

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
MONTGOMERY, ALABAMA

TARGET MARKET CONDUCT EXAMINATION  
REPORT  
OF THE  
USAGENCIES DIRECT INSURANCE COMPANY  
BATON ROUGE, LOUISIANA

AS OF  
AUGUST 31, 2007

EXAMINATION PERIOD: JANUARY 1, 2006 THROUGH AUGUST 31, 2007

**STATE OF ALABAMA  
CITY OF BIRMINGHAM**

Joel S. Silva, being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama.

That an examination was made of the affairs and operation of USAgencies Direct Insurance Company for the period January 1, 2006 through Augusts 31, 2007.

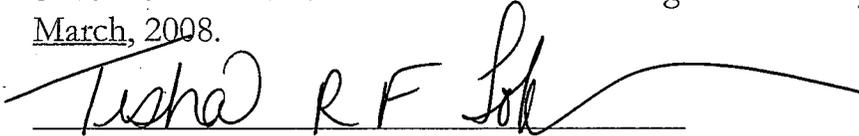
That the following 23 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama.

And that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.



Joel S. Silva, AIE, FLMI

Subscribed and sworn to before the undersigned authority this 18<sup>th</sup> day of March, 2008.



(Signature of Notary Public)

Tisha R F Johnson, Notary Public

(Print Name)

in and for the State of Alabama.

My commission expires

10 / 12 / 2011

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March 18, 2008

Honorable Walter A. Bell  
Commissioner of Insurance  
Alabama Department of Insurance  
201 Monroe Street, Suite 1700  
Montgomery, Alabama 36104

Dear Commissioner:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a Targeted Market Conduct examination as of December 31, 2007, has been made of the affairs and market conduct of

**USAgencies Direct Insurance Company**

at its home office located at 8550 United Plaza Blvd, 8<sup>th</sup> Floor, Baton Rouge, LA 70809. The report of examination is submitted herewith.

Where the description "Company" or "USAgencies" appears herein, without qualification, it will be understood to indicate *USAgencies Direct Insurance Company*.

## **I. SCOPE OF THE EXAMINATION**

This target examination was conducted pursuant to the provisions of the Alabama Code §27-2-21, §27-2-22, §27-2-23 and §27-2-24, and the Alabama Department of Insurance (ALDOI) Regulation 482-1-125, and in accordance with the procedures and guidelines provided in the Market Conduct Examiners' Handbook, as adopted by the National Association of Insurance Commissioners (NAIC), and is consistent with the predetermined market conduct program presented to and approved by the ALDOI.

This Target Market Conduct examination generally covers the period of January 1, 2006 through August 31, 2007. The exam was conducted by representatives of Insurance Logic, Inc., as examination consultants for the Alabama Department of Insurance.

The purpose of this target market conduct examination was to determine if USAgencies Direct Insurance Company (herein after named USAgencies or the Company) has complied with the various specified sections of the Code of Alabama 1975 and the Administrative Rules and Regulations, as they pertain to the following areas under review in this examination.

- Marketing and Sales Practices
- Producer Licensing
- Complaint Handling
- Underwriting Practices
- Claims Handling Practices

This examination report reflects only the exceptions or issues that were noted during the various reviews, which were in violation of Alabama's laws and regulations, and which were not consistent with the public interest of the consumers residing in this state.

During the course of the exam, the Company provided various requested data files and documents from which random samples were obtained using ACL. The samples derived from the data files were then reviewed based on NAIC prescribed examination procedures and sampling techniques as noted in this report.

## **II. COMPANY HISTORY AND OPERATIONS**

USAgencies was incorporated on April 1, 1989 under the laws of New York under the name of Caledonian Insurance Company, the U.S. Branch of Caledonia Insurance Company of London, England. The Company became a domestic company of New York on July 31, 1995 under the name of Caledonia Insurance Company of America. The Company was acquired by GRE-USA in 1996, and operated the Company under their subsidiary, Atlas Assurance Company of America until 1999. The Company was renamed USAgencies Direct Insurance Company, when it was acquired by USAgencies, L.L.C. on April 30, 1999. USAgencies, L.L.C. is an insurance holding company that was domiciled in Baton Rouge, Louisiana. On January 31, 2007, all issued and outstanding shares of USAgencies, L.L.C. stock were acquired by Affirmative Holdings, Inc., (herein after referred to as Affirmative) that had filed for and received approval of the purchase from the New York Department of Insurance. Affirmative's corporate offices are in Addison, Texas, while USAgencies' administrative offices and books and records are located at 8550 United Plaza Bldg, Baton Rouge, Louisiana. Beginning in

June 2007, all new insurance policies have been issued as Affirmative insurance and eventually all USAgencies policies will be converted, at which time the USAgencies corporate shell will be sold.

The Company is domiciled in the state of New York and is licensed to underwrite property and casualty insurance in sixteen states. The Company began underwriting automobile insurance in Alabama in March 2005. In mid-2007, the Company ceased writing automobile insurance in Alabama; automobile insurance policies have since been placed with an affiliate insurer, Affirmative Insurance Company that is domiciled in Illinois.

Approximately 90% of the Company's premiums are financed by an affiliate, LIFCO, L.L.C. The Company has no employees, and all of its operations are conducted under a managing general agency arrangement with another affiliate, USAgencies Management Services, Inc.

### **III. MARKETING AND SALES PRACTICES**

The Company provided copies of various marketing related memorandums called Announcements, and a copy of the Sales Procedure Manual, which is a detailed instruction manual for the Customer Service Representatives (CSRs) to use when handling the various types of transactions relating to an auto insurance policy, as well as other functions necessary to operate a sales office. Generally, all the producers are referred to as CSRs. During the examination period the Company had a total of approximately 260 (now approximately 175) licensed CSRs, and there are 18 field sales offices that operate in Alabama. Not all CSRs are physically located in Alabama. The company also operated in Illinois.

The Company, whose main message is to give out their toll-free telephone number for the customer to call and receive a quote, advertises on radio, TV and the internet. If the call is for a new quote and is sales related, it is automatically routed to the next available Alabama licensed CSR in the queue. Otherwise, if the call is to file a claim or make a payment, the system routes that call to the next person in the general queue. The CSRs then use the Company's system screens to input the necessary information and generate the quote. About 80% of the customers who decide to purchase the insurance have to take their necessary information to one of the 18 sales offices to complete the transaction.

