

KENTUCKY

DEPARTMENT OF INSURANCE

FINAL REPORT

COMPREHENSIVE

MARKET CONDUCT EXAMINATION

Government Employees Insurance Company

5260 Western Avenue
Chevy Chase, Maryland 20815

For the Period

January 1, 2019 through December 31, 2019

PUBLIC PROTECTION CABINET
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Frankfort, Kentucky 40602-0517
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Andy Beshear
Governor

Ray A. Perry
Secretary

Sharon P. Clark
Commissioner

June 30, 2022

Sharon P. Clark, Commissioner
Kentucky Department of Insurance
500 Mero Street, 2 SE 11
Frankfort, Kentucky 40601

RE: Market Conduct Examination (MC 2019-12)

Dear Commissioner Clark:

Pursuant to appointment #2019-12 by the Department of Insurance, and in accordance with the provisions of KRS 304.2-100, KRS 304.2-210, KRS 304.2-230, Kentucky Administrative Regulations Title 806, other applicable laws, and the procedures established by the National Association of Insurance Commissioners, a comprehensive examination of the market conduct activities has been conducted regarding:

GOVERNMENT EMPLOYEES INSURANCE COMPANY
5260 WESTERN AVENUE
CHEVY CHASE, MARYLAND 20815

The report, based on the activities of the Company from January 1, 2019 through December 31, 2019 is hereby respectfully submitted.

Signature on file with original document

Frederick T. Verny Jr., CIE
Examiner-in-Charge

TITLE PAGE

COMPREHENSIVE MARKET CONDUCT EXAMINATION

NAME OF COMPANY:	Government Employees Insurance Company
NAIC COMPANY CODE:	22063
NAIC GROUP CODE:	0031
NAIC EXAM TRACKING SYSTEM NO.:	KY-CHALKJ-11
DEPARTMENT OF INSURANCE NUMBER:	300376
DATE INCORPORATED:	November 30, 1937
STATE OF DOMICILE:	Nebraska
DATE BUSINESS COMMENCED:	December 1, 1937
DATE ADMITTED IN KENTUCKY:	April 18, 1947
STATUTORY HOME OFFICE:	1440 Kiewit Plaza Omaha, Nebraska 68131
TIME FRAME OF COMPANY OPERATIONS EXAMINED:	January 1, 2019 through December 31, 2019
LENGTH OF TIME FOR EXAMINATION:	March 9, 2020 through March 11, 2022
EXAMINATION COORDINATOR:	Ken Miller Underwriting Manager Government Employees Insurance Companies 4295 Ocmulgee East Boulevard Macon, Georgia 31295 Phone: (478) 744-5382 Email: KenMiller@geico.com
PARTICIPATING JURISDICTION:	Kentucky Department of Insurance Phone: (502) 564-1936

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FOREWORD

The findings of this report are based on a comprehensive examination of the business practices of Government Employees Insurance Company (GEICO) in the Commonwealth of Kentucky. The examination process is governed by, and performed in accordance with, the standards and procedures of the National Association of Insurance Commissioners (NAIC) and the Kentucky Department of Insurance (Department). This comprehensive market conduct examination report is one by test, wherein each test applied during the examination is stated and the results reported.

The examination was conducted at the examiners' place of residence, and the Kentucky Department of Insurance (Department). The opening date of the examination was March 9, 2020.

ABBREVIATIONS

Audit Command Language	ACL™
Corrective Action Plan	CAP
Criticism	CRIT
GEICO General Insurance Company	GGIC
GEICO Indemnity Company	GIC
Government Employees Insurance Company	GEICO or Company
Information Request	IR
Information Technology	IT
Insurance Services Office	ISO
Kentucky Administrative Regulation	KAR
Kentucky Department of Insurance	DOI or Department
Kentucky Regulatory Statute	KRS
Local Government Premium Tax	LGPT
National Association of Insurance Commissioners	NAIC
Personal Injury Protection	PIP
Private Passenger Automobile	PPA
Special Investigative Unit	SIU
System for Electronic Rate and Form Filing	SERFF
Third Party Administrator	TPA

SCOPE OF EXAMINATION

EXAMINATION AUTHORITY

Pursuant to the directive of the Department, and in accordance with the provisions of KRS 304.2-100, KRS 304.2-210, KRS 304.2-230, Kentucky Administrative Regulations Title 806, other applicable laws, and the procedures established by the National Association of Insurance Commissioners (NAIC), a comprehensive examination of market conduct activities has been performed regarding:

GOVERNMENT EMPLOYEES INSURANCE COMPANY
5260 WESTERN AVENUE
CHEVY CHASE, MARYLAND 20815

Government Employees Insurance Company (GEICO) is affiliated with GEICO General Insurance Company (GGIC) and GEICO Indemnity Company (GIC). Initially, the Department called comprehensive exams on all three entities during this same time frame. In an effort to expedite the exams, the Company and the Department, in some instances, reached a written agreement to review one area of one company (i.e. claims) and deem the findings to the other two companies under examination. This approach alleviated the need for the Department to review redundant data from all entities under examination. The Company stipulated that the business practices associated with the area scrutinized were consistent among all companies. As a result, the reader will find many areas noted "(*Deemed Finding)"* within the report.

