

STATE OF OHIO  
DEPARTMENT OF INSURANCE  
50 WEST TOWN STREET  
3<sup>RD</sup> FLOOR, SUITE 300  
COLUMBUS, OHIO 43215

IN THE MATTER OF:	:	MARY TAYLOR
	:	LT. GOVERNOR/DIRECTOR
TARGETED MARKET CONDUCT	:	
EXAMINATION OF ALFA VISION INSURANCE	:	
COMPANY NAIC # 12188 AND ALFA	:	
SPECIALTY INSURANCE COMPANY NAIC	:	
# 11004	:	CONSENT ORDER

The Superintendent of the Ohio Department of Insurance ("Superintendent") is responsible for administering Ohio insurance laws pursuant to Ohio Revised Code ("ORC") Section 3901.011. Alfa Vision and Alfa Specialty Insurance Companies (collectively, the "Companies") are authorized to engage in the business of insurance in the State of Ohio and, as such, are under the jurisdiction of the Superintendent. The Superintendent conducted an examination of the Companies' non-financial business practices, procedures, oversight and compliance from June 1, 2011 through May 31, 2012 to ensure compliance with Ohio insurance statutes and regulations ("laws").

Section I

As a result of this examination the Superintendent alleges the following:

- A. The Companies violated ORC 3937.31 by failing to renew automobile insurance policies for any mandatory successive two year policy periods.
- B. The Companies violated Ohio Administrative Code ("OAC") 3901-1-54(H)(4) by settling partial automobile claim losses on the basis of written repair estimates prepared by or for the Companies that failed to clearly indicate the location of the licensed salvage dealer from which 'like kind and quality' parts expected to be used in the repairs were obtained.
- C. The Companies violated OAC 3901-1-54(H)(7)(f) and (g) by failing to provide written notice to claimants of the right to reimbursement of applicable sales tax simultaneously with the conveyance of the settlement check for the total loss of an automobile or, in lieu of reimbursement, pay total loss claimants directly at the time of cash settlement.
- D. The Companies violated OAC 3901-1-54(G)(2) by failing to make available to the Superintendent adequate documentation from the Companies' records to support proper claim denial notification in certain denied claim files.

Section II

In lieu of further proceedings and to resolve this matter, the Superintendent and the Companies hereby agree as follows:

1. The Companies admit that the allegations contained in Section I above are true and accurate and that they violated the above-referenced sections of the Ohio Revised Code and Ohio Administrative Code.
2. The Companies shall comply with all Ohio insurance laws.
3. The Companies shall make revisions to their procedures as necessary to ensure compliance with Ohio insurance laws, including ORC 3937.31.
4. The Companies shall devise and implement internal audit programs to ensure the Companies are in compliance with Ohio insurance laws.
5. The Companies shall develop and thereafter maintain written standards for the proper handling of complaints from all claimants.
6. The Companies shall further implement changes to internal controls and processes to ensure that claims personnel are advised of all required changes resulting under this Consent Order and are following all Ohio automobile insurance claim handling laws.
7. The Companies shall pay applicable sales taxes to any first and third party claimant who settled a total automobile loss during the examination period in compliance with OAC 3901-1-54 (H)(7)(f) and (g).
8. The Companies shall clearly indicate the location of the licensed salvage dealer from which "like kind and quality" parts expected to be used in repairs are to be obtained.
9. The Companies shall maintain adequate documentation of denied and closed without payment claims in files in compliance with OAC 3901-1-54 (G)(2).

The Companies have been advised that under ORC Chapter 119, they have the right to a hearing before the Superintendent may impose sanctions or penalties: that, at a hearing, they would be entitled to appear in person, to be represented by an attorney or other representative permitted to practice before the agency, to present their position, arguments, or contentions in writing and to present evidence and examine witnesses appearing for and against them. The Companies hereby waive all such rights.

The Companies waive any rights they may have under ORC 119.12 to appeal this Consent Order.

The Companies waive any and all causes of action, claim or rights, known or unknown, which they may have against the Department, and any employees, agents, consultants, contractors, or officials of the Department in their individual and official capacities, as a result of any acts or omissions on the part of such persons or firms.

The individual signing on behalf of the Companies represents that he or she has the authority to execute this Consent Order on behalf of the Companies.

This Consent Order is a public record and shall be entered into the Journal of the Ohio Department of Insurance.

Date: 4/22/14

Signature: 

Name (printed): JOHN PACE

Title: PRESIDENT

Alfa Vision Insurance Company

Alfa Specialty Insurance Company

Date: 5/31/2014

Mary Taylor

Mary Taylor  
Lt. Governor/Director  
Ohio Department of Insurance

**OHIO DEPARTMENT OF INSURANCE**

**MARKET CONDUCT EXAMINATION OF**

**ALFA VISION INSURANCE CORP.**

**NAIC # 12188**

**&**

**ALFA SPECIALTY INSURANCE CORP.**

**NAIC #11004**



**As Of**

**May 31, 2012**



# ODI

Ohio Department  
of Insurance

John R. Kasich, Governor  
Mary Taylor, Lt. Governor/Director

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Third Floor – Suite 300  
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Honorable Mary Taylor  
Lt. Governor/Director  
Ohio Department of Insurance  
50 W. Town St. Ste. 300  
Columbus, OH 43215

Lt. Governor/Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised and Administrative Codes, a target market conduct examination was conducted on the Ohio business of:

Alfa Vision Insurance Corporation NAIC Company Code #12188 and  
Alfa Specialty Insurance Corporation NAIC Company Code #11004

