MARKET CONDUCT EXAMINATION

AMERICAN COMMERCE INSURANCE COMPANY

3590 TWIN CREEKS DRIVE
COLUMBUS, OHIO 43204

JULY 1, 2004 through JUNE 30, 2005

Order No. G 06-60
American Commerce Insurance Company
Exhibit A

TABLE OF CONTENTS

Section	Page
Table of Contents	2
Salutation	3
Chief Examiner's Report Certification & Acknowledgements	4
Foreword, Scope and Sampling Standards	5
Company History and Operations	7
Operations and Management	7
General Examination Practices	8
Agent Activities	8
Complaints	9
Underwriting and Rating	9
Rate and Form Filing	11
Renewal, Cancellation and Non-Renewal	12
Claim Settlement Practices	14
Summary of Standards	16
Instructions and Recommendations	20
Appendices	21

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 Company:

American Commerce Insurance Company NAIC #19941

In this report, the above entity is also referred to as the Company.

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 of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

Ms. Carpenter wishes to express appreciation for the courtesy and cooperation extended by the personnel of the American Commerce Insurance Company during the course of this market conduct examination, including those people that provided daily support to the examiner.

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 Krier

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

This is the first examination of the American Commerce Insurance Company by the Washington OIC.

The examination covered the Company's operations from July 1, 2004 through June 30, 2005. The examination was performed in the Company's claims office in Clackamas, Oregon and in the Office of the Insurance Commissioner (OIC) in Seattle, Washington.

Matters Examined

The examination included the following areas:

- Operations and Management
- General Examination Practices
- 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 Washington
American Commerce Insurance Company	Ohio	September 18, 1946	July 20, 1960

The Company was incorporated as Automobile Club Insurance Company under the laws of Ohio on September 18, 1946 and began business March 19, 1947.

The Company was purchased in December 1988 by the California State Automobile Association and the American Automobile Association who held it until it was sold to the ACIC Holding Company (AHC) in January of 1999. AHC was owned by Commerce Insurance Company. Through corporate restructure the ACIC became a direct subsidiary of the Commerce Holdings, Inc. in 2003.

The Company is a member of the Commerce Holdings group of companies (CHI) which is publicly traded on the New York Stock Exchange.

The Company writes the following lines of business:

Automobile	Homeowners
Condominium	Mobile Home
Dwelling Fire	Boat
Umbrella	

Gerald Fels is the President of the Company.

OPERATIONS AND MANAGEMENT

Findings

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

The following Operations and Management Standard Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	**The Company is 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 PRACTICES

Findings

The following General Examination Practices Standards Passed without Comment:

#	GENERAL EXAMINATION PRACTICES STANDARD	REFERENCE
1	**The Company made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner.**	**RCW 48.03.030(1)**
2	**The Company does business in its own legal name.**	**RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06**
3	**The Company maintains full and accurate records and accounts.**	**RCW 48.05.280**
4	**The Company 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**

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 Company. As part of the review the examiners compared the Company's agency appointment records with the OIC records to ensure that agents soliciting business for the Company were licensed and appointed prior or soliciting business on behalf of the Company as required by Washington law.

Findings

The following Agent Activity Standards Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	**The Company ensures 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 Company in any way.**	**RCW 48.17.060(1) and (2)**
2	**The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company.**	**RCW 48.17.160**
3	**The Company must notify the OIC when an agent's appointment is revoked.**	**RCW 48.17.160(3)**
4	**The Company must give an agency with a written agency contract at least 120 days notice of its intent to terminate the**	**RCW 48.17.591(2)**

#	AGENT ACTIVITY STANDARD	REFERENCE
	contract.	

COMPLAINTS

The examiners reviewed the Company's complaint log, procedures and the complaints filed in the OIC database. There were 58 complaints filed between January 1, 2003 and December 31, 2005 with the OIC. There was approximately the same number of complaints filed each of the three years reviewed.

Complaints were distributed with about 80% arising from claim processing and 20% generated from underwriting, cancellations and customer service. Claim complaints included delay in the payment of medical bills under Personal Injury Protection (PIP) coverage, investigations not completed promptly, and total loss valuation disputes. Underwriting complaints were generated from non-renewal or cancellation issues.

There were no trends identified.

Findings

The following Complaint Standard Passed without 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 100 of 38,843 policies that were either new or renewed during the exam period.

