

MARKET CONDUCT EXAMINATION

**CONTRACTORS BONDING AND
INSURANCE COMPANY**

**1213 VALLEY STREET
SEATTLE, WASHINGTON 98109**

January 1, 2003 through December 31, 2003



Contractors Bonding and Insurance Company
Order No. 05-5
Exhibit A

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The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following company:

Contractors Bonding and Insurance Company, NAIC# 37206

In this report, Contractors Bonding and Insurance Company is referred to as CBIC or the Company. This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the Contractors Bonding and Insurance Company during the course of this market conduct examination, and particularly acknowledges the efforts of those people who provided daily support to the examiners.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

SCOPE

Time Frame

The examination covered the Company's operations from January 1, 2003 through December 31, 2003. The examination was performed in the Company's home office in Seattle Washington and in the Seattle Office of the Insurance Commissioner.

Matters Examined

The examination included the following areas:

- Agent Activities
- Complaints
- Underwriting and Rating
- Rate and Form Filings
- Cancellations and Non-Renewals
- Claims Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92%	Confidence Level
+/- 5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as 'met'. The standard in the area of agent licensing and appointment will not be met if any violation is identified. The

standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed without Comment, Passed with Comment or Failed. The definition of each category follows.

Passed without Comment:	There were no adverse findings for the standard.
Passed with Comment:	The records reviewed fell within the tolerance level for the standard.
Failed:	The records reviewed fell outside of the tolerance level established for the standard.
Not Applicable	The standard is not applicable to this examination.

COMPANY HISTORY AND OPERATIONS

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
Contractors Bonding and Insurance Company	Washington	09-24-1979	10-09-1979

This is the first Market Conduct Examination of Contractors Bonding and Insurance Company by Washington. The Company wrote the following lines of business in Washington during the exam period:

Casualty Vehicle Inland Marine
 Property Surety

The Company is a Seattle based insurance company that specializes in surety bonds and niche market insurance products. The surety products include bonds for contract, license, permit, miscellaneous and court bonds. The casualty and property insurance focus on medium size or artisan contractors, with other general insurance products for merchant and office classes. The Company is licensed for surety in all 50 states and Washington D.C. and in 46 states for property and casualty business.

The Company is privately held. It is listed by the U.S. Treasury as an acceptable company to write federal surety bonds and is A (excellent) rated by A.M. Best Company.

Donald Sirkin is President and Chief Executive Officer.

The following Operations and Management Standard Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	The company is required to be registered with the OIC prior to acting as an insurance company in the State of Washington.	RCW 48.05.030(1)
2	The company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding companies.	RCW 48.07.070

GENERAL EXAMINATION FINDINGS

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	All requested information was made available to the examiners, and the company otherwise facilitated the examination in a timely manner.	RCW 48.03.030(1)
3	The company maintains full and accurate records and accounts.	RCW 48.05.280

#	GENERAL EXAMINATION STANDARD	REFERENCE
4	The company filed an antifraud plan with the OIC.	RCW 48.30A.045, RCW 48.30A.060

The following General Examination Standard Failed:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	The company does business in its own legal name.	RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06

Standard #2:

The insuring Company was not identified correctly on Certificates of Insurance or in correspondence issued on policy or claim files. See Appendix 1 for detail.

AGENT ACTIVITIES

The examiners reviewed the status of agents' licenses and appointments from the new and renewed policies and bonds reviewed in the underwriting sample and also from the list of active agents provided by the Company. As part of the review, the examiners compared the Company agent licensing records with the OIC records to ensure that agents soliciting business for the Company were licensed and appointed prior to soliciting business on behalf of the Company as required by Washington law.