The CSRs are trained by their sales office managers, which is generally a matter of instructing them how to use the Company's Frontline Underwriting Guidelines & Procedures system (FUGAP). There are no centralized or formal training programs, and since each CSR is separately trained by their manager, there is no consistency in their knowledge or techniques on issuing or discounting policies, as is noted in the Underwriting Practices section.

The CSRs and managers are not paid on a commission basis, but are all paid under a program called Pay for Performance, in which they are paid a specified amount for each of the various targeted activities that they perform. They are also paid an additional incentive pay every two weeks.

NAIC Standard 1 – (Advertising and Sales Materials) – *The Company's advertising, sales material and mass marketing of property and casualty insurance are in compliance with applicable statutes, rules and regulations.*

There were no exceptions noted.

NAIC Standard 2 – (Outline of Coverages) – *The Company's internal producer training materials are in compliance with applicable statutes, rules and regulations.*

The training materials reviewed were the underwriting instruction guidelines and procedures (FUGAP), and there were no exceptions noted. However, the Company has no centralized or formal training programs for the CSRs, which appears to result in inconsistent handling of underwriting procedures and claims processing.

NAIC Standard 3 – (Communication with Producers) – *The Company's communication methods and procedures to the producers are in compliance with applicable statutes, rules and regulations.*

There were no exceptions noted.

#### **IV. PRODUCER LICENSING**

The review procedures were developed and implemented to incorporate the NAIC Standards 1 and 2, for the Producer Licensing portion of the examination, in order to determine if the Company complied with the Alabama statutes and regulations regarding the licensing and appointment of the producers. The following company documents and data were reviewed and evaluated:

- ❑ US Agencies' Producer Licensing Policy – Company's Sales Procedure Manual
- ❑ Appointment Procedure – Per Company documents
- ❑ The Agreement between US Agencies Management Services, Inc. (MGA) and the Company
- ❑ Company and ALDOI appointment listings and license listings for producers and adjusters

Based on this data and the related documents and filings, a randomly selected sample of 50 of the Company's 260 producers was reviewed with the following findings and violations by standard:

NAIC Standard 1 – *Company Record Keeping Procedures – Company records of licensed and appointed producers agrees with ALDOI records.*

The list of licensed producers provided by the Company was reviewed and compared with the list provided by the ALDOI. The Company list included 260 Alabama licensed producers who had been hired and/or had been active between 1/1/06 and 8/20/07, and who lived in Alabama, Illinois or Louisiana.

There were no exceptions noted regarding the licensing of the agents. However, there were 23 agents who had not been appointed by the Company, and will be more completely explained under Standard 2.

NAIC Standard 2 – *Licensed and Appointed producers – Company has properly licensed and appointed the producers to sell their products in Alabama.*

The sample of 50 producers was selected from the Company's list of the 260 producers who had been either hired and/or had made sales during the examination period, some of whom had been terminated. The files on each of them were reviewed which included copies of their license and appointment records from the ALDOI, as well as at least one of their new business applications.

The following exceptions or violations were noted:

- ❑ There were 23 producers who had not been appointed by the Company at time of sale, which is in violation of AL Code section §27-7-4 and §27-7-30(a):

Name of agent	License	Hire date	Date of 1 <sup>st</sup> ins. sale	Appointment Date	No. of policies sold
Farlow, D	A019892	6/5/06	6/9/06	3/22/07	1,240
Summerford, K	A041610	10/9/06	10/19/06	1/26/07	74
Williams, D	A055726	3/5/07	3/16/07	5/17/07	64
Stapleton, E	A078066	1/23/06	2/7/06	5/17/07	2,903
Gilliland, S	A222114	1/23/06	1/26/06	1/18/07	557
Roy, S. M.	A222703	10/2/06	1/9/07	3/22/07	2
Johnson, V	A252254	11/21/05	1/16/06	3/22/07	116
Sullivan, D	A254050	10/17/05	4/21/06	1/26/07	14
Gomez, M	A259154	6/19/97	3/20/06	6/29/06	3
Tierney, S	A259956	2/20/06	8/4/06	3/22/07	2
Brown, E	A262270	12/13/05	5/22/06	1/19/07	169
Coronel, V	A263232	5/22/06	6/30/06	1/19/07	35
Holston, C	A266487	8/15/06	8/21/06	1/19/07	441
Brown, V	A269755	9/20/06	10/7/06	1/19/07	31
McClay, K	A272809	10/30/06	11/14/06	12/4/06	3
Perez, W	A263568	3/13/06	7/1/06	3/22/07	18
Sawyer, U	A262914	4/24/06	5/12/06	3/22/07	102
Macias, G	A259142	2/27/06	4/15/06	6/22/06	88
Panocha, E	A257584	2/21/06	3/31/06	3/22/07	79
Howard, V	A252255	4/10/02	3/16/06	1/19/07	42
Henderson, B	A055709	1/23/06	2/4/06	6/29/06	88
Strickland, L	A048527	11/6/06	11/10/06	1/16/07	88
Presta, S	A027076	5/8/06	5/15/06	5/17/07	530
Total number of policies sold while the agents were not properly appointed					<b>6,689</b>

The 6,689 policies sold by these producers generated \$3,157,202 in premiums.

## V. COMPLAINT HANDLING

The Company has written Complaint Handling Procedures that provide instructions for handling their insurance complaints, which were updated in August 2007. Based on these procedures all written Alabama complaints are to be initially received by a Company officer, as the central point of contact. The officer will forward them to the proper areas of concern (i.e. Underwriting or Claims) on the same day received, with copies to the applicable head of those areas. A designated individual logs the complaint into the Company's complaint register on that same day. The resolution and response to the ALDOI is to be completed within a determined period of time at a preset standard. The Company's revised procedures have been designed to provide a second tier review process. As soon as the appropriate manager has signed off on the final response, the Company officer will send it to the ALDOI. This new procedure has centralized this function and streamlined the handling of the complaints. The procedures prescribed in the Company's Complaint Handling Procedures appear to meet the required guidelines of the NAIC, and comply with the state laws and rules of Alabama.

However, the Company's procedures do not address how complaints received by telephone are handled.

The Company's Complaint register of 42 complaints during the exam period was compared with the ALDOI's Detailed Complaints Report, and was determined that they were consistent.

NAIC Standard 1 – (Proper Complaint Reporting) – *All complaints are recorded in the required format on the Company complaint register.*

There were no exceptions noted.

NAIC Standard 2 – (Complaint Handling Procedures) – *The Company has adequate complaint handling procedures in place and communicates such procedures to policyholders.*

Because of the failure to keep a record of phone complaints, which may have made up a significant part of policyholder contact with the Company, the settlement procedures regarding these complaints could not be determined. The ALDOI complaint register included 42 complaints, which were matched to the Company records.

