

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF:

Proceedings by the Commissioner of	)	
Banking and Insurance, State of New Jersey,	)	CONSENT
with respect to GEICO Casualty Co.,	)	ORDER
Government Employees Ins. Co.,	)	
GEICO Indemnity Co.	)	

TO: GEICO Insurance Group  
One GEICO Plaza  
Washington, DC 20076-0001

This matter, having been opened by the Commissioner of Banking and Insurance ("Commissioner"), of the Department of Banking and Insurance ("Department"), State of New Jersey, upon information that GEICO Casualty Company, Government Employees Insurance Company and GEICO Indemnity Company (collectively "GEICO"), licensed under the laws of the State of New Jersey and admitted to transact property and casualty insurance in New Jersey pursuant to N.J.S.A. 17:17-1 et. seq., may have violated provisions of New Jersey insurance law and

WHEREAS, the Department filed a Market Conduct Examination Report ("Report") containing the results of the examination of private passenger automobile insurance claims adjusting practices of GEICO during the period January 1, 2015 to December 31, 2015, performed pursuant to N.J.S.A. 17:23-20 et seq., and

WHEREAS, the market conduct examination revealed certain instances where GEICO's practices did not accord fully with various provisions of New Jersey insurance statutes or

regulations. These instances, as fully set forth in the Report, are incorporated herein by reference; and

WHEREAS, as a result of the Department's examination, GEICO has taken or will take corrective measures pursuant to the recommendations contained in the Report to address the instances of nonconformance set forth in the Report, and

WHEREAS, this matter can be resolved upon the consent of the parties to these proceedings without resort to a formal hearing,

NOW, THEREFORE, IT IS on the 31<sup>st</sup> day of August, 2016

ORDERED AND AGREED, that the attached Market Conduct Examination Report of GEICO will be adopted and filed as an official record of the Department; and

IT IS FURTHER ORDERED AND AGREED, that GEICO will continue to monitor claim operations in order to identify instances of nonconformance with New Jersey insurance statutes and regulations and the recommendations contained in the Report; and

IT IS FURTHER ORDERED AND AGREED, that GEICO shall comply with New Jersey insurance statutes and regulations and the recommendations contained in the attached Report; and

IT IS FURTHER ORDERED AND AGREED, that pursuant to N.J.S.A. 17:23-24 d (1), within thirty days of the adoption of this Report, GEICO shall file an affidavit with the Department's Market Conduct Unit, stating under oath that its directors have received a copy of the adopted Report.

  
Peter L. Hart  
Director of Insurance

Consented to as to form, content and entry  
GEICO Casualty Company

By:           *D Taylor*          

Date: \_\_\_\_\_

Consented to as to form, content and entry  
Government Employees Insurance Company

By:           *D Taylor*          

Date: \_\_\_\_\_

Consented to as to form, content and entry  
GEICO Indemnity Company

By:           *D Taylor*          

Date: \_\_\_\_\_



**State of New Jersey**  
DEPARTMENT OF BANKING AND INSURANCE  
CONSUMER PROTECTION SERVICES  
PO Box 329  
TRENTON, NJ 08625-0329

**CHRIS CHRISTIE**  
*Governor*

**RICHARD BADOLATO**  
*Commissioner*

**KIM GUADAGNO**  
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**PETER L. HARTT**  
*Director*

June 29, 2016

Honorable Richard Badolato  
Acting Commissioner of Insurance  
State of New Jersey  
Department of Banking and Insurance  
20 West State Street  
P.O. Box 329  
Trenton, N.J. 08625

Dear Acting Commissioner Badolato,

Pursuant to the authority provided in N.J.S.A. 17:23-20 through 17:23-26, 17:29B-5 and N.J.S.A. 17: 33A-15b, and in accordance with your instructions, a market conduct examination of the business practices and affairs was conducted on:

GEICO Casualty Company, NAIC code 41491  
Government Employees Insurance Company, NAIC code 22063  
GEICO Indemnity Company, NAIC code 22055

Located at One GEICO Plaza, Washington, DC 20076-0001,

hereinafter referred to as "GEICO" or "the Company." The field work for this examination was conducted at the Company's Marlton, NJ office, with additional review conducted in our Trenton, N.J. office. The following report is respectfully submitted on behalf of the examination team. Through a deliberative process, I certify the accuracy of the findings presented herein.

Clifton J. Day, MPA, MCM, CPM, CSM  
Chief of Market Regulation and Consumer  
Protection Services

**MARKET CONDUCT EXAMINATION  
(Exam Tracking Number NJ090-M20)**

**of the**

**GEICO Casualty Company  
(NAIC Company Number 41491; Group Number 31)  
Government Employees Insurance Company  
(NAIC Company Number 22063; Group Number 31)  
GEICO Indemnity Company  
(NAIC 22055; Group Number 31)**

**Examination Office at  
8000 E Lincoln Dr., Marlton, NJ 08053-1565**

**Home Office At  
One GEICO Plaza, Washington DC 20076-0001**

**as of**

**APRIL 29, 2016**

**BY EXAMINERS**

**of the**

**STATE OF NEW JERSEY**

**DEPARTMENT OF BANKING AND INSURANCE**

**OFFICE OF CONSUMER PROTECTION SERVICES**

**MARKET CONDUCT EXAMINATIONS and ANTI-FRAUD COMPLIANCE**

**REPORT ADOPTED: SEPTEMBER 1, 2016**

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## **I. INTRODUCTION**

This is a report of the Market Conduct activities of GEICO Casualty Company, Government Employees Insurance Company, and GEICO Indemnity Company (hereinafter referred to as “GEICO” or “the Company”). In this report, examiners of the New Jersey Department of Banking and Insurance (“NJDOBI”) present their findings, conclusions and recommendations as a result of their examination.