The Company's activities for the period from January 1, 2019 through December 31, 2019, were examined. Unless otherwise noted, all review and exam results apply only to that period.

PURPOSE

The purpose of this examination was to determine compliance by the Company with Kentucky insurance statutes and Department regulations. The following line of business was reviewed: Private Passenger Automobile (PPA).

The examiners may not have discovered every unacceptable or non-compliant activity in which the Company is engaged. The failure to identify, comment on or criticize specific Company practices does not constitute an acceptance of the practices by the Department.

ERROR TOLERANCE

Where applicable, the Department utilizes an error tolerance guideline established by the NAIC, except in certain instances where the Department applies a stricter 0% error tolerance standard. The error tolerance percentages applied are as follows:

AREA	ERROR TOLERANCE PERCENTAGE APPLIED
Company Operations and Management	0%
Record Retention	5%
Complaints	10%
Licensing and Appointments	0%
Policyholder Service	10%
Underwriting and Rating Practices	10%
Claims Settlement Practices	5%
LGPT-Risk Allocation	10%

FILE SAMPLING

Unless otherwise noted, file sampling was based on a review of files that were randomly selected by using Audit Command Language (ACL™) software and applied to the computer data files provided by the Company. Sample sizes were chosen based on guidelines developed by the NAIC.

COMPANY PROFILE

HISTORY OF COMPANY

The Company provided the following information in response to the examiner's request:

> *"Government Employees Insurance Company ("GEICO") was incorporated in the District of Columbia on November 30, 1937. GEICO was redomesticated 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."*

The Company commenced writing business on December 1, 1937, and was admitted in Kentucky on April 18, 1947.

In 2021, the Company changed their domestic state from Maryland to Nebraska.

CERTIFICATE OF AUTHORITY

The Company has a valid Kentucky Certificate of Authority to transact Health, Property and Casualty (limited to vehicle, liability, burglary and theft, personal property floater and automobile guaranty) Insurance. The Company is acting within the scope of its authority.

[1]FINANCIAL PROFILE (THREE YEAR PERSPECTIVE)

LINE OF BUSINESS	2017	2018	2019
Kentucky PPA Direct Premiums Written	$31,151,897	$34,452,252	$34,843,075
Total National PPA Direct Premiums Written	$5,272,270,810	$6,055,079,974	$6,166,735,288
% of the Kentucky PPA Direct Premium Written to National PPA Direct Premium Written	0.59%	0.57%	0.57%
Kentucky Direct Losses Incurred for PPA	$23,728,117	$21,828,994	$24,524,606
Kentucky Direct Losses Paid (Deducting Salvage) for PPA	$19,348,164	$21,143,726	$25,323,719
[2]Kentucky Pure Net Loss Ratio	62.11%	61.37%	72.68%

[3]KENTUCKY MARKET SHARE

The chart below shows market share figures for the Company. Kentucky market share percentages are based on a comparison of the Company's Kentucky premium to other companies in the Commonwealth.

LINE OF BUSINESS	2017	2018	2019
Private Passenger Automobile	1.028%	1.081%	1.076%

[1] Data source from the NAIC – Per annual statement, state page exhibit (019), for each year indicated.
[2] The Pure Net Loss Ratio (PNLR) is the *ratio* of the claims paid to premiums written for PPA.
[3] Data source from the NAIC – Market Share Reports.

COMPANY OPERATIONS AND MANAGMENT

INTERNAL AND EXTERNAL AUDIT CONTROLS

INTERNAL AUDITS

The Company maintains an internal audit program that addresses various aspects of the Company's operations. GEICO develops an annual business plan and during the business plan process, the internal audit team, in conjunction with senior management and regional management, determines areas to be audited. The Company also analyzes complaint volumes monthly, which are used to identify areas of audit and correct any concerns in the process. The Company provided:

- All internal audit procedures;
- A list of all internal/external audits conducted by or for the Company, including any audits performed at the Company's request on contracted entities during the scope of the exam provided by date, subject, who performed, etc.; and
- A summary of recommendations made as a result of any of the foregoing audits and the dates and details regarding corrective action taken.

The types of Kentucky audits completed in 2019 included, but were not limited to: new business; declinations; termination/nonrenewals; consumer complaints; liability and PIP claims; auto damage claims performance review; and adjuster licensing.

No material or significant findings were found in the provided audit documentation.

EXTERNAL AUDITS

External audits for the Company were performed by Deloitte and Touche LLP for the period under review. This firm audited the statutory financial statements and supplemental schedules of GEICO for the years ending 2018 and 2019. No issues were found by the auditors.

There were no external audits conducted by or for the Company that were specific to Kentucky and the Company's PPA business during the scope of this examination.

MANAGEMENT AGREEMENTS

The Company provided a list of management agreements in effect during the scope of the examination. Eighteen contracts were selected for review to evaluate scope of work of external vendors and to ensure general compliance with Kentucky law.

These agreements were reviewed without comment.

REINSURANCE

The Company provided a summary of assumed and ceded reinsurance agreements in effect during the scope of the examination. The Company purchases reinsurance to protect its Capital.

These agreements were reviewed without comment.