The examination was conducted at the Companies' office located at:  
210 Westwood Place Suite 200, Brentwood, TN. 37027

and at the offices of the Ohio Department of Insurance located at:  
50 W. Town St. Ste. 300  
Columbus, OH. 43215

Respectively submitted,

Angela Dingus, MCM, AIC, AINS  
Chief, Market Conduct Division  
Office of Risk Assessment

April 11, 2014

Date

Accredited by the National Association of Insurance Commissioners (NAIC)

Consumer Hotline: 1-800-686-1526

Fraud Hotline: 1-800-686-1527

OSHIIP Hotline: 1-800-686-1578

TDD Line: (614) 644-3745

(Printed in house)

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## **FORWARD**

This examination was conducted under authority provided by Ohio Revised Code (“ORC”) 3901.011.

## **SCOPE OF EXAMINATION**

On March 19, 2012, the Market Conduct Division, Ohio Department of Insurance (“Department”), opened an examination of Alfa Vision Insurance Corporation and Alfa Specialty Insurance Corporation (“Companies”). On August 13, 2012, the on-site portion of the examination of the Companies’ non-financial business practices began at the Companies’ statutory home office in Brentwood, Tennessee.

The examination was restricted to a review of the Companies’ activities for Ohio private passenger automobile policies for the period of June 1, 2011 through May 31, 2012. The Companies’ financial responsibility bond writings were not included in this examination. The examination is a report by test and was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) and the State of Ohio’s applicable statutes and rules.

The examination included the following areas of the Companies’ operations:

- Claims
- Underwriting
- Policyholder Services

## **METHODOLOGY**

As part of the examination, the Department’s examiners reviewed the Companies’ claims department procedures and claim files for paid and denied claims. This information was supplemented by interviewing the Companies’ managers and with written inquiries requesting clarification and/or additional information.

Only Ohio policyholders’ files were reviewed. A series of tests were designed and applied to these files to determine the Companies’ level of compliance with Ohio’s property and casualty insurance statutes and rules. These tests are described and the results noted in this report.

The examiners used the NAIC’s standard of:

7% error ratio on claim files (93% compliance rate)

10% error ratio on all other tests (90% compliance rate)

to determine whether an apparent pattern or practice of non-compliance existed for any given test. The results of each test applied to a particular sample are reported separately. Each test is expressed as a “yes/no” question. A “yes” response indicates compliance and a “no” response indicates a failure to comply.

In any instance where errors were noted, the examiners described the apparent error and asked the Companies for an explanation. The Companies responded to the examiners and either:

- Concurred with the findings,
- Had additional information for the examiners to consider,
- Disagreed with the findings, and/or
- Proposed remedial action(s) to correct the apparent deficiency.

If applicable, the examiners' recommendations are included in this report.

### **SAMPLING**

Upon request, the Companies supplied reports of policy and claim data in file formats, which could be used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. The samples were pulled from populations consisting of Ohio policies and claim files and were selected using a standard business database application that provides a true random sample given that it supplies a random starting point from which to select the sample.

### **COMPANY OPERATIONS**

The Companies are licensed in Ohio, Indiana, Kentucky, Missouri, Arkansas, Texas, Tennessee, Virginia, and Georgia. The Companies' statutory home office is located in Montgomery, Alabama.

The Companies write non-standard private passenger automobile in the state of Ohio. The Companies' 2011 written premium and loss information from the Companies' Financial Annual Statements appear below.

#### **2011 Private Passenger Auto**

<b>Company</b>	<b>Ohio Direct Written</b>	<b>Ohio Incurred Losses</b>
<b>Alfa Vision Insurance Company</b>	\$14,655,297	\$10,476,518
<b>Alfa Specialty Insurance Company</b>	\$3,809,718	\$2,007,713



## **UNDERWRITING**

### **Nonrenewals**

The examiners interviewed the Companies' Director of Underwriting. The examiners asked how the Companies maintained compliance with ORC 3937.31-3937.34, specifically how they comply with the two year guaranteed renewal provision. The Companies advised they were unaware that the two year guaranteed renewal provision applied to two year periods beyond the first two years of a policy's existence. The Companies were operating under the assumption that policies could be cancelled annually, following the first two years. The examiners advised that the two year rule applied to all successive two year periods of the policy's existence.

The examiners verified, through a file review, that the Companies were not in compliance with the statute and advised the Companies to update their procedures to ensure future compliance.

### **Company Comments:**

The Company agrees with the findings and has made procedural changes to its business practices to assure compliance with the Ohio statutes.

## **GENERAL CLAIM PRACTICES**

The examiners reviewed the Companies' claims procedures to determine whether the procedures meet the requirements of ORC 3901.20, as defined by ORC 3901.21, OAC 3901-1-07, and OAC 3901-1-54, with regard to timely investigation, denial of coverage, and reporting of apparent fraudulent claims. The examiners also reviewed the Companies' procedures to assure compliance with ORC 3999.41, which requires a company to adopt an antifraud program.

The examiners found that the Companies' procedures were sufficient to establish compliance with Ohio statutes and rules.

## **SPECIFIC CLAIM REVIEW**

### **Private Passenger Automobile Paid Claims**

#### **General Methodology:**

- The Companies supplied reports of paid automobile claims closed during the exam period.
- The examiners reviewed samples or the entire population to test for compliance with various sections of Ohio Administrative Codes ("OAC") 3901-1-07 and 3901-1-54.
- A claim file was considered to be an exception if the file documentation precluded the examiner from being able to reconstruct and understand the complete chronology of the claim from submission to closure.