### **A. SCOPE OF EXAMINATION**

The scope of the examination included private passenger automobile insurance sold by the Company in New Jersey. The examiners evaluated the Company’s compliance with statutes and regulations applicable to first and third party automobile claims. Unless otherwise indicated, the review period for the examination was January 1, 2015 to December 31, 2015.

The examiners conducted their fieldwork at the Company’s office in Marlton, New Jersey, between February 29, 2016 and April 22, 2016. On various dates following the fieldwork, the examiners completed additional review work and report writing in Trenton, N.J. The Market Conduct examiners were Examiner-in-Charge Ralph J. Boeckman, Erin Porter and Michael Wise. Marleen Sheridan performed as team supervisor.

The examiners randomly selected files and records from computer listings and documents provided by the Company. The random selection process is in accordance with the National Association of Insurance Commissioner’s (“NAIC”) Market Regulation Handbook. The examiners used the NAIC Market Regulation Handbook, Chapters Sixteen (General Examination Standards) and Seventeen (Conducting the Property and Casualty Examination) as a guide to examine the Company and write this report.

### **B. ERROR RATIOS**

Error ratios are the percentage of files reviewed which an insurer handles in error. A file is counted as an error when it is mishandled or the insured is treated unfairly, even if no statute or regulation is applicable. If a file contains multiple errors, the examiners will count the file only once in calculating error ratios. However, any file that contains more than one error will be cited more than once in the report. In the event that the insurer corrects an error as a result of a consumer complaint or due to the examiners’ findings, the error will be included in the error ratio. If the insurer corrects an error independent of a complaint or NJDOBI intervention, the error is not included in the error ratios.

There may be errors cited in this report that define practices as specific acts that an insurer commits so frequently that they constitute an improper

general business practice. Whenever the examiners find that the errors cited constitute an improper general business practice, they have stated this in the report.

The examiners sometimes find improper general business practices or Company errors that may be technical in nature or which did not have an impact on a consumer. Even though such errors or practices would not be in compliance with law, the examiners do not count these files as errors in determining error ratios. Whenever such business practices or errors do have an impact on the consumer, each of the files in error will be counted in the error ratio. The examiners indicate in the report whenever they did not count particular files in the error ratio.

The examiners submitted written inquiries to Company representatives on the errors cited in this report. These inquiries provided GEICO the opportunity to respond to the examiners' findings and to provide exceptions to the statutory and/or regulatory errors or mishandlings reported herein. In response to these inquiries, GEICO agreed with some of the errors cited in this report. On those errors with which the Company disagreed, the examiners evaluated the individual merits of each response and gave due consideration to all comments. In some instances, the examiners did not cite the files due to the Company's explanatory responses. In others, the errors remained as cited in the examiners' inquiries. For the most part, this is a report by exception.

### **C. COMPANY PROFILE**

Profiles for the three companies examined appear below.

#### Geico Casualty Insurance Company

GEICO Casualty Company ("GC") was incorporated on August 31, 1982, in the state of Maryland under the name of Guardian Casualty Company, as a wholly-owned subsidiary of Criterion Insurance Company (later renamed GEICO Indemnity Company). The company's name was changed to Criterion Casualty Company in 1983 and to its current name in 1994. Its parent company, GEICO Indemnity Company, is a wholly-owned subsidiary of GEICO Corporation. On January 2, 1996, GEICO Corporation, previously a publicly owned Delaware corporation listed on the New York Stock Exchange, became an indirect wholly-owned subsidiary of Berkshire Hathaway Inc.

GC's charter powers permit the writing of all forms of property and casualty insurance coverage, and it is licensed to conduct business in all states. GC has historically offered non-standard risk automobile insurance to the military market principally through GEICO field representatives, now known as "GFRs." Its insurance policies are also sold to the general non-standard risk market through direct response marketing techniques.



### Geico Indemnity Company

GEICO Indemnity Company ("GI") was incorporated in the District of Columbia on March 22, 1961, under the name of Criterion Insurance Company. It was a publicly owned company until 1980, when it was 100% acquired by Government Employees Insurance Company ("GEICO"). In 1992, GEICO transferred its ownership in GI to GEICO Corporation. On January 2, 1996, GEICO Corporation, previously a publicly owned Delaware corporation listed on the New York Stock Exchange, became an indirect wholly-owned subsidiary of Berkshire Hathaway Inc.

On January 2, 1986, GI was redomesticated and reincorporated in the state of Maryland, but retained its original charter date. Later that same year, GI's present name was adopted. Charter powers permit the handling of all forms of property and casualty insurance coverage, and it is licensed to conduct business in all states. Historically, GI has marketed automobile and motorcycle insurance to young adults, military personnel and other drivers who do not qualify as preferred risks primarily through GFRs. Its insurance policies are also sold to the general standard risk market through direct response marketing techniques.

### Government Employees Insurance Company

Government Employees Insurance Company ("GEICO") was incorporated in the District of Columbia on November 30, 1937. GEICO was re-domesticated and reincorporated in the state of Maryland in 1986 but retained its original District of Columbia charter date.

GEICO was publicly owned from 1948 until January 31, 1979, at which time it became a wholly-owned subsidiary of GEICO Corporation. On January 2, 1996, GEICO Corporation, previously a publicly owned Delaware corporation listed on the New York Stock Exchange, became an indirect, wholly-owned subsidiary of Berkshire Hathaway Inc.

GEICO's charter authorizes the writing of multiple lines property and casualty coverage and it has traditionally focused on writing preferred risk automobile insurance to active or retired government employees or military personnel primarily through direct response marketing. It is licensed to write insurance in all states. GEICO and GEICO General Insurance Company share the same rating structure.