Findings

The following Agent Activity Standards Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	The company must ensure that agents or brokers are licensed for the appropriate line of business with the State of Washington prior to allowing agents to solicit business or represent the company in any way.	RCW 48.17.060(1) and (2), WAC 284-17-420
3	The company must notify the OIC when an agent's appointment is revoked.	RCW 48.17.160(3)
4	The company must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract.	RCW 48.17.591(2)

The following Agent Activity Standard Failed:

#	AGENT ACTIVITY STANDARD	REFERENCE
2	The company must require that agents are appointed to represent the company prior to allowing agents to	RCW 48.17.160(1) and (2)

#	AGENT ACTIVITY STANDARD	REFERENCE
	solicit business on behalf of the company.	

Standard #2:

Thirty (30) bonds were written by one agency during a lapse in the appointments. This occurred as a result of an administrative error by the Company. This occurred when the company was notified of a change by the agency. The change involved the agency business in one of multiple locations and name change. Administrative staff erroneously cancelled the appointment of all of the locations instead of just the one. When this error was discovered by the Company, the agencies were re-appointed. The Company has procedures in place to appoint agents prior to allowing access to rates and products. See Appendix 2.

COMPLAINTS

The examiners reviewed all 19 complaints listed in the Company’s complaint log between January 1, 2001 and July 31, 2004. The complaint files were either received from the OIC or received directly from the customer.

Files were reviewed to determine if the Company responded to complaints filed with the OIC within time frames required by Washington regulation. Time frames on complaints received from customers were compared to Company stated procedures. Files were reviewed for adverse trends.

The examiners also reviewed the Company’s complaint handling procedures.

Findings

The examiners had no findings in this area.

The following Complaint Standard Passed without Comment:

#	COMPLAINT STANDARD	REFERENCE
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication.	WAC 284-30-650, WAC 284-30-360(2), Technical Assistance Advisory T 98-4

UNDERWRITING AND RATING

The examiners selected 100 of 34,281 policies and bonds that were either newly issued or renewed during the exam period. The examiners also reviewed 25 of 3,918 applications that the Company declined to write.

Files were reviewed to determine if the Company:

- followed the filed rating plans
- followed the underwriting rules
- were in compliance with Washington laws

The examiners manually rated policies to determine if there were any programmed errors in the Company's computer system and if the Company was using its filed and approved rates.

Findings

Underwriting and Rating Standard #9 is applicable to personal lines only and not applicable to this Company's commercial lines operation.

The following Underwriting Standards Passed without Comment:

#	UNDERWRITING AND RATING STANDARD	REFERENCE
1	Binders issued to temporarily secure coverage during underwriting are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates.	RCW 48.18.230(1), WAC 284-30-560(2)
2	The company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.	RCW 48.22.030(3) and (4)
3	The company requires an insured to reject Personal Injury Protection (PIP) coverage in writing.	RCW 48.22.085(2)
4	During underwriting, the company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.	RCW 46.52.130, RCW 48.30.310, Bulletin 79-3, WAC 308-104-145
5	The company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the company's decision.	WAC 284-24-100
7	The company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.	WAC 284-30-574
8	Binders must identify the insurer which is bound by the form.	WAC 284-30-560(2)(a)

The following Underwriting Standard Failed:

#	UNDERWRITING AND RATING STANDARD	REFERENCE
6	The company retains documentation related to the development and use of (a) rates.	WAC 284-24-070

Standard #6:

The Company erroneously rated approximately 9000 policies with a flat \$150 rate for a blanket insured endorsement that was applied to contractor policies between March 2002 and September 2003. The Company believed that it was permitted to do so because the Company had filed an OIC approved “refer to company” or “a” rate rule in its underwriting manual. The Company failed to individually underwrite, document, or rate the policies based on the individual risk. See Appendix 3 for detail.

RATE AND FORM FILINGS

The examiners selected forms that were attached to the new and renewal policies used in the Underwriting sample for the rate and form filings review. The purpose was to determine if the Company was complying with the laws regarding the filing and use of rates and forms.

Findings

Rate and Form Filing Standard #1 applies to personal lines only and is not applicable to this examination of the Company commercial activities.