#### **Timely initial contact**

**Standard:** The initial contact by the Companies with the claimant is within the required time frame.

**Test:** Did the Companies make timely contact (15 days of receipt of notice) with claimants following the report of a claim per OAC 3901-1-54(F)(2)?

**Test Methodology:**

- “Initial Contact” included a telephone notice to the Company from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim in which the Company did not contact the claimant within fifteen (15) days from the date of notification of the claim to be an exception.

**Alfa Vision Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	348	50	50	0	93%	100%
First Party Total	111	50	50	0	93%	100%
Third Party Partial	698	50	50	0	93%	100%
Third Party Total	108	50	50	0	93%	100%
Bodily Injury	345	50	49	1	93%	98%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	133	50	50	0	93%	100%
First Party Total	39	39	39	0	93%	100%
Third Party Partial	270	50	48	2	93%	96%
Third Party Total	27	27	27	0	93%	100%
Bodily Injury	85	85	84	1	93%	99%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

**Timely Communications**

**Standard:** The Companies respond to claim communications in a timely manner.

**Test:** Did the Companies respond to any communication from a claimant when that communication suggests a response is appropriate, within 15 days per OAC 3901-1-54(F)(3)?

**Test Methodology:**

- The examiners considered any failure to respond, within 15 days, to a communication where a response is deemed appropriate, to be an exception.

**Alfa Vision Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	348	50	50	0	93%	100%
First Party Total	111	50	50	0	93%	100%
Third Party Partial	698	50	50	0	93%	100%
Third Party Total	108	50	50	0	93%	100%
Bodily Injury	345	50	49	1	93%	98%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	133	50	50	0	93%	100%
First Party Total	39	39	39	0	93%	100%
Third Party Partial	270	50	50	0	93%	100%
Third Party Total	27	27	27	0	93%	100%
Bodily Injury	85	85	83	2	93%	98%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Timely Investigation**

**Standard:** Claims are resolved in a timely manner.

**Test:** Did the Companies make a decision to accept or deny the claim within 21 days of receipt of a properly executed proof of loss, and if not, was notice sent to the claimant within the 21 day period and was claimant notified of status of investigation and the estimated time required for continuing the investigation at least every 45 days thereafter per OAC 3901-1-54(G)(1)?

**Test Methodology:**

- The examiners considered any instance where the Companies failed to make a decision on whether to pay or deny the claim, or ask for additional information within 21 days of receipt of a properly executed proof of loss to be an exception.

**Alfa Vision Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	348	50	50	0	93%	100%
First Party Total	111	50	50	0	93%	100%
Third Party Partial	698	50	50	0	93%	100%
Third Party Total	108	50	50	0	93%	100%
Bodily Injury	345	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	133	50	50	0	93%	100%
First Party Total	39	39	39	0	93%	100%
Third Party Partial	270	50	50	0	93%	100%
Third Party Total	27	27	27	0	93%	100%
Bodily Injury	85	85	85	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Timely Settlement**

**Standard:** Claims are resolved in a timely manner.

**Test:** Did the Companies make timely payments (10 days after acceptance) to first party claimants per OAC 3901-1-54(G)(6) or to third party claimants (5 days after acceptance) per OAC 3901-1-07(C)(16)?

**Test Methodology:**

- Where a release by a lienholder or a salvage title was required to settle an automobile claim, the examiners did not consider the claim "payable" until the Companies received the required document(s).
- The examiners considered the following to be exceptions:
  1. Any claim in which the Companies failed to make payment to first party claimants within 10 days, once the amount was known and agreed;
  2. Any claim in which the Companies failed to make payment to a third party claimant within 5 days, once the amount was known and agreed.

**Alfa Vision Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	348	50	49	1	93%	98%
First Party Total	111	50	50	0	93%	100%
Third Party Partial	698	50	50	0	93%	100%
Third Party Total	108	50	50	0	93%	100%
Bodily Injury	345	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	133	50	50	0	93%	100%
First Party Total	39	39	39	0	93%	100%
Third Party Partial	270	50	50	0	93%	100%
Third Party Total	27	27	25	2	93%	93%
Bodily Injury	85	85	85	0	93%	100%

The standard of compliance is 93%. The Company's handling practices met or were above this standard.

### **Like Kind and Quality Parts and Salvage Dealer Location**

**Standard:** Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

**Test:** Where applicable, did repair estimates, prepared by the Companies, or prepared on the Companies' behalf, clearly indicate when the repair estimate included "Like Kind and Quality" ("LKQ") parts and the name and location of the licensed salvage dealer where the parts were obtained as required by OAC 3901-1-54(H)(4)?

#### **Test Methodology:**

- The examiners considered the following to be exceptions:
  1. Any repair estimate that failed to disclose that LKQ parts were used in the estimate, and/or
  2. Any repair estimate that failed to clearly show the name and location of the licensed salvage dealer where the LKQ parts were to be obtained.

#### **Alfa Vision Findings:**

<b>Claim Feature</b>	<b>Population</b>	<b>Sample</b>	<b>Yes</b>	<b>No</b>	<b>Standard</b>	<b>Compliance</b>
First Party Partial	348	50	47	3	93%	94%
Third Party Partial	698	50	47	3	93%	94%

The standard of compliance is 93%. The Company's handling practices were above this standard.

