



DEPARTMENT OF  
INSURANCE AND FINANCIAL INSTITUTIONS

**REPORT OF MARKET CONDUCT EXAMINATION**

**OF**

**AUTO-OWNERS INSURANCE COMPANY**

**NAIC CoCode 18988**

**AND**

**OWNERS INSURANCE COMPANY**

**NAIC CoCode 32700**

**AS OF**

**July 31, 2021**

**AZ Exam No. 47125**

**NAIC MATS No. AZ-BORUNDAS-11**

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**Market Regulation and Consumer Services Division**  
**Arizona Department of Insurance and Financial Institutions**  
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**Katie Hobbs, Governor**  
**Shane W. Foster, Acting Director**

Acting Director Shane Foster  
Arizona Department of Insurance and Financial Institutions  
State of Arizona  
100 N. 15th Ave, Suite 261  
Phoenix, Arizona 85007-2624

Acting Director Foster:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Arizona, an examination has been made of the market conduct affairs of the:

**Auto-Owners Insurance Company, NAIC CoCode 18988**  
**And**  
**Owners Insurance Company, NAIC CoCode 32700**

Shelly Schuman, ACS, AIE, AMCM, CICSUR, CIS, FLMI, HIA, PAHM, Market Conduct Examination Supervisor, conducted the examination with the assistance of Bruce Glaser, CIE, MCM, AIRC, CPCU, CLU, ChFC, FLMI, ARM-Pe, CICSUR, CRIS, PAHM, Market Conduct Examiner-in-Charge, Tony Taylor, DM, MCM, Market Conduct Data Management Specialist, and George Kalargyros, MCM, LPCS, Market Conduct Insurance Examiner.

The examination covered the period of January 1, 2015, through July 31, 2021.

As a result of that examination, the following Report of Examination is respectfully submitted.

Sincerely yours,

A handwritten signature in blue ink that reads "Maria G. Ailor".

Maria G. Ailor, AIE, AMCM, Assistant Director  
Market Regulation and Consumer Services Division

AFFIDAVIT

STATE OF MISSOURI )  
 )  
COUNTY OF JACKSON ) ss.

Shelly Schuman, ACS, AIE, AMCM, CICS, CIS, FLMI, HIA, PAHM, being first duly sworn, states that I am a duly appointed Market Conduct Examination Supervisor for the Arizona Department of Insurance and Financial Institutions. That under my direction and with my participation and the participation of Bruce Glaser, CIE, MCM, AIRC, CPCU, CLU, ChFC, FLMI, ARM-Pe, CICS, CRIS, PAHM, Market Conduct Examiner-in-Charge, Tony Taylor, DM, MCM, Market Conduct Data Management Specialist, and George Kalargyros, MCM, LPCS, Market Conduct Insurance Examiner, the Examination of Auto-Owners Insurance Company, and Owners Insurance Company, hereinafter referred to as the "Company", was performed at the request of the Arizona Department of Insurance and Financial Institutions. A teleconference meeting with appropriate Company officials was held to discuss this Report, but a copy was not provided to management as the Examination was incomplete and had not yet been finalized. The information contained in this Report, consists of the following pages, is true and correct to the best of my knowledge and belief and any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.

*Shelly Schuman*

Shelly Schuman, ACS, AIE, AMCM, CICS, CIS, FLMI, HIA, PAHM,  
Market Conduct Examination Supervisor  
INS Regulatory Insurance Services, Inc.

Subscribed and sworn to before me this 26 day of February, 2023.

*Robbie L. Tubbs*

Notary Public

My Commission Expires: 03-10-23



ROBBIE L. TUBBS  
My Commission Expires  
March 10, 2023  
Jackson County  
Commission #15464082

## **FOREWORD**

This market conduct examination report of Auto-Owners Insurance Company and Owners Insurance Company (herein referred to as the “Company”) was prepared by employees of the Arizona Department of Insurance and Financial Institutions (Department) as well as independent examiners contracting with the Department. A market conduct examination reviews certain business practices of insurers licensed to conduct insurance business in Arizona. The examiners reviewed the Company in accordance with Arizona Revised Statutes (A.R.S.) §§ 20-142, 20-156, and 20-157. The findings in this report, including all work product developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the Private Passenger Automobile (PPA) and Homeowners (HO) business operations related to Underwriting and Rating.

Certain unacceptable or non-complying practices may not have been discovered during this examination. Additionally, findings may not be material to all areas that would serve to assist the Director.

Failure to identify or criticize specific Company practices does not constitute acceptance of those practices by the Department.

## **SCOPE AND METHODOLOGY**

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The purpose of the examination was to determine the Company’s compliance with Arizona's insurance laws.

The focus of the examination was the Company’s compliance with A.R.S. § 20-2110(F)(3) and the use of bankruptcies as an underwriting rating factor. The Company was requested to conduct a self-audit of its credit scoring models, for all of its Homeowners and Private Passenger Automobile Property and Casualty products sold in Arizona for the period from January 1, 2015, to July 31, 2021. The purpose of the self-audit was to determine if consumers were rated and paid

higher premiums as the result of a bankruptcy older than seven (7) years in violation of A.R.S. § 20-2110(F)(3). If violations were found as part of the self-audit, the Company would be required to submit a Corrective Action Plan (CAP) to remediate those violations.

### **HISTORY OF THE COMPANY**

Auto-Owners Insurance Company (AOIC) is organized and domiciled as a Michigan Corporation and operates as a mutually held insurance carrier. AOIC was founded and commenced business on July 1, 1916. The primary location of its books and records is in Lansing, Michigan. AOIC became authorized to write business in Arizona in 1981 and began writing business in Arizona in 1982.