The following Rate and Form Filing Standards Passed without Comment:

#	RATE AND FORM STANDARD	REFERENCE
2	Where required, the company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and does not issue any policies that are not in accord with the filing then in effect.	RCW 48.19.040(1) and (6)
3	The policy identifies all forms that make up the policy. The policy identifies all coverage limits.	RCW 48.18.140(2)(a) thru (f)
4	The policy must contain all endorsements and forms.	RCW 48.18.190
5	Policy forms for commercial policies are filed within 30 days of use.	RCW 48.18.103(2)
6	Personal Injury Protection forms issued by the company contain coverage definitions and limits that conform to Washington law.	RCW 48.22.095, RCW 48.22.005

The following Rate and Form Filing Standard Failed:

#	RATE AND FORM STANDARD	REFERENCE
7	Rates for commercial policies must be filed within 30 days of use.	RCW 48.19.043(2)

Standard #7:

The Company implemented a \$150 flat rate for a blanket insured endorsement issued with its contractor policies in March 2002 but did not file the rate for approval until

September 2003. Prior to March 2002 there had been no additional charge for the endorsement. See Appendix 3 for detail.

CANCELLATIONS AND NON-RENEWALS

The examiners reviewed files to determine if the Company was in compliance with state laws governing policy cancellation and non-renewal. The examiners selected a sample of 150 policies and bonds from 8,844 policies and bonds that were either cancelled or non-renewed during the exam period. The examiners also reviewed all policies and bonds that were non-renewed or cancelled during the exam period that had been written through agencies whose relationship with the Company had terminated.

Findings

The following Cancellation and Non-renewal Standard Passed without Comment:

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
2	The company sends offers to renew or sends cancellation or non-renewal notices according to the requirements prior to policy termination.	RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292

The following Cancellation and Non-renewal Standard Passed With Comment:

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
1	The company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company.	RCW 48.17.591

Standard #1:

Four (4) policies were non-renewed because the Company agent relationship was terminated. See Appendix 4 for detail.

The following Cancellation and Non-renewal Standard Failed:

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
3	The company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.	WAC 284-30-570

Standard #3:

Twenty five (25) policies were cancelled or non-renewed with notices to the insured that did not adequately explain the reason for the Company's action, or contained language that was prohibited by the regulation. See Appendix 4 for detail.

CLAIM SETTLEMENT PRACTICES

The examiners reviewed 100 claims of the 1,525 claims that were closed during the exam period.

Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of applicable coverage
- Procedures for establishing actual cash value of total loss vehicles
- Documentation of claim files

The claims are handled in the home office in Seattle, Washington.

Findings:

The following Claims Settlement Standards Passed without Comment

#	CLAIMS SETTLEMENT STANDARD	REFERENCE
2	Company claim files contain detailed log notes and work papers that allow reconstruction of the claim file.	WAC 284-30-340
3	The company provides an explanation of all pertinent coverage to first party claimants.	WAC 284-30-350
4	The company acknowledges receipt of a claim within 10 days, and responds to all communication on a claim file within the time frames prescribed and promptly provides reasonable assistance, forms and instruction to first party claimants.	WAC 284-30-360(1), (3), and (4)
5	The company complies with requirements for prompt investigation of claims.	WAC 284-30-370
6	The company accepts or denies coverage within 15 days after receiving proof of claim.	WAC 284-30-380
8	The company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.	WAC 284-30-395(1)
9	The company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required.	RCW 46.12.070, WAC 308-56A-460

The following Claims Settlement Standard Passed with Comment

#	CLAIMS SETTLEMENT STANDARD	REFERENCE
7	The company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.	WAC 284-30-390, WAC 284-30-3901 through 3916

Standard #7:

One (1) total loss was identified that had been settled using a “book value” which is not one of the accepted methods for establishing the market value of a vehicle.

The following Claims Settlement Standard Failed:

#	CLAIMS SETTLEMENT STANDARD	REFERENCE
1	The company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.	WAC 284-30-330(9)

Standard#1:

Six (6) files contained checks that had been issued that did not contain information to identify under which coverage the payment had been made. See Appendix 5 for details.

