



MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

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MARK HAIRE
Deputy Commissioner of Insurance

July 28, 2014

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Kathryn Margaret Lemieux, President
Progressive Gulf Insurance Company
6300 Wilson Mills Road, W33
Cleveland, OH 44143-2182

RE: Target Market Conduct Examination

Dear Ms. Lemieux:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

BY


Christina Kelsey
Senior Attorney

MC/CK/bs
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI**

**IN RE: EXAMINATION OF PROGRESSIVE
 GULF INSURANCE COMPANY**

CAUSE NO. 14-6776

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of the Target Market Conduct Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011).

II.

Progressive Gulf Insurance Company is an Ohio-domiciled company licensed to write Automobile Physical Damage/Liability; Casualty/Liability; Fidelity; Fire/Allied Lines; Home/Farm Owners; Inland Marine; Surety and Workers' Compensation coverages.

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for a Target Market Conduct Examination of Progressive Gulf Insurance Company and appointed Jimmy Blissett, Examiner-In-Charge, to conduct said examination.

IV.

That on or about June 16, 2014, the Report concerning Progressive Gulf Insurance Company was submitted to the Department by the Examiner-In-Charge, Jimmy Blissett.

V.

That on or about June 23, 2014, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the Report and allowed the Company a 15-day period to submit any rebuttal to the Report. On or about June 30, 2014, the Company's attorney sent an email stating that the Company would not be filing a response.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the Report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Target Market Conduct Examination as final or with modifications or corrections; (2) rejecting the Target Market Conduct Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report and all relevant examiner work papers, that the Target Market Conduct Examination of Progressive Gulf Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

IT IS FURTHER ORDERED that a copy of the adopted Target Market Conduct Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted Report, Progressive Gulf Insurance Company, shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that Progressive Gulf Insurance Company, take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Target Market Conduct Examination are properly and promptly complied with.

SO ORDERED, this the 23rd day of July 2014.

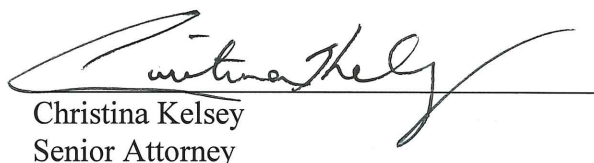

MIKE CHANEY
COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI



CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Target Market Conduct Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 28th day of July 2014, to:

**Kathryn Margaret Lemieux, President
Progressive Gulf Insurance Company
6300 Wilson Mills Road, W33
Cleveland, OH 44143-2182**


Christina Kelsey
Senior Attorney

Christina Kelsey
Senior Attorney
Counsel for the Mississippi Department of Insurance
Post Office Box 79
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MISSISSIPPI INSURANCE DEPARTMENT

**Report of Target Market Conduct Examination
(March 18, 2013 Hail Claims)**

Of

Progressive Gulf Insurance Company

**EXAMINER'S AFFIDAVIT AS TO STANDARDS
AND PROCEDURES USED IN AN EXAMINATION**


State of Mississippi,

County of Madison,

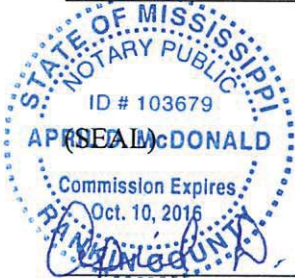
Jimmy D. Blissett, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the Target Market Conduct Examination of Progressive Gulf Insurance Company effective June 1, 2013.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Progressive Gulf Insurance Company was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.


Examiner's Signature

Subscribed and sworn before me by Jimmy Blissett on this 16th day of June, 2014.




Notary Public

My commission expires October 10, 2016 [date].

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MARK HAIRE
Deputy Commissioner of Insurance

April 21, 2014

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building
501 North West Street
Jackson, MS 39201

Dear Commissioner Chaney,

Pursuant to your instructions and in accordance with statutory provisions, a Target Market Conduct Examination of Automobile Damage Repairs and Billing has been conducted of:

Progressive Gulf Insurance Company
6300 Wilson Mills Road, W33

Cleveland, OH 44143

License #	NAIC Group #	NAIC #	ETS #
8100177	155	42412	MS129-M4

The examination was commenced in accordance with Miss. Code Ann. § 83-1-27 et seq and was performed in Ridgeland, Mississippi. The Report of Examination is herewith submitted.

