

PUBLIC REPORT OF EXAMINATION OF THE CLAIMS

PRACTICES OF THE

NORTHLAND INSURANCE COMPANY
NAIC # 24015 CDI # 1643-6

AS OF MARCH 31, 2001

STATE OF CALIFORNIA



DEPARTMENT OF INSURANCE

FIELD CLAIMS BUREAU

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CALIFORNIA DEPARTMENT OF INSURANCE

Consumer Services and Market Conduct Branch
Field Claims Bureau, 11th Floor
Ronald Reagan State Office Building
300 South Spring Street
Los Angeles, CA 90013



April 9, 2002

The Honorable Harry W. Low
Insurance Commissioner
State of California
45 Fremont Street
San Francisco, California 94105

Honorable Commissioner:

Pursuant to instructions, and under the authority granted under Part 2, Chapter 1, Article 4, Sections 730, 733, 736, and Article 6.5, Section 790.04 of the California Insurance Code; and Title 10, Chapter 5, Subchapter 7.5, Section 2695.3(a) of the California Code of Regulations, an examination was made of the claims practices and procedures in California of:

Northland Insurance Company

NAIC #24015

Hereinafter referred to as NIC or as the Company.

This report is made available for public inspection and is published on the California Department of Insurance web site (www.insurance.ca.gov) pursuant to California Insurance Code section 12938.

SCOPE OF THE EXAMINATION

The examination covered the claims handling practices of the aforementioned Company during the period April 1, 2000 through March 31, 2001. The examination was made to discover, in general, if these and other operating procedures of the Company conform with the contractual obligations in the policy forms, to provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR), California Vehicle Code (CVC) and case law. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al.

To accomplish the foregoing, the examination included:

1. A review of the guidelines, procedures, training plans and forms adopted by the Company for use in California including any documentation maintained by the Company in support of positions or interpretations of fair claims settlement practices.
2. A review of the application of such guidelines, procedures, and forms, by means of an examination of claims files and related records.
3. A review of consumer complaints received by the California Department of Insurance (CDI) in the most recent year prior to the start of the examination.

The examination was primarily conducted at the Company's claims office in St. Paul, Minnesota.

The report is written in a "report by exception" format. The report does not present a comprehensive overview of the subject insurer's practices. The report contains only a summary of pertinent information about the lines of business examined and details of the non-compliant or problematic activities or results that were discovered during the course of the examination along with the insurer's proposals for correcting the deficiencies. When a violation is discovered that results in an underpayment to the claimant, the insurer corrects the underpayment and the additional amount paid is identified as a recovery in this report. All unacceptable or non-compliant activities may not have been discovered, however, and failure to identify, comment on or criticize activities does not constitute acceptance of such activities.

Any alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process.

CLAIM SAMPLE REVIEWED AND OVERVIEW OF FINDINGS

The examiners reviewed files drawn from the category of Closed Claims for the period April 1, 2000 through March 31, 2001, commonly referred to as the “review period”. The examiners reviewed 255 Northland Insurance Company Personal Auto (PA) and Homeowners Mobile Home (HO) claim files. The examiners cited 104 claims handling violations of the Fair Claims Settlement Practices Regulations and/or the California Insurance Code section 790.03 within the scope of this report.

Northland Insurance Company			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
PA Bodily Injury	17	17	4
PA Property Damage	80	67	10
PA Uninsured Motorist	1	1	0
PA Medical Payments	3	3	1
PA Collision	64	47	34
PA Comprehensive	22	22	24
HO Mobile Home Liability	3	3	0
HO Mobile Home Property	871	95	31
TOTALS	1061	255	104

TABLE OF TOTAL CITATIONS		
Citation	Description	NIC
CCR § 2695.8(b)(1)	The Company failed to explain in writing for the claimant the basis of the fully itemized cost of the comparable vehicle or the company failed to include, in the settlement, all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable vehicle.	44
CCR § 2695.3(a)	The Company failed to properly document claim files.	19
CCR § 2695.7(b)(3)	The Company failed to include a statement in their claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance.	7
CCR § 2695.7(b)	The Company failed to accept or deny the claim within 40 calendar days.	6
CCR § 2695.7(c)(1)	The Company to provide written notice of the need for additional time every thirty calendar days.	6
CCR § 2695.5 (e)(1)	The Company failed to acknowledge notice of claim within 15 calendar days.	3
CCR § 2695.5(e)(3)	The Company failed to begin investigation of the claim within fifteen calendar days.	3
CIC § 790.03(h)(3)	The Company failed to adhere to standards for the prompt investigation and processing of claims.	2
CCR § 2695.7(b)(1)	The Company failed to provide written basis for the denial of the claim.	2
CCR § 2695.8(b)(1)(C)	The Company failed to document the determination of value. Any deductions from value, including deduction for salvage, must be discernable, measurable, itemized, and specified as well as be appropriate in dollar amount.	2
CCR § 2695.8(i)	The Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation.	2
CCR § 2695.8(k)	The Company failed to document the basis of betterment, depreciation, or salvage. The basis for any adjustment shall be fully explained to the claimant in writing.	2
CCR § 2695.4(a)	The Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy.	1
CCR § 2695.5(e)(2)	The Company failed to provide necessary forms, instructions, and reasonable assistance within fifteen calendar days.	1

