MARKET CONDUCT EXAMINATION

BALBOA INSURANCE COMPANY
3349 MICHELSON DR. #200
IRVINE, CA 92612

MERITPLAN INSURANCE COMPANY
3349 MICHELSON DR. #200
IRVINE, CA 92612

July 1, 2004 through June 30, 2005

Order No. G 06-65
Balboa Insurance Company
Meritplan Insurance Company
Exhibit A

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The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following Companies:

Balboa Insurance Company	NAIC # 24813
Meritplan Insurance Company	NAIC # 24821

In this report, the above entities are collectively referred to as "the Companies". This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the Companies during the course of this market conduct examination, including those contact people assigned to provide daily support to the examiners.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

SCOPE

Time Frame

The examination covered the Companies' operations from July 1, 2004 through June 30, 2005. The examination was performed in the Companies' home office in Irvine, CA and the Seattle Office of the Insurance Commissioner.

Matters Examined

The examination included the following areas:

Operations and Management
General Examination Findings
Agent Licensing
Complaints
Rate and Form Filing
Underwriting and Rating
Renewal, Cancellation and Non-Renewal
Claim Settlement Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

	92%	Confidence Level
+/-	5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as 'met'. The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed (without comment), Passed with Comment or Failed. The definition of each category follows.

Passed	There were no adverse findings for this standard.
Passed with Comment	The records reviewed fell within the tolerance level for that standard.
Failed	The records reviewed fell outside of the tolerance level established for the standard.

COMPANY HISTORY AND OPERATIONS

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
Balboa Insurance Company	California	February 6, 1948	May 28, 1948
Meritplan Insurance Company	California	December 10, 1952	November 25, 1974

Balboa Insurance Company was incorporated under the laws of California on February 6, 1948 and began business on April 15 of that year. In 1963 the Company assumed all policyholder liabilities of its former companion carrier Arrowhead Insurance Company. Currently Balboa Insurance Company holds all outstanding shares of Meritplan Insurance and Newport Insurance.

Countrywide Insurance Group, a wholly owned subsidiary of Countrywide Financial Services purchased Balboa Insurance Company, Balboa Life Insurance Company and their wholly owned subsidiaries on November 30, 1999. Subsequently Countrywide Insurance Group was re-named to become Balboa Insurance Group.

Robert V. James is President, Chief Executive Officer, and Chief Operating Officer.

Meritplan Insurance Company was incorporated under the laws of California on December 10, 1952 and commenced business on April 21, 1953. The Company is wholly owned by Balboa Insurance Company.

Robert V. James is President, Chief Executive Officer and Chief Operating Officer.

The Companies wrote the following lines of business during the exam period.

Commercial Lines:

- Lender Protection
- Financial Protection
- Collateral Protection
- Guaranteed Asset Protection
- Real Estate Owned Blanket Fire
- Leased Equipment

Personal lines:

- Renters
- Homeowners
- Non-Standard Personal Auto

OPERATIONS AND MANAGEMENT

Findings

Operations and Management Standard #2 is not applicable to this examination as it applies only to domestic insurers.

The following Operations and Management Standard Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	**The Companies are required to hold a certificate of authority from the OIC prior to transacting insurance in the State of Washington.**	**RCW 48.05.030(1)**

GENERAL EXAMINATION

Findings

The Companies were using Balboa Life and Casualty letterhead. This is the group name that included Balboa Insurance Company, Newport Insurance Company and Meritplan Insurance Company. The Companies identified the actual insuring company either in the signature blocks of correspondence or on the top and right of the letterhead page. The name Balboa Life and Casualty sounds like an insurance company. With two names on correspondence it is possible that the recipient could be confused or misled in violation of RCW 48.30.060. The Companies have changed the affiliated group name to the Balboa Insurance Group, eliminating the possibility of identifying Balboa Life and Casualty as a Company name.

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	**The Companies made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner.**	**RCW 48.03.030(1)**
3	**The Companies maintain full and accurate records and accounts.**	**RCW 48.05.280**
4	**The Companies filed an antifraud plan with the Office of Insurance Commissioner and files annual anti-fraud reports with OIC.**	**RCW 48.30A.045 RCW 48.30A.060**

The following General Examination Standard Failed:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	**The Companies do business in their own legal name.**	**RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06**

Standard #2:

- Three (3) claim files contained correspondence that identified a group name instead of the insurer or identified the wrong insurer from the Companies.
- Eight (8) policy declaration pages showed both Balboa Life & Casualty and Balboa Insurance Company. These forms listed both the group name and the company name, but did not clearly identify which was the insuring entity.
- Fifty (50) cancellation or non-renewal notices had both Balboa Life & Casualty and Balboa Insurance Company on the form. These forms did not clearly identify which was the group name and which was the insurer's name.