Owners Insurance Company (OIC) is organized and domiciled as an Ohio Corporation and operates as a wholly owned subsidiary of AOIC. OIC was organized on May 13, 1975, and commenced business on December 31, 1975. The primary location of its books and records is in Lansing, Michigan. OIC became authorized to write business in Arizona in 1983 and began writing business in Arizona in 1984.

AOIC and OIC sell policies exclusively through independent agents. Arizona operations are led by a Regional Director, with a full-service Underwriting and Claims Regional Office located in Mesa, Arizona. Marketing of AOIC and OIC products is carried out by the Regional marketing team, the independent agencies, and Auto-Owners' Corporate Marketing Division.

Direct written premiums for Private Passenger Automobile (PPA) and Homeowners (HO) in Arizona for the years spanning 2015-2021 are as follows:

Line	Year	AOIC	OIC
HO	2015	2,379,587	10,005,175
HO	2016	6,398,891	6,709,995
HO	2017	15,647,602	-68,356
HO	2018	19,133,882	-217
HO	2019	23,206,734	-751
HO	2020	26,129,244	0
HO	2021	29,825,434	0

Line	Year	AOIC	OIC
PPA	2015	6,377,934	5,372,342
PPA	2016	9,681,528	5,683,901
PPA	2017	16,674,818	7,628,559
PPA	2018	25,581,088	9,415,175
PPA	2019	33,980,336	10,859,868
PPA	2020	37,289,907	11,408,382
PPA	2021	42,990,774	12,040,897

The numbers in the table above include the Companies' Safe at Home Refund (Covid-19) for PPA. Additionally, the OIC premium reduction in HO reflects the conversion of homeowners' business into AOIC, following A.R.S. § 20-1652(G).

### **EXAMINATION REPORT SUMMARY**

Based on the Company's responses and data provided during the examination, the Department is unable to substantiate a violation of A.R.S. § 20-2110(F)(3) in the Company's Underwriting and Rating functions during the exam period. Notwithstanding this determination however, the examination revealed one (1) potential future compliance issue in which the Company's Underwriting and Rating functions could result in a violation of Arizona statutes and rules regarding A.R.S. § 20-2110(F)(3) discussed below.

During the course of the examination, the Company explained that prior to March 7, 2021, it ordered insurance scores annually for Homeowners (HO), Mobile Homeowners, and Private Passenger Automobile (PPA) policies. The Company noted that it updated this process on March 7, 2021, to order scores every three (3) years for PPA policies only. The Company also noted that most of the PPA policies the Company provided for this examination have effective dates before March 7, 2021, and were rated and scored annually.

The Company used two different scoring models during the examination period. The Custom Insurance Score (CIS) model was used for all HO and PPA policies until March 7, 2021. In the CIS model, the presence of a bankruptcy is a different factor that applies an adjustment to the score calculation. The Auto Insurance Score (AIS) model was used for all PPA policies on or after March 7, 2021. In AIS, bankruptcies are included in two factors: the number of derogatory public records,

which uses an adjustment based on the total number of derogatory items, and the presence of bad debt and derogatory public records in the past 24 months. The impact of a score change on the policy premium can be found in the Company's insurance score filings.

The Company's insurance scoring vendor has express rules in its system to exclude bankruptcies that occurred outside seven (7) years from the date of the score. The vendor stated: "The credit characteristics may include adverse public records. These include Bankruptcy, Lien, and Judgement. Also included in this group are items reported by Collection Agencies. Collections that can be identified as medical-related are excluded. **Note: For the state of Arizona, public records that are older than seven years are not included in the score calculation.**" [Emphasis in original]

The following is a summary of the examiners' findings.

## UNDERWRITING AND RATING

### **Homeowners and Mobile Home (HO)**

The examiners reviewed 27 HO new business and renewed policies from a population of 1,356 in which the Company indicated the consumer was rated for having one or more bankruptcies.

#### **The following Underwriting and Rating Standards Were Met:**

#	Standard	Regulatory Authority
AZ	The insurer shall not use a bankruptcy or a lien satisfaction that is more than seven years old.	A.R.S. § 20-2110(F)(3)

### **Private Passenger Automobile (PPA)**

The examiners reviewed 36 PPA new business and renewed policies from a population of 2,013 in which the Company indicated the consumer was rated for having one or more bankruptcies.

#### **The following Underwriting and Rating Standards Passed With Comment:**

#	Standard	Regulatory Authority
AZ	The insurer shall not use a bankruptcy or a lien satisfaction that is more than seven years old.	A.R.S. § 20-2110(F)(3)



**Preliminary Finding #1 – Bankruptcy Rating of Policies**

The current scoring model, “Auto Insurance Score” (AIS), was implemented on March 7, 2021, to process scores every three (3) years. Previously, the AIS was calculated each year. While there were no substantiated violations noted during the exam period, this change puts the Company in a position for potential future non-compliance with A.R.S. § 20-2110(F)(3)’s prohibition on using a bankruptcy older than seven (7) years.

**Recommendation #1**

Within one hundred and eighty (180) days of the filed date of this report, provide documentation that procedures and controls are in place to ensure the Company has (i) a process to identify at inception and renewal when a policy’s bankruptcy record ages to more than seven (7) years, and (ii) the ability to disregard that information or re-rate the individual once the bankruptcy surpassed its allowable usage.