NOTICE OF INFORMATION PRIVACY POLICIES AND PRACTICES

The Company's privacy notice and procedure guidelines for PPA business were requested and received. These documents were reviewed to determine compliance with applicable statutes and regulations.

The Company currently utilizes Privacy Policy Notice M56M (4/17) used between 1/1/19-8/21/19 and M56M (4/19) used between 8/22/19-12/31/19. The M56M privacy notice is provided to policyholders in the policy documents issued at new business and each annual renewal. GEICO does not do any joint marketing or third-party disclosures that would require it to offer an opt-out under 806 KAR 3:210 Section 8. The privacy notice is updated any time privacy policies or practices are revised or when any other information on the notice becomes outdated.

The Company also provides privacy policies published on their Company website and available to consumers online as follows:

- Privacy Policy 20170504 was used between 1/1/19 and 6/12/19.
- Privacy Policy 20190613 was used between 6/13/19 and 9/30/19.
- Privacy Policy 20191001 was used between 10/1/19 and 12/31/19.

The Company maintains written procedures to provide a Kentucky resident access to the correction, amendment or deletion of recorded personal information. The Company has policies and procedures in place to protect the privacy of nonpublic personal information of its customers, former customers and consumers.

The Company's privacy policy information is included in the GEICO policies and procedures training for employees and producers. Ongoing communication is facilitated on the Company's intranet and all associate emails to further reinforce the privacy policies and procedures.

The Companies listed on the Privacy Policy do not engage in affiliate sharing for any marketing solicitations that would require the notice under §624 of the Fair Credit Reporting Act.

The Company adheres to the requirements of the following: NAIC Insurance Information and Privacy Protection Model Act (1982 Model Act #670) in all the states that have adopted it; The 2000 Model Privacy Regulation (#672); Gramm-Leach-Bliley Act; and The 2002 Model Information Security Regulation (#673). The Company complies with state and regulatory requirements.

No violations noted.

DISASTER RECOVERY AND CYBER SECURITY

DISASTER RECOVERY PLAN

The Company's disaster recovery plan, *Macon 1 Office Business Continuity Plan (BCP)*, was reviewed for compliance with Kentucky statutes and Departmental regulations. In addition, the examination team requested additional information and met with assigned Company personnel concerning the Company's application, testing and evaluation of this plan.

The purpose of the BCP is to provide the roles, processes and procedures necessary to recover from a business interruption in an efficient and effective manner. It was designed to provide the Company with a systematic, orderly response to a BCP crisis that will allow for continuity of operations and restore normal operations with minimum loss of impact to the Company's customers and associates.

The BCP addresses incidents arising from critical areas, which are identified as Category 1, 2, 3 and 4 incidents. An incident can be partial or total, and can vary in duration. The BCP critical areas are:

- Loss of technology processing operations;
- Loss of telephone communications;
- Loss of environmental facilities; and
- Data breach or other computer related security incident.

The Company's BCP was recently updated on March 2, 2020. The Company has four backup locations, which consist of two physical locations and two cloud structures. Restore operations are made a part of the Company's back-up system testing. Back-up system testing is conducted quarterly. The most recent back-up system test for the Company was in March, 2020.

No violations noted.

CYBERSECURITY

The Company's cybersecurity plan, *GEICO Information Security Management System (ISMS) - Scope and Policy Statement*, was reviewed for compliance with Kentucky statutes and Departmental regulations. In addition, *The Company's Information Security Management System (ISMS) Certificate of Registration* effective during the scope of this examination was submitted for review.

The purpose of the *GEICO Information Security Management System (ISMS) - Scope and Policy Statement* is to define the scope, policy, context, and requirements of the GEICO Information Security Management System (ISMS). The scope covers the following:

- Company associates, contractors and vendors who:
  - use and access the Company's customer-facing applications for automobile and motorcycle private passenger vehicles available through the Company's mobile application and www.geico.com; and
  - are responsible for and support claims, sales and service business operations at the Company's regional offices.

- Management of information and security controls as applied to:
  - operations and systems surrounding the Company's customer-facing applications for automobile and motorcycle private passenger vehicles available through the Company's mobile application and www.geico.com; and
  - operations and systems supporting claims, sales and service business conducted at the Company's regional offices.

The Company's cybersecurity plan standards, procedures and policies are reviewed on an annual basis or as changes to the ISMS occur. The most recent revision to the plan was May 17, 2019. The Company's ISMS is audited annually by an external third-party audit registrar. Internal audits of the ISMS are conducted annually at Company headquarters and primary data center locations. The Company's ISMS was tested and certified by an independent auditor in November, 2019.

No violations noted.

FRAUD WARNING STATEMENTS

UNDERWRITING

Underwriting application forms used by the Company were reviewed to confirm the inclusion of the fraud warning statement as required by KRS 304.47-030(1). Online applications were reviewed to confirm the inclusion of the required fraud warning statement to the insured. The fraud warning statement is also presented to the applicant for applications taken over the telephone.

No violations noted.

CLAIMS

Claim forms were reviewed to confirm the inclusion of the anti-fraud disclosure warnings as required by KRS 304.47-030(2). Claims loss reports are reported by telephone or Internet (online). There is no fraud warning statement for telephone loss reports. The fraud warning statement is included in the online loss reports.

No violations noted.

