



# **Market Conduct Examination**

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GEICO General Insurance Company  
GEICO Indemnity Company  
GEICO Casualty Company

**Marlton, New Jersey**

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND  
INSURANCE

Office of Consumer Protection Services

Market Conduct Examinations and Anti-Fraud Compliance  
Section

Date Report Adopted: June 24, 2009

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REPORT  
of the  
MARKET CONDUCT EXAMINATION  
of  
GEICO General Insurance Company  
GEICO Indemnity Company  
GEICO Casualty Company

located in

MARLTON, NEW JERSEY

as of

October 24, 2008

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 SECTION

DATE REPORT ADOPTED: June 24, 2009

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# I. INTRODUCTION

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This is a report of the Market Conduct activities of GEICO General Insurance Company, GEICO Indemnity Company and GEICO Casualty Company (hereinafter collectively 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

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The scope of the examination included private passenger automobile insurance sold by the Companies in New Jersey. The examiners evaluated GEICO's compliance with the FAIR ACT and the regulations and statutes pertaining to automobile underwriting, terminations, claims, advertising and licensing. The review period for the examination was April 1, 2007 to March 31, 2008. The examiners conducted their fieldwork at the Company's office in Marlton, New Jersey between July 14, 2008 and September 19, 2008. On various dates following the fieldwork, the examiners completed additional review work and report writing. The Market Conduct Examiners were Examiner-in-Charge Marleen Sheridan, Monica Koch, Robert Only, Thomas Goehrig, Ralph Boeckman and Robert Greenfield.

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 Conduct Handbook. In addition, 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

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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 are errors cited in this report that define practices as specific acts that an insurer commits so frequently that it constitutes 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 errors of an insurer 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 each of these files as an error 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 mishandling of files reported. 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**

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Government Employees Insurance Company (the "Company") was incorporated in the District of Columbia on November 30, 1937, and issued capital stock. The Company commenced business on December 1, 1937, and was privately owned until 1948.

The Company was reincorporated on January 31, 1979, under the District of Columbia Business Corporation Act of 1954. The Company's term of existence is perpetual and the purpose of the Company's organization is to make and write any and all kinds of

insurance and reinsurance comprised in the fire, marine and casualty classifications.

Subsequent to reincorporation, the Company reorganized its corporate structure by the creation of a parent company, GEICO Corporation, a Delaware corporation, on January 31, 1979. On January 3, 1986, the Company transferred its domicile from the District of Columbia to the State of Maryland.

On January 2, 1996, GEICO Corporation, previously a publicly held company, became an indirect wholly-owned subsidiary of Berkshire Hathaway, Inc., a Delaware corporation.

GEICO's primary line of business is selling private passenger automobile insurance. GEICO is licensed to conduct business in forty-nine (49) states, the District of Columbia and Puerto Rico. There have been no recent mergers or acquisitions since GEICO renewed its license to sell insurance in New Jersey.

## II. COMPLAINTS

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### A. INTRODUCTION

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GEICO's complaint register indicates that consumers filed 208 complaints with the New Jersey Department of Banking and Insurance and 105 complaints with the Companies during the period of April 1, 2007 through March 31, 2008. The examiners reviewed GEICO's complaint register for compliance with **N.J.S.A. 17:29B-4(10)**. The examiners used Chapters Sixteen (General Examination Standards) and Seventeen (Conducting the Property and Casualty Examination) of the Market Regulation Handbook, as a guide to conduct this review.

### B. COMPLAINT REGISTER

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In accordance with **N.J.S.A. 17:29B-4(10)**, insurers are required to maintain a record of all complaints received by the company. These records shall indicate the total number of complaints, the classification by line of insurance, the nature and the disposition of each complaint and the time it took to process each complaint. This statute conforms to the complaint handling section, Standard One of the NAIC Market Regulation Handbook, which states that, "All complaints (should be) recorded in the required format on the company complaint register." The examiners noted that, contrary to the above referenced statute, GEICO's underwriting and claim complaint registers failed to provide the disposition of each complaint and the classification by line of insurance. The disposition merely stated "J" (justified) or "U" (unjustified) and not the ultimate resolution of the complaint. Classification by line of insurance was absent in entirety. GEICO amended its complaint register in response to the examiners' inquiries.