Files were reviewed to determine if the Company:

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

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

Findings

The following Underwriting Standards Passed without Comment:

#	UNDERWRITING 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 Company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.**	**RCW 48.22.030(3) and (4)**
4	**During underwriting, the Company uses 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**
5	**The Company applies schedule rating plans to all policies as applicable in its filings.**	**WAC 284-24-100**
6	**The Company retains all documentation related to the development and use of (a) rates.**	**WAC 284-24-070**
7	**The Company 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 Standard Passed with Comment:

#	UNDERWRITING STANDARD	REFERENCE
3	**The Company requires an insured to reject Personal Injury Protection (PIP) coverage in writing.**	**RCW 48.22.085(2)**

Standard #3:

- The Company was unable to provide a copy of the signed PIP rejection on one (1) underwriting file. The Company verified that the insured had never reported a claim during any policy period. The Company confirmed that the policyholder is no longer insured with the Company. This appeared to be an administrative error where the form did not get imaged, as the Company was able to produce the document on all the other policies that were sampled.

RATE AND FORM FILING

The examiner 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 Company was complying with laws regarding form filing.

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

Underwriting Standards #5 and #7 were not applicable to this examination as they pertain to commercial insurance.

Findings

The Company was unable to provide documentation that its rating plan for boats was filed. The filing was so old that the records could not be located in either the OIC archives or the Company archives. There was evidence of amendments to forms that would have been approved in the original filing in the OIC records. The Company was asked to re-file the rates to ensure there was documentation of approved rates. The filing was approved July 6, 2006.

The examiners identified a conflict between the way the Company had rated vehicles with Uninsured Motorist (UIM) coverage and the rating manual. The Company was applying the Loyal Customer Discount (LCD) to all coverages. The Underwriting Manual stated that no discounts apply to UIM coverage. The Company's intent was to have the discount apply to the UIM coverage and provided documentation from the original filing for the discount that was approved showing its intent to apply the discount to UIM Coverage. The Company advised that it had taken steps to correct the manual.

The following Rate and Form Filing Standard 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 declarations page of a 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**
6	**Personal Injury Protection forms issued by the Company contain coverage definitions and limits that conform to Washington law.**	**RCW 48.22.095** **RCW 48.22.005**

The following Rate and Form Filing Standard Passed with Comment:

#	RATE AND FORM FILING STANDARD	REFERENCE
2	**Where required, the Company has filed with the OIC classification manuals, manuals of rules and rates, rating**	**RCW 48.19.040(1) and (6)**

#	RATE AND FORM FILING STANDARD	REFERENCE
	plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect.	

Standard #2:

- The April 2003 Company's Homeowners Program – Property Risk Selection Guide for Washington states the following at the top of page 1: "**All homeowner applications must be submitted with a completed replacement cost estimator, preferably using the square foot method.**" The examiners requested this documentation on eight (8) policies in the sample that were new to the Company in either 2004 or 2005 to see if the Company was enforcing the guidelines sent to its agency force. The Company provided the documentation on three (3) of the eight (8) policies. The examiners determined the Company was not following its own underwriting guidelines regarding this requirement. The Company has other methods, including an online program to determine replacement values available to the agents. As these guidelines are not part of the Company's underwriting manual and filing there are no violations.

RENEWAL, CANCELLATION AND NON-RENEWAL

The examiners selected 123 of 7,712 policies that were either cancelled or non-renewed during the exam period. The files were reviewed to determine if the Company was 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 Standards Passed without Comment:

#	RENEWAL, CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
1	**The Company does 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 Standards Passed with Comment:

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

#	RENEWAL, CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
	notifying the insured.	

Standard #2:

The Company sent notices to insureds who had not accepted the Company's offer to renew the policy at expiration. The notice gave the insured one more opportunity to renew the policy. The notice was labeled a personal auto insurance cancellation notice. The notice is not a cancellation notice and was only intended to be a courtesy notice confirming the expiration of the policy.

Subsequent event: The Company has agreed to re-word the form and remove the word "cancellation." Programming will take 60-90 days. It will be worded as a confirmation that the policy expired.

Standard #3:

- The Company used a form "Automobile Notice of Payment Due" for its customers who had selected payment options for periodic payments. The notice states: "Please pay either the total balance or the minimum amount due. Just a reminder....we must receive your payment in our office by the payment date due shown in order to continue your coverage." The notice is also designed to act as the notice of cancellation for non-payment if the insured does not pay the premium. If the premium is not received by the due date the Company sends a confirming notice that the policy was cancelled for non-payment.