#### **Alfa Specialty Findings:**

<b>Claim Feature</b>	<b>Population</b>	<b>Sample</b>	<b>Yes</b>	<b>No</b>	<b>Standard</b>	<b>Compliance</b>
First Party Partial	133	50	44	6	93%	88%
Third Party Partial	270	50	44	6	93%	88%

The standard of compliance is 93%. The Company's handling practices were below this standard.

#### **Examiner Recommendation:**

- The Companies should ensure that "Like Kind and Quality" parts are identified along with the corresponding salvage dealer's contact information on repair estimates. If an independent adjusting service, employed by the Companies, is not following this procedure, the Companies should ensure the adjusting service changes its estimates accordingly, as the Companies are responsible for these statutory violations.

#### **Company Comments:**

- The Companies agreed with the above findings. They have instructed all outside vendors and internal claims personnel that when LKQ parts are included in an estimate, that the salvage dealer location must be specifically identified.

### **Non-Original Equipment Manufacturer Parts**

**Standard:** Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

**Test:** Where applicable, did repair estimates, prepared by the Companies, or prepared on the Companies' behalf, clearly indicate when the repair estimate included replacement parts which were not manufactured by the "Original Equipment Manufacturer" ("OEM") and was the mandatory statutory disclosure wording included on the estimate as required by OAC 3901-1-54(H)(4)?

**Test Methodology:**

- The examiners considered the following to be exceptions:
  1. A repair estimate that failed to clearly show that Non-OEM parts were included in the estimate, and/or
  2. A repair estimate that failed to include the statutory mandated disclosure wording required when non-OEM parts are used to repair a vehicle.

**Alfa Vision Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	348	50	49	1	93%	98%
Third Party Partial	698	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	133	50	50	0	93%	100%
Third Party Partial	270	50	49	1	93%	98%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Fair and Reasonable Settlement**

**Standard:** Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

**Test:** Did the Companies offer to claimants, who have made fair and reasonable claims, and in which liability has become reasonably clear, amounts which were fair and reasonable as shown by the insurer's investigation of the claim, providing the amounts so offered were within policy limits, in accordance with policy provisions, and in which liability has become reasonably clear as required by OAC 3901-1-07(C)(6)?

**Test Methodology:**

- The examiners considered any claim in which the Companies' claim file did not document that the settlement amount offered and/or paid was fair and reasonable to be an exception.

**Alfa Vision Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	348	50	49	1	93%	98%
First Party Total	111	50	49	1	93%	98%
Third Party Partial	698	50	50	0	93%	100%
Third Party Total	108	50	49	1	93%	98%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	133	50	50	0	93%	100%
First Party Total	39	39	39	0	93%	100%
Third Party Partial	270	50	50	0	93%	100%
Third Party Total	27	27	27	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Vehicle Total Loss-Actual Cash Value Calculation**

**Standard:** Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

**Test:** Did the Companies calculate actual cash value on total losses in a manner that conformed to OAC 3901-1-54(H)(7)(a-e)?

**Test Methodology:**

- The examiners considered failure to document that the settlement amount offered and/or paid was fair and reasonable to be an exception.

**Alfa Vision Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Total	111	50	49	1	93%	98%
Third Party Total	108	50	49	1	93%	98%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Total	39	39	39	0	93%	100%
Third Party Total	27	27	27	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Vehicle Total Loss-Sales Tax**

**Standard:** Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

**Test:** Did the Companies pay and/or reimburse sales tax as required by OAC 3901-1-54 (H)(7)(f) and (g)?

**Test Methodology:**

- The examiners considered the following to be exceptions:
  1. Any failure to offer to pay or reimburse sales tax on vehicle total loss settlements, and/or
  2. Any failure to use local sales tax rates when paying sales tax on actual cash value settlements.

**Alfa Vision Findings:**

<b>Claim Feature</b>	<b>Population</b>	<b>Sample</b>	<b>Yes</b>	<b>No</b>	<b>Standard</b>	<b>Compliance</b>
First Party Total	111	50	26	24	93%	52%
Third Party Total	108	50	33	17	93%	66%

The standard of compliance is 93%. The Company's handling practices were below this standard.

**Alfa Specialty Findings:**

<b>Claim Feature</b>	<b>Population</b>	<b>Sample</b>	<b>Yes</b>	<b>No</b>	<b>Standard</b>	<b>Compliance</b>
First Party Total	39	39	12	27	93%	31%
Third Party Total	27	27	21	6	93%	78%

The standard of compliance is 93%. The Company's handling practices were below this standard.

**Examiner Recommendations:**

1. The Companies should recalculate the sales tax amount on all total loss claims reported within the exam period, and reimburse all applicable claimants for the appropriate amount owed on their total loss settlements.
2. The Companies should develop stronger controls to assure the Companies offer, pay, and/or reimburse sales tax on automobile total loss settlements as required by OAC 3901-1-54(H)(7)(f) and (g).
3. The Companies should establish company-wide training for adjusters and other claims personnel to adhere to Ohio's sales tax rule.
4. The Companies should conduct internal audits to adhere to the procedures and practices as it applies to sales tax rule to conform to OAC 3901-1-54(H)(7)(f) and (g).

**Company Comments:**

- The Companies agreed with the above exceptions. The Company advised that additional training has been conducted with their Ohio claims adjusters and claims management, instructing them to include the offer to pay sales tax on replacement vehicles before the closing of any total loss settlement.

**Subrogation**

**Standard:** Claim files are handled in accordance with policy provisions and applicable Ohio statutes and rules.

**Test:** Did the Companies' subrogation demand conform to OAC 3901-1-54(H)(10)?



**Test Methodology:**

- The examiners considered to be an exception any subrogation amount that did not include the first party claimant's deductible or the Companies did not pay the deductible on a proportionate basis with first party claimants, unless the deductible had been paid in advance or recovered.