PURPOSE AND SCOPE OF THE TARGET EXAMINATION

On March 18, 2013, a hail storm hit the Jackson, Mississippi metropolitan area. As a result of the storm, a large number of automobile claims were filed with insurance companies providing coverage to policyholders in this area. The Mississippi Insurance Department (hereinafter "MID" or "Department") received complaints from some policyholders and auto body repair shops concerning issues related to the repair of insured vehicles. More specifically, the Department became aware of issues between adjusters and auto body repair shops regarding specific repairs that are considered necessary by nationally recognized automobile repair manuals, such as feather, prime, and block procedures.

On May 10, 2013, after becoming aware of these issues, the Department issued Bulletin 2013-4 directing insurance companies to "inform their adjusters to review billing statements and approve any repairs and charges necessary to indemnify policyholders, including appropriate charges for feathering, prime and block of damaged vehicles. With respect to feathering, prime and block procedures, appropriate charges should be approved whether included in the paint/materials rate or broken out as a separate charge".

On May 29, 2013, the Department served official notification to Progressive Gulf Insurance Company (hereinafter "Company") of its intent to commence a target market conduct examination effective June 1, 2013. The purpose and scope of this examination was to conduct a review of automobile claim processes and billing procedures, including, but not limited to, processes and procedures related to feathering, prime and block of damaged vehicles to ensure that policyholders with claims arising from the March 18, 2013 hail storm (hereinafter "Hail Storm") were being properly indemnified for necessary, appropriate and covered repairs.

Examiners and adjusters appointed by the Department conducted the examination in accordance with guidance found in the National Association of Insurance Commissioners (hereinafter "NAIC") *Market Regulation Handbook* (hereinafter "*Handbook*"). Chapter 16, Section G of the *Handbook* provides guidance relating to the general examination standards regarding claims. Our examination focused on Standard 6 which provides that claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.

Failure to identify or report on any potential noncompliant practice outside the scope of this examination does not constitute acceptance of any such practice.

CLAIMS FILED AS A RESULT OF THE HAIL STORM

As of June 30, 2013, the Department had received reports from insurers licensed in Mississippi registering approximately 42,000 auto physical damage claims with payments totaling approximately \$172 million. The Company reported it had received 3,740 auto physical damage claims relating to the storm with payments exceeding \$14 million.

INFORMATION OBTAINED AND REVIEWED

Information from the Company

Examination Data Requests (hereinafter "EDR") were sent to the Company requesting various information necessary to complete the required examination procedures. The following information was requested:

- EDR # 1 A detailed data listing of all automobile claims filed as a result of the Hail Storm which contained approximately 24 fields of information relating to the claim
- EDR # 2 Documents relating to the Company's claim processes and procedures, including estimating manuals/software and relevant procedure pages
- EDR # 3 Copies of actual claim files selected for review

Examiners also requested relevant policy forms which were examined prior to the review of the files.

Policyholder Complaints

Examiners contacted the Department in order to obtain any complaints from policyholders that had been filed against the Company as a result of the March 18, 2013 hail storm. It was noted that no complaints had been filed with the Department.

Information Regarding Complaints from the Body Repair Industry

The examination team also attempted to investigate the complaints from the auto body repair industry. The Department advised the examiners that Mississippi Attorney General Jim Hood had written a letter to insurers on or about April 19, 2013, stating that his office had received reports that some insurance companies were not including certain procedures in their estimates necessary to restore vehicles to pre-accident condition. The letter also stated that the Attorney General's Office (hereinafter "AGO") had survey responses from more than 30 auto body repair shops which indicated "that claims for certain repairs specified as necessary by the insurance companies' own manuals and/or software, such as feather, block and prime, denib and finesse, masking of jams, broken glass clean-up and more are not being included in estimates issued to the insureds."

The examination team requested and obtained copies of the surveys from the AGO. The examiners reviewed the surveys entitled "Mississippi Collision Repair Association Survey August 2012." Upon review of the surveys, the examiners were unable to ascertain from those surveys "that claims for certain repairs specified as necessary by the insurance companies' own manuals and/or software, such as feather, block and prime, denib and finesse, masking of jams, broken glass clean-up and more are not being included in estimates issued to the insureds."