TABLE OF TOTAL CITATIONS		
Citation	Description	NIC
CCR § 2695.7(f)	The Company failed to provide written notice of any statute of limitation or other time period requirement not less than sixty days prior to the expiration date.	1
CCR § 2695.7(h)	Upon acceptance of the claim the Company failed to tender payment within thirty calendar days.	1
CCR § 2695.8(f)	The Company failed to supply the claimant with a copy of the estimate upon which the settlement is based.	1
CCR § 2695.8(j)	The Company failed to share subrogation recovery with the Insured.	1
Total Citations		104

SUMMARY OF CRITICISMS, INSURER COMPLIANCE ACTIONS AND TOTAL RECOVERIES

The following is a brief summary of the criticisms that were developed during the course of this examination related to the violations alleged in this report. In response to each criticism, the Company is required to identify remedial or corrective action that has been or will be taken to correct the deficiency. Regardless of the remedial actions taken or proposed by the Company, it is the Company's obligation to ensure that compliance is achieved. The total money recovered was \$7556.32 within the scope of this report.

1. The Company failed to explain in writing for the claimant the basis of the fully itemized cost of the comparable automobile or the Company failed to include, in the settlement, all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable vehicle. In 26 instances, the Company failed to explain in writing for the claimant the basis of the fully itemized cost of the comparable vehicle; and in 18 instances, the Company failed to include in the settlement, all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable vehicle. The Department alleges these acts are in violation of CCR § 2695.8(b)(1).

Company Response: The Company has acknowledged that the files did not document whether the insured received a written explanation of the total loss settlement. The Company has developed a form letter to document the actual cash value of the vehicle as a result of this claim examination. The new form letter will be mailed to the claimant and a copy maintained in the claim file.

The Company also acknowledged that the files did not document payment of all applicable taxes and license fees although payment in half of the files were considered in the settlement. The Company has developed a summary sheet for motorcycle settlements as a result of this claim examination. The new summary sheet will document and remind claims personnel to include all taxes and fees in connection with total loss motorcycle settlements.

2. The Company failed to properly document claim files. In 19 instances, the Company's files failed to contain all documents, notes and work papers. The Department alleges these acts are in violation of CCR § 2695.3(a).

Company Response: The Company acknowledges the need for additional documentation in the Company files. The Company has counseled its staff about the need for detailed documentation in the file and/or file notes.

3. The Company failed to advise the claimant that he or she may have the claim denial reviewed by the California Department of Insurance. In seven instances, the Company failed to advise the claimant that he or she may have the claim denial reviewed by the California Department of Insurance. The Department alleges these acts are in violation of CCR § 2695.7(b)(3).

Company Response: The Company has acknowledged that denial letters inadvertently omitted CDI help language. As a result of this claim examination, NIC will review the denial language requirement with all claims examiners and supervisors handling California claims to assure its use in applicable claims.

4. The Company failed to accept or deny the claim within forty calendar days. In six instances, the Company failed, upon receiving proof of claim, to accept or deny the claim within forty calendar days. The Department alleges these acts are in violation of CCR § 2695.7(b).

Company Response: The Company has acknowledged these findings. NIC will meet with its staff and review the importance of timely handling of claims as a result of this examination.

5. The Company failed to provide written notice of the need for additional time every thirty calendar days. In six instances, the Company failed to provide written notice of the need for additional time every thirty calendar days. The Department alleges these acts are in violation of CCR § 2695.7(c)(1).

Company Response: The Company has acknowledged that status letters were not sent to claimants in the claim files cited. As a result of this claim examination, NIC will review the sending of status letters with their claims examiners to ensure compliance with Department of Insurance Regulations.

6. The Company failed to acknowledge notice of claim within fifteen calendar days. In three instances, the Company failed to acknowledge notice of claim within fifteen calendar days. The Department alleges these acts are in violation of CCR § 2695.5(e)(1).

Company Response: The Company has acknowledged these findings. As a result of this examination, the issue of prompt contact upon receipt of a claim has been reiterated with claim examiners.

7. The Company failed to begin investigation of the claim within fifteen calendar days. In three instances, the Company failed to begin investigation of the claim within fifteen calendar days. The Department alleges these acts are in violation of CCR § 2695.5(e)(3).

Company Response: The Company has acknowledged deficiencies in the three files cited. The Company has counseled its examiners and supervisors of the provisions of this regulation section.