There were no exceptions noted.

NAIC Standard 3 – (Finalizing and Closing Complaints) – *The Company should take adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.*

The complaint register and files were reviewed to determine if the Company took the required steps to finalize and dispose of the complaints according to Alabama statutes, and to determine if their actions conformed to the Company's guidelines.

There were no exceptions noted.

NAIC Standard 4 - (Response to Complaints) – *The time frame within which the Company responds to complaints is in accordance with applicable statutes, rules and regulations.*

Although there were 13 complaints that took in excess of 30 days to process and close, upon detailed review of the files it appears that the delays were generally unavoidable. However, the new procedures implemented by the Company should eliminate this problem.

## **VI. UNDERWRITING PRACTICES**

The Company provided a copy of the Frontline Underwriting Guidelines & Procedures (FUGAP) and a copy of the Sales Procedure Manual, which were reviewed for this examination, as well as providing access to their Underwriting System. The instruction manuals are used by the CSRs and the managers as guides to inputting the required data into their Underwriting System. The Company's practice has always been to create a new policy with new policy numbers each time it is renewed. However, they are currently in the process of revising this practice, which will be provided to the ALDOI when completed.

Random samples were selected using ACL from the Active/Expired and the Cancelled/Non-renewed data files that were provided by the Company covering the examination period. A sample of 76 policies was selected from the total population of 47,797 that were Active/Expired during the exam period, and a sample of 50 policies from the total population of 38,878 that were Cancelled/Non renewed policies was also selected. These sample policy files were then reviewed to determine if the Company met Alabama's statutes and regulations and the NAIC Standards relating to the underwriting practices.

Of the 38,878 cancelled policies 35,254 or (91%) were finance cancelled, primarily due to non-payment of premium or insufficient funds for the down payment. Approximately 2,300 or (6%) were cancelled by the Company due receipt of unsigned or inadequate paperwork from the insured.

NAIC Standard 1 – (Rating) – *The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plans.*

The \$25 non-refundable Policy Fee had not been approved by the ALDOI until the revised rate filing became effective on May 1, 2007. Prior to the May re-filing, there had been approximately 63,500 policies issued and sold prior to the DOI's approval of this fee, which is in violation of AL Code §27-13-29, §27-13-67 and Reg. 482-1-123. However, the Company did note the Policy Fee on the separately approved policy application form and on the declaration page.

The Rate Filing data and formulas were reviewed and the premiums of 8 policies were manually recalculated. On one (12.5%) of these policies, it was determined that the Company had miscalculated the premium by \$8 due to failing to endorse the policy back to the initial effective date. The oversight was due to a keying error for the age of the insured by the Company. The Company agreed with this finding and has since reimbursed the insured and has revised their procedures to identify and correct this type of error or oversight in the future.

Also, there were 2 policies that had been issued with incorrect rates due to improperly applied discounts, for which the Company has agreed to reimburse the insureds.

NAIC Standard 2 – (Documentation of Disclosures) – *All mandated disclosures are documented and in accordance with Alabama's applicable statutes, rules and regulations.*

The underwriting files for the issued policy sample and the terminated, cancelled or declined samples, were reviewed to determine that the applications were properly signed. The records and documentation in the files were also reviewed to determine that the information adequately supported the decisions of the Company, and that proper notification of adverse decisions was provided to the insured.

All policy notes and copies of all scanned documents and records included in the policy files for the issued and the terminated policy samples were reviewed, to determine that the Company has the necessary documentation to properly underwrite the policy and to ensure that there was no unfair discrimination in the rating.

There were 10 policies with incomplete policy files with missing documents as noted below. Therefore, an adequate review could not be completed. The Company was unable or unwilling to provide complete policy file documentation, which is in violation of AL code §27-2-23(b).

Ref no.	Ren Flag	Policy Number	Payment Mode	Effective Date	Description
2	New	3007520	Financed	1/20/2006	unsigned copy of app missing
13	New	3017163	Financed	5/6/2006	missing endorsement pages
15	New	3017914	Financed	5/15/2006	missing application pages
16	New	3019820	Financed	6/2/2006	missing endorsement pages
22	New	3022527	Financed	6/29/2006	missing application pages
24	New	3024923	Financed	7/21/2006	missing application pages
26	New	3025987	Financed	7/31/2006	missing documents, including the app

34	New	3033059	Financed	9/19/2006	missing application pages
73	New	3074695	Financed	5/24/2007	missing documents, including the app
76	Renewal	3078579	Financed	6/19/2007	missing application pages

NAIC Standard 4 – (Unfair Discrimination) – *The Company's underwriting practices are not unfairly discriminatory. The Company adheres to Alabama's applicable statutes, rules and regulations and Company guidelines in the selection of risks.*

Due to the missing documents noted in Standard 2 above, those 10 policies could not be properly reviewed to determine if the Company adhered to this standard.

NAIC Standard 5 – (Forms) – *All the forms, contracts, riders, endorsements and certificates are properly filed with the Alabama Department of Insurance.*

The policy application, the declarations page and the LIFCO finance agreement did not adequately disclose that the maximum amount of discounts available to the insured on each vehicle is 35 %,.. It was recommended to the Company that these facts be clearly and boldly pronounced and in a prominent location on these documents, so the insured would be made more aware of these limitations. They have agreed and are currently in the process of having these modifications made on the documents that will be filed with the ALDOI for approval.

The fact that the Policy Fee and the Finance Fee are non-refundable is not disclosed to the insureds in any of their documents. The Company has agreed to make the necessary changes in the policy application and finance documents and will file these changes with the ALDOI for their approval.

NAIC Standard 6 – (Timely Filing) – *All policies, riders and endorsements are issued or renewed accurately, timely and completely with the Alabama Department of Insurance.*

There were 5 policies that had not been issued properly, as noted in the following items:

Ref no.	Ren Flag	Policy Number	Payment Mode	Effective Date	Description
5	New	3008755	Financed	2/3/2006	The UMBI coverage not applied to policy
27	Renewal	3026095	Financed	8/1/2006	Discounts were incorrectly applied
35	New	3035053	Financed	10/3/2006	The Co. should not have issued this policy
45	Renewal	3044495	Financed	1/4/2007	The UMBI coverage not applied to policy
63	New	3065709	Financed	3/31/2007	The UMBI coverage not applied to policy

NAIC Standard 7 (Declined Policies) – *Rejections and declinations are not unfairly discriminatory.*

When a policy is initially issued over the telephone, the Company automatically sends out an Underwrite Cancel letter that states that the policy will be cancelled if the insured does not send in the necessary signed paperwork within 30 days. However, there is no further written reminder sent to the insured. In at least one of the cancelled policy files, the insured complained that she had in fact provided USAgencies the required signed documents, to which the Company eventually agreed, reinstated the policy (# 3010058), and paid her claim. The Company should send out a reminder letter 10-15 days prior to the cancellation date if the signed documents have not been received by that time, which will mitigate possible confusion.