The Companies have changed the group name from Balboa Life & Casualty to the Balboa Insurance Group.

See Appendix 1 for detail.

AGENT ACTIVITIES

Agent license and appointment records for agents who wrote the policies selected for the underwriting sample were reviewed by the examiners. They also reviewed a sample of the records from the list of active agents provided by the Companies. As part of the review, the examiners compared the Companies' agent licensing records with the OIC records to ensure that agents soliciting business for the Companies were licensed and appointed prior to soliciting business on behalf of the Companies as required by Washington law.

Findings

The following Agent Activity Standards Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	**The Companies ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Companies in any way.**	**RCW 48.17.060(1) and (2)**
3	**The Companies must notify the OIC when an agent's appointment is revoked.**	**RCW 48.17.160 (3)**
4	**The Companies must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract.**	**RCW 48.17.591 (2)**

The following Agent Activity Standard Failed:

#	AGENT ACTIVITY STANDARD	REFERENCE
2	**The Companies require that agents are appointed to represent the Companies prior to allowing them to solicit business on behalf of the Companies.**	**RCW 48.17.160**

Standard #2:

- Four hundred sixty-five (465) policies were written by two agencies that were not appointed by the Companies at the time of solicitation. See Appendix 2 for detail.

Subsequent event: The Companies provided evidence that the agencies are now appointed.

COMPLAINTS

The examiners reviewed the OIC complaint database. There were nine (9) complaints against Balboa Insurance Company during the exam period. Three (3) of these contained responses that were considered violations for one of the following reasons: failing to respond timely to the OIC inquiry, use of an unlicensed adjuster, and sending a cancellation notice to the wrong address.

There were no complaints against Meritplan Insurance Company during the exam period. No trends were identified.

Findings

The following Complaint Standard Passed With Comment:

#	COMPLAINT STANDARD	REFERENCE
1	**Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication.**	**WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4**

UNDERWRITING AND RATING

The examiners selected 110 of 8,055 personal lines policies and 100 of 35,743 commercial lines policies that were either new or renewed during the exam period.

Files were reviewed to determine if the Companies:

- Followed the filed rating plans
- Followed the underwriting rules
- Were in compliance with Washington laws.

Standards #9, #10, and #11 were not applicable to this examination because the Companies did not use credit scoring during the exam period.

Findings

The following Underwriting and Rating Standards Passed without Comment:

#	UNDERWRITING AND RATING STANDARD	REFERENCE
1	**Binders issued to temporarily secure coverage (during underwriting) are valid until the policy is issued or ninety days, whichever is shorter and shall identify the Company providing the coverage and effective dates.**	**RCW 48.18.230(1), WAC 284-30-560**
2	**The Companies require an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.**	**RCW 48.22.030 (3) and (4)**
3	**The Companies require an insured to reject Personal Injury Protection (PIP) coverage in writing.**	**RCW 48.22.085(2)**
4	**During underwriting, the Companies use only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.**	**RCW 48.30.310, RCW 46.52.130, WAC 308-104-145, Bulletin 79-3**
6	**The Companies retain all documentation related to the development and use of (a) rates.**	**WAC 284-24-070**
7	**The Companies may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.**	**WAC 284-30-574**
8	**Binders must identify the insurer in which they are bound, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received.**	**WAC 284-30-560(2)(a)**
12	**No insurer may alter an application for insurance without the insured's written permission.**	**RCW 48.18.070**

The following Underwriting and Rating Standard Passed with Comment:

#	UNDERWRITING AND RATING STANDARD	REFERENCE
5	**The Companies apply schedule rating plans to all policies as applicable in its filings.**	**WAC 284-24-100**

Standard #5:

- Three (3) files did not contain sufficient documentation to support the underwriting decisions because the underwriters had failed to complete the worksheets.
- Two (2) files were rated based on a worksheet that was identical. The Company advised that the worksheet had been copied from another policy and that the information on the worksheet did not accurately reflect the information that should have been used for schedule rating. The underwriting was done by the general agent.