8. The Company failed to adhere to standards for the adequate investigation and processing of claims. In two instances, the Company failed to adhere to standards for the adequate investigation and processing of claims. The Department alleges these acts are in violation of CIC § 790.03(h)(3).

Company Response: The Company has acknowledged deficiencies in the two files cited. The Company has counseled its examiners and supervisors of the provisions of this statute section.

9. The Company failed to provide written basis for the denial of the claim. In two instances, the Company failed to provide written basis for the denial of the claim. The Department alleges these acts are in violation of CCR § 2695.7(b)(1).

Company Response: The Company has acknowledged the denial letters did not include specific policy provisions, conditions or exclusions upon which the denial was based. The Department of Insurance requirement has been reviewed with the Supervisors and Examiners to assure future compliance.

10. The Company failed to document the basis of betterment, depreciation, or salvage. The basis for any adjustment shall be fully explained to the claimant in writing. In two instances, the Company failed to document the basis of betterment, depreciation, or salvage. The basis for any adjustment shall be fully explained to the claimant in writing. The Department alleges these acts are in violation of CCR § 2695.8(k).

Company Response: The Company acknowledged that any such adjustments are generally written on a repair estimate, which is provided to and reviewed with the insured. However, as a result of this claim examination, NIC will provide claimants with written explanations for any settlement adjustments due to betterment, depreciation, or salvage.

11. The Company failed to document the determination of value. In two instances, the Company failed to document the determination of value. Any deductions from value, including deduction for salvage, must be discernable, measurable, itemized, and specified as well as be appropriate in dollar amount. The Department alleges these acts are in violation of CCR § 2695.8(b)(1)(C).

Company Response: The Company has acknowledged the failure to document in the claim file the basis for deductions from value. This was an oversight on the part of the adjusters in these two files. This issue has been re-reviewed with supervisors and examiners to assure future compliance.

12. The Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation. In two instances, the Company failed to provide written notification to a first party claimant as to whether the insurer intends to pursue subrogation of the claim. The Department alleges these acts are in violation of CCR § 2695.8(i).

Company Response: The Company has acknowledged this finding and has indicated the error was an oversight of the adjusters. Department of Insurance requirements have been reinforced with NIC claims staff.

13. The Company failed to disclose all policy provisions. In one instance, the Company failed to disclose all benefits, coverage, time limits or other provisions of the insurance policy. The Department alleges this act is in violation of CCR § 2695.4(a).

Company Response: The Company has acknowledged this finding and stated that it is the practice of NIC to disclose all policy provisions. Department of Insurance requirements have been reinforced with NIC claims staff.

14. The Company failed to provide necessary forms, instructions, and reasonable assistance within fifteen calendar days. In one instance, the Company failed to provide necessary forms, instructions, and reasonable assistance within fifteen calendar days. The Department alleges this act is in violation of CCR § 2695.5(e)(2).

Company Response: The Company has acknowledged this finding and stated that it is the practice of NIC to provide necessary forms, instructions and reasonable assistance immediately upon notice of claim, but in no event more than fifteen calendar days. NIC will review the sending of status letters with their claims examiners to assure compliance with Department of Insurance Regulations.

15. The Company failed to provide written notice of any statute of limitation sixty days prior to the expiration date. In one instance, the Company failed to provide written notice of any statute of limitation or other time period requirement not less than sixty days prior to the expiration date. The Department alleges this act is in violation of CCR § 2695.7(f).

Company Response: The Company has acknowledged this finding and indicated that it was an oversight on the part of the adjuster. NIC states that it is company policy to provide written notice of any statute of limitation within sixty days prior to the expiration date.

16. Upon acceptance of the claim the Company failed to tender payment within thirty calendar days. In one instance, upon acceptance of the claim the Company failed to tender payment within thirty calendar days. The Department alleges this act is in violation of CCR § 2695.7(h).

Company Response: The Company has acknowledged this finding which was due to adjuster oversight. The claims handler has been counseled and this issue has been re-reviewed with supervisors and examiners to assure future compliance.

17. The Company failed to supply the claimant with a copy of the estimate upon which the settlement is based. In one instance, the Company failed to supply the claimant with a copy of the estimate upon which the settlement is based. The Department alleges this act is in violation of CCR § 2695.8(f).

Company Response: The Company has acknowledged this finding which was due to adjuster oversight. NIC states that at the time of settlement, the estimate of repair was enclosed with the settlement check. This issue has been re-reviewed with supervisors and examiners to assure future compliance.

18. The Company failed to share subrogation recovery with the insured. In one instance, the Company failed to share subrogation recovery with the insured. The Department alleges this act is in violation of CCR § 2695.8(j).

Company Response: The Company has acknowledged this finding and has indicated that the error was an adjuster oversight. Department of Insurance requirements have been reinforced with NIC claims staff.