NAIC Standard 8 (Cancellations) – *Cancellation/non-renewal, discontinuance and declination notices comply with the Company's policy provision and guidelines, and Alabama's laws.*

There were no exceptions noted.

## VII. CLAIM HANDLING PRACTICES

The Company provided a data file for all claims paid during the examination period as well as a data file for all claims closed without payment. A random sample of 76 claims was selected from a total population of 4,884 claims paid during the exam period, using ACL. Another random sample of 50 claims was selected from a total population of 2,572 claims that were closed without payment.

- During the review of the 50 claims that were closed without payment, it was noted that 3 of the claim files included a form letter stating that, **“Alabama is a contributory negligence state, which means that if you are found over 1% at fault for an accident you are barred from collecting from the adverse party.”** Prior to the inception of the exam, in communications between the Company and the ALDOI, when asked if the Company denied claims that were 1% negligent, they made a written representation to the ALDOI that they did not deny claims as a result of any specified percentage relating to the fault or liability. They also stated that if a claimant was advised of a percentage of liability, it would have been an isolated instance, and a violation of corporate policy. Since there had been 3 of the 50 denials that included this form letter, the Company was requested to provide a list of all denied claimants to whom this letter was sent. The Company provided a list of 80 of these claims, which were all reviewed separately from the original 50. The findings are noted below.
- Historically, USAgencies has not utilized a formal claim handling practices and procedures guide. However, Affirmative Insurance is currently completing a formal Best Practices for Claims Handling guide to be utilized by their claims professionals. Also, USAgencies did not conduct any claim audits during the exam period.
- As previously noted, all claim adjusters are employees of USAgencies Management Services, Inc., and not USAgencies Direct Insurance Co. However, they were not licensed as USAgencies Direct Insurance Co. or Affirmative Insurance Co. claims adjusters, until Feb. 2008. USAgencies Management Services, Inc did not become a licensed adjuster until May 21, 2007. This is a violation of AL code §27-9-2.
- There was at least one claim denied based on Alabama's Guest Statute, in which the Company denied the claimant passenger's medical coverage.

NAIC Standard 1 – (Timely Initial Contact) – *The initial contact by the Company with the claimant is within the required time frame.*

There were no exceptions noted.

NAIC Standard 2 – (Timely Investigations) – *Investigations are conducted in a timely manner.*

The claim files were reviewed to determine that the claims were investigated and the payments or denials were processed within the 30 or 45-day time limit, depending on whether they were electronic or written claims, as required by ALDOI Reg. 482-1-125-.07. Also, the documents were reviewed to determine if the Company had properly sent explanations as to why the investigation was being delayed. There were 3 claims that were in violation of these requirements, as listed below:

Ref no.	Claim No.	Policy / cert no	Incident / acc Date	Date Co. accptd liab	Final settlement Date	No of days to pay
1	212999	3001241	12/24/05	05/28/06	07/31/06	64
39	254265	3022466	12/20/06	12/27/06	07/03/07	188
63	266592	3060406	03/14/07	04/05/07	08/09/07	126

NAIC Standard 3 – (Delayed Settlements) – *Claims are settled in a timely manner as required by Alabama’s statutes, rules and regulations.*

The claim files and procedures were reviewed to determine that the claims were paid or denied within the specified 30 or 45 days, required by ALDOI Reg. 482-1-125-.07. There were 4 paid claims to which there was insufficient documentation or notes in the file that would support the delays. These claims listed below were in violation of this regulation:

Ref no.	Claim No.	Policy / cert no	Incident / acc Date	Date co. accepted liab. on the claim	Final settlement Date	No of days to pay
1	212999	3001241	12/24/05	05/24/06	07/31/06	218
30	243122	3021045	09/22/06	11/02/06	12/21/06	89
39	254265	3022466	12/20/06	12/27/06	07/03/07	195
63	266592	3060406	03/14/07	07/21/07	08/09/07	148

NAIC Standard 4 – (Timely Response) – *The Company responds to claim correspondence in a timely manner.*

The claim files were reviewed to determine that correspondence was answered or responded to within a timely manner, as required by ALDOI Reg. 482-1-125.

There were no exceptions noted.

NAIC Standard 5 – (Adequate Disclosure) – *Claim files are adequately documented.*

The claim files and the Company procedures were reviewed to determine that the claim files were properly documented, and that there was adequate documentation to support or justify the Company’s decision to pay or deny the claim, and to determine that the state laws were met in accordance with ALDOI Reg. 482-1-125-.04.

There were 4 claim files that were lacking pertinent documentation with which to properly review these claims:

Ref no.	Claim No.	Policy no	Incident / acc Date	Date co. accepted liab. on the claim	Final settlement Date	No of days to pay
7	221784	3010058	03/22/06	06/05/06	06/28/06	98
11	229212	3006402	05/25/06	06/01/06	06/19/06	25
30	243122	3021045	09/22/06	11/02/06	12/21/06	89
39	254265	3022466	12/20/06	12/27/06	07/03/07	195

NAIC Standard 6 – (Properly Handled Claims) – *Claim files are handled in accordance with policy provisions, HIPAA and Alabama’s laws.*

The claim files and Company procedures and manuals were reviewed to determine that the Company's standards complied with Alabama's laws, that the claim files are handled according to policy provisions, and that the usual and customary benefit payments were reasonable.

There were 15 claims that were not properly paid. 14 of these claims were for Total Loss claims in which the Company failed to pay the applicable sales taxes and related transfer fees, which is in violation of AL Reg. 485-1-125-.08. However, the Company has made payment of these sales taxes and transfer fees in Feb. 2008.

For one of the claims (# 266592), the Company paid the claimant based on After Market Parts values obtained from a salvage yard, while the claimant's insurance company had to pay based on Original Manufacturer's parts. USAgencies needs to reimburse Alfa for the \$600 difference that they had to pay for the repair and the amount the Company had initially paid them.