See Appendix 3 for detail.

RATE AND FORM FILING

The examiners selected forms that were attached to the new and renewal policies used in the underwriting sample for the form filing review. The purpose was to determine if the Companies were complying with laws regarding form filing.

The examiners also manually rated policies to ensure that the Companies rating programs were processing policies according to the filed rates and that the underwriting rules were being followed.

Findings

The following Rate and Form Filing Standards Passed without Comment:

#	RATE AND FORM FILING STANDARD	REFERENCE
1	**Policy forms and applications, where required, have been filed with and approved by the OIC prior to use.**	**RCW 48.18.100**
3	**The policy must identify all forms that make up the policy. The policy will identify all coverage limits.**	**RCW 48.18.140(2)(a)-(f)**
4	**The policy must contain all endorsements and forms.**	**RCW 48.18.190**
5	**Policy forms for commercial policies are filed within 30 days of use.**	**RCW 48.18.103(2)**
6	**Personal Injury Protection forms issued by the Companies contain coverage definitions and limits that conform to Washington law.**	**RCW 48.22.095** **RCW 48.22.005**
7	**Rates for commercial policies must be filed within 30 days of use.**	**RCW 48.19.043 (2)**

The following Rate and Form Filing Standard Failed:

#	RATE AND FORM FILING STANDARD	REFERENCE
2	**Where required, the Companies have filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and do not issue any policies that are not in accord with the filing in effect.**	**RCW 48.19.040 (1) and (6)**

Standard #2:

In 2004 Balboa acquired 4,393 homeowner (HO) policies from National Merit Insurance Company (NM). As part of the filing for this acquisition, Balboa stated that the current rates and rules filed for Balboa policies would be used for this block of business with one exception. NM policyholders that had been eligible for a multi-policy discount because they had both HO and auto insurance with NM would receive a credit. Balboa filed a credit for this block of policies to compensate for the loss of multi-policy discount. The filing was approved effective May 2004.

There was a subsequent filing to increase the amount of the discount that was approved in September 2004. In October 2004, the Company began the process of transitioning the policies to Balboa as the policies came up for renewal. Information used to complete this transfer of business was done in a data download from NM to Balboa.

According to the Company's filed rules all dwellings in this program must be insured for 100% of replacement value. The factors that make up the calculation of the replacement value (*coverage A*) are based on construction costs provided by a vendor and broken out by zip code. Rate tables broken down in cost per thousand for *coverage A* and including zip code were filed and approved by the OIC. The Company's system is designed to multiply the square footage of the dwelling with the square footage construction factor to calculate the replacement cost for *coverage A*. The replacement cost is then matched to the rate table and the premium for *coverage A* is determined. Rates for all the Balboa policies in the sample were calculated in this manner. The NM rates were not always calculated in the same way as Balboa policies.

The examiners found the following issues when reviewing this block of business:

> The examiners found that in 1,125 instances, the Company did not follow the filed rules. When NM did not have accurate square footage of the dwelling, it set the default at 1,000 sq. ft. and passed this information on to Balboa. Balboa did not question the value and therefore used an incorrect value to determine the *coverage A* value. The result of this action was that homes are either undervalued or overvalued because the incorrect value from the rate table was used.

The examiners found that in some cases, Balboa did not follow the filed rating plan. In the instances where the *coverage A* value created a differential between NM and Balboa that was either more than 30% or more than $50,000 in *coverage A* value the Company made a decision to adjust either the premium or the limits over a period of time. This was not included in the filed rate plan. Therefore, the Company was using an unfiled rate plan for the 374 policies processed in this manner

Subsequent event: The Companies provided and implemented a plan to immediately start re-underwriting this book of business as it renews.

RENEWAL, CANCELLATION AND NON-RENEWAL

The examiners selected 100 of 20,767 commercial policies and 110 of 517 personal policies that were either cancelled or non-renewed during the exam period. The files were reviewed to determine if the Companies were in compliance with the state laws governing policy non-renewal or cancellation. Renewal policies selected in the Underwriting sample of the examination were also considered in this section.