SUMMARY OF STANDARDS

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The company is required to be registered with the OIC prior to acting as an insurance company in the State of Washington. (RCW 48.05.030(1))	7	X	
2	The company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding companies. (RCW 48.07.070)	7	X	

General Examination:

#	STANDARD	PAGE	PASS	FAIL
1	All requested information was made available to the examiners, and the company otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	7	X	
2	The company does business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06)	8		X
3	The company maintains full and accurate records and accounts. (RCW 48.05.280)	7	X	
4	The company filed an antifraud plan with the OIC. (RCW 48.30A.045 and RCW 48.30A.060)	8	X	

Advertising:

#	STANDARD	PAGE	PASS	FAIL
1	The company's advertising materials do not contain any false, deceptive or misleading representations. (RCW 48.30.040)		N/A	
2	The company does not use quotations or evaluations from rating services or other sources in a manner that appears to be deceptive to the public. (WAC 284-30-660)		N/A	
3	The company must use its full name and include the location of its home office or principle office in all advertisements. (RCW 48.30.050, Bulletin 78-7, Technical Assistance Advisory T 2000-06)		N/A	
4	The company referencing its financial condition in advertisements is required to show the actual financial condition as it corresponds with the financial statements published by each company, and must include only those assets actually owned and possessed by each company exclusively. (RCW 48.30.070)		N/A	
5	The company does not advertise the existence of the		N/A	

#	STANDARD	PAGE	PASS	FAIL
	Washington Insurance Guaranty Association. (RCW 48.30.075)			
6	The company does not include any statements in its advertising material that would appear to defame the name of other insurers. (RCW 48.30.080)		N/A	
7	The company does not misrepresent the terms of its policies in any form during the advertising and solicitation of its products. (RCW 48.30.090)		N/A	
8	The company does not offer, promise, allow, give, set off, or pay to the insured or to any employee of the insured any rebate, discount, abatement or reduction of premium or any part of these as an inducement to purchase or renew insurance unless specifically exempted from this statute. (RCW 48.30.140, RCW 48.30.150)		N/A	

Agent Activities:

#	STANDARD	PAGE	PASS	FAIL
1	The company must ensure that agents or brokers are licensed for the appropriate line of business with the State of Washington prior to allowing agents to solicit business or represent the company in any way. (RCW 48.17.060(1) and (2), WAC 284-17-420)	8	X	
2	The company must require that agents are appointed to represent the company prior to allowing agents to solicit business on behalf of the company. (RCW 48.17.160 (1) and (2))	8		X
3	The company must notify the OIC when an agent's appointment has is revoked. (RCW 48.17.160(3))	8	X	
4	The company must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract. (RCW 48.17.591(2))	8	X	

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650, WAC 284-30-360(2), Technical Assistance Advisory T 98-4)	9	N/A	

Underwriting and Rating

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage during underwriting are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates. (RCW 48.18.230(1), WAC 284-30-560(2))	10	X	
2	The company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing. (RCW 48.22.030(3) and (4))	10	X	
3	The company requires an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	10	X	
4	During underwriting, the company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance. (RCW 46.52.130, RCW 48.30.310, Bulletin 79-3, WAC 308-104-145)	10	X	
5	The company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the company's decision. (WAC 284-24-100)	10	X	
6	The company retains all documentation related to the development and use of (a) rates. (WAC 284-24-070)	10		X
7	The company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	10	X	
8	Binders must identify the insurer which is bound by the form. (WAC 284-30-560(2)(a))	10	X	
9	Pursuant to WAC 284-24A-065 an insurer when using credit scoring to underwrite may not use (3) the number of credit inquires, (4) collections identified with medical industry code, (5) the purchase of a new vehicle or home (exceptions) or (6) can not use total available line of credit to set rate or deny coverage. Effective 06-30-03 Applies to personal lines only		N/A	

Rate and Form Filings:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100) Applies to personal lines only.		N/A	
2	Where required, the company has filed with the OIC	11	X	

#	STANDARD	PAGE	PASS	FAIL
	classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040 (1) and (6))			
3	The policy identifies all forms that make up the policy. The policy identifies all coverage limits. (RCW 48.18.140(2)(a) thru (f))	11	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	11	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	11	X	
6	Personal Injury Protection forms issued by the company contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	11	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	11		X

Cancellations and Non-Renewals:

#	STANDARD	PAGE	PASS	FAIL
1	The company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company. (RCW 48.17.591)	12	X	
2	The company sends offers to renew or sends cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	12	X	
3	The company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570)	12		X