Ref no.	Claim No.	Policy / cert no	Incident / acc Date	Date co. accepted liab. on the claim	Final settlement Date	No of days to pay
4	218015	3006075	02/17/06	09/21/06	10/13/06	237
9	225401	3003787	04/25/06	04/25/06	05/12/06	17
13	230518	3012286	06/03/06	06/03/06	12/28/06	208
21	237291	3026270	08/03/06	08/04/06	08/29/06	25
22	237889	3021263	08/08/06	09/11/06	10/11/06	63
23	238801	3016161	08/16/06	08/24/06	08/25/06	9
25	239920	3014458	08/27/06	09/02/06	10/02/06	36
27	240672	3017240	09/03/06	09/05/06	09/21/06	18
34	247299	3023326	10/26/06	11/03/06	12/08/06	42
39	254265	3022466	12/20/06	12/27/06	07/03/07	195
45	255810	3045951	01/09/07	01/15/07	01/26/07	16
51	259617	3035189	02/11/07	08/03/07	11/21/07	283
61	265306	3054458	03/26/07	03/26/07	09/12/07	170
63	266592	3060406	03/14/07	07/21/07	08/09/07	148
72	275621	3072082	06/13/07	07/30/07	08/21/07	68

NAIC Standard 7 – (Claim Forms are Appropriate) – Company claim forms are appropriate for the type of product.

The claim forms were reviewed to determine that they included the appropriate content for the type of product being sold.

There were no exceptions noted.

NAIC Standard 9 – (Denied Claims are Handled Properly) – Denied and closed-without-payment claims are handled in accordance with policy provisions and Alabama's rules and regulations.

The claim files and notes of the sample of 50 denied claims were reviewed to determine that the procedures and decisions of the Company to deny these claims were proper and handled according to Alabama's laws and regulations. Based on the facts of these files, notes and documents, there were 4 claims that were improperly denied, which is in violation of AL Reg. 482-1-125. The Company has reopened them and is re-investigating them. They are:

Ref no.	Claim No.	Policy / cert no	Incident / acc Date	Date of denial letter	Examiner's comments
12	234093	3020272	07/07/06	07/07/06	Denied due to 1% contributory negligence
13	232595	3020681	06/23/06	06/26/06	Claim was improperly closed without payment
18	245256	3027319	10/12/06	12/15/06	Claim was improperly closed without payment
35	258600	3044707	02/01/07	02/05/07	Claim was improperly closed without payment

NAIC Standard 11 – (Claim Handling Policies are Proper) – *Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.*

The claim files, manuals and procedures were reviewed to determine that the denied and closed without payment claims were properly handled according to Alabama laws, and policy provisions as they relate to this NAIC Standard.

The review of the 50 claim files uncovered the following violations to AL Reg. 482-1-125:

- 16 of the claim files note that various form letters were sent to the claimants or the insureds that represented an incorrect Company's name, which may have caused confusion to the claimant or insured.
- 1 of these denied claims lacked pertinent documents, so that an adequate review was not possible in which to verify the Company's reason for denial.
- 3 of these denied claims were improperly denied and closed. The Company has agreed to reopen and reinvestigate them. At least one has been recently paid to the claimant.
- 1 claim was improperly denied when the Company denied it by telling the claimant that he was over 1% negligent and that contributed to the accident.

Ref no.	Claim No.	Policy / cert no	Incident / acc Date	Date of Initial Response to claimant	Closed Date	Examiner's Comment
4	219886	3009783	03/13/06	03/13/06	04/25/06	Co. sent incorrect letter
5	222020	3010161	03/26/06	03/30/06	03/30/06	Co. sent incorrect letter
6	237443	3010763	08/05/06	08/05/06	08/10/06	Co. sent incorrect letter
7	236951	3010871	07/15/06	08/03/06	08/24/06	incomplete claim file/ missing docs
12	234093	3020272	07/07/06	07/07/06	09/18/06	Improper denial due to 1% contributory negligence
13	232595	3020681	06/23/06	06/23/06	08/19/06	Claim was prematurely closed, and reopened in Jan. 2008..
15	247790	3023560	09/03/06	11/01/06	12/22/06	Co. sent incorrect letter
18	245256	3027319	10/12/06	10/13/06	12/14/06	Improper and incomplete investigation. Co. has reopened.
21	259337	3029847	02/08/07	12/08/06	02/20/07	Co. sent incorrect letter
22	251214	3031738	10/26/06	11/30/06	12/20/06	Co. sent incorrect letter
23	257418	3032035	01/23/07	01/24/07	04/18/07	Co. sent incorrect letter
26	259980	3034146	02/14/07	02/16/07	04/19/07	Co. sent incorrect letter
28	255814	3039124	01/09/07	01/10/07	01/11/07	Co. sent incorrect letter
31	270747	3039997	02/15/07	05/07/07	06/25/07	Co. sent incorrect letter
33	272230	3043298	05/16/07	01/09/07	06/15/07	Co. sent incorrect letter
34	253497	3043430	12/19/06	12/21/06	03/14/07	Co. sent incorrect letter

35	258600	3044707	02/01/07	02/05/07	02/05/07	Improper and incomplete investigation. Co. has reopened.
37	279625	3047317	07/13/07	07/18/07	08/28/07	Co. sent incorrect letter
40	281026	3052600	07/07/07	10/11/07	08/29/07	Unnecessary delays
44	271063	3055928	04/14/07	05/08/07	05/11/07	Co. sent incorrect letter

An additional 80 denied claim files were reviewed to which the Company sent the insured or claimant a form letter stating that in Alabama if the claimant's contributory negligence caused in excess of 1% toward the cause of the accident then they were precluded from collecting on the claim. Upon further review of these claim files, the examiner has accepted the Company's decision to deny 43 of these claims. These were generally claims where two individuals simultaneously backed into each other in a parking lot, and there were no witnesses to corroborate one side or the other.

Based on the facts from the claim notes, the police reports or witnesses', insureds', or claimants' statements, and the AL Rules of the Road, Title 32, Chapter 5A, there were still 37 of these denied claims that should have been paid. The Company has since agreed with the examiner that 22 of them should not have been denied, and has agreed to reopen and pay those claims. The Company stated that the claim notes and documents in the claim files are all that is available from which to make these assessments.