## **D. EXECUTIVE SUMMARY**

This examination included a review of the Company's claim settlement and advertising practices. The examiners randomly selected and reviewed a total of 380 paid claims, 235 denied claims, 30 total losses and 884 advertising materials along with the Company's Internet site.

The overall paid and denied claim error ratio was 7%. The examiners reported two improper general business practices: 1) failure to send right of recourse letter; and 2) failure to confirm claim denial in writing. Additional errors include, but are not limited to, settlement delays on physical and property damage claims and failure to notify claimant of settlement delays, failure to settle PIP claims timely, failure to provide three days advance notice of storage charge termination, failure to notify the claimant of rights if unable to sell salvaged vehicle and failure to commence investigation timely.

The examiners' review of the Company advertising materials and website revealed no errors.

Detailed descriptions of all findings appear in the sections that follow.

## II. CLAIMS REVIEW

### A. INTRODUCTION

This review covers paid and denied PIP, collision, comprehensive, property damage, and uninsured/underinsured motorist claims submitted under private passenger automobile insurance. Any such New Jersey claim closed between January 1, 2015 and December 31, 2015 was subject to review through a random file selection process. During the review period, GEICO closed a total of 184,017 claims as follows: 50,431 PIP claims, 11,469 comprehensive claims, 60,927 collision claims, 59,951 property damage claims, and 1,239 uninsured/underinsured motorist claims. Of these, the examiners randomly selected and reviewed 99 paid and 100 denied PIP claims, 281 paid and 135 denied first and third party partial loss automobile claims, 30 first and third party total loss claims (from a population of 13,700 total losses), for an overall random sample review of 645 claims. Unless otherwise indicated, the examiners randomly selected and reviewed one bill/claim line from each of the randomly selected paid and denied PIP claims.

In reviewing each claim, the examiners checked for compliance with all applicable statutes and regulations that govern timeliness requirements in settling first and third party claims. The examiners conducted specific reviews placing particular emphasis on N.J.S.A. 17:29B-4(9) and N.J.A.C. 11:2-17 (Unfair Claims Settlement Practices), N.J.A.C. 11:3-10 (Auto Physical Damage Claims), N.J.S.A. 39:6A-5 (Personal Injury Protection Claims) and N.J.A.C. 11:16-2.4(a)2 (NICB reporting requirements). These requirements relate to Chapter Sixteen (General Exam Standards) and Chapter Seventeen (Property and Casualty Insurance Examinations) as outlined in the NAIC Market Regulation Handbook.

### B. ERROR RATIOS

The examiners calculated the following error ratios by applying the procedure outlined in the introduction of this report. Error ratios are itemized separately based on the review samples as indicated in the following chart.

#### ERROR RATIO CHART

<u>Type of Claim</u>	<u>Files Reviewed</u>	<u>Files in Error</u>	<u>Error Ratio</u>
<b>PIP</b>			
<u>Paid</u>			
GEICO Casualty Company	4	0	0%
GEICO Indemnity Company	45	3	7%
Government Employees Ins Co	<u>50</u>	<u>1</u>	2%
Subtotal	99	4	4%

<u>Denied</u>			
GEICO Casualty Company	10	0	0%
GEICO Indemnity Company	40	1	3%
Government Employees Ins Co	<u>50</u>	<u>1</u>	2%
Subtotal	100	2	2%
<b>Collision</b>			
<u>Paid</u>			
GEICO Casualty Company	10	0	0%
GEICO Indemnity Company	32	2	6%
Government Employees Ins Co	<u>59</u>	<u>0</u>	0%
Subtotal	101	2	2%
<u>Denied</u>			
GEICO Casualty Company	1	0	0%
GEICO Indemnity Company	10	1	10%
Government Employees Ins Co	<u>5</u>	<u>3</u>	60%
Subtotal	16	4	25%
<b>Comprehensive</b>			
<u>Paid</u>			
GEICO Casualty Company	10	1	10%
GEICO Indemnity Company	20	1	5%
Government Employees Ins Co	<u>20</u>	<u>0</u>	0%
Subtotal	50	2	4%
<u>Denied</u>			
GEICO Casualty Company	1	0	0%
GEICO Indemnity Company	8	1	13%
Government Employees Ins Co	<u>6</u>	<u>0</u>	0%
Subtotal	15	1	7%
<b>Property Damage</b>			
<u>Paid</u>			
GEICO Casualty Company	10	0	0%
GEICO Indemnity Company	41	2	5%
Government Employees Ins Co	<u>50</u>	<u>2</u>	4%
Subtotal	101	4	4%
<u>Denied</u>			
GEICO Casualty Company	11	2	18%
GEICO Indemnity Company	40	0	0%
Government Employees Ins Co	<u>40</u>	<u>1</u>	3%
Subtotal	91	3	3%
<b>Uninsured/Underinsured Motorist</b>			

<u>Paid</u>			
GEICO Casualty Company	4	1	25%
GEICO Indemnity Company	15	0	0%
Government Employees Ins Co	<u>10</u>	<u>0</u>	0%
Subtotal	29	1	3%
<u>Denied</u>			
GEICO Casualty Company	0	0	0%
GEICO Indemnity Company	9	5	56%
Government Employees Ins Co	<u>4</u>	<u>2</u>	50%
Subtotal	13	7	54%
<b>Total Loss</b>			
GEICO Casualty Company	2	1	50%
GEICO Indemnity Company	10	3	30%
Government Employees Ins Co	<u>18</u>	<u>11</u>	61%
Subtotal	30	15	50%
<b>Total</b>	<b>645</b>	<b>45</b>	<b>7%</b>

## C. PERSONAL INJURY PROTECTION CLAIMS REVIEW

### 1. Failure to Settle PIP Claims Timely – 5 Files in Error

N.J.S.A. 39:6A-5(g) states that a claim “shall be overdue if not paid within 60 days after the insurer is furnished written notice of the fact of a covered loss...” N.J.A.C. 11:2-17.7(b) states that, “The maximum period for all personal injury protection (PIP) claims shall be 60 calendar days after the insurer is furnished written notice of the fact of a covered loss...; provided however, that an insurer may secure a 45-day extension in accordance with N.J.S.A. 39:6A-5.” Where such an extension is requested, the maximum settlement period may not exceed 105 days.