Subsequent event: The Company agreed to change and clarify the language on the invoice to include wording that states the policy will be "cancelled" on the date the payment is due if the payment is not received.

- Policyholders who had moved out of state received non-renewal notices that gave the correct reason for the Company's actions in compliance with WAC 284-30-570. However, the notices also contain the following: "P.S. STATE LAW REQUIRES US TO PROVIDE YOU WITH THE ACCOMPANYING NOTICES. PLEASE READ THEM CAREFULLY"

  The referenced notices were on the second page of the document. They discussed the following:

  1. how to request additional information within a specific timeframe
  2. how to get a review of the decision by the Superintendent of Insurance ($5.00 deposit)
  3. a statement that starts "in accordance with State Law..." and requires a signature and a hold harmless for additional information about the termination.

Subsequent event: The Company implemented the correction of this notice during the examination to remove the statement "P.S. STATE LAW REQUIRES ..." and the accompanying notices.

CLAIM SETTLEMENT PRACTICES

The examiners reviewed 100 of 6,483 claims that were closed during the exam period. The examiners reviewed an additional 20 of 338 claims that involved first party total loss settlements that were closed during the exam period.

Files were reviewed for:

- Compliance with Washington laws
- Timeliness of contact with claimants
- Promptness of payments

Findings

The following Claim Settlement Standards Passed without Comment:

#	CLAIM SETTLEMENT STANDARD	REFERENCE
1	**The Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.**	**WAC 284-30-330**
3	**The Company provided an explanation of all pertinent coverage to first party claimants.**	**WAC 284-30-350**
4	**The Company acknowledges receipt of a claim within 10 days, and responds to all communications on a claim file within the time frames prescribed.**	**WAC 284-30-360(1)(3) and (4)**
5	**The Company complies with requirement for prompt investigation of claims.**	**WAC 284-30-370**
8	**The Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.**	**WAC 284-30-395(1)**
9	**The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required.**	**RCW 46.12.070, WAC 308-56A-460**

The following Claim Settlement Standard Passed with Comment:

#	CLAIM SETTLEMENT STANDARD	REFERENCE
6	**The Company must accept or deny coverage within 15 days after receiving proof of claim.**	**WAC 284-30-380**

Standard #6:

- One (1) file contained log notes that indicated the claim was denied for lack of documentation. The Company failed to deny the claim in writing even though the claim handler's notes stated the reason for the denial was based on policy conditions.

The following Claim Settlement Standards Failed:

#	CLAIM SETTLEMENT STANDARD	REFERENCE
2	**The Company claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file.**	**WAC 284-30-340**
7	**The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.**	**WAC 284-30-390, WAC 284-30-3901-3916**

Standard #2:

- Three files (3) did not contain documentation to show that titles on total loss vehicles were surrendered as required to the Department of Motor Vehicles.

- Seven (7) files did not contain sufficient detail about the settlement offers made or the log notes did not breakdown the settlements into components to determine if the total losses were settled appropriately.

See the Appendix 1 for detail.

Standard #7:

- One (1) file contained log notes stating that the Company would not provide the insured the name of a shop or shops who could repair the insured's vehicle for the amount of the appraisal. The reason given was that it was the Company's policy not to do so, in violation of WAC 284-30-3903(3)(a).

- Two (2) files contained market research lists provided by vendors that did not satisfy the requirements of WAC 284-30-3907 because the vehicles were not documented as being comparable to the insured's vehicle, or the vehicles were out of the local market area.

- Six (6) files did not evidence that taxes and fees that were paid as part of the total loss settlement. Refunds to six insureds totaled $178.76.

See Appendix 2 for detail.

SUMMARY OF STANDARDS

Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Company is required to hold a certificate of authority from the OIC prior to transacting insurance in the State of Washington. (RCW 48.05.030(1))	7	X	
2	The Company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding Company. (RCW 48.07.070)	N/A		

General Examination Practices:

#	STANDARD	PAGE	PASS	FAIL
1	The Company 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 Company does business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06)	8	X	
3	The Company maintains full and accurate records and accounts. (RCW 48.05.280)	8	X	
4	The Company 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 Company ensures 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 Company in any way. (RCW 48.17.060(1) and (2))	8	X	
2	The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company. (RCW 48.17.160)	8	X	
3	The Company must notify the OIC when an agent's appointment is revoked. (RCW 48.17.160(3))	8	X	