# III. RATING AND UNDERWRITING

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## A. INTRODUCTION

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The examiners reviewed randomly selected policy files from GEICO's database run of 239,526 renewals and 11,022 new business policies that were in force during the period April 1, 2007 through March 31, 2008. The examiners checked for compliance with specific statutes and regulations, including N.J.S.A. 17:29A-6 and 15 (filed and approved rating methodologies), N.J.S.A. 17:29A-38 (reduction of rates for operators 65 years or older), N.J.S.A. 17:29A-46 (uniform application of underwriting guidelines), N.J.A.C. 11:3-15 (coverage selection forms), N.J.A.C. 11:3-35 (automobile insurance underwriting rules), N.J.S.A. 39:6A-4.1 and N.J.A.C. 11:3-21 (PIP rate discounts). These requirements are related to NAIC Standards Sixteen and Seventeen of the Market Regulation Handbook.

## B. ERROR RATIOS

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The examiners calculated error ratios for each random sample by applying the procedure outlined in the introduction of this report. Error ratios are itemized separately for the review samples as indicated in the chart that follows.

Review Sample	Files Reviewed	Files in Error	Error Ratio
New Business	100	1	1%
Renewals	<u>100</u>	<u>0</u>	0
Random Totals	<b>200</b>	<b>1</b>	<b>.5%</b>

## C. EXAMINERS' FINDINGS

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### 1. Failure to Conduct Physical Damage Inspection - 1 File in Error

N.J.A.C. 11:3-36.3(a) requires insurers to conduct a physical damage inspection of a covered vehicle whenever physical damage coverage is requested by the insured. The examiners found one policy, 4124165137, in which GEICO failed to inspect the insured vehicle. GEICO agreed with this error.

**THIS FILE IN ERROR IS ALSO LISTED IN APPENDIX A-1**

# IV. POLICY TERMINATIONS

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## A. INTRODUCTION

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During the review period of April 1, 2007 to March 31, 2008, GEICO declined 12,345 new business applications, cancelled 11,997 policies within the first 60 days and cancelled 35,690 policies beyond the first 60 days. In the same time period the Company non-renewed 320 policies. The examiners checked for compliance with applicable statutes and regulations related to terminations, including N.J.A.C. 11:3-8 (non-renewal of automobile policies), N.J.A.C. 11:3-34 (eligible persons), N.J.A.C. 11:3-44 (rules for effecting auto insurance coverage) and N.J.S.A. 17:29C-7 through 10 (automobile insurance cancellations), all of which relate to NAIC standards outlines in Chapter Sixteen (General Examination Standards) and Seventeen (Conducting the Property and Casualty Examination) of the Market Regulation Handbook. The examiners reviewed samples of randomly selected declinations, cancellations and non-renewals.

## B. ERROR RATIOS

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The examiners calculated error ratios for each random sample by applying the procedure outlined in the introduction of this report. Error ratios are itemized separately for the review samples as indicated in the chart that follows.

Review Sample	Files Reviewed	Files in Error	Error Ratio
Nonrenewals	45	45	100%
60 Day Cancellations	40	1	3 %
Mid-Term Cancellations	55	1	2 %
Declined Quotes	<u>65</u>	<u>14</u>	22 %
<b>Random Totals</b>	<b>205</b>	<b>61</b>	<b>30%</b>

## C. EXAMINERS' FINDINGS

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### 1. Failure to Certify Termination Notice as a True Copy - 140 Files in Error

N.J.S.A. 17:29C-10 states that no cancellation notice or intention not to renew shall be effective unless the insurer retains a duplicate copy of the mailed termination notice that is certified to be a true copy. Contrary to this

requirement, GEICO was unable to provide the examiners with the certified true copy of the termination notices on 45 policies that were nonrenewed, 55 policies cancelled midterm and 40 policies cancelled within the first 60 days. The examiners did not count these errors in the error ratio chart.