**Alfa Vision Findings:**

Population	Sample	Yes	No	Standard	Compliance
8	8	8	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Population	Sample	Yes	No	Standard	Compliance
4	4	4	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Bodily Injury Claim Settlement Amounts**

**Standard:** 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.

**Test:** Were the Companies' claim settlements free of unfair claim settlement practices prohibited by ORC 3901.20 and as defined in ORC 3901.21, OAC 3901-1-07(C)(6) and (8), and OAC 3901-1-54(G)(9) and (10)?

**Test Methodology:**

- The examiners considered the following to be exceptions:
  - Any indication of a pattern settlement;
  - Any indication of the Companies' actions to compel a first party to litigate; and,
  - Failure to document that the settlement amount offered and/or paid was fair and reasonable.
  - Any indication of the Companies' compelling the claimant to accept settlements.

**Alfa Vision Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Bodily Injury	345	50	50	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
Bodily Injury	85	85	85	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

## Private Passenger Automobile Denied Claims

### General Methodology:

- The Companies supplied reports of automobile claims denied and closed during the exam period.
- A claim file was considered to be an exception if the file documentation precluded the examiner from being able to reconstruct and understand the complete chronology of the claim from submission to closure.
- Any required contact or investigation not documented as being within the required time frames was considered to be an exception.
- Any claim payment not documented to have been denied within the required time frames was considered to be an exception.
- The examiners reviewed the entire populations to test for compliance with various sections of Ohio Administrative Codes (“OAC”) 3901-1-07 and 3901-1-54.

### Timely Contact

**Standard:** The initial contact by the Companies with the claimant is within the required time frames.

**Test:** Did the Companies make timely contact, (15 days of receipt of notice) with claimants following the report of a claim per OAC 3901-1-54(F)(2)?

### Test Methodology:

- “Initial Contact” included a telephone notice to the Company from the insured, third party claimant, and/or legal representative.
- The examiners considered any claim in which the Company did not contact the claimant within fifteen (15) days from the date of notification of the claim to be an exception.

### Alfa Vision Findings:

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	34	34	34	0	93%	100%
Third Party	48	48	45	3	93%	94%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

### Alfa Specialty Findings:

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	32	32	32	0	93%	100%
Third Party	47	47	45	2	93%	96%

The standard of compliance is 93%. The Company’s handling practices were above this standard.

### **Timely Investigation**

**Standard:** Claims are resolved in a timely manner.

**Test:** Did the Companies make a decision to accept or deny the claim within 21 days of receipt of a properly executed proof of loss, and if not, was notice sent to the claimant within the 21 day period, and was claimant notified of status of investigation and the estimated time required for continuing the investigation at least every 45 days thereafter per OAC 3901-1-54(G)(1)?

#### **Test Methodology:**

- The examiners considered any instance where the Companies failed to make a decision on whether to pay or deny the claim, or ask for additional information within 21 days of receipt of a properly executed proof of loss to be an exception.

#### **Alfa Vision Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	34	34	34	0	93%	100%
Third Party	48	48	48	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

#### **Examiner Comments:**

The third party findings were changed to show a compliance rate of 100% based upon supporting information and documentation provided by the Company.

#### **Alfa Specialty Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	32	32	32	0	93%	100%
Third Party	47	47	46	1	93%	98%

The standard of compliance is 93%. The Company's handling practices were above this standard.

### **Timely Communications**

**Standard:** The Companies respond to claim communications in a timely manner.

**Test:** Did the Companies respond to any communication from a claimant when that communication suggests a response is appropriate, within 15 days per OAC 3901-1-54(F)(3)?

#### **Test Methodology:**

- The examiners considered any failure to respond, within 15 days, to a communication where a response is deemed appropriate, to be an exception.

**Alfa Vision Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
Third Party	8	8	8	0	93%	100%

The standard of compliance is 93%. The Company's third party handling practices were above this standard.

The first party claim files reviewed did not contain any communications to which this test would be applicable.

**Examiner Comments:**

The third party findings were changed to show a compliance rate of 100% based upon supporting information and documentation provided by the Company.

**Alfa Specialty Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
Third Party	47	47	45	2	93%	96%

The standard of compliance is 93%. The Company's third party handling practices were above this standard.

The first party claim files reviewed did not contain any communications to which this test would be applicable.

**Examiner Recommendation:**

- The Companies should ensure that pertinent communications where a response is required are acknowledged within the statutorily required 15 day time frame.

**Company Comments:**

- The Companies agreed with the above findings.

**Specific Provision, Condition, or Exclusion**

**Standard:** Denied and closed without payment claims are handled in accordance with policy provisions and applicable Ohio statutes and rules.

**Test:** When the claim was denied on the grounds of a specific policy provision, condition, or exclusion, did the claim file include documentation that the denial notice contained reference to such provision, condition, or exclusion as required by OAC 3901-1-54(G)(2)?

**Test Methodology:**

- The examiners considered the following to be exceptions:
  1. Inadequate file documentation to support claim activities.
  2. Failure to include in its denial letter a specific reference to the provision, condition, or exclusion that was the basis for the claim denial.

**Alfa Vision Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	34	34	32	2	93%	94%
Third Party	48	48	45	3	93%	94%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	32	32	29	3	93%	91%
Third Party	47	47	40	7	93%	85%

The standard of compliance is 93%. The Company's handling practices were below this standard.