ANTI-FRAUD PLAN

SPECIAL INVESTIGATIVE UNIT (SIU)

The Company maintains a Special Investigative Unit (SIU) as required by KRS 304.47-080 and 806 KAR 47:010 to investigate and report insurance fraud. The SIU was first formed in 1986. SIU investigations are handled by GEICO. The Company utilizes vendors for specific activities, but the cases are investigated and controlled by GEICO. The total number of Region 9 Midwest SIU investigative staff is 61. The total number of Region 9 Midwest SIU investigative staff investigating cases for multiple jurisdictions including Kentucky is also 61. There are three Region 9 Midwest investigators limited to investigating cases only in Kentucky.

Suspected fraudulent insurance acts are reported to the National Insurance Crime Bureau (NICB) and the Kentucky Department of Insurance Fraud Investigation Division in accordance with KRS 304.47-050 and 806 KAR 47:010 Section 6. The Company reported 30 fraudulent insurance acts to the Department's Insurance Fraud Investigation Division in 2019.

The Company filed its updated written Anti-Fraud Plan with the Department on December 19, 2019 in conformity with 806 KAR 47:010 Section 4 and provided the examiners with a copy of the plan. An updated "SIU Contacts Form" was submitted electronically to the Department on December 6, 2019 for compliance with 806 KAR 47:010 Section 3.

For compliance with 806 KAR 47:010 Section 5, the Company provided a copy of their updated Compliance Report which states, " *We will maintain an Anti-Fraud Plan and Compliance Report which will be submitted to the Kentucky Department of Insurance at least every 2 years. An updated Anti-Fraud Plan and Compliance Report will be supplied to the Kentucky DOI within 30 days in the event of a material change."*

No violations noted.

RECORD RETENTION

POLICYHOLDER SERVICE

NONRENEWALS

In one instance (out of a total population of 34 nonrenewals), the Company failed to provide the nonrenewal notice and applicable proof of mailing in violation of KRS 304.2-230(6) and 806 KAR 2:070.

This finding resulted in an error ratio of 3%, which is within the 5% error tolerance guidelines applied.

CLAIMS SETTLEMENT PRACTICES

TOTAL LOSSES

In two instances (out of a sample of 50 total loss claims), the Company failed to provide relevant claim file documentation. In one instance, the Company failed to provide documentation supporting the replacement cost of the windshield. In one instance, the Company failed to provide documentation confirming that Loss of Use coverage for a rental vehicle was offered to the third-party claimant. Failure to provide and adequately maintain relevant claim documents is in violation of KRS 304.2-230(6) and 806 KAR 12:095 Section 3(2).

(Deemed finding from GGIC)
This finding resulted in an error ratio of 4%, which is within the 5% error tolerance guidelines applied.

PRIOR MARKET CONDUCT REPORTS AND ORDERS

The Company provided a list of all market conduct examination reports and orders related to the Company during the past two years. The list included reports and orders from the jurisdictions of California, New Hampshire, Oklahoma, Minnesota, Rhode Island, Virginia and Washington. The examiner requested, received and reviewed these market conduct reports and orders related to GEICO.

COMPLAINT HANDLING

The Company has written procedures for the handling of complaints. All telephone, e-mail and written correspondence received directly from individuals or from state regulatory agencies *"primarily expressing a grievance or dissatisfaction with the Company or a licensed agent"* is treated as a complaint. GEICO complaints and responses were reviewed to determine compliance with written procedures and Kentucky law.

CONSUMER COMPLAINTS DIRECT TO COMPANY

The Company reported one direct consumer complaint during the scope of this examination. The applicable file for this complaint was submitted for examiner review.

No violations noted.

CONSUMER COMPLAINTS RECEIVED BY THE DEPARTMENT

There were two consumer complaints received by the Department during the scope of this examination. The applicable files for these complaints were reviewed by the examiner. The following table displays a synopsis of the complaints reviewed by type and description:

COMPLAINTS VIA THE DEPARTMENT			
TYPE AND DESCRIPTION	NUMBER OF COMPLAINTS	[4]CONFIRMED	NOT CONFIRMED
CLAIMS HANDLING			
SETTLEMENT DISPUTE	1	1	0
LIABILITY DECISION	1	0	1
TOTAL ALL DOI COMPLAINTS	**2**	**1**	**1**

No violations noted.

[4] Confirmed is a term derived from the NAIC Model Act. The term "confirmed" is now used in Market Analysis reviews of complaint activity. It means the substance of the complaint was valid and often requires further action from the Company to amend (or sometimes reverse) the original action precipitating the reason(s) for the complaint.

MARKETING

SALES BROCHURES AND TRAINING MATERIALS

The Company's marketing and advertising practices and sales materials, including the procedures utilized for monitoring advertisements by producers acting on behalf of the Company, were reviewed to determine compliance with applicable statutes and regulations, specifically KRS 304.12-010, KRS 304.12-020 and 806 KAR 12:010. The materials reviewed included copies of brochures describing the types of policies available, and printed copies of radio and television advertising.

The examiner also evaluated the Company website www.geico.com to verify compliance.

No violations noted.

MARKETING PROCEDURES

The Company markets and sells their PPA products via brochures, the Internet and by telephone through licensed Company agents who are employees of the Company.