Findings

The following Renewal, Cancellation and Non-renewal Standard Passed without Comment:

#	RENEWAL, CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
1	**The Companies do not cancel or refuse to renew policies because the agent is no longer affiliated with the company.**	**RCW 48.17.591**

The following Renewal, Cancellation and Non-renewal Standard Passed with Comment:

#	RENEWAL, CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
2	**The Companies send offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination.**	**RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292**

Standard #2:

- One (1) insured was given 19 days notice instead of the required 45 days.
- One (1) policy was re-tiered into a higher priced program. The insured was not notified of the change as required.

See Appendix 4 for detail.

The following Renewal, Cancellation and Non-renewal Standard Failed:

#	RENEWAL, CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
3	**The Companies include the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.**	**WAC 284-30-570 Bulletin 96-2**

Standard #3:

- Five thousand four hundred eighty five (5,485) notices contained wording which stated that State Law requires the insured to submit a written request within 90 days for additional information about the Companies' actions. There is no such law in Washington. The applicable regulation requires that the notice contains enough information so the insured does not have to do any follow-up to understand the reason for the Company's decision. This language is erroneous and is in violation because it implies that there is additional information to help the insured understand the Company's actions, or that the information on the notice may not be the only reasons for the Companies' actions. The Companies removed this language from the notices effective July 14, 2005, prior to the start of the examination.

- Two policies did not contain a reason for the Companies' action, or the reason did not contain enough detail for the insured to understand the Companies' action without making an additional inquiry.

See Appendix 4 for detail.

CLAIM SETTLEMENT PRACTICES

The examiners reviewed 89 of 3,344 claims that were closed during the exam period. The claims were handled from the home office of the Companies, except leased equipment claims which were handled by the general agent that wrote the policies. Claims were from four specific policy types: homeowners, leased equipment, fire and allied lines, and collateral gap.

Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of applicable coverage
- Procedures for establishing actual cash value of total losses
- Documentation of claim files

Findings

The following Claim Settlement Standards Passed without Comment:

#	CLAIM SETTLEMENT STANDARD	REFERENCE
1	**The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.**	**WAC 284-30-330**
3	**The Companies provided an explanation of all pertinent coverage to first party claimants.**	**WAC 284-30-350**
4	**The Companies acknowledge receipt of a claim within 10 days, and respond to all communications on a claim file within the time frames prescribed.**	**WAC 284-30-360(1) (3) and (4)**
7	**The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.**	**WAC 284-30-390, WAC 284-30-3901-3916**
8	**The Companies comply with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.**	**WAC 284-30-395 (1)**
9	**The Companies surrender titles for total loss vehicles to the Department of Licensing or provide other authorized documentation as required.**	**RCW 46.12.070, WAC 308-56A-460**

The following Claim Settlement Standards Passed with Comment:

#	CLAIM SETTLEMENT STANDARD	REFERENCE
2	**The Companies claim files contain detailed log notes and work papers so as to allow reconstruction the claim file.**	**WAC 284-30-340**
5	**The Companies comply with requirements for prompt investigation of claims.**	**WAC 284-30-370**
6	**The Companies must accept or deny coverage within 15 days after receiving proof of claim.**	**WAC 284-30-380**

Standard#2:

- Two (2) files did not contain sufficient documentation to explain the claim handler or independent adjuster activity or gaps in activity in the files.

Standard #5:

- Three (3) files were not investigated promptly. The delays were caused by one of the following reasons: Claim handler delay in initial investigation, delay in reporting by independent adjuster, or delays by the general agent, who controlled the handling of the claim.

Standard #6:

- Three files (3) were not settled or denied within the required timeframes, and there was no documented reason to explain the delay.

See Appendix 5 for detail.

SUMMARY OF STANDARDS

Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies are required to hold a certificate of authority from the OIC prior to transacting insurance in the State of Washington. (RCW 48.05.030(1))	8	X	
2	The Companies are required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding Companies. (RCW 48.07.070)	N/A		

General Examination:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	8	X	
2	The Companies do business in their own legal name. (RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06)	8		X
3	The Companies maintain full and accurate records and accounts. (RCW 48.05.280)	8	X	
4	The Companies filed an antifraud plan with the Office of Insurance Commissioner and files annual anti-fraud reports with the OIC. (RCW 48.30A.045, RCW 48.30A.060)	8	X	