**Company Comments:**

The Companies believe that the process of sending the third party claimant a copy of the first party claimant's denial letter is sufficient for compliance to statute. The Department accepted this practice and removed two exceptions for this reason. The Alfa Vision third party and Alfa Specialty third party findings and the Examination Summary were revised to reflect these changes.

**Examiner Recommendation:**

- The Companies should ensure that files are adequately documented so that examiners can reconstruct file activities.

**Consideration That Others Assume Payment**

**Standard:** Denied and closed without payment claims are handled in accordance with policy provisions and applicable Ohio statutes and rules.

**Test:** Did the Companies comply with the requirement prohibiting denial of a claim because of consideration that others should assume the responsibility of the payment as required by OAC 3901-1-54(G)(3)?

**Test Methodology:**

- The examiners considered claims denied to first party claimants, on consideration that others should assume the responsibility for payment, to be exceptions.

**Alfa Vision Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	34	34	34	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	32	32	32	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

### **Disclosure of Coverages, Benefits, and Provisions**

**Standard:** Denied and closed without payment claims are handled in accordance with policy provisions and applicable Ohio statutes and rules.

**Test:** Did the Companies disclose all coverages, benefits, and provisions as required by OAC 3901-1-54(E)(1)?

**Test Methodology:**

- The examiners considered the Companies' failure to disclose all coverages and benefits available to the claimant to be an exception.

**Alfa Vision Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	34	34	34	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

**Alfa Specialty Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	32	32	32	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

## **POLICYHOLDER SERVICES**

### **Complaints**

**Standard:** The Companies shall adopt and implement reasonable standards for the proper handling of written communications, primarily expressing grievances received by the Companies from insureds and claimants.

**Test:** Have the Companies adopted and implemented reasonable standards for handling written communications, primarily expressing grievances, including procedures to make a complete investigation of a complaint and respond as required by OAC 3901-1-07(C)(15)?

**Test Methodology:**

Prior to the on-site portion of the examination, the examiners reviewed the Companies' complaints from the exam period and submitted interrogatories to the Companies for responses. The examiners interviewed the Companies' examination coordinator during the on-site portion of the examination.

**Findings:**

The Companies indicated in their responses to the Department's interrogatories and during examiner interviews that they do not have formalized written complaint handling procedures. The examiners interviewed the examination coordinator. The coordinator advised that reviews were conducted on both internal and Department of Insurance complaints and responses were sent accordingly. The coordinator indicated that how a complaint is handled depends on the complaint itself and how much a claimant escalates a complaint. The examiners were advised that if a complaint is repeatedly lodged against a

particular claims adjuster, then that adjuster is addressed. Additionally, the Companies try to take a proactive approach to complaints during the claims handling process in an effort to reduce the number of complaints received.

**Examiner Recommendation:**

- The Companies should develop formalized written complaint handling procedures to ensure that all claimants are afforded the same level of service, regardless of how much a claimant escalates a complaint.

**EXAMINATION SUMMARY**

The examination found the Companies to be out of compliance in the following areas:

<b>ALFA VISION PAID CLAIMS</b>		
<b>Areas of Review</b>	<b>Compliance Standard</b>	<b>Compliance Rate</b>
<b>First Party Total</b>		
Did the Company conform to the sales tax provisions of OAC 3901-1-54 (H)(7)(f) and (H)(7)(g)?	93%	52%
<b>Third Party Total</b>		
Did the Company conform to the sales tax provisions of OAC 3901-1-54 (H)(7)(f) and (H)(7)(g)?	93%	66%

<b>ALFA SPECIALTY PAID CLAIMS</b>		
<b>Areas of Review</b>	<b>Compliance Standard</b>	<b>Compliance Rate</b>
<b>First Party Partial</b>		
Did the written estimate by or on behalf of the insurer clearly indicate the location of the licensed salvage dealer where the "Like Kind and Quality" parts are to be obtained per OAC 3901-1-54(H)(4)?	93%	88%
<b>Third Party Partial</b>		
Did the written estimate by or on behalf of the insurer clearly indicate the location of the licensed salvage dealer where the "Like Kind and Quality" parts are to be obtained per OAC 3901-1-54(H)(4)?	93%	88%
<b>First Party Total</b>		
Did the Company conform to the sales tax provisions of OAC 3901-1-54 (H)(7)(f) and (H)(7)(g)?	93%	31%
<b>Third Party Total</b>		
Did the Company conform to the sales tax provisions of OAC 3901-1-54 (H)(7)(f) and (H)(7)(g)?	93%	78%

ALFA SPECIALTY DENIED CLAIMS		
Areas of Review	Compliance Standard	Compliance Rate
<b>First Party</b> When the claim was denied on the grounds of a specific policy provision, condition, or exclusion, did the claim file include documentation that the denial notice contained reference to such provision, condition, or exclusion, as required by OAC 3901-1-54(G)(2)?	93%	91%
<b>Third Party</b> When the claim was denied on the grounds of a specific policy provision, condition, or exclusion, did the claim file include documentation that the denial notice contained reference to such provision, condition, or exclusion, as required by OAC 3901-1-54(G)(2)?	93%	85%

This concludes the report of the Market Conduct Examination of Alfa Vision and Alfa Specialty Insurance Corps. The examiners, Ben Hauck, Laura Price, John Pollock, and Molly Porto would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.