No violations noted.

PRODUCER / ADJUSTER LICENSING, APPOINTMENTS AND TERMINATIONS

PRODUCER LICENSING AND APPOINTMENTS

The Company's new business during the scope of this examination was reviewed for agent licensing and appointment compliance with KRS 304.9-080(4). There were 2,237 new business applications submitted during the scope of the exam.

PRODUCER LICENSING

The examiner reviewed all new business applications to ensure the writing agent was licensed at the time of writing in compliance with KRS 304.9-080(4).

No violations noted.

PRODUCER APPOINTMENTS

The examiner reviewed all new business applications to ensure the writing agent was appointed at the time of writing in compliance with KRS 304.9-080(4).

No violations noted.

PRODUCER TERMINATIONS

The Company submitted 896 agent/agency terminations for the period under review. The examiner reviewed the entire population of terminations to determine compliance with KRS 304.9-280.

No violations noted.

ADJUSTER LICENSING

The Company's claims during the scope were reviewed for adjuster licensing compliance with KRS 304.9-436(1). There were 372 adjusters who handled 4,820 claims during the scope of the exam. All were reviewed to ensure the adjuster handling the claim was properly licensed.

No violations noted.

POLICYHOLDER SERVICE

The policyholder service review reflects the attention and service provided by the Company in timeliness of policy issuance, refunds involving insured-requested cancellations, premium billing notices, endorsements to policies, cancellations, nonrenewals, and renewals not taken due to nonpayment.

TERMINATIONS

ACL was used to select a random sample size of 50 terminated policies (out of a total population of 1,674) for examiner review. Termination categories included: insured request and Company cancelled.

No violations noted.

TERMINATIONS - NONPAYMENT

ACL was used to select a random sample size of 50 policies terminated for nonpayment (out of a total population of 553) for examiner review.

No violations noted.

RENEWALS NOT TAKEN - NONPAYMENT

ACL was used to select a random sample size of 50 renewal policies that were not taken due to nonpayment of premium (out of a total population of 71) for examiner review.

In two instances, the Company failed to provide the insured with 30 days advance written notice of the renewal premium and the renewal premium due date in violation of KRS 304.20-035.

This finding resulted in an error ratio of 4%, which is within the 10% error tolerance guidelines applied.

In 20 instances, the Company failed to deliver or mail to the first-named insured within 15 days of policy expiration, notice that the policy was not renewed and the date on which the coverage under it ceased to exist This is in violation of **KRS 304.20-040(8)**.

Failure to deliver or mail to the first-named insured within 15 days of policy expiration, notice that the policy was not renewed and the date on which the coverage under it ceased to exist is in violation of KRS 304.20-040(8), resulting in an error ratio of 40%, which exceeds the 10% error tolerance guideline applied.

NONRENEWALS

The entire population of 34 nonrenewed policies was selected for examiner review. Reasons for nonrenewal included failure to provide valid driver's license, suspended license, tickets and accidents, undisclosed drivers, underwriting requirements, etc.

Violations pursuant to KRS 304.2-230(6) and 806 KAR 2:070, are included in the Record Retention section under Company Operations.

UNDERWRITING AND RATING

The underwriting and rating section included a review and analysis of the Company's practices relative to underwriting requirements, proper use of rules and rates, endorsements, terminations and declinations.

IN-FORCE POLICY REVIEW

ACL™ was used to select a sample of 108 new business PPA policies (out of a total population of 3,759) and 116 renewal business PPA policies (out of a total population of 19,348) for review.

The Company provided underwriting guidelines and rule, rate, and form filings for its PPA business for examiner review. The Company independently files rules, rates and forms. Symbols are independently filed.

The Company provided its underwriting eligibility criteria. The Company uses a number of factors which influence the final underwriting decision and policy premium. These include, but are not limited to: driving history; prior insurance history; vehicle usage; vehicle type; driver classification; resident status; tier assignment; etc. The Company's underwriting process for new business incorporates the use of a computer model that determines which of the GEICO Companies an insured is placed in, and also determines the tier within the Company.

The Company uses credit-based insurance scoring as a component of Company placement and tier determination. Credit information is not updated at each renewal.

RULES AND RATES

In one instance, the Company failed to provide the insured with 30 days advance written notice of the renewal premium and renewal premium due date in violation of KRS 304.20-035.

> *This finding resulted in an error ratio of 1%, which is within the 10% error tolerance guidelines applied.*

FORMS

There were ***no violations noted*** in the Company's form filings pursuant to KRS 304.14-120.

ADHERENCE TO UNDERWRITING GUIDELINES

There were ***no violations noted*** in the Company's underwriting guidelines pursuant to KRS 304.13-051(4).

DECLINATIONS

All PPA Declinations were reviewed in GEICO Indemnity Company. The applicant would initially be reviewed for preferred companies GEICO and GEICO General Insurance Company. If not successfully quoted in either preferred Company, the applicant is then reviewed for GEICO Indemnity Company. Only after the applicant is declined for GEICO Indemnity Company is the risk considered a declination.

RESCISSIONS

The Company did not have any rescissions for the examiner to review.