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Companies in any way. (RCW 48.17.060(1) and (2))	9	X	
2	The Companies require that agents are appointed to represent the Companies prior to allowing them to solicit business on behalf of the Companies. (RCW 48.17.160)	9		X
3	The Companies must notify the OIC when an agent's appointment is revoked. (RCW 48.17.160 (3))	9	X	

#	STANDARD	PAGE	PASS	FAIL
4	The Companies must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract, (RCW 48.17.591(2))	9	X	

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4)	10	X	

Underwriting and Rating:

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage (during underwriting) are valid until the policy is issued or ninety days, whichever is shorter and shall identify the Company providing the coverage and effective dates. (RCW 48.18.230(1), WAC 284-30-560)	11	X	
2	The Companies require an insured to reject or request lower underinsured (UIM) limits in writing. (RCW 48.22.030(3) and (4))	11	X	
3	The Companies require an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	11	X	
4	During underwriting, the Companies obtain and use only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance. (RCW 48.30.310, RCW 46.52.130, WAC 308-104-145, Bulletin 79-3)	11	X	
5	The Companies apply schedule rating plans to all policies as applicable in its filings. (WAC 284-24-100)	11	X	
6	The Companies retain all documentation related to the development and use of (a) rates. (WAC 284-24-070)	11	X	
7	The Companies may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	11	X	
8	Binders must identify the insurer in which they are bound, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received. (WAC 284-30-560(2)(a))	11	X	
9	An insurer, when using credit scoring to underwrite, may not	N/A		

#	STANDARD	PAGE	PASS	FAIL
	use the following factors: the number of credit inquires; collections identified with medical industry code; the purchase of a new vehicle or home (some exceptions); or insurer cannot use total available line of credit to set rates or deny coverage. (WAC 284-24A-065)(1) through (6)) *Effective 06/30/03*			
10	The insurer informs the consumer of the significant factors adversely affecting the credit history or insurance score and explains significant factors that lead to adverse action in clear and simple language. (WAC 284-24A-010)(1) and (2). *Effective 06-30-2005 and T2005-06 issued October 10, 2005*	N/A		
11	The insurer filed the credit scoring model by January 1, 2003. Related rates, risk classification plans, rating factors and rating plans were filed and approved by June 30, 2003. (WAC 284-24A-015(1))	N/A		
12	No insurer may alter an application for insurance without the insured's written permission. (RCW 48.18.070)	11	X	

Rate and Form Filing:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100)	12	X	
2	Where required, the Companies have filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and do not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040(1) and (6))	12		X
3	The policy must identify all forms that make up the policy. The policy will identify all coverage limits. (RCW 48.18.140(2)(a)-(f))	12	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	12	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	12	X	
6	Personal Injury Protection forms issued by the Companies contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	12	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	12	X	

Renewal, Cancellation and Non-Renewal:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies do not cancel or refuse to renew policies because the agent is no longer affiliated with the company. (RCW 48.17.591)	13	X	
2	The Companies send offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	14	X	
3	The Companies include the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570, Bulletin 96-2)	14		X

Claim Settlement:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	15	X	
2	The Companies claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file. (WAC 284-30-340)	15	X	
3	The Companies provided an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	15	X	
4	The Companies acknowledge receipt of a claim within 10 days, and respond to all communications on a claim file within the time frames prescribed. (WAC 284-30-360(1),(3) and (4))	15	X	
5	The Companies comply with requirement for prompt investigation of claims. (WAC 284-30-370)	15	X	
6	The Companies must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	15	X	
7	The Companies settle automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390, WAC 284-30-3901-3916)	15	X	
8	The Companies comply with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395 (1))	15	X	
9	The Companies surrender titles for total loss vehicles to the Department of Licensing or provide other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	15	X	

INSTRUCTIONS AND RECOMMENDATIONS

#	INSTRUCTION	PAGE NUMBER
1	The Companies are instructed to ensure that all correspondence and forms identify the legal name of the insurer in compliance with RCW 48.05.190(1). Letterhead or forms that include the names of all companies in the group or the name of the parent company must clearly identify the actual insuring company in the document itself. (General Examination Standard #2)	8
2	The Companies are instructed to comply with RCW 48.17.160 (1) and (2) and ensure that all agents are appointed prior to soliciting business for the Companies. (Agent Activity Standard #2)	9
3	The Companies are instructed to comply with RCW 48.19.040(1) and (6) to ensure that no policies are issued that are not in accord with the filing of rates and rules in effect. (Rate & Form Filing Standard #1)	12
4	The Companies are instructed to comply with WAC 284-30-570 to ensure that cancellation or non-renewal notices comply with the requirements to identify the true reasons for the Companies actions and that the information is sufficient so the insured would not need to make further inquiries to understand the decision to cancel or non-renew. (Renewal & Cancellation Standard #3)	14