The examiners reviewed 99 paid and 100 denied randomly selected PIP claims and found that, contrary to the statute and regulation cited above, the Company failed to settle three paid claims within the maximum 60 calendar day time frame without securing the 45-day extension for additional time to investigate. Delays ranged from a low of 68 days beyond 60 days to a high of 327 days beyond 60 days.

Furthermore, the examiners found two additional claims, one paid and one denied, where the Company requested a 45-day extension but failed to settle the claim within 105 days. Delays ranged from a low of 18 days to a high of 50 days beyond 105 days.

**Please See Appendix A1 for a list of Files in Error**

**2. Failure to Pay Interest on Delayed PIP Payments - 3 Files in Error**

**N.J.S.A. 39:6A-5(h)** requires the payment of interest on all overdue benefits. Contrary to this requirement, GEICO failed to pay interest on three bills cited in the previous section. Principal subject to interest ranged from a low of \$213.73 to a high of \$656.32. The Company agreed with the examiners' findings.

**Please See Appendix A2 for a list of Files in Error**

**3. Improper Denial of PIP Claim – 1 File in Error**

Pursuant to **N.J.A.C. 11:2-17.8(i)**, no insurer shall deny payment of a claim when it is reasonably clear that either full or partial benefits are payable. Contrary to this regulation, GEICO denied PIP claim 0503641210101013 as the result of a telephone conversation with the medical provider that revealed the insured's health insurance carrier had issued payment. However, a review of the claim file showed that PIP coverage with GEICO was selected as primary by the insured. In response to an inquiry, the Company contacted the provider and agreed to issue payment so that the provider could then reimburse the health insurance carrier.

**This File in Error is also listed in Appendix A3**

**D. PRIVATE PASSENGER PHYSICAL AND PROPERTY DAMAGE CLAIMS REVIEW**

**4. Failure to Confirm Claim Denial in Writing – 11 Files in Error (Improper General Business Practice UM/UIM)**

In accordance with **N.J.A.C. 11:2-17.8(b)**, any denials or offers of compromise shall be confirmed in writing and be kept in the appropriate claim file. The examiners found that GEICO failed to send claim denial letters on seven uninsured/underinsured motorist property damage, two collision, one comprehensive, and one property damage claim. Due to the number of occurrences of errors on uninsured/underinsured motorist property damage claims, (seven out of thirteen UM/UIM denials reviewed) the examiners cited this as an improper general business practice for this policy coverage.

**Please See Appendix A4 for a list of Files in Error**

**5. Failure to Send Right of Recourse Letter – 8 Files in Error (Improper General Business Practice)**

**N.J.A.C. 11:3-10.4(c)** requires insurers to provide claimants with a written notice of the rights of recourse at the time a total loss settlement draft is issued, and to retain a copy of the notice in the claim file. The examiners reviewed 30 collision, comprehensive, and property damage claims and found that GEICO failed to provide the required written right of recourse on eight total loss property damage claims. The Company agreed with this error.

**Please See Appendix A5 for a list of Files in Error**

**6. Settlement Delays and Failure to Issue Delay Notices – 12 Partial Loss and 3 Total Loss Files in Error**

**N.J.A.C. 11:3-10.5(a)** and **N.J.A.C. 11:2-17.7(c)** state that unless clear justification exists, the maximum payment period for physical damage claims shall be 30 calendar days and 45 calendar days for property damage claims, respectively. **N.J.A.C. 11:3-10.5(a)** states that a payment period for physical damage claims is the period between the date of receipt of notice of loss by the insurer, and either the date the settlement check is mailed or the date on which the damaged vehicle is returned to use in cases where the insurer elects to have repairs made to the insured vehicle; or the date on which the damaged vehicle is replaced by the insurer. **N.J.A.C. 11:3-10.5(b)** and **N.J.A.C. 11:2-17.7(e)** state that, if the insurer is unable to settle the claim within the time periods specified, the insurer must send the claimant written notice by the end of the payment periods. This notice must specify the reason for the delay. **N.J.A.C. 11:3-10.5(b)** and **N.J.A.C. 11:2-17.7(e)** also require an insurer to send an updated written notice of delay thereafter, every 30 and 45 days, respectively, until all elements of the claim are paid or denied. Some claims cited in this section contained multiple errors and appear in more than one appendix related to this section. However, each claim was counted only once in determining error ratios.

**a. Settlement Delay Errors - 15 Files in Error**

The examiners reviewed 281 paid and 135 denied physical and property damage claims and 30 paid total loss claims (13 physical damage total losses and 17 property damage total losses). The examiners found that the Company failed to settle nine claims (two paid total loss collision, two paid partial collision, two denied partial collision, two paid partial comprehensive, and one denied comprehensive) within 30 days. GEICO also failed to settle six claims (four paid partial property damage, one paid total loss property damage and one paid partial uninsured/underinsured motorist) within 45 days.