During the examination, it was discovered that the Mississippi Collision Repair Association (MSCRA) website provided a portal whereby members and visitors to the website could complete an “Insurance Company Performance Complaint Form.” This form allowed the participant to provide the following information:

- Insurance Company
- Claim Number
- Insurance Appraiser or Adjuster
- Specific Complaint
- Are the reasons for this complaint in violation of Mississippi Department of Insurance Bulletin 2013-4 regarding Automobile Damage Repairs and Billing?
- Will this Insurance Company’s actions result in the consumer being responsible for labor or materials you feel the Insurance Company is liable for?
- Have you contacted the area supervisor for this company in order to resolve this issue?
- What was the result of your communication with the Insurance Company supervisor?

The website indicated that complaint forms submitted online were automatically emailed to the MID. The Department provided the examiners with five (5) complaints received by email. A review of these complaints revealed that none pertained to the company.

The examiners followed up with a representative of MSCRA and made a formal request for any complaints received. As of the date of this report, no complaints had been provided.

SAMPLING METHODOLOGY AND TEST WORK PERFORMED

The examiners used sampling methodology prescribed by the NAIC in Chapter 14 of the *Handbook*. As stated in the *Handbook*, the examination of all files is rarely feasible; however, the examination must produce credible judgments about all files. Properly performed, sampling permits valid generalizations or inferences about a wider population and should serve as a microcosm of the population. Historically, a benchmark error rate of seven percent has been established for examining claims. Additionally, for regulatory purposes, a 95 percent confidence level is the initial acceptance sample size recommended.

Hypergeometric distribution was determined by the examiners to be the most effective method of sampling given the nature and scope of the examination. The method uses probability values (hereinafter “p-value”) based on an error rate in the sample, the accepted tolerance level of the population, and a confidence level of 95 percent to determine the appropriate sample size.

Confidence Level

In order to obtain a confidence level of 95 percent, or two standard deviations, the cumulative p-value must be less than five percent. Therefore, the sample size was

determined so that the cumulative p-value was less than five percent for the expected error rate as judgmentally determined by examiners.

Error Rate

The calculation of the sample size using hypergeometric distribution is based on the number of successes in the sample as a result of testing as well as the number of successes in the total population. A “success” was considered to be a claim file for which the policyholder was properly indemnified. Likewise, an “error” was considered to be a claim file for which the policyholder was not properly indemnified. The error rate is the number of errors the examiners expect as a result of testing. In developing the sample, the examiners judgmentally determined a maximum of three errors to be detected in the sample through testing based on the following reasons:

1. No consumer complaints filed with the MID
2. Knowledge of the issue based on the review of various planning documents
3. Knowledge of the issue and Company practices based on interviews held during the planning phase of the examination.

Tolerance Level

In accordance with the Handbook, the examiners established a tolerance level of seven percent for claims testing; therefore, the number of successes in the population was assumed to be 93 percent of the total population.

Before determining a sample size, the examiners obtained a list of Hail Storm claims as previously discussed in “Information Obtained and Reviewed.” The number of claims provided by the Company was reconciled to the Company’s filings with the Department as mentioned in “Claims Filed as a Result of the Hail Storm.” Based on the components discussed above, a sample size of 108 was deemed acceptable for our review of claim files. The cumulative p-value for a sample of 108 claim files with three or less expected errors is approximately 4.8 percent.

The Company provided hard copies of claim files as well as electronic versions for review. Claim files were reviewed utilizing a questionnaire developed by the examiners which addressed specific attributes based on the nature and scope of the examination. The questionnaire included, but was not limited to, questions designed to review the Company’s estimating processes relating to feather, prime, and block procedures as well as questions regarding requested procedures (e.g. additional repairs and/or refinish time) for which consideration was given but no payment was made by the Company.

As part of the claim file review, examiners also made a written request to various body repair facilities to provide information relevant to specific claims that were selected for review. Any information received from the body repair facilities was considered in the review of the claim files.