#	STANDARD	PAGE	PASS	FAIL
4	The Company 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))	8	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)	9	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)	10	X	
2	The Company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing. (RCW 48.22.030(3) and (4))	10	X	
3	The Company requires an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	10	X	
4	During underwriting, the Company uses 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)	10	X	
5	The Company applies schedule rating plans to all policies as applicable in its filings. (WAC 284-24-100)	10	X	
6	The Company retains all documentation related to the development and use of (a) rates. (WAC 284-24-070)	10	X	
7	The Company 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)	10	X	
8	Binders must identify the insurer in which they are bound, briefly describe the coverage, state the date and time coverage is	10	X	

#	STANDARD	PAGE	PASS	FAIL
	effective and acknowledge any premium received. (WAC 284-30-560(2)(a))			
9	An insurer, when using credit scoring to underwrite, may not use the following factors: the number of credit inquiries; 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*	N/A		
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)	10	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)	11	X	
2	Where required, the Company has 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, does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040(1) and (6))	11	X	
3	The declaration page of 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))	11	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	11	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	N/A		
6	Personal Injury Protection forms issued by the Company contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	11	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	N/A		

Renewal, Cancellation and Non-Renewal:

#	STANDARD	PAGE	PASS	FAIL
1	The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the Company. (RCW 48.17.591)	12	X	
2	The Company sends 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)	12	X	
3	The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570, Bulletin 96-2)	12	X	

Claim Settlement:

#	STANDARD	PAGE	PASS	FAIL
1	The Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	14	X	
2	The Company 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 Company provides an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	14	X	
4	The Company acknowledges receipt of a claim within 10 days, and responds to all communications on a claim file within the time frames prescribed. (WAC 284-30-360(1),(3) and (4))	14	X	
5	The Company complies with requirements for prompt investigation of claims. (WAC 284-30-370)	14	X	
6	The Company must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	14	X	
7	The Company settles 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 Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395(1))	14	X	
9	The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	13	X	

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTIONS

#	INSTRUCTION	PAGE NUMBER
1	The Company is instructed to comply with WAC 284-30-340 and ensure that claim files contain log notes in sufficient detail that pertinent events and the dates of those events can be reconstructed.	15
2	The Company is instructed to comply with WAC 284-30-3901-3916 to ensure that all automobile total loss settlements include the appropriate taxes and fees. The Company is further instructed to ensure that the total loss market valuations that are used comply with the law. The Company is also instructed to ensure that its policies and procedures are in compliance with WAC 284-30-3903(3)(a).	15

RECOMMENDATIONS

#	RECOMMENDATION
1	It is recommended that the Company revise its Property Risk Selection Guide of Washington to reflect what is actually being accepted by the Company to establish replacement values on homes.
2	It is recommended that the Company conduct a training session for claims personnel handling Washington claims specifically focusing on the requirements of Washington unfair trade practices with specific emphasis place on WAC 284-30-340 and WAC 284-30-3901-3916.

APPENDIX 1

CLAIM SETTLEMENT STANDARD #2	Company claim files contained detailed log notes and work papers that allow reconstruction of the claim file. Ref: WAC 284-30-340
Claim number	**Comments**
472349	Claim file documentation did not contain sufficient information to be able to show that the titles for the total loss automobiles were sent to the Dept. of Licensing (DOL) as described in Standard #9. The Company was able to research and recover information that showed the vendor handling salvage handled the title transactions to the DOL. The Company is able to access this information on-line through a direct link.
473038	Claim file documentation did not contain sufficient information to be able to show that the titles for the total loss automobiles were sent to the Dept. of Licensing (DOL) as described in Standard #9. The Company was able to research and recover information that showed the vendor handling salvage handled the title transactions to the DOL. The Company is able to access this information on-line through a direct link.
460148	Claim file documentation did not contain sufficient information to be able to show that the titles for the total loss automobiles were sent to the Dept. of Licensing (DOL) as described in Standard #9. The Company was able to research and recover information that showed the vendor handling salvage handled the title transactions to the DOL. The Company is able to access this information on-line through a direct link.
393336	Title fees or other fees incident with the total loss valuation were not included in the original settlement. Breakdown of the settlement was not documented. An additional $25.57 was sent to the insured.
475008	Title fees or other taxes and fees incident to the total loss valuation were not included in the original settlement. Breakdown of the fees that were included were not documented. An additional $26.75 additional was sent to the insured.
485007	Title fees or other taxes and fees incident to the total loss valuation were not included in the original settlement. Breakdown of the fees that were included were not documented. An additional $64.41 additional was sent to the insured.
493868	Title fees or other taxes and fees incident to the total loss valuation were not included in the original settlement. Breakdown of the fees that were included were not documented. An additional $20.53 additional was sent to the insured.