**b. Failure to Send Written Notice of Delay - 15 Files in Error**

As indicated above, N.J.A.C. 11:3-10.5(b) and N.J.A.C. 11:2-17.7(e) require an insurer to issue a delay letter to the insured or third party claimant if the insurer is unable to settle the claim within the specified maximum settlement time periods. Contrary to these regulations, GEICO failed to send delay notices on 12 claims from the previous section. On two additional claims, the Company failed to send multiple delay letters that were required as all elements of the claim were not paid after an additional 30 days. Lastly, the Company also failed to send a delay notice timely on one claim.

**Please See Appendix A6 for a list of Files in Error**

**7. Failure to Provide Three Days Advance Notice of Storage Charge Termination - 5 Total Loss Files in Error**

N.J.A.C. 11:2-17.10(a)9 requires an insurer to provide notice to a claimant three working days prior to the termination of payment for storage charges and place a copy of such notice in the claim file. On five total loss claims (two collision, three property damage) the examiners found that GEICO did send the required letter advising that storage charges were being terminated; however, the Company did not provide the required three working days' notice prior to termination. On two claims, the Company made the notification of the termination of storage charges Friday with the termination date on Tuesday or two working days after the notification. For the remaining files in error, GEICO provided two working days' notice. The Company agreed with the findings.

**Please See Appendix A7 for a list of Files in Error**

**8. Failure to Notify the Claimant of Rights if Unable to Sell Salvaged Vehicle - 4 Files in Error**

Pursuant to N.J.A.C. 11:3-10.4(j)1-3, the insurer must provide written notice to the claimant stating that, if the claimant cannot sell the salvaged vehicle for the amount of the salvage deduction, the insurer shall pay additional proceeds up to the amount that the claimant can actually sell the vehicle or provide the claimant with information necessary to obtain that salvage value. Contrary to the regulation, GEICO failed to provide this notification on three total loss property damage claims and one total loss collision claim. The Company agreed with the examiners' findings.

**Please See Appendix A8 for a list of Files in Error**



**9. Failure to Issue Payment within 10 Working Days of Agreed Settlement – 2 Files in Error**

**N.J.A.C. 11:2-17.7(f)** states that an insurer shall pay an amount agreed upon in settlement of a claim no later than 10 working days from receipt of agreement or the date of the performance by the claimant of any conditions set by such agreement, whichever is later. On one comprehensive claim and one uninsured/underinsured motorist property damage claim, GEICO failed to issue payment within 10 working days of receiving all necessary documentation required to settle the claim. The Company agreed with this finding in response to the examiners' inquiries.

**Please See Appendix A9 for a list of Files in Error**

**10. Inspection Delays on Third Party Claim - 1 File in Error**

**N.J.A.C. 11:3-10.3(a)** states if the insurer intends to exercise its right to inspect, or cause to be inspected by an independent appraiser, damages prior to repair, the insurer shall have seven working days following receipt of notice of loss to inspect the insured's damaged vehicle, which is available for inspection, at a place and time reasonably convenient to the insured; commence negotiations; and make a good faith offer of settlement. **N.J.A.C. 11:2-17.10(a)** states in part, the requirements of this section with respect to motor vehicle claims are in addition to the requirements of **N.J.A.C. 11:3-10**. In addition to the provisions of this section, the requirements for auto physical damage first party claims found in **N.J.A.C. 11:3-10.1** through **10.4** shall also be construed to apply to automobile property damage third party claims from the time that liability becomes reasonably clear.

Contrary to **N.J.A.C. 11:3-10.3(a)**, GEICO completed a physical damage inspection on one partial loss uninsured/underinsured motorist property damage claim 82 working days after receipt of the claim.

**Please See Appendix A10 for File in Error**

**11. Failure to Conduct Reasonable Investigation – 1 File in Error**

Pursuant to **N.J.S.A. 17:29B-4(9)(d)**, an insurer shall not refuse to pay a claim without conducting a reasonable investigation based on all available information. Additionally, **N.J.A.C. 11:2-17.7(c)** allows an insurer 45 days to settle a property damage claim.

A third party claimant filed claim number 0212315150101026 with GEICO on June 4, 2015. Twelve days later, on June 16, 2015, and after only 26% of the allotted 45 day settlement period, GEICO denied this claim due to the inability to obtain the insured's version of the loss. In response to the

examiners' inquiries regarding the brevity of this investigation, GEICO stated that denial was appropriate because the insured failed to provide a description of the loss that would corroborate the claimant's version. The examiners disagree to the extent that, as referenced above, N.J.A.C. 11:2-17.7(c) provides a 45-day period to determine liability. Denial at the 12<sup>th</sup> day beyond notice of loss is unreasonable and therefor inconsistent with N.J.S.A. 17:29B(9)(d). Ultimately, the Company did contact the insured and verified that the claimant was not at fault.

**This File in Error is also listed in Appendix A11**

### **12. Underpayment of Third Party Rental Benefits – 1 File in Error**

N.J.A.C. 11:2-17.10(a)8 states that when an insurer acknowledges receipt of an automobile property damage liability claim, it shall inform the claimant whether and to what extent he or she will be entitled, if the insurer's liability later becomes reasonably clear, to payment for the rental of an automobile or other substitute transportation. Such payment will ordinarily be for the rental of a vehicle comparable to the type of the damaged vehicle, at a reasonable price until the damaged vehicle is repaired or, in the event of a total loss, until the claim is settled.

The examiners reviewed 30 total loss claims and contrary to the regulation, found one claim, 0414118870101136, where GEICO failed to properly reimburse the claimant for rental expenses. File notes indicated rental benefits were approved from February 6, 2015 through April 6, 2015. However, rental was only reimbursed through March 5, 2015 for a total of \$1,141.52. In response to the examiners' inquiries, the Company indicated the claim would be reopened and an additional payment for rental reimbursement in the amount of \$1,110.68 would be issued.