*Ben Hauck*

April 11, 2014

Date

Ben Hauck, AINS, MCM  
Examiner-in-Charge



## COMPANY RESPONSE



*Alfa Specialty Insurance Corporation  
Alfa Vision Insurance Corporation  
The Vision Insurance Group, LLC*

June 17, 2013

Mr. Don Layson  
Insurance Compliance Supervisor – Market Conduct Division  
Ohio Department of Insurance  
50 W. Town Street, Suite 300  
Columbus, OH 43215

RE: Market Conduct Examination Draft Report Response  
Alfa Specialty Insurance Corporation (NAIC #11004)  
Alfa Vision Insurance Corporation (NAIC #12188)

Dear Mr. Layson:

This document will constitute the formal response to the Ohio Market Conduct Examination Draft Report, received May 16, 2013. Per your guidance in our subsequent telephone conversation, the Company has responded to those areas of the draft report where we were given specific instruction by the Department or where our practices fell below the acceptable NAIC threshold. That being the case, we have addressed five areas:

1. The two year guaranteed renewal provisions (Page 2 of your report)
2. Like kind and quality (LKQ) parts and salvage dealer location (Page 6 of your report)
3. Vehicle total loss sales tax (Page 9 of your report)
4. Timely communication (Page 12 & 13 of your report)
5. Specific policy provision, conditions, or exclusions (Page 14 of your report)

### **1. Ohio Two Year Guaranteed Renewal Provision**

Per your finding, the Company is now aware that the Ohio two year guaranteed renewal provision applies to all successive renewal two year periods of the policy's existence, and not just the first two year period. We have corrected our business practices and are now in compliance with applicable Ohio statute on this subject.

### **2. Like Kind and Quality Parts and Salvage Dealer Location**

#### **Alfa Specialty Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Partial	133	50	44	6	93%	88%
Third Party Partial	270	50	44	6	93%	88%

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While the findings for this area were above the NAIC standard for Alfa Vision, they fell below the standard for Alfa Specialty, as noted above. The Company agrees with the findings of the Department. We have instructed all outside vendors and internal claims personnel that when LKQ parts are included in the repair estimate, that the salvage dealer's location and contact information must be specifically identified. We should now be in compliance with the Ohio statutes regarding this matter.

### **3. Vehicle Total Loss Sales Tax**

#### **Alfa Vision Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Total	111	50	26	24	93%	52%
Third Party Total	108	50	33	17	93%	66%

#### **Alfa Specialty Findings:**

Claim Feature	Population	Sample	Yes	No	Standard	Compliance
First Party Total	39	39	12	27	93%	31%
Third Party Total	27	27	21	6	93%	78%

The Companies agree with the findings of the Department and will follow the examiner recommendations as follows:

1. Based on subsequent telephone conversations and agreement from the Department, the Companies have created and will distribute a sales tax survey (see attachment #2) to the population of total loss claimants that potentially replaced their vehicles. The survey population includes 325 claims and 336 vehicles. The survey will denote that it is taking place due to a recent Ohio Market Conduct examination and provide instructions as to how to respond. We will double the statutory time to replace the subject vehicle, and each applicable claimant will be provided sales tax reimbursement if they can show proof of vehicle replacement within 60 days of the settlement of the referenced claim. Additionally, we will add 10% interest per annum to any owed sales tax amount. This survey process is already underway and the Companies will provide final results of the survey to the Department within 90 days of the conclusion of this examination.
2. Since the original examination findings, the Companies have developed stronger management controls to assure that appropriate sales tax offers are mailed.
3. The Companies have conducted additional training with all relevant adjusters and management, instructing them to offer to pay sales tax on replacement vehicles before the closing of any total loss settlement.
4. The Companies have added an evaluation of Ohio total loss sales tax practices to its regularly scheduled departmental audit plans.

### **4. Timely Communication**

#### **Alfa Vision Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
Third Party	8	8	7	1	93%	88%

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While the findings for this area were above the NAIC standard for Alfa Specialty, they fell below the standard for Alfa Vision, as noted above. The claim in question for this finding is <Claim number redacted>. In the examination criticisms, the Company was cited for failure to respond to the claimant's attorney representation letter dated July 12, 2011 (Attachment #1A). As a part of this draft response review, we re-examined this claim. In doing so, we found that Company records indicate that we responded to the representation letter with a letter of our own on July 15, 2011 (Attachment #1B). It appears that during the examination the Company response was overlooked by the examiners. It was then subsequently missed by the company as well, since we initially agreed with the Department's finding of failure to communicate timely in our criticism response.

We would respectfully ask the Department to re-evaluate this claim communication proof. In our opinion, this proof of response should bring Alfa Vision above the required NAIC standard and remove this finding from the final report.

#### **5. Specific Provision, Condition, or Exclusion**

##### **Alfa Vision Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	34	34	32	2	93%	94%
Third Party	48	48	44	4	93%	92%

##### **Alfa Specialty Findings:**

Claim Feature	Claims denied during exam period	Sample	Yes	No	Standard	Compliance
First Party	32	32	29	3	93%	91%
Third Party	47	47	39	8	93%	83%

As noted above, Alfa Vision failed to meet the standard for third party denials and Alfa Specialty failed to meet the standard for both first and third party denials. We acknowledge there are instances where the Companies forwarded a copy of the insured's denial to the third party and that the denial letter is not addressed to the third party. From your examination, we appear to be found insufficient when we fail to send a denial letter specifically addressed to the claimant being reviewed.