CLAIM SETTLEMENT PRACTICES

Claims data was submitted and reviewed under GEICO General Insurance Company (GGIC) and findings were deemed to Government Employees Insurance Company (GEICO) and GEICO Indemnity Company (GIC).

ACL™ software was used to select a random sample of claim files for review. Since multiple claim payments can be made from one claim file, payments were summarized by claim number (to eliminate redundancy) and review samples were selected by targeting specific coverages and claims handling activity involving first notices, first contact, communication, investigation, payments, reserves and statistical coding.

The Company provided their claim handling procedures that includes but is not limited to: PPA liability; PIP/Med Pay; PPA physical damage; PPA total losses; litigated claims; subrogated; pertinent regulations; investigation procedure; applicable software; denials/closed without payment (CWP); etc. Compliance with specific claim handling procedures used in the adjudication of claims was based strictly on the Unfair Settlement Practices Act adopted in Kentucky insurance law. The Company enforces compliance with State and Federal law.

PDF claim file documents were imaged from GEICO's claims processing system (Legacy) and provided for review. Claim documents included adjuster log notes, estimates, supplements, valuations, salvage and title documentation, payment information, application for PIP benefits, medical bills, explanation of review (EOR), subrogation and other essential file correspondence.

COVERAGE ON CLAIMS DRAFTS

A sample of PPA claims drafts was reviewed to determine compliance with KRS 304.12-230(10).

No violations noted.

NO FAULT REPARATIONS (PIP)/MEDICAL PAYMENTS

ACL was used to select a random sample of 50 claims for PIP (from a population of 2,549) for examiner review.

In 23 instances, the Company failed to pay PIP claims within 30 days (or 45 days for accumulations) from the date the Company received reasonable proof of the medical fact with adequate supporting procedural documents and a completed PIP application on file. Failure to pay these claims within the required period is a violation of **KRS 304.39-210(1)**.

(Deemed finding from GGIC)
Failure to pay PIP claims within the required period is a violation of KRS 304.39-210(1), resulting in an error ratio of 46%, which exceeds the 5% error tolerance guideline applied.

Examiner Note:
The Company has issued remediation payments of 12% interest to the insured injured party noted in the delays.

In nine instances, the Company incorrectly remitted the applicable 12% interest for delayed PIP claim payments to the provider and not the insured. There was no specific direction by an attorney or written instructions from an insured directing interest payments to the provider; therefore, interest should have been paid to the insured and not the provider. Failure to properly direct payment of interest benefits is a violation of **KRS 304.39-241**.

(Deemed finding from GGIC)
Failure to properly direct payment of interest benefits for delayed PIP claim payments is a violation of KRS 304.39-241, resulting in an error ratio of 18%, which exceeds the 5% error tolerance guideline applied.

TOTAL LOSS CLAIMS

ACL was used to select a random sample of 50 total loss claims (from a population of 1,506) for examiner review.

TOTAL LOSSES – RECORD RETENTION

The violations for PPA claims pursuant to KRS 304.2-230(6) and 806 KAR 12:095 Section 3(2) are noted in the Record Retention section under Company Operations.

TOTAL LOSSES - REGISTRATION FEE

In one instance, the Company failed to pay the required $9.00 registration fee ($6.00 required by KRS 186.040(1) and $3.00 required by KRS 186.040(6)) in violation of 806 KAR 12:095 Section 7(1)(b), applicable to first-party total losses. This resulted in one underpayment, which has been refunded including 12% interest.

(Deemed finding from GGIC)
This finding resulted in an error ratio of 2%, which is within the 5% error tolerance guideline applied.

TOTAL LOSSES - TITLE TRANSFER FEE

In one instance, the Company failed to pay the $9.00 title transfer fee required by KRS 186A.130(1) in violation of 806 KAR 12:095 Section 7(1)(b), applicable to first-party total losses. This resulted in one underpayment, which has been refunded including 12% interest.

(Deemed finding from GGIC)
This finding resulted in an error ratio of 2%, which is within the 5% error tolerance guideline applied.

TOTAL LOSSES - INCORRECT CLAIMS SETTLEMENT - LEASED VEHICLES

In two instances (out of a sample of 50 total loss claims), the Company failed to correctly settle the claims for leased vehicles by not including 6% sales tax in the total loss settlements. Failure to effectuate fair and equitable settlement of claims by not including sales tax in total loss settlements for leased vehicles is a violation of 806 KAR 12:095 Section 7(1)(b), applicable to first party total losses, and KRS 304.12-230(6), applicable to third party total losses. This resulted in two underpayments, which have been refunded including 12% interest.

(Deemed finding from GGIC)
This finding resulted in an error ratio of 4%, which is within the 5% error tolerance guideline applied.

TOTAL LOSSES - LOSS OF USE – RENTAL VEHICLE - FIRST AND THIRD PARTY

In two instances (out of a sample of 50 total loss claims), the Company failed to follow up with the insured as to rental vehicle status after the claim remained open more than 30 days (90 days in one case). The claim was subsequently closed due to lack of activity on the part of the insured. The Company has not adopted standards for prompt investigation and should have followed up within a reasonable time (30 days) or sent a letter of closure to confirm no claim. This is necessary to ensure prompt, fair, and equitable settlement and is in violation of KRS 304.12-230(3), KRS 304.12-230(6) and 806 KAR 12:095 Section 6(1)(a).