**This File in Error is also listed in Appendix A12**

### **13. Failure to Advise Claimant of Rental Rights at Time of Claim Acknowledgement – 1 File in Error**

Pursuant to N.J.A.C. 11:2-17.10(a)8, when an insurer acknowledges receipt of an automobile property damage liability claim, or sooner if the claimant inquires, it shall inform the claimant whether and to what extent he or she will be entitled, if the insurer's liability later becomes reasonably clear, to payment for the rental of an automobile or other substitute transportation.

Contrary to the above regulation, the examiners found one partial loss uninsured/underinsured motorist property damage claim where GEICO failed to advise the insured of rental rights at the time of claim acknowledgement. The Company agreed with this error.

**This File in Error is also listed in Appendix A13**

**E. MISCELLANEOUS**

**14.Failure to Commence Investigation within 10 Working Days – 4 Files in Error**

N.J.S.A. 17:29B-4(9)(c), requires insurers to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies. N.J.A.C. 11:2-17.7(a) states every insurer shall commence an investigation on all claims other than auto physical damage within ten working days of receipt of notification of claim.

Contrary to the statute and regulation, the Company failed to commence an investigation within ten working days on four claims (one paid partial uninsured/underinsured motorist property damage, one paid total loss property damage, one denied partial property damage and one PIP claim).

**Please See Appendix A14 for a list of Files in Error**

**15.Failure to Document Claim File - 2 Files in Error**

N.J.A.C. 11:2-17.12(b) and (c) state detailed documentation and/or evidence shall be contained in each claim file in order to permit the Commissioner or his designated examiners or investigators to reconstruct the company's activities relative to the claims settlement; every insurer shall maintain records of all pertinent communications relating to a claim.

Contrary to N.J.A.C. 11:2-17.12(b) and (c), the Company failed to document the damages on one paid property damage claim and failed to obtain and retain documentation in support of its decision to deny one PIP claim.

**Please See Appendix A15 for a list of Files in Error**

### **III. ADVERTISING AND MARKETING**

The examiners reviewed 884 pieces of advertising material and GEICO's website for compliance with all statutory requirements as they relate to advertising, placing particular emphasis on N.J.S.A. 17:29B-4(1) and (2), which prohibit the circulation of false statements and misrepresentation in advertising. This is relative to Standard Number One of the Marketing and Sales Section of the NAIC Handbook, which states "All advertising and sales materials (should be) in compliance with applicable statutes, rules and regulations." The examiners found no errors.

## IV. RECOMMENDATIONS

GEICO should inform all responsible personnel and third party entities who handle the files and records cited as errors in this report of the remedial measures that follow. The examiners also recommend that GEICO establish procedures to monitor compliance with these measures.

Throughout this report, the examiners cite and/or discuss all errors found. If the report cites a single error, the examiners often include a "reminder" recommendation because if a single error is found, additional errors may have occurred.

Non-compliant activity was identified in this report which may extend to other jurisdictions. The Company should take immediate corrective action to demonstrate its ability and intention to conduct business according to New Jersey law and regulations. When applicable, corrective action for other jurisdictions should be addressed.

The examiners acknowledge that during the examination GEICO agreed and already complied with, either in whole or in part, some of the recommendations. For the purpose of obtaining proof of compliance and for the Company to provide its personnel with a document they can use for future reference, the examiners have listed all recommendations below.

### A. GENERAL INSTRUCTIONS

All items requested for the Commissioner and copies of all written instructions, procedures, recommended forms, etc., should be sent to the Commissioner, c/o Clifton J. Day, Chief of Market Regulation, Mary Roebling Building, 20 West State Street, PO Box 329, Trenton, N.J. 08625, within thirty (30) days of the date of the adopted report.

On all policies from Section II to be reopened with additional claim payments, GEICO should provide the insured with a cover letter that contains the following first paragraph:

"During a review of your claim by Market Conduct Examiners of the New Jersey Department of Banking and Insurance, they found that we (failed to pay interest on your Personal Injury Protection claim)/(failed to pay the correct amount on your rental claim). Enclosed is our payment in the amount of (insert amount) to correct our error."

### B. CLAIMS

1. GEICO must issue written instructions to all appropriate claims personnel stating that, pursuant to N.J.S.A. 39:6A-5 and N.J.A.C. 11:2-

**17.7(b)**, all PIP claims should be settled (paid, denied, compromised) within 60 days unless an extension of 45 days is requested in writing, within this 60-day period, for a total period not to exceed 105 days from notice of loss. Where settlement exceeds these time frames, interest is required pursuant to **N.J.S.A. 39:6A-5(h)**.

2. GEICO must reopen and review the PIP claims listed in Appendix A2 of this report. The Company should calculate and pay the applicable interest due for the period of delay as required by **N.J.S.A. 39:6A-5(h)**. A list, including claim numbers, amount of interest paid, interest rate, principal and dates utilized to calculate the actual delay period, should be provided to the Commissioner to verify compliance with this recommendation. See general instructions for language to be included in the cover letter sent with each interest payment.
3. GEICO must issue written instructions to all appropriate claims personnel stating that:
  - a. **N.J.S.A. 17:29B-4(9)(c)** requires insurers to adopt and implement reasonable standards for prompt investigation of claims arising under insurance policies and **N.J.A.C. 11:2-17.7(a)** states every insurer shall commence an investigation on all claims other than auto physical damage within ten working days of receipt of notification of claim.
  - b. Pursuant to **N.J.A.C. 11:2-17.8(i)**, the insurer should not deny claim payment if it is reasonably clear that full or partial payments are due.
  - c. **N.J.A.C. 11:3-10.4(c)** requires insurers to provide first and third party claimants with a written notice of the rights of recourse at the time of settlement on total loss claims and that a copy of this notice must be retained in the claim file.
  - d. Pursuant to **N.J.A.C. 11:2-17.8(b)** all denials or offers of compromise shall be confirmed in writing and kept in the appropriate claim file.
4. GEICO should issue written instructions to all appropriate claims personnel stating that:
  - a. According to **N.J.A.C. 11:3-10.5(a)** and **N.J.A.C. 11:2-17.7(c)**, unless clear justification exists, the maximum payment period for physical damage claims shall be 30 calendar days and 45 calendar days for property damage claims;