The Company disagreed with the examiner on the remaining 15 claims that they believe were properly denied, 8 of which had been handled through subrogation, leaving 7 that the Company believes were properly denied, but that the examiner believes need to be reopened and reconsidered by the Company. These claims, along with a brief description of the examiner's comments and the Company's responses are as follows:

Ref no.	Claim No.	Examiner's notes, comments or concerns	USAgencies Response to Comments
11	236164	The insured went through a blinking red light and struck the claimant's vehicle. The Co. determined that the claimant, who had a blinking yellow light, was 25% at fault and denied the claim. The Co. should not have denied this claim.	THE INSURED AND WITNESS BOTH CONFIRM THAT THE CLAIMANT WENT THROUGH THE YELLOW LIGHT WITHOUT SLOWING OR STOPPING. THE INSURED HAD TRAVELLED PAST THREE LANES OF TRAFFIC AND WAS WELL THROUGH A 4TH WHEN STRUCK IN THE RIGHT REAR BY THE CLAIMANT. WHILE THE INSURED WAS PRIMARY CAUSE OF LOSS THE CLAIMANT'S NEGLIGENCE WAS PROXIMATE AS WELL.
33	264848	As per the police report, the insured had crossed a yellow line and entered the opposite lane of traffic and hit the claimant. The Co. denied the claim based on their determining the claimant was 50% at fault. The Co. should not have denied this claim.	The claimant was exiting a private lot making a left turn & was "waved on" by stopped driver to proceed. At the same time the insured who admits to "straddling" the yellow center line went to pass traffic and a front to front collision ensued. While the insured was negligent the claimant also has an obligation to yield the right of way to traffic and to maintain a proper lookout.

42	270273	<p>Per the police report, the insured failed to yield the right of way to the claimant when the insured backed up into the claimant. However, the Co. denied the claim based on their assigning 50% of the fault on the claimant. The Co. should not have denied this claim.</p>	<p>The insured was backing in the lot at the same time the claimant made a right turn into the lot from an alleyway. As the insured was backing the claimant was moving forward and the parties collided. POI on the insured's vehicle was the left rear while the claimant sustained right front damage. While the insured was primary the claimant is also responsible for exercising proper lookout. Insured not SOLE proximate cause of loss.</p>
45	273374	<p>This claim # 273374 and the next claim # 273429 go together, since both parties in the accident were insured by USAgencies Direct, and filed separate claims. However, the Co. denied claimant, Ms. S. King's claim by determining that she was 85% at fault for the accident. The Co. also denied the other claim # 273429 stating in those claim notes that the claimant to that claim was also at fault and denied that claim. In other words, the Co. denied both claims to the same accident stating that the other party was at fault. The Co. should not have denied both claims.</p>	<p>This is a conflicting versions case involving this REF number and REF number 46. There were no independent witnesses to the loss. This insured states that when stopped at a yield sign the operator of REF #46 vehicle cut a left turn too sharply and a collision ensued. The Operator of REF 46 states that while turning the operator of REF 45 vehicle failed to yield the right of way and caused the collision. In the absence of any independent evidence to the contrary legal liability cannot be established on EITHER driver so the denials as issued are appropriate.</p>
46	273429	<p>This claim # 273429 and the previous claim # 273374 go together, since both parties in the accident were insured by USAgencies Direct, and filed separate claims. However, the Co. denied claimant, Mr. T. Glover's claim by determining that he was at fault for the accident. The Co. also denied the other claim # 273374 stating in the claim notes that the claimant to that claim was also at fault and denied the claimant's claim. However, there is no copy of a denial letter in this claim file. In other words, the Co. denied both claims to the same accident stating that the other party was at fault. The Co. should not have denied both claims.</p>	<p>SEE ABOVE</p>
75	283980	<p>Per the police report, the insured failed to yield the right of way to the claimant. However, the Co. stated that <u>it appears</u> that the claimant had some negligence on her part so they denied the claim. The Co. should not have denied this claim.</p>	<p>This is a left turn case in which the insured is primarily at fault. However, the insured stated that the third party claimant was initially behind a left turner in the opposite direction and then changed lanes to proceed straight. The claimant struck the insured in the side/rear. Claimant is not free of proximate negligence.</p>
79	284508	<p>Per the police report and the Company's comments in the claim notes, the insured was at fault by going the wrong way in the parking lot and hitting the claimant's car. However, the Co. decided the claimant was 25% at fault and denied the claim. The Co. should not have denied this claim.</p>	<p>The insured was backing into a parking space when the claimant decided not to wait and attempted to around. While the denial letter was improperly worded, this is a parking lot accident and all parties are expected to maintain proper lookout. If the claimant had not moved forward at the time the insured was backing, the loss would not have occurred.</p>

## VIII. POLICYHOLDER SERVICES

The documents and data reviewed to determine if these standards were met was completed in conjunction with the Underwriting Practices review described in VI above.

NAIC Standard 1 – (Billing notices) – Premium and billing notices are sent out with an adequate amount of advance notice.

There were no exceptions noted.

NAIC Standard 3 - (Correspondence) – *All correspondence directed to the Company is answered in a timely and responsive manner by the appropriate department.*

There were no exceptions noted.

NAIC Standard 5 – (Policy transactions) – *Policy transactions are processed accurately and completely.*

Other than those issues that were identified in the Underwriting Practice section, there were no other exceptions noted.

## IX. SUMMARY OF EXCEPTIONS AND RECOMENDATIONS

The following is a summary of the major findings, issues or violations previously identified and discussed, and the recommendation for correcting them (in some cases the Company has recently addressed the problem and has established corrective measures):

1. There is no formal training program for the CSRs, which resulted in inconsistent handling of the Underwriting and Claims Handling procedures. Each manager trains the CSRs in their separate sales office using the Underwriting instruction manual.

It is recommended that the Company establish a company-wide formal training program for all new CSRs or producers in Alabama.

*The Company has agreed with this recommendation and is currently in the process of hiring a trainer who will establish a company-wide formal training program for all new CSs or producers in Alabama, as well as Louisiana for USAgencies Casualty Insurance Company, Inc.*

2. There were 23 producers who had not been appointed by the Company during the exam period at the time of their numerous sales, which is in violation of AL Code section §27-7-4 and §27-7-30(a). They generated \$3,157,202 in premiums from these 6,689 policies sold during that time.

It is recommended that the Company develop a program or system to audit and better control these procedures.

*The Company agreed that these producers were not properly appointed, and has instituted a new process that more closely mirrors the appointment process of Affirmative. This includes the use of an electronic vendor used by Affirmative for making appointments. For new hires, the appointment process will be triggered by the producer license application. As an additional control, further system enhancements planned for later this year will systematically preclude the sale or endorsement of policies by those not properly licensed and appointed in the particular jurisdiction.*

3. The Company does not keep track of telephone complaints.

It is recommended that the Company create a separate register in which to maintain a record of all complaints received by telephone.

