	93%	89%
Did the Company calculate actual cash value on total losses in a manner conformed to Ohio Adm.Code 3901-1-54(H)(6) and (H)(7)?	93%	92%
Did the Company conform to the sales tax provisions of Ohio Adm.Code 3901-1-54(H)(6)(c) and (H)(7)(e)?	93%	66%
HOMEOWNER		
Cancellations/Non-Renewals (Other than Non-Payment)		
Did the Company's cancellation procedures conform to Ohio Adm.Code 3901-1-18(C)?	90%	12%

This concludes the report of the Market Conduct Examination of Hastings Mutual Insurance Company. The examiners, Larry C. Stovall, Daniel Atkisson, Don Layson and Cheryl Davis would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



 Larry C. Stovall
 Examiner-in-Charge

October 25, 2015

 Date

STATE OF OHIO
DEPARTMENT OF INSURANCE
2100 Stella Court
Columbus, Ohio 43215

IN THE MATTER OF : **CONSENT ORDER**
THE HASTINGS MUTUAL :
INSURANCE COMPANY MARKET :
CONDUCT EXAMINATION :

The Superintendent of the Ohio Department of Insurance (“Department”) is responsible for administering Ohio insurance laws pursuant to Section 3901.011 of the Ohio Revised Code (“R.C.”). The Department conducted a market conduct examination of Hastings Mutual Insurance Company (“Company”). The Company is authorized to engage in the business of insurance in the State of Ohio and, as such, is under the jurisdiction of the Superintendent and the Department. The Department examined the Company’s private passenger automobile and homeowner insurance business in the State of Ohio for the period of January 1, 2004, through December 31, 2004.

SECTION I

As a result of the market conduct examination, the Superintendent alleges:

- A. On its underwriting cancellations, the Company failed to provide 30 days notice, the reason for the cancellation, and the “right to appeal” language as required by R.C. 3937.32.
- B. The Company failed to comply with the inclusion of the “right to appeal” language on automobile cancellation notices for non-payment of premium as required by R.C. 3937.32(F).
- C. The Company’s nonrenewal policies failed to conform with R.C. 3937.31(A) and 3937.34.
- D. The Company failed to comply with Ohio Administrative Code (“Ohio Adm. Code”) 3901-1-18(C) to include procedures for making an application to the Ohio Fair Plan, as applicable, on homeowner non-renewal cancellations.
- E. A review of the claims paid during the exam period disclosed that some of the claim files were not adequately documented as required by Ohio Adm.Code 3901-1-54(D)(1). As such, the examiners could not determine if the Company’s claim handling practices comported with Ohio statutes and rules. This made the determination or verification of the dates in the claim handling process difficult, particularly the initial contact date with the claimant as required by Ohio Adm.Code 3901-1-54(D)(2).

- F. The Company accepted and processed automobile collision partial loss claims without the inclusion of the location of the licensed salvage dealer, where like kind and quality parts were utilized, as required by Ohio Adm. Code 3901-1-54(H)(4).
- G. The Company at times failed to properly comply with the payment of sales tax on replacement vehicles adjusted under collision total losses as required by Ohio Adm. Code 3901-1-54(H)(7)(e)
- H. The Company at times failed to make timely payment of property damage liability claims as required by Ohio Adm. Code 3901-1-07(C)(16). Further, the Company at times failed to calculate actual cash value of property damage total losses and failed to comply with the payment of sales tax on replacement vehicles as required by Ohio Adm. Code 3901-1-54(H)(7).

SECTION II

It is hereby agreed to by the parties that:

- A. The Superintendent and the Company enter into this Consent Order to resolve the allegations as set forth in Section I of this order. Further, the Company admits to the allegations set forth in Section I.
- B. The Company has been advised that it has a right to a hearing before the Superintendent pursuant to R.C. Chapter 119; that, at a hearing, it would be entitled to appear in person, to be represented by an attorney or other representative who is permitted to practice before the agency; and that, at a hearing, it would be entitled to present its position, arguments or contentions in writing and to present evidence and examine witnesses appearing for and against it. The Company hereby waives all such rights.
- C. The Company consents to the jurisdiction of the Superintendent and the Department to determine the issues set forth herein. The Company expressly waives any prerequisites to jurisdiction that may exist.
- D. The Company has instituted policies procedures and controls to ensure that its automobile underwriting cancellation notices comport with R.C. 3937.32.
- E. The Company has instituted policies, procedures, and controls to ensure that its automobile cancellation notices for non-payment of premium comport with R.C. 3937.32(F).
- F. The Company has instituted policies, procedures, and controls to ensure that its automobile "refusal to renew" cancellation notices comport with R.C. 3937.31(A) and 3937.34.

- G. The Company has instituted policies, procedures, and controls to ensure that its homeowner non-renewal cancellation notices comply with Ohio Adm. Code 3901-1-18(C).
- H. The Company has instituted policies, procedures and controls to ensure that its claims documentation procedures comport with Ohio Adm. Code 3901-1-54(D)(1) and (2).
- I. The Company has instituted policies, procedures, and controls to ensure that estimates used in the adjustment of collision partial loss claims will comport with Ohio Adm. Code 3901-1-54(H)(4).
- J. The Company has instituted policies, procedures, and controls to ensure that its collision total loss claims comport with Ohio Adm. Code 3901-1-54(H)(7)(e).
- K. The Company has instituted policies, procedures, and controls to ensure that its property damage total loss claims comport with Ohio Adm. Code 3901-1-07(C)(16) and 3901-1-54(H)(7).
- L. The Company will pay an administrative fine in the amount of \$20,000.00 by check or money order made payable to the "Ohio Department of Insurance" no later than thirty (30) days after the date of execution of this Consent Order.
- M. The Company waives any and all causes of action, claims or rights, known or unknown, which it may have against the Department, and any employees, agents, consultants, contractors or officials of the Department, in their individual and official capacities, as a result of any acts or omissions on the part of such persons or firms arising out of this matter.
- N. The Company has read and understands this Consent Order. The Company further understands that it has the right to seek counsel of its choice and to have counsel review this Consent Order.
- O. This Consent Order has the full force and effect of an Order of the Superintendent. Failure to abide by the terms of this agreement shall constitute an actionable violation in and of itself without further proof and may subject the Company to any and all remedies available to the Superintendent.

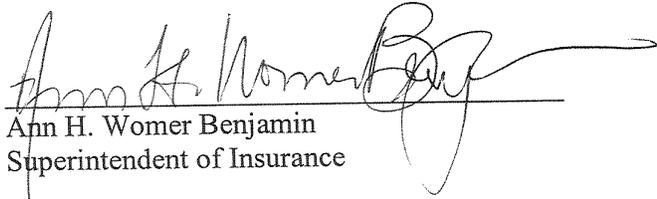
- P. This Consent Order shall be entered in the Journal of the Ohio Department of Insurance. All parties understand and acknowledge that this Consent Order is a public document pursuant to R.C. 149.43.

Date: 10/11/2005



William H. Wallace
President and Chief Executive Officer
Hastings Mutual Insurance Company

Date: 10/21/05



Ann H. Womer Benjamin
Superintendent of Insurance