The Companies would respectfully ask that the Department re-examine these findings having to do with Third Party denials. In our opinion, a review of OAC 3901-1-54 does not indicate that our business practices are incorrect or outside of the instructions found in the statute and we would ask that consideration be given for the denial documents originally submitted. We acknowledge that this would still place Alfa Specialty Third Party below the acceptable NAIC standard. We recognize your finding would improve our communication to the claimant and will change our business practices to correspond with the interpretation of the department and make certain that each claimant receives a specific notice.

Thank you for your time and attention to our draft report response. If I can answer any questions or provide additional information, please contact me.

Regards,

# Steve Grizzle

Steve Grizzle  
AVP, Compliance and Risk Management  
Alfa Vision and Alfa Specialty Insurance Companies

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*Alfa Specialty Insurance Corporation  
Alfa Vision Insurance Corporation  
The Vision Insurance Group, LLC*

**ATTACHMENT 2**

Re:            Claim Number: \_\_\_\_\_  
                Date of Loss:        \_\_\_\_\_  
                Vehicle:             \_\_\_\_\_

Dear \_\_\_\_\_:

As a result of a recent Ohio Market Conduct examination, we have reviewed a number of previously closed claims. It was identified that you may have sustained a total loss to your vehicle as a result of the claim listed above. If you replaced the total loss vehicle within 90 days of the resolution of your claim, you may be entitled to reimbursement for all or part of the taxes you incurred during the purchase of the replacement vehicle. If you wish to be considered for this credit, we ask that you return a bill of sale for the replacement vehicle, or any other documentation you might have to support the date of purchase, in the enclosed envelope. Upon receipt of your returned documentation, a representative will process your request and contact you at the number you list below.

Sincerely,

Alfa Vision and Alfa Specialty Insurance Claims Department  
1-877-584-7466

Please provide a phone number where you might be reached: \_\_\_\_\_

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*Alfa Specialty Insurance Corporation  
Alfa Vision Insurance Corporation  
The Vision Insurance Group, LLC*

April 22, 2014

Ms. Mary Taylor, Lt. Governor/Director  
Ohio Department of Insurance  
50 West Town Street  
Columbus, OH 43215

RE: Targeted Market Conduct Examination Consent Order  
Alfa Specialty Insurance Corporation, NAIC #11004  
Alfa Vision Insurance Corporation, NAIC #12188

Dear Ms. Taylor:

This letter is in response to the Final Report and accompanying Consent Order sent to our company by Don Layson on April 14, 2014. There are nine areas noted in the Consent Order and each one is addressed below.

1. *The Companies admit that the allegations contained in Section I above are true and accurate and that they violated the above-referenced sections of the Ohio Revised Code and Ohio Administrative Code. The Companies acknowledge that the four allegations contained in Section I of the Consent Order are true and accurate.*
2. *The Companies shall comply with all Ohio insurance laws. The Companies will comply with all applicable Ohio insurance laws.*
3. *The Companies shall make revisions to their procedures as necessary to ensure compliance with Ohio insurance laws, including ORC 3937.31. The Companies have made all appropriate changes to our business practices to ensure compliance with Ohio insurance laws. Specifically addressing ORC 3937.31, the Companies will continue to renew for consecutive two-year periods until such time as we make changes to our filed rating rules and to our policy.*
4. *The Companies shall devise and implement internal audit programs to ensure the Companies are in compliance with Ohio insurance laws. The Companies will make certain that our internal audit programs are sufficient to ensure continued compliance with applicable Ohio insurance laws and to take corrective actions when audit errors appear.*
5. *The Companies shall develop and thereafter maintain written standards for the proper handling of complaints from all claimants. The Companies have developed written standards for the proper handling of complaints for all departments.*
6. *The Companies shall further implement changes to internal controls and processes to ensure that claims personnel are advised of all required changes resulting under this Consent Order and are following all Ohio automobile insurance claim handling laws. The claims personnel who are responsible for Ohio have been educated on the topics and issues brought forth from the targeted Market Conduct exam. The Companies have processes and controls to ensure that this same personnel group is advised of any new change.*

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**RECEIVED**

**APR 23 2014**

**OFFICE OF RISK**

7. *The Companies shall pay applicable sales taxes to any first and third party claimant who settled a total automobile loss during the examination period in compliance with OAC 3901-1-54 (H)(7)(f) and (g). The Companies created a sales tax survey at the conclusion of the Draft Report. This survey was subsequently approved by the Department and distributed to any applicable claimant who settled a total automobile loss during the examination period. These surveys, and the resulting payments, were completed in 2013.*
8. *The Companies shall clearly indicate the location of the licensed salvage dealer from which 'like kind and quality' parts expected to be used in repairs are to be obtained. Our written repair estimates now clearly indicate the location of the licensed salvage dealer where appropriate like, kind, and quality parts were obtained. We have also instructed all independent appraisers of the necessity of complying with Ohio Administrative Code 3901-1-54(H)(4).*
9. *The Companies shall maintain adequate documentation of denied and closed without payment claims in files in compliance with OAC 3901-1-54 (G)(2). The Companies have instructed all appropriate Ohio claims personnel on the need for sufficient documentation of claims that were either denied or closed without payment.*

Along with this letter, we are enclosing the signed Consent Order. Please let us know if there is any additional follow up documentation that you require. Otherwise, we will consider this targeted examination complete.

Respectfully,



Steven L. Grizzle  
AVP, Compliance and Risk Management  
Alfa Vision & Alfa Specialty Insurance Companies  
615-312-2509  
[sgrizzle@alfainsurancecompany.com](mailto:sgrizzle@alfainsurancecompany.com)