(Deemed finding from GGIC)
This finding resulted in an error ratio of 4%, which is within the 5% error tolerance guideline applied.

Examiner Note:
The Company stated that they are prepared to pay for the insured's damages relating to the loss once the proper proof of loss is presented.

GENERAL CLAIMS

ACL™ software was used to select a random sample of 116 general claim files (from a population of 21,967) for review by the examiner, involving a stratification of various coverages involving Bodily Injury (BI), Property Damage (PD), Uninsured Motorist (UM), Underinsured Motorist (UIM), Collision, Comprehensive, Emergency Road Service, Subrogation, Rental Reimbursement, Glass and Closed Without Payment (CWP).

PAYMENT DELAYS

In one instance, the Company failed to pay the claim within 30 days. Failure to effectuate prompt settlement of PPA claims is in violation of KRS 304.12-235(1) and KRS 304.12-230(6) for first and third-party claims.

(Deemed finding from GGIC)
These findings resulted in an error ratio of 1%, which is within the 5% error tolerance guideline applied.

Examiner Note:
The Company has issued payment with applicable 12% interest of $428.87.

INCORRECT CLAIMS SETTLEMENT

In one instance, the Company failed to correctly settle the claim. The Company incorrectly paid, by applying twice, the $9.00 title transfer fee required by KRS 186A.130(1) along with the $9.00 registration fee ($6.00 per KRS 186.040(1) and $3.00 per KRS 186.040(6)) required by KRS 304.12-230(6), applicable to third-party losses. Failure to correctly pay the required title transfer fee and registration fee on third-party total losses is a violation of KRS 186A.130(1), KRS 186.040(1), KRS 186.040(6) and KRS 304.12-230(6). This resulted in an overpayment totaling $18.00.

(Deemed finding from GGIC)
This finding resulted in an error ratio of 1%, which is within the 5% error tolerance guideline applied.

LOSS-OF-USE – RENTAL VEHICLE

In four instances, the Company failed to offer and/or confirm the need for loss-of-use coverage with the claimant for consideration and payment of rental vehicle expenses. Failure to effectuate the prompt, fair and equitable settlement of loss-of-use coverage as it relates to the consideration and payment of rental vehicle expenses is in violation of KRS 304.12-230(6), KRS 304.39-115 and 806 KAR 12:095 Section 6(1)(a).

(DEEMED FINDING FROM GGIC)
This finding resulted in an error ratio of 3%, which is within the 5% error tolerance guideline applied.

GENERAL CLAIMS OPEN BEYOND 30 DAYS

In one instance, the Company failed to follow up with the insured as to claim status on a first party comprehensive glass claim that remained open for 60 days. The claim was subsequently closed due to lack of activity on the part of the insured.

In one instance, the Company failed to follow up with the claimant as to claim status on a third party claim that remained open for more than 90 days. The claim was subsequently closed due to lack of activity on the part of the claimant.

The Company has not adopted standards for prompt investigation and should have followed up within a reasonable time (30 days) or sent a letter of closure to confirm no claim. This is necessary to ensure prompt, fair, and equitable settlement and is in violation of KRS 304.12-230(3), KRS 304.12-230(6) and 806 KAR 12:095 Section 6(1)(a).

(Deemed finding from GGIC)
This finding resulted in an error ratio of 2%, which is within the 5% error tolerance guideline applied.

Examiner Note:
The Company stated that they are prepared to pay for the insured's damages relating to the first party comprehensive glass loss once the proper proof of loss is presented.

ZERO PAID CLAIMS

ACL was used to select a random sample of 50 zero paid claims (from a population of 1,559) for examiner review.

In five instances, the Company failed to follow up with the insured as to claim status after the claim remained open for 60 days. The claim was subsequently closed due to lack of activity on the part of the insured. The Company has not adopted standards for prompt investigation and should have followed up within a reasonable time (30 days) or sent a letter of closure to confirm no claim. This is necessary to ensure prompt, fair, and equitable settlement and is in violation of **KRS 304.12-230(3)**, **KRS 304.12-230(6)** and **806 KAR 12:095 Section 6(1)(a)**.

(Deemed finding from GGIC)
Failure to adopt standards for prompt investigation of claims and follow up within a reasonable time (30 days) in order to ensure prompt, fair, and equitable settlement is in violation of KRS 304.12-230(3), KRS 304.12-230(6) and 806 KAR 12:095 Section 6(1)(a), resulting in an error ratio of 10%, which exceeds the 5% error tolerance guideline applied.

Examiner Note:
The Company stated that they are prepared to pay for the insured's damages relating to the loss once the proper proof of loss is presented.

ZERO PAID CLAIMS FOR PIP TREATMENT NOT RELATED TO AN ACCIDENT

ACL was used to select a random sample of 25 zero paid claims for PIP treatment not related to an accident (out of a population of 78). These claims were reviewed to ensure that the Company did not refuse PIP benefits based solely on a peer review or Independent Medical Examination (IME) in compliance with KRS 304.39-210.

No violations noted.

NO COVERAGE CLAIMS

ACL was used to select a random sample of 40 claims denied due to no coverage (out of a population of 1,559). These claims were reviewed to ensure compliance with KRS 304.12-230 and 806 KAR 12:095.