#	RECOMMENDATION
1	It is recommended that the Companies review their policies and procedures for claim handling when using independent adjusters or appraisers to ensure that these vendors are held to standards that ensure compliance to Washington law.

APPENDIX 1

GENERAL EXAMINATION STANDARD #2	The Companies do business in its own legal name. Ref: RCW 48.05.190(1)
Policy or claim number	**Comments**
CT5602854	Correspondence on the claim file did not properly identify the insuring Company. The signature block said "Balboa Insurance Group."
B5327607	A release used by the Companies did not identify the insurer. The release identified the Company as Balboa Life and Casualty.
THB 662748	Correspondence on the claim file identified the wrong insurance Company as the insurer.
8 policies	Policy declaration pages showed both Balboa Life & Casualty and Balboa Insurance Company and did not show which Company was the group name or which was the insurer name.
50 cancelled or non-renewed policies	The notices had both Balboa Life & Casualty (the company group name) and Balboa Insurance Company on the form but did not identify which Company was the actual insurer.

APPENDIX 2

AGENT ACTIVITIES STANDARD #2	The Companies must require that agents are appointed to represent the Companies prior to allowing them to solicit business on behalf of the Companies. Ref: RCW 48.17.160
Agent or agency name	**Comments**
Bastien Insurance, Inc.	20 policies were issued prior to the appointment of the agency to represent the Companies.
Brook Agency Services Company, LLC.	445 policies were issued prior to the appointment of the agency to represent the Companies.

APPENDIX 3

UNDERWRITING AND RATING STANDARD #5	The Companies apply schedule rating plans to all policies as applicable in its filings. Ref: WAC 284-24-100
Policy number	**Comments**
5992-1574	Schedule rating worksheets in the file were incomplete; therefore the analysis of the underwriter was not fully explained.
5327-1770	Schedule rating worksheets in the file were incomplete; therefore the analysis of the underwriter was not fully explained.
5327-1608	Schedule rating worksheets in the file were incomplete; therefore the analysis of the underwriter was not fully explained.
6011-8011 6011-9012	Schedule rating worksheets were completed by the general agent. The same debits were applied to both policies. The Company agreed that the worksheets had not been completed properly after reviewing with the agent and that the information on one of the sheets had been copies for the other file.

APPENDIX 4

RENEWAL, CANCELLATION OR NON-RENEWAL STANDARD #2	**The Companies send offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination.** **Ref: RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292**
Policy number	**Comments**
THB 000660098	19 days notice was given in place of the 45 days notice required.
THB 3572418	The Company moved the insured into a higher priced homeowners tier due to the age of the home which caused an increase in the premium. The Company did not tell the insured that the reason for the increase in premium was due to the rate increase as required by RCW 48.18.2901.
RENEWAL, CANCELLATION OR NON-RENEWAL STANDARD #3	**The Companies include the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.** **Ref: WAC 284-30-570**
MMB 765024	No reason was given for the non-renewal.
THB000579975	The reason given for the Company's action on the non-renewal notice did not comply with the law as it did not contain enough information for the insured. The reason given was an exceeding number of claims. The notice did not give the number or dates of the claims.
5,485 policies	Cancellation or non-renewal notices to policy holders contained a statement that says in part that State law requires the insured to submit a written request within 90 days for additional information about the reasons for the Companies actions. This implies that the notice may not contain complete information or the reasons are not sufficiently clear as required by the code. This is also not an accurate statement as there is no such law in WA.