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	14		X
2	Company claim files contain detailed log notes and work papers that allow reconstruction of the claim file. (WAC 284-30-340)	13	X	
3	The company provides an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	13	X	
4	The company acknowledges receipt of a claim within 10 days, and responds to all communication on a claim file within the	13	X	

#	STANDARD	PAGE	PASS	FAIL
	time frames prescribed. (WAC 284-30-360(1) and (3))			
5	The company complies with requirements for prompt investigation of claims. (WAC 284-30-370)	13	X	
6	The company accepts or denies coverage within 15 days after receiving proof of claim. (WAC284-30-380)	13	X	
7	The company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390)	14	X	
8	The company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395)	13	X	
9	The company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	13	X	

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTIONS

1.	The Company is instructed to comply with RCW 48.05.190(1) and ensure that the legal name of the company is clearly identified in correspondence.	Page 8
2.	The Company is instructed to comply with RCW 48.17.160(1)(2) and WAC 284-17-420 and ensure all agencies are appointed prior to representing the Company.	Page 8
3.	The Company is instructed to comply with WAC 284-24-070(a) to retain documentation and underwrite “a” rated policies	Page 10
4.	The Company is instructed to comply with RCW 48.19.043(2) and file all rates within 30 days of use.	Page 11
5.	The Company is instructed to comply with WAC 284-30-570 and ensure that all cancellation or non-renewal notices give the true reason for the Company’s action in language that is clear and simple.	Page 12
6.	The Company is instructed to comply with WAC 284-30-330(9) and ensure that all checks are accompanied with a statement that indicates under which coverage a payment is made.	Page 14

RECOMMENDATIONS

1.	The examiners recommend that the Company conduct a training session focused on regulatory compliance with all appropriate Company personnel to address examination findings.
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**APPENDIX 1
GENERAL EXAMINATION STANDARDS**

General Examination Standard #2	The company shall conduct its business in its own legal name
policy, form, or claim number	
form LF 010432	Form did not identify the insuring company.
form LF 910432	Form did not identify the insuring company
INSPC6302	Form #LF010432 displayed the company logo but did not identify the insuring company.
SA 3806	Certificates of Insurance used initials instead of the company's legal name.
SF 0415	Certificates of Insurance used initials instead of the company's legal name.
SB 2734	Certificates of Insurance used initials instead of the company's legal name.
SB 9262	Certificates of Insurance used initials instead of the company's legal name.
SB 7656	Certificates of Insurance used initials instead of the company's legal name.
SA 8828	Notice of Cancellation or Non-Renewal did not identify the insurer.
SA 2274	Notice of Cancellation or Non-Renewal did not identify the insurer.
SA 4158	Notice of Cancellation or Non-Renewal did not identify the insurer.
SA 4688	Notice of Cancellation or Non-Renewal did not identify the insurer.
SB 9334	Notice of Cancellation or Non-Renewal did not identify the insurer.
SC 6804	Notice of Cancellation or Non-Renewal did not identify the insurer.
SC 7515	Notice of Cancellation or Non-Renewal did not identify the insurer.
SD 3767	Notice of Cancellation or Non-Renewal did not identify the insurer.
SC 9863	Notice of Cancellation or Non-Renewal did not identify the insurer.

SD 6318	Notice of Cancellation or Non-Renewal did not identify the insurer.
SE 0549	Notice of Cancellation or Non-Renewal did not identify the insurer.
WB 5135	Notice of Cancellation or Non-Renewal did not identify the insurer.
FB 0197	Certificates of Insurance used initials instead of the company's legal name.
CZ000N091	Notice of Cancellation or Non-Renewal did not identify the insurer.
INSFB4593	Certificates of Insurance used initials instead of the company's legal name.