No violations noted.

PREMIUM TAXES AND SURCHARGES

KENTUCKY LOCAL GOVERNMENT PREMIUM TAX (LGPT)

The Company submitted 1,361 PPA policies for review of compliance with KRS 91A.080 and 806 KAR 2:095.

The Department utilizes an error tolerance of 10% in this area, and the Company met the defined DOI standard involved in the scope.

No violations noted.

KENTUCKY PREMIUM SURCHARGE

The Company is charging the 1.8% Kentucky premium surcharge on PPA policies in accordance with KRS 136.392.

No violations noted.

SUMMARY OF FINDINGS

Listed below are the violations that meet or exceed the applicable error tolerance level, and are considered material findings of the exam.

POLICYHOLDER SERVICE

RENEWALS NOT TAKEN - NONPAYMENT

- The Company failed to deliver or mail to the first-named insured within 15 days of policy expiration, notice that the policy was not renewed and the date on which the coverage under it ceased to exist in violation of **KRS 304.20-040(8)**. *(SEE PAGE 18)*

CLAIMS SETTLEMENT PRACTICES

NO FAULT REPARATIONS (PIP)/MEDICAL PAYMENTS

- In 23 instances, the Company failed to pay PIP claims within 30 days (or 45 days for accumulations) from the date the Company received reasonable proof of the medical fact with adequate supporting procedural documents and a completed PIP application on file. Failure to pay these claims within the required period is a violation of **KRS 304.39-210(1)**. *(DEEMED FINDING; SEE PAGE 22)*

- In nine instances, the Company incorrectly remitted the applicable 12% interest for delayed PIP claim payments to the provider and not the insured in violation of **KRS 304.39-241**. *(DEEMED FINDING; SEE PAGE 23)*

ZERO PAID CLAIMS

- In five instances, the Company failed to follow up with the insured as to claim status after the claim remained open for 60 days. The Company should have followed up within a reasonable time (30 days) or sent a letter of closure to confirm no claim. This is a violation of **KRS 304.12-230(3)**, **KRS 304.12-230(6)** and **806 KAR 12:095 Section 6(1)(a)**. *(DEEMED FINDING; SEE PAGE 26)*

CORRECTIVE ACTION PLAN (CAP)

The DOI expects the Company to propose a detailed corrective action plan/summary addressing material findings contained herein, **within 60 days**:

- A summary of process changes to ensure policyholders are properly notified when a policy does not renew due to nonpayment.
- A summary of process changes to ensure PIP/medical payments are paid timely.
- A summary of process changes to ensure interest for delayed PIP claim payments is remitted to the insured and not the provider.
- A summary of process changes to ensure the Company is consistently following up on claims open beyond 30 days and providing proper notice to claimants when claims are closed due to inactivity.

Additionally, the Company shall:

- Complete the approved corrective action proposed **within 12 months** of the date of the execution of the agreed order by the Kentucky Commissioner of Insurance (with the exception of the implementation of the policy and billing application); and

- Submit to the Department semi-annual reports stating the progress made to implement the CAP requirements. Reporting shall include, but not be limited to, progress, completion and updates of all CAP requirements. The Company shall provide the first semi-annual report **within 180 days** from the execution date of the agreed order by the Kentucky Commissioner of Insurance, with the final report to be submitted **within 365 days** from the same execution date. Should the corrective action be completed within the first 180 days, the second reporting requirement is voided.

PROPOSED CIVIL PENALTY

Pursuant to KRS 304.2-260(3)(a), KRS 304.3-200, and KRS 304.99-020, the Department proposes a civil penalty of **Five Thousand Five Hundred Dollars ($5,500.00)** as settlement for the violations arising from the Market Conduct Examination of Government Employees Insurance Company.

SUBMISSION

The examiners would like to express appreciation to the Company for their cooperation extended during this examination.

The Examiner-in-Charge respectfully submits this examination report to the Commissioner, Department of Insurance, Commonwealth of Kentucky, for further action.

Signature on file with original document

Frederick T. Verny Jr., CIE
Market Conduct Examiner-in-Charge

The following examiners also participated in the review and performed market and data analysis on this examination: Ron Kreiter, Chief Market Conduct Examiner; Jim Axman, CIE; Linda Black, MCM; Lori Cunningham, PIR, MCM; and Sandra Stumbo, PIR, MCM.

AFFIDAVIT

Commonwealth of Kentucky)
) ss
County of Franklin)

I, Frederick T. Verny Jr., being of lawful age and being first duly sworn do state, upon oath, that I have been charged with examining Government Employees Insurance Company. I further state I have prepared the foregoing Report of Examination; I am familiar with the matters set forth therein; and I certify the report is true and complete to the best of my knowledge.

Signature on file with original document

Frederick T. Verny, Jr., CIE
Market Conduct Examiner-in-Charge

This report has been received and reviewed by Ron Kreiter, Chief Market Conduct Examiner, Kentucky Department of Insurance.

Signature on file with original document

Ron Kreiter
Chief Market Conduct Examiner

Subscribed and sworn to before me this 27th day of October 2022.

Signature on file with original document

636067
Notary Public *Notary ID No.*

My Commission Expires: 11-25-23