- b. Pursuant to N.J.A.C. 11:3-10.5(b) and N.J.A.C. 11:2-17.7(e), an insurer must send the insured/claimant a written delay notice by the end of the appropriate payment periods, if the insurer is unable to settle the claim within the time periods specified in N.J.A.C. 11:3-10.5(a) and N.J.A.C. 11:2-17.7(c). This notice must specify the reason for the delay.
5. GEICO should remind all appropriate personnel that:
- a. In order to comply with N.J.A.C. 11:2-17.10(a)9, storage termination letters must provide three working days' notice prior to termination of storage charges and take into account mailing time.
  - b. Pursuant to N.J.A.C. 11:3-10.4(j)1-3, the insurer must provide written notice to the claimant stating that, if the claimant cannot sell the salvaged vehicle for the amount of the salvage deduction, the insurer shall pay additional proceeds up to the amount that the claimant can actually sell the vehicle; or, provide the claimant with information necessary for the claimant to obtain that value for the salvaged vehicle.
  - c. Pursuant to N.J.A.C. 11:2-17.7(f), an insurer shall pay an amount agreed upon in settlement of a claim no later than 10 working days from receipt of agreement.
  - d. In any instance where an insurer intends to exercise its right to inspect damages prior to repair where the vehicle is not a total loss, it must do so within 7 working days following notice of loss as outlined in N.J.A.C. 11:3-10.3(a).
  - e. In accordance with N.J.S.A. 17:29B-4(9)(d), GEICO must remind all appropriate personnel that a reasonable investigation should be conducted based on all available information prior to denying payment of a claim.
6. GEICO should remind all appropriate claims personnel that, pursuant to N.J.A.C. 11:2-17.10(a)8, when an insurer acknowledges receipt of an automobile property damage liability claim, or sooner, if the claimant inquires, it shall inform the claimant whether and to what extent he or she will be entitled, if the insurer's liability later becomes reasonably clear, to payment for the rental of an automobile or other substitute transportation. Additionally, payment for a rental vehicle will extend until the damaged vehicle is repaired or, in the event of a total loss, until the claim is settled.

7. GEICO must review the claim listed in Appendix A14 of this report and provide the Commissioner with a copy of the settlement draft issued to the claimant for the remaining balance of the rental claim that remains due.
8. GEICO should remind all appropriate claims personnel that pursuant to **N.J.A.C. 11:2-17.12(b)**, detailed documentation and/or evidence shall be contained in each claim file in order to permit the Commissioner or his designated examiners or investigators to reconstruct the company's activities relative to the claims settlement. Additionally, **N.J.A.C. 11:2-17.12(c)** states every insurer shall maintain records of all pertinent communications relating to a claim.



**APPENDIX A**  
**Private Passenger Automobile Claims Errors**

**1. Failure to Settle PIP Claims Timely – 5 Files in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Bill Receipt Date</u>	<u>Date Bill Paid/Denied</u>	<u>45 Day Ext Sent Y/N</u>	<u>Days Beyond 60/105</u>
0515491220101025	GE	7/23/15	11/28/15	N	68
0489213970101019	GI	1/12/15	5/30/15	N	78
0457342970101014	GI	3/31/14	4/22/15	N	327
0417873760101052	GI	9/8/15	1/9/16	Y	18
0521920720101012*	GE	6/22/15	11/24/15	Y	50

\*Denied claim

**2. Failure to Pay Interest on Delayed PIP Payments – 3 Files in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Date Bill Received</u>	<u>Date Bill Paid</u>	<u>Days Beyond 60/105</u>	<u>Amount Paid</u>	<u>Interest Due</u>
0515491220101025	GE	7/23/15	11/28/15	68	\$213.73	\$ .10
0489213970101019	GI	1/12/15	5/30/15	78	\$656.32	\$ .35
0417873760101052*	GI	9/8/15	1/9/16	18	\$420.00	\$ .05

\*45-day extension requested

**3. Improper Denial of PIP Claim – 1 File in Error**

<u>Claim Number</u>	<u>Company</u>
0503641210101013	GI

**4. Failure to Confirm Claim Denial in Writing – 11 Files in Error (Improper General Business Practice UM/UIM)**

<u>Claim Number</u>	<u>Company</u>	<u>Policy Coverage</u>
0504940480101011	GI	Collision
0403671170101118	GE	Collision
0470916710101013	GI	Comp
0181971000101116	GE	Property Damage
0488711970101021	GI	UM/UIM
0413611910101018	GI	UM/UIM
0293743460101042	GI	UM/UIM
0415700120101021	GE	UM/UIM
0516893630101017	GE	UM/UIM
0282283270101158	GI	UM/UIM
0525809150101012	GI	UM/UIM

**5. Failure to Send Right of Recourse Letter - 8 Files in Error  
(Improper General Business Practice)**

<u>Claim Number</u>	<u>Company</u>	<u>Claim Number</u>	<u>Company</u>
0314746990101056	GE	0502172640101028	GE
0277280280101035	GC	0439495400101013	GE
0414118870101136	GI	0473280000101036	GI
0279055550101040	GE	0488138420101023	GI