APPENDIX 2
AGENT ACTIVITY STANDARDS

Agent Activities Standard #2	A company must require that agents are appointed to represent the company prior to allowing agents to solicit business on behalf of the company.
FA 2210	Agent was not appointed when the bond was sold
FA 6269	Agent was not appointed when the bond was sold
FA 9593	Agent was not appointed when the bond was sold
FA 9596	Agent was not appointed when the bond was sold
FA 9598	Agent was not appointed when the bond was sold
FA 6253	Agent was not appointed when the bond was sold
FA6259	Agent was not appointed when the bond was sold
FA6263	Agent was not appointed when the bond was sold
FA6265	Agent was not appointed when the bond was sold
FA6270	Agent was not appointed when the bond was sold
FA6271	Agent was not appointed when the bond was sold
FA6274	Agent was not appointed when the bond was sold
FA9592	Agent was not appointed when the bond was sold
FA9597	Agent was not appointed when the bond was sold
FA9601	Agent was not appointed when the bond was sold
FA9602	Agent was not appointed when the bond was sold
FA9609	Agent was not appointed when the bond was sold
FA9611	Agent was not appointed when the bond was sold
FB1750	Agent was not appointed when the bond was sold
FB3221	Agent was not appointed when the bond was sold
FB3222	Agent was not appointed when the bond was sold
FB3227	Agent was not appointed when the bond was sold
FB3231	Agent was not appointed when the bond was sold
FB3232	Agent was not appointed when the bond was sold
FB3233	Agent was not appointed when the bond was sold
FB3234	Agent was not appointed when the bond was sold
FB3236	Agent was not appointed when the bond was sold
WA8713	Agent was not appointed when the bond was sold
WA9963	Agent was not appointed when the bond was sold

APPENDIX 3

UNDERWRITING AND RATING STANDARDS RATE AND FORM FILING STANDARDS

Underwriting and Rating Standard #6	The company retains all documentation related to the development and use of “a” rates.
Approximately 9000 policies	The Company had filed a “refer to company” or “a” rate rule in place to blanket insured endorsements for contractor policies. The Company later implemented a set rate of \$150 for this instead of individually underwriting the risk.
Rates and Form Filing Standard #7	Rates for commercial policies must be filed within 30 days of use.
Approximately 9000 policies	The company implemented a flat charge of \$150 for the blanket insured endorsement between 3-1-2002 and 9-3-2003 when the rate was filed and approved for use. Prior to that time the coverage was provided at no additional cost to the insured.

**APPENDIX 4
CANCELLATION AND NON-RENEWAL STANDARDS**

Cancellation and Non-Renewal Standard #1	The company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company. (RCW 48.17.591)
FA 1088	Company non-renewed policy because the agent no longer represented the insurer.
SC 7417	Company non-renewed policy because the agent no longer represented the insurer.
FB 5848	Company non-renewed policy because the agent no longer represented the insurer.
CZ 000N091	Company non-renewed policy because the agent no longer represented the insurer.
Cancellation and Non-Renewal Standard #3	The company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570)
SC 3228	Non-renewal notice language did not satisfy the requirements of the code
SA 3611	Non-renewal notice language did not satisfy the requirements of the code.
SD 6856	Non-renewal notice language did not meet the requirements of the code.
FB 6243	Non-renewal notice language did not meet the requirements of the code.
FA 1088	Non-renewal notice language did not meet the requirements of the code.
INSFA1088	Non-renewal notice language did not meet the requirements of the code.
SC 6714	Non-renewal notice language did not meet the requirements of the code.
FA 3673	Non-renewal notice language did not meet the requirements of the code.
SC 7417	Non-renewal notice language did not meet the requirements of the code.

FB 5848	Non-renewal notice language did not meet the requirements of the code.
CZ000N091	Non-renewal notice language did not meet the requirements of the code.
FA 9156	Non-renewal notice language did not meet the requirements of the code.
FB 0197	Non-renewal notice language did not meet the requirements of the code.
WB 5135	Non-renewal notice language did not meet the requirements of the code.
SA 8828	Non-renewal notice language did not meet the requirements of the code.
SA 2274	Non-renewal notice language did not meet the requirements of the code.
SA 4158	Non-renewal notice language did not meet the requirements of the code.
SA 4688	Non-renewal notice language did not meet the requirements of the code.
SB 9334	Non-renewal notice language did not meet the requirements of the code.
SC 6804	Non-renewal notice language did not meet the requirements of the code.
SC 7515	Non-renewal notice language did not meet the requirements of the code.
SD 3767	Non-renewal notice language did not meet the requirements of the code.
SC 9863	Non-renewal notice language did not meet the requirements of the code.
SD 6318	Non-renewal notice language did not meet the requirements of the code.
SE 0549	Non-renewal notice language did not meet the requirements of the code.