RESULTS OF REVIEW

Executive Summary

As noted in “Purpose and Scope of the Target Examination,” examiners attempted to determine first and foremost, that the claim file revealed that policyholders were properly indemnified. Our review of the sampled claims indicated that policyholders who had claims within the sample appeared to have been properly indemnified for necessary, appropriate and covered repairs within the terms of their policies.

Characteristics and Statistical Findings Relating to the Sampled Claims

Notwithstanding the primary purpose of determining that policyholders were properly indemnified, the purpose and scope of the examination also called for a review of the Company’s claims processes and billing procedures, including but not limited to, feathering, prime and block. The examiners applied numerous questions and attributes designed to illustrate how these processes and procedures manifested themselves in the actual claim files.

While we believe all test attributes developed by the examiners and applied to the claim files provided valuable information in assessing proper indemnification, the attributes deemed most appropriate to show the characteristics of the sample claims and the related processes are included within this report.

Based on the information provided and reviewed in the 108 sample claim files, the following were noted:

- 103 files supported that the insured was properly indemnified for necessary, appropriate and covered charges. 5 files were for claims that were properly denied for lack of coverage.
- 24 files represented claims were total losses and thus involved no repairs.
- In 86 files, paintless dent repair was utilized as part of the body repair process. Conventional body repair methods were used as part of the body repair process in 70 files (In some claim files, both repair methods were used).
- 1 file included an estimate from a body repair facility. Feather, prime, and block procedures were not detected in this estimate.
- No files indicated feather, prime, and block as specific procedures on the estimate.
- A review of supplements indicated the following payments were made:
 - No files indicated a supplemental payment for a rental car.
 - 11 files indicated a supplemental payment for additional body labor.
 - 8 files indicated a supplemental payment for additional paint/refinish time.
 - 9 files indicated a supplemental payment for additional materials.
 - No files indicated a supplemental payment for feather, prime and block.
 - 1 file indicated a supplemental payment for a parts price increase.
 - No files indicated a supplemental payment for glass clean-up.
 - No files indicated a supplemental payment for the payoff of the lien holder.

- 7 files indicated a supplemental payment for other reasons not specified above.
- No files indicated an instance where a body repair facility requested additional repair or refinish time for which no payment was made by the Company.

As noted in the "Sampling Methodology and Test Work Performed" section, the examiners requested information from a sample of body repair facilities that related to specific claims found within the sample. Of the three (3) body repair facilities selected, two (2) provided the requested information. Our review of this information revealed both body shops provided information such as repair orders and estimates that were dated after the release of the insured's vehicle which did indicate additional charges. However, our review of the related files/information, both those provided by the company and those provided by the repair facilities, did not reveal evidence of a request for a supplemental payment, nor an opportunity to re-inspect the damages.

Inherent Limitations

It should be noted that our review was conducted by reviewing hard copy documents or electronic records relating to the particular claims which were provided by the Company as well as any information relating to the claim that was provided by the body repair facility. The examiners did not have the benefit of preparing estimates from a real time inspection of the actual damages. The inherent limitations of reviewing photographic evidence of hail damage should be considered in drawing any conclusions from this information.

ACKNOWLEDGEMENT

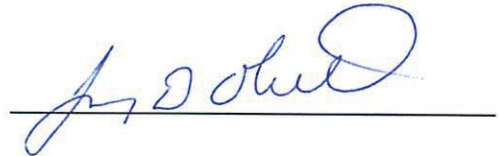
I, Jimmy D. Blissett, do solemnly swear and affirm that I am an examiner for the Commissioner of Insurance of the State of Mississippi and that as such, I was assigned to conduct a target market conduct examination of

Progressive Gulf Insurance Company

Cleveland, Ohio

That I, with the assistance of others, conducted such examination and the above and foregoing is a true and correct copy of the report of such company and the same is true and correct to the best of my knowledge, information, and belief.

Examiners from Carr, Riggs & Ingram, LLC and Allied American Adjusting Company, LLC, assisted in this examination and join the undersigned in acknowledging the courteous cooperation extended by the Company's officers and employees.



Jimmy D. Blissett, CFE, AIR
Examiner-In-Charge
Department of Insurance
State of Mississippi