**6. Settlement Delays and Failure to Issue Delay Notices – 12 Partial  
Loss and 3 Total Loss Files in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Policy Coverage</u>	<u>Notice Date</u>	<u>Settlement Date</u>	<u>Days Beyond 30/45</u>	<u>Days to Pay</u>
0412964970101068	GI	Collision	10/18/14	1/19/15	63	93
0326028210101075	GE	Collision*	7/7/15	11/27/15	113	143
0435983460101043#	GI	Collision	10/15/14	2/2/15	80	110
0278176450101095	GE	Collision*	6/2/15	7/20/15	18	48
0457548330101011	GE	Collision^	11/12/14	1/21/15	40	70
0299598630101098	GE	Collision^	3/7/15	6/12/15	67	97
0519388410101045	GI	Comp	9/28/15	11/12/15	15	45
0072108790101079	GC	Comp	6/17/15	10/6/15	81	111
0470916710101013#	GI	Comp*	5/14/15	08/10/15	58	88
0477654220101032	GE	Property Damage	2/9/15	3/30/15	4	49
0536551540101016##	GI	Property Damage	7/2/15	9/3/15	18	63
0363192280101045	GE	Property Damage	9/3/15	11/20/15	33	78
0358504050101038#	GI	Property Damage	10/31/14	7/29/15	226	271
0414118870101136	GI	Property Damage^	2/10/15	3/31/15	4	49
0308400510101042	GC	UM/UIM	6/4/15	10/14/15	87	132

\*Denied claim

^Total loss claim

#Multiple delay letters were required.

##Delay letter was not timely.

**7. Failure to Provide Three Days Advance Notice of Storage Charge Termination – 5 Total Loss Files in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Policy Coverage</u>	<u>Date of Notice</u>	<u>Date of Storage Cutoff</u>
0483133440101017	GE	Property Damage	3/3/15	3/5/15
0440487120101016	GE	Property Damage	7/24/15*	7/28/15
0450261480101024	GE	Collision	9/11/15*	9/15/15
0277280280101035	GC	Property Damage	5/4/15	5/6/15
0299598630101098	GE	Collision	3/16/15	3/18/15

\*Notification issued on a Friday

**8. Failure to Notify the Claimant of Rights if Unable to Sell Salvaged Vehicle - 4 Files in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Policy Coverage</u>
0279055550101040	GE	Property Damage
0440487120101016	GE	Property Damage
0512763290101017	GE	Property Damage
0469942000101011	GE	Collision

**9. Failure to Issue Payment within 10 Working Days of Agreed Settlement – 2 Files in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Policy Coverage</u>	<u>Date File Completed</u>	<u>Date of Payment</u>	<u>Working Days Beyond 10</u>
0072108790101079	GC	Comp	6/19/15	10/6/15	65
0308400510101042	GC	UM/UIM	9/28/15	10/14/15	2

**10. Inspection Delays on First and Third Party Claims - 1 File in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Policy Coverage</u>	<u>Date of Notice</u>	<u>Date of Inspection</u>	<u>Total Working Days</u>	<u>Days Over 7</u>
0308400510101042	GC	UM/UIM	6/4/15	9/28/15	80	73

**11. Failure to Conduct Reasonable Investigation – 1 File in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Policy Coverage</u>
0212315150101026	GC	Property Damage

**12. Underpayment of Third Party Rental Benefits – 1 File in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Amount Due</u>	<u>Amount Paid</u>	<u>Amount of Underpayment</u>
0414118870101136	GI	\$2252.20	\$1141.52	\$1110.68

**13. Failure to Advise Claimant of Rental Rights at Time of Claim Acknowledgement – 1 File in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Policy Coverage</u>
0308400510101042	GC	UM/UIM

**14. Failure to Commence Investigation within 10 Working Days – 4 Files in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Policy Coverage</u>	<u>Notice Date/Bill Rcpt Date</u>	<u>Investigation Date</u>	<u>Days Over 10</u>
0308400510101042	GC	UM/UIM	6/4/15	6/30/15	8
0483133440101017	GE	Property Damage <sup>^</sup>	1/15/15	2/20/15	16
0089047360101138	GC	Property Damage*	2/24/15	4/13/16	278
0417873760101052	GI	PIP	5/12/15	8/3/15	47

<sup>^</sup>Total loss claim

\*Denied claim

**15. Failure to Document Claim File - 2 Files in Error**

<u>Claim Number</u>	<u>Company</u>	<u>Policy Coverage</u>
0503641210101013	GI	PIP
0363192280101045	GE	Property Damage

## V. VERIFICATION PAGE

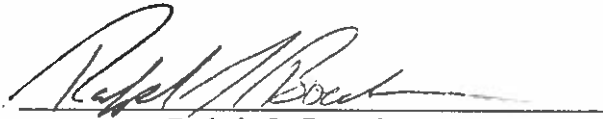
I, Ralph J. Boeckman, am the Examiner-in-Charge of the Market Conduct Examination of GEICO Casualty Company, Government Employees Insurance Company, and GEICO Indemnity Company conducted by examiners of the New Jersey Department of Banking and Insurance. This verification is based on my personal knowledge as acquired in my official capacity.

The findings, conclusions and recommendations contained in the foregoing report represent, to the best of my knowledge, a full and true statement of the Market Conduct Examination of GEICO Casualty Company, Government Employees Insurance Company, and GEICO Indemnity Company as of April 29, 2016.

I certify that the foregoing statements are true. I am aware that if any of the foregoing statements made by me is willfully false, I am subject to punishment.

6/29/2016

Date



Ralph J. Boeckman  
Examiner-In-Charge  
New Jersey Department  
of Banking and Insurance