**APPENDIX 5
CLAIMS SETTLEMENT STANDARDS**

Claims Standard # 1	The company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.
Claim number	
11071	Claim check did not identify under which coverage the payment was made.
9861	Claim check did not identify under which coverage the payment was made.
11159	Claim check did not identify under which coverage the payment was made.
11101	Claim check did not identify under which coverage the payment was made.
11266	Claim check did not identify under which coverage the payment was made.
10425	Claim check did not identify under which coverage the payment was made.
Claims Standard # 7	The company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.
10425	Total loss evaluation was not completed in compliance with WAC 284-30-390. Blue book value was used.



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JAN 04 2005

January 3, 2005

James T. Odiorne, CPA, JD
Office of the Insurance Commissioner
PO Box 40255
Olympia, WA 98504-0255

INSURANCE COMMISSIONER
COMPANY SUPERVISION

**Regarding: Contractors Bonding and Insurance Company (CBIC)
Company Response to Draft Market Conduct Report of Examination**

Dear Mr. Odiorne,

Contractors Bonding and Insurance Company ("CBIC") is in receipt of your letter dated December 10, 2004 enclosing the draft Market Conduct Report ("Draft Report"). Our replies below are in response to your request for our comments to help assure that the facts are correctly reported. This response is being sent by email on January 3, 2005. A hard copy will be mailed on January 3, 2005.

General Examination Findings – Company does business in its own legal name

STD #2: Insuring Company was not identified correctly on Certificates of Insurance or in correspondence issued on policy or claim files.

Company Response:

As set forth in our prior responses, although we believe CBIC's position as a single entity insurer using a legally established and recognized dba is supported by the statute and prior OIC bulletins and technical advisories, we have added "Contractors Bonding and Insurance Company" to Company correspondence and certificates of insurance.

Agent Activities – Company must require that agents are appointed to represent the company prior to allowing agents to solicit business on behalf of the company

STD #2: Thirty (30) bonds were written by one agency during a lapse in the appointments...

Company Response:

As set forth in our prior response, neither CBIC nor the agency in question had been aware that a clerical error had resulted in an erroneous cancellation notice for the agency location in question. We believe this unknown and unintended clerical error which in fact had no legal effect between the parties and was discovered and corrected prior to the OIC exam, should be distinguished from the situation where a company does business with an unappointed agent. A summary of our appointment activities for this agency are listed below and can be found at <http://www.pj6.com/oic/harrisdeanwheat.htm>.

No.	Date	Action	Agencies	Agency Codes	CBIC
1	07/01/97	Appointed	Harris Dean	8521, 6034, 17817, 17818	Appointed.
2	Effective 08/09/99	Sale of Harris Dean Agency Code 8521 to Wheat & Associates 16212.	Harris Dean sale to Wheat & Associates.	8521 sold to 16212	Cancelled Harris Dean Code 8521. Three other Harris Dean locations were unaffected. Wheat & Associates, Code 16212 was appointed.
3	08/01	OIC notified that appointments for all offices non renewed.	Harris Dean	8521, 6034, 17817, 17818	CBIC erroneously non renewed all Harris Dean OIC appointments instead of the sold office only.
4	08/01	Systems update.	Harris Dean	8521	Made 8521 inactive, and transferred it to Wheat & Assoc 16212.
5	08/01	Systems update.	Harris Dean	6034, 17817, 17818	Appointments remained active in CBIC's data base.
6	08/03	Received appointment list from OIC.	Harris Dean	6034, 17817, 17818	CBIC became aware that agency codes were inactivated with OIC, so CBIC inactivated these agency codes in the CBIC database.
7	08/03	Requested copy of Harris Dean Washington Agency Licenses.	Harris Dean	6034, 17817, 17818	Requested copy of Harris Dean Washington Agency Licenses.
8	10/07/03	Received Harris Dean licenses requested in (7).	Harris Dean	6034, 17817, 17818	Submitted request for Harris Dean appointments to OIC.
9	11/06/03	Received current appointment certificates from OIC.	Harris Dean	6034, 17817, 17818	Reinstated Harris Dean appointments in CBIC database, and reactivated codes.