APPENDIX 5

CLAIM SETTLEMENT STANDARD #2	**The Companies claim files contain detailed log notes and work papers that allow reconstruction of the claim file. Ref: WAC 284-30-340**
Claim Number	**Comments**
CT571778	Claim file does not document any reason for the delay of the claims investigation.
MMB773684	Claim file does not document any reason for the delay of the claims investigation
CLAIM SETTLEMENT STANDARD #5	**The Companies comply with requirements for prompt investigation of claims. Ref: WAC 284-30-370**
CW4267136	This claim was open from July 26- Sept 14. There is no evidence in the file that this claim could not have been investigated and closed within the first 30 days.
CT571778	The claim was open from May to December. There was nothing in the file to indicate why the investigation took so long. It appeared that there were long periods of time where the claim handler just re-set the diary, but did nothing to move the claim towards conclusion.
AFQ0029513	This claim was denied, as there was no coverage. The determination of this took more than 30 days, Oct 19-Dec 21. There was no documentation in the file to explain why this could not have been completed within a 30 day time-frame.
CLAIM SETTLEMENT STANDARD #6	**The Companies accept or deny coverage within 15 days after receiving proof of claim. Ref: WAC 284-30-380**
CT571778	The claim was denied many months after receiving the information needed to make a decision.
MMB931407	All the claim information was received except pictures of the loss. The claim handler delayed the payment of the loss waiting for the pictures. After the pictures were received it still took 2 weeks to make the payment. There was sufficient supporting information in the file to pay the claim without the photos.
MMB773684	The claims investigation took over a month. The reasons for the delay are not documented, and it appears that the delay was lack of supervision of the independent adjuster.

Balboa
INSURANCE GROUP

Mel Martinez
Senior Vice President/Senior Legal Counsel
Enterprise Regulatory Affairs

RECEIVED
NOV 17 2006
INSURANCE COMMISSIONER
COMPANY SUPERVISION

November 15, 2006

Via Electronic and Overnight Mail

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
State of Washington
Office of Insurance Commissioner
5000 Capitol Blvd
Turnwater, WA 98501

Re: Balboa Insurance Company and
Meritplan Insurance Company - Market Conduct Examination

Dear Mr. Odiorne:

Balboa Insurance Company and Meritplan Insurance Company (collectively "Balboa") are responding to the draft referenced report of examination presented on behalf of the State of Washington, Office of Insurance Commissioner ("WA OIC").

The following are our comments:

#2 General Examination Standard

The Companies do business in their own legal name. RCW 48.05.190(1), Bulletin 78-7, Technical Advisory T 2000-06

With the exception of the few policies that identified the wrong insurer, the WA OIC suggests that Balboa's long-standing NAIC group name and logo, which was generally represented in blue on the referenced documents, may confuse or mislead consumers notwithstanding the fact that the insurance company name was also represented on the same document. We find no authority provided by the WA OIC that prohibits Balboa's prior practice so long as the referenced document also included the insurance company name.

It should be noted that Balboa has since changed its NAIC group name and logo. The current group name and logo has since been determined acceptable by the WA OIC.

3 Renewal, Cancellation and Non-Renewal

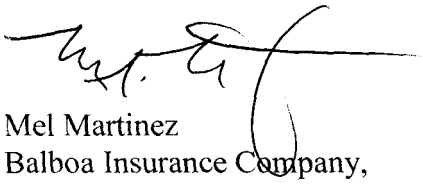
The Companies include the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. WAC 284-30-570, Bulletin 96-2

With the exception of the two policies noted, all other notices examined by the WA OIC did contain the actual reason for canceling, denying or refusing to renew an insurance policy in compliance with state law. The WA OIC's position is that because Balboa provided the policyholder with an additional opportunity to contact Balboa for additional information, the notices were rendered noncompliant. Balboa recognizes that it was in error when it stated that state law requires the insured to submit a written request in 90 days for additional information. However, Balboa does not believe that the policyholder's rights were prejudiced in any way by the statement and in fact provided the policyholder with an additional opportunity to request information beyond that which the WA OIC found sufficient in all notices examined, save two. Balboa is not aware of any state law that prohibits an insurance carrier from providing a policyholder with an opportunity to request additional information about the action of an insurance carrier.

It should also be noted that Balboa removed the language in question before the WA OIC examination. A compliance review of the notices during the conversion from a third party administration system identified the unnecessary language.

In closing, Balboa would like to express its appreciation to the WA OIC for the professional manner in which the examination was conducted, in particular, our appreciation goes to Sally Anne Carpenter, AIE and Shirley M. Merrill.

Respectfully,



Mel Martinez
Balboa Insurance Company,
Meritplan Insurance Company