CLAIM SETTLEMENT STANDARD #2	Company claim files contained detailed log notes and work papers that allow reconstruction of the claim file. Ref: WAC 284-30-340
Claim number	**Comments**
488606	File documentation did not include a breakdown of the settlement's title fees or other taxes and fees. Recalculation produced a result less than $1.
466090	Title fees or other fees incident with the total loss valuation were not included in the original settlement. An additional $19.22 was sent to the insured.
477967	Some title fees were included, but it was not documented as to how they were calculated. Re-valuation indicated that the fees had not been paid correctly. An additional $22.28 was sent to the insured

APPENDIX 2

CLAIM SETTLEMENT STANDARD #7	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. Ref: WAC 284-30-390 and WAC 284-30-3901-3916
Claim number	**Comment**
484174	The Company refused to provide the insured the name of a shop or shops that could repair the insured's vehicle for the amount of the appraisal. The reason was that it was the Company's policy not to do so.
463295	Vehicles included in the vendor's market search and ACV valuation included vehicles as far away as Miami FL. The vehicles were not documented as being in similar condition to the insured's vehicle.
473038	The Company used a list of vehicles provided by a vendor that included vehicles that did not meet the requirements of WAC 284-30-3907.
466090	Title fees or other fees incident with the total loss valuation were not included in the original settlement. $19.22 was sent to the insured.
393336	Title fees or other fees incident with the total loss valuation were not included in the original settlement. $25.57 was sent to the insured.
475088	Title fees or other taxes and fees incident to the total loss valuation were not included in the original settlement. Breakdown of the fees that were included were not documented. $26.75 additional was sent to the insured.
485007	Title fees or other taxes and fees incident to the total loss valuation were not included in the original settlement. Breakdown of the fees that were included were not documented. $64.41 additional was sent to the insured.
493868	Title fees or other taxes and fees incident to the total loss valuation were not included in the original settlement. Breakdown of the fees that were included were not documented. $20.53 additional was sent to the insured.
477967	File documentation did not include a breakdown of the settlement's title fees or other taxes and fees. Recalculation produced a result less than $22.28.

American Commerce Insurance Company
Member of The Commerce Group, Inc.
Executive Offices
211 Main Street, Webster, Massachusetts 01570-0758
Toll Free (800) 922-8276
www.acilink.com

September 13, 2006

RECEIVED
SEP 15 2006
INSURANCE COMMISSIONER
COMPANY SUPERVISION

VIA OVERNIGHT MAIL

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Washington State Insurance Commissioner's Office
5000 Capitol Boulevard
Tumwater, Washington 98501

RE: American Commerce Insurance Company, NAIC #19941
Washington Market Conduct Examination
Examination Period of July 1, 2004 through June 30, 2005

Dear Mr. Odiorne:

I am writing to you on behalf of American Commerce Insurance Company ("the Company") in response to your letter dated August 17, 2006, in which you have requested a response to the draft Market Conduct Examination Report ("the Report") of the Company.

As an initial matter, we would like to thank you for permitting the Company additional time until September 15, 2006 to respond to the Report. We would also like to extend our appreciation to Ms. Carpenter for the cordial and professional manner in which she conducted the examination.

The Company provides the following comments to the Report. The Report (p. 5) states the examination covered the Company's operations from July 1, 2004 through June 1, 2005. We believe this sentence should be corrected to reflect that the examination period ran through June 30, 2005.

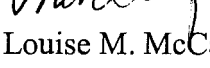
We note that, with respect to six (6) claim files, the Report cites the Company for two violations arising out of the same activity. There are six (6) claims files that appear both on the findings noted on page 15 of the Report (under Claim Settlement Standards #2 and #7) and the claims set forth in Appendix 1 and 2 of the Report. If it is determined by the Office of Insurance that the findings of this Report warrant enforcement activity,

we request that any such determination reflect that duplicate and overlapping findings have been made with respect to the same files in these instances.

We look forward to working with you to finalize this examination.

Please free to call me at (508) 949-4462 if you have any questions or if you would like additional information or assistance.

Very truly yours,



Louise M. McCarthy
Sr. Vice President & General Counsel