4. The \$25 non-refundable Policy Fee had not been approved by the ALDOI until the revised rate filing in May 2007, during which time the Company sold approximately 63,500 policies during the examination period. This is in violation of AL code §27-13-29, §27-13-67 and Reg. 482-1-123.

It is recommended that the Company determine in conjunction with the ALDOI what disposition should be made of the \$1,587,500 of unapproved \$25 Policy Fees that were charged the policyholders during the examination period. It is also recommended that the Company develop efficient internal controls and administrative reviews to avoid this type of error.

5. Pertinent information was not disclosed or was inadequately disclosed to the insured during the Underwriting process:

- a. It was not properly disclosed in any document provided to the insured that the Policy Fees or certain other fees are non-refundable.

- b. The maximum amount of discounts of 35 % that would be available on any vehicle was not adequately disclosed to the insureds.

It is recommended that these facts be disclosed in a clear and discernable manner, so that the insureds will be more likely to see them.

*In February 2008, the Company revised their policy application and other related documents to clearly state the maximum amount of discounts available to the insured. The changes also disclose that the Policy Fee and Finance Fee are non-refundable. The Company has submitted these revisions to the ALDOI for approval.*

6. There were 10 policy files that were missing pertinent documents, and the Company was unable or unwilling to provide complete policy file documentation, which is in violation of AL code §27-2-23(b). Therefore, an adequate review of their Underwriting Practices could not be properly conducted on those policies.

It is recommended that the Company improve its quality control procedures to ensure all relevant documents are properly scanned into their Underwriting System.

*System modifications implemented in mid-March 2008, streamlined the Company's renewal process by maintaining a customer's existing policy number through renewals and by significantly reducing the number of documents required from the customer at renewal. In addition, system enhancements made over the past several months further improve the accuracy of the scanning and indexing process.*

7. There were 5 policies that had been improperly issued. For example, 3 of the insureds requested UMBI coverage on the signed forms included in their files, but the Company had not applied that coverage to their policies. On one of the policies, the discounts were incorrectly applied, resulting in an overcharge to the policyholder, was later refunded to the insured.

It is recommended that the Company develop procedures and implement effective internal controls to ensure that policies are issued and maintained without errors.

*The Company has developed additional internal control procedures, which should preclude errors like this from re-occurring.*

8. There was at least one claim identified in the sample of 50 where medical coverage was denied based on Alabama's Guest Statute. However, that claimant can no longer be located. There were two other claims that had been denied based on this same Guest Statute, although these policies did not have medical coverage, so the denial was correct but for the wrong stated reason.

It is recommended that the Company have a better understanding of Alabama's Guest Statute, and properly apply claim payments or denials when using this statute as a reason.

*On February 19<sup>th</sup> 2008, the Company mailed a clarifying letter to the passenger, which informed him of the available policy benefit.*

9. There were 7 claims that were not handled in a timely manner, which is in violation of AL Reg. 482-1-125-.07.

It is recommended that the Company develop procedures and implement better internal controls that will ensure that policies are issued in a timely manner to comply with Alabama's laws.

*The Company has recently completed these procedures and has developed internal controls and audit practices, which are now in effect and will address the timely handling of claims, documentation of files, and continuing education of their adjusters.*

10. There were 4 claims that did not have the required supporting documents in their files for review, which is in violation of AL Reg. 482-1-125-.04.

It is recommended that the Company develop internal controls and audit practices that ensure that all documents used to support the claim results are maintained in the file.

*The new procedures and audit controls noted in item 9, above, will also correct this problem.*

11. There were 15 of the initial sample of 50 paid claim files reviewed, which were not properly paid. 14 of these claims were for Total Loss values, in which the Company failed to pay the applicable sales taxes or related transfer fees, which is in violation of AL Reg. 485-1-125-.08. On 1 policy, the Company reimbursed a subrogated claim based on After Market Part values obtained from a salvage yard, while the subrogating company had reimbursed their insured based on the OEM parts values, as dictated by his policy's provisions.

It is recommended that for any Total Loss value claim, the Company include the applicable sales taxes and related transfer fees as part of the claim payment. The Company has reviewed and made payments on all claims with total losses from the date they began operating in Alabama in 2005.

*The Company has recently issued refunds to consumers totaling \$188,919.76 for these unpaid sales taxes on Total Loss claims. In addition, the Company has now instituted a process in which Management within the Total Loss Unit reviews the payment in order to ensure that it is in full compliance with AL Reg. 485-1-128.08 at the time the payment is made.*

12. Out of the initial 50 claim files sampled and reviewed, there were 4 that had not been properly investigated and were improperly closed without payment, which is in violation with AL Reg. 482-1-125. The Company has since reopened these claims and has agreed to investigate further for possible payment.

It is recommended that the Company reconsider these claims for payment, and that the claim handling procedures be reviewed to ensure proper payment when it is warranted.

*These 4 claims have been re-opened by the Company and they have either been paid or the Company is in further investigation. One claim was paid by the claimant's own carrier.*

13. There were 16 claim files in the initial sample of 50 to which form letters referencing an affiliated company name were sent to the claimants or insureds. It is possible that this could have caused confusion for them. Also, the Company has sent out form letters that deny claims and inform the claimant that if they had caused as much as 1% contributory negligence in the course of the accident then the Company did not have to pay their claim.

It is recommended that the Company discontinue the use of form letters that reference an improper Company name, and the use of forms referencing 1% contributory negligence. It is also recommended that the Company incorporate more effective quality control procedures to ensure compliance with this recommendation

*The Company is in the process of reviewing and revising all form letters to eliminate this type of error. They have corrected the production of form letters so that Alabama form letters will utilize the correct company name for UsAgencies Direct or Affirmative. The 1% contributory negligence letter has been corrected to remove the 1% language.*

14. There were 80 claims that had been denied based on the Company's denial letter that the claimant or insured had contributed at least 1% negligence toward the cause of the accident, and because of that, the Company was not liable to pay any damages, even if the accident was primarily caused by the insured driver. Upon review of the claim files, claim notes and other pertinent documents, such as the police reports, it was determined by the examiner that 43 of the claims were justifiably denied. The examiner questioned the denial of the remaining 37 claims, to which the Company has since agreed to reopen and pay 23 of them. There were 8 of these claims handled through the subrogation process with the claimant's insurance company, that the Company does not agree should have been listed in this exception, to which the examiner has agreed to accept. However, the Company has not agreed to reopen and pay the remaining 7 claims that the examiner determined should not have been denied. The Company did not offer any additional facts that would have supported its decision or change the opinion of the examiner.