**2. Failure to Include Designated Provision in the Nonrenewal Notice – 45 Errors**

**N.J.A.C. 11:3-8.3(e)1** states that a notice of nonrenewal shall not be valid unless it contains the designated provision under which action is being taken. Contrary to this regulation and as an improper general business practice, the Company failed to include the specific regulatory citation that served as the basis for nonrenewing these 45 policies.

**SEE APPENDIX B-1 FOR A LIST OF FILES IN ERROR**

**3. Failure to Provide the Applicant with the Specific Reason for Declination of Policy Application – 14 Files in Error**

**N.J.S.A. 17:33B-16** requires that the insurer, upon making a declination of automobile insurance, shall inform the applicant of each specific reason for the declination.

Contrary to the aforementioned statute, the examiners found 14 declined applications where GEICO failed to inform the applicant of each specific reason for the declination. Some notices included reasons such as “accidents” and “convictions for driving violations.” Some of these notices failed to provide any reason whatsoever for the declination. Overall, the reasons cited for declination are vague, non-specific, and do not inform the applicants of the reason why they failed to comply with the Company’s underwriting rules.

**SEE APPENDIX B-2 FOR A LIST OF FILES IN ERROR AND DESCRIPTION OF NOTICE DEFICIENCY**

**4. Failure to Provide Proof of Mailing of Termination Notice – 1 File in Error**

**N.J.S.A. 17:29C-10** states that, “No written notice of cancellation or intention not to renew sent by an insurer to an insured in accordance with the provisions of an automobile insurance policy shall be effective unless a.(1) it is sent by certified mail or (2) at the time of the mailing of said notice, by regular mail, the insurer has obtained from the Post Office Department a date stamped proof of mailing showing the name and address of the insured.” The examiners found one policy (4118493776) that GEICO terminated but could not provide proof of mailing, contrary to **N.J.S.A. 17:29C-10**.

**THIS FILE IN ERROR IS ALSO LISTED IN APPENDIX B-3**

**5. Failure to List Correct Territory on Two Percent Notice of Nonrenewal  
– 1 File in Error**

N.J.A.C. 11:3-8.3(e)1iii states that in the event action is being taken under N.J.A.C. 11:3-8.5(a)2 (two percent territorial nonrenewal) the notices shall be consecutively numbered in each territory. Contrary to these regulations, GEICO neither included the consecutive number nor the correct territory on policy 4044556696. Regarding the latter, GEICO listed West Jersey as the territory in which the policy was nonrenewed when the correct territory was Newton, N.J.

**THIS FILE IN ERROR IS ALSO LISTED IN APPENDIX B-4**

# V. CLAIMS REVIEW

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## A. INTRODUCTION

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This review covers paid and denied Personal Injury Protection (PIP), collision, comprehensive and property damage claims submitted under private passenger automobile insurance. Any such New Jersey claim closed between April 1, 2007 and March 31, 2008 was subject to review. During this review period GEICO closed 157,311 PIP bills, 14,508 comprehensive claims, 66,840 collision claims and 59,384 property damage claims. From this total, the examiners randomly selected and reviewed 330 paid and denied 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 and settlement practices), N.J.A.C. 11:3-10 (auto physical damage claims) and N.J.S.A. 39:6A-5 (personal injury protection claims). These requirements relate to NAIC Market Conduct standards outlined in Chapters Sixteen (General Examination Standards) and Seventeen (Conducting the Property and Casualty Examination) outlined in the Market Regulation Handbook.

In terms of data viability, the examiners note that GEICO initially responded to several of the following