Underwriting and Rating – Company retains documentation related to the development and use of (a) rates

STD #6: The Company erroneously rated approximately 9000 policies with a flat \$150 rate for a blanket additional insured endorsement that was applied to contractor policies between March 2002 and September 2003. The Company believed that it was permitted to do so because the Company had filed an OIC approved "refer to company" or "a" rate rule in its underwriting manual. The Company failed to individually underwrite, document, or rate the policies based on the individual risk.

Company Response:

See, Rate and Form response below.

Rate and Form Filings – Rates for commercial policies must be filed within 30 days of use

STD #7: The Company implemented a \$150 flat rate for a blanket additional insured endorsement issued with its contractor policies in March 2002 but did not file the rate for approval until September 2003. Prior to March 2002 there had been no additional charge for the endorsement.

Company Response:

CBIC's initial \$150 charge for additional insured endorsements was viewed by the Company as a classic example of an exposure subject to the Washington "a" rate regulations. After substantial market analysis, CBIC found no "benchmark" available for establishing a filed rate. Neither ISO nor any admitted carrier rated this risk or had a useable "benchmark" for doing so. CBIC believed the "a" rate regulations were applicable based on the lack of loss experience to warrant credible ratemaking, and the lack of appropriate analogies to similar exposures. Without the benefit of clarifying bulletins or technical assistance advisories from the OIC, CBIC utilized the "a" rate provisions based on a good faith understanding of a plain reading of the regulatory requirements.

After being provided with information from the OIC clarifying its interpretation of the "a" rate regulations, CBIC adopted a filed rate for these exposures and has conformed its subsequent rating practices in a manner consistent with these clarifications. CBIC believes, however, that its practices during the time in question complied with the "a" rate requirements as they existed without these clarifications. In short, CBIC wishes to assure the OIC of its intent to fully comply with these clarifications in the future, but requests that it not be found in violation for the period in question.

Cancellations and Non-Renewals – Company includes the actual reason for canceling, denying, or refusing to renew and insurance policy when notifying the insured

STD #3: Twenty five (25) policies were cancelled or non-renewed with notices to the insured the did not adequately explain the reason...

Company Response:

The required cancellation/non-renewal reasons have now been hard coded requiring the underwriting inputs shown below. The actual entry screen can be viewed online at <http://www.pi6.com/OIC/NoticeofCancellationHardCoding.htm>

Place an "X" next to each desired reason (3 max)

- Does Not Meet Credit Requirement due to:
 - Frequency of delinquencies
 - Limited credit history
 - High credit balances relative to credit limits
 - Public records information
 - (Blank field for all other reasons)

- Ineligible operation(s) for program due to:
 - Siding installation
 - Door/window installation
 - Framing
 - Roofing
 - Tract work
 - Multi-Unit Residential Structures (i.e. Condos/Townhomes &/or Apartments over 12 units)
 - All construction work subcontracted to others
 - (Blank field for all other reasons)

- Nonpayment of premium
- No response for updated application
- Completed Voluntary audit form not returned
- Lack of cooperation in completing phone interview
- No active bond with Contractors Bonding and Insurance Company
- Loss history due to (blank field for a description & date of loss i.e. theft loss dated 9/9/04)
- (Blank field for all other reasons)

Claim Settlement Practices – Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.

STD. #1: Six (6) files contained checks that had been issued that did not contain information to identify under which coverage the payment had been made...

Company Response:

The Company has modified its check issuance procedures to add "Inland Marine" to the check notations on payments of this type.

Instructions and Recommendations

The Company is instructed to comply... The examiners recommend that the Company conduct a training session...

Company Response:

The Company intends to comply with the OIC instructions, and conduct a training session as recommended.

A handwritten signature in cursive script that reads "Barbara Krogh".

Barbara Krogh
Vice President