It is recommended that the Company reopen and pay the remaining 7 denied claims.

**X. ACKNOWLEDGEMENT**

The courtesy and cooperation extended to the examiner by USAgencies Direct Insurance Company and its officers and employees is hereby acknowledged.

This examination was conducted by Joel S. Silva, AIE, FLMI for the Alabama Department of Insurance.

Respectfully submitted,



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Joel S. Silva, AIE, FLMI  
Examiner In Charge  
For the State of Alabama  
Department of Insurance



**BOB RILEY**  
GOVERNOR

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**DEPARTMENT OF INSURANCE**  
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LICENSING MANAGER  
JIMMY W. GUNN

**BEFORE THE COMMISSIONER OF INSURANCE  
FOR THE STATE OF ALABAMA**

**IN THE MATTER OF:**

**REPORT ON TARGET MARKET  
CONDUCT EXAMINATION OF  
USAGENCIES DIRECT INSURANCE  
COMPANY**

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**Case No. C-2008-212FM**

**AGREEMENT AND ORDER**

This matter is before the Commissioner of Insurance on a Target Market Conduct Examination Report of USAgencies Direct Insurance Company as of August 31, 2007 (the "Examination Report"), prepared by the Alabama Department of Insurance.

**Agreement**

The Department and USAgencies Direct Insurance Company ("Company") agree and stipulate as follows:

1. The Department and the Company consent to entry of the Order adopting the Examination Report and imposing other requirements as set forth below.
2. The Company unconditionally WAIVES (i) any right to a hearing before the Commissioner of Insurance or his designee concerning the Examination Report or any objections to the Examination Report; and (ii) any right to seek relief of any nature and description and irrespective of legal theory in any court, whether by statutory judicial review or independent action, relating in any way to the Examination Report or to the matters resolved in this Agreement and Order.
3. The Company acknowledges that: (i) the Examination Report and this Agreement and Order, when entered, will constitute a public record for purposes of any applicable statutes governing access by the public to government records and may be published on the Department's Internet web-site (www.aldoi.gov); (ii) the Examination Report and this Agreement and Order will be disclosed to the National Association of Insurance Commissioners and made available to insurance regulatory authorities in all States in which the Company holds a certificate of authority; (iii) to the extent the Company holds certificates of authority to engage in the business of insurance in other States, the Company may be required under the laws and/or

regulations of such States to timely report the fact of this Agreement and Order; and (iv) the Company may be required to disclose the fact of this Agreement and Order in connection with future applications seeking certificates of authority to engage in the business of insurance.

4. As provided in the Order, the Company agrees that, within thirty (30) days after the date of the Order, the Company shall (i) submit to the Department a written statement setting forth the corrective actions to be taken in light of the Examination Report and its recommendations; (ii) pay to the Department the aggregate amount of \$479,000.00 as provided in the Order; and (iii) comply with the other requirements set forth in the Order.

#### Order

The Commissioner of Insurance hereby ORDERS the following:

A. The Target Market Conduct Examination Report of USAgencies Direct Insurance Company as of August 31, 2007, is hereby adopted in all respects.

B. Within thirty (30) days of the date of this Order, USAgencies Direct Insurance Company shall file with the Department an affidavit stating that a copy of the Examination Report and this Order were reviewed by the Company's board of directors.

C. Within thirty (30) days of the date of this Order, USAgencies Direct Insurance Company shall file with the Department an affidavit stating that the Company has filed copies of the Examination Report and this Order with the National Association of Insurance Commissioners.

D. The Examination Report shall be published on the Department's Internet website ([www.aldoi.gov](http://www.aldoi.gov)) and all licensing States notified of its availability.

E. USAgencies Direct Insurance Company shall comply with the recommendations set forth in the Examination Report, with the exception of the recommendations set forth in paragraphs (3) and (14) of the Summary of Exceptions and Recommendations. With respect to the recommendation set forth in paragraph (3) of the Summary of Exceptions and Recommendations, the Company shall work in good faith with the Department to determine the feasibility of implementing a system to track telephone complaints. With respect to the recommendation set forth in paragraph (14) of the Summary of Exceptions and Recommendations, the Company has provided the Department a detailed explanation of its determination regarding denial of the seven (7) disputed contributory negligence claims and, as such, shall not be required as part of this Agreement and Order to reopen or pay these seven (7) disputed contributory negligence claims. Failure of the Company to comply with the remaining recommendations set forth in the Summary of Exceptions and Recommendations may result in sanctions or administrative action.

F. Within thirty (30) days of the date of this Order, USAgencies Direct Insurance Company shall file with the Department a statement signed by the appropriate official of the Company describing in reasonable detail the corrective actions taken to comply with the recommendations made in the Examination Report.

G. Within thirty (30) days of the date of this Order, USAgencies Direct Insurance Company shall pay or cause to be paid to the Alabama Department of Insurance the sum of \$379,000.00 as a fine for certain conduct discussed in the Examination Report.

H. Within thirty (30) days of the date of this Order, USAgencies Direct Insurance Company shall pay or cause to be paid to the Alabama Department of Insurance the sum of \$100,000.00 as reimbursement for the value of time expended by Department employees and costs incurred in the investigation of certain matters discussed in the Examination Report. From said amount, the sum of \$10,000.00 will be credited to the Department's Examiners Revolving Fund Administrative Settlement-Consumer Education Revenue Source.

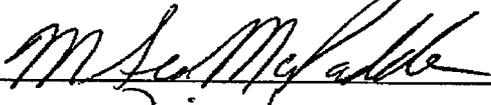
DONE and ORDERED this 20<sup>TH</sup> day of August, 2008, in the City of Montgomery, State of Alabama.



\_\_\_\_\_  
Walter A. Bell  
Commissioner of Insurance-State of Alabama

The undersigned consent to this Agreement and Order:

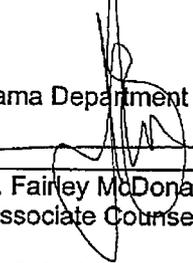
USAgencies Direct Insurance Company

By: 

As its: President

Date of signing: Aug. 19, 2008

Alabama Department of Insurance

By: 

J. Fairley McDonald, III  
Associate Counsel

Date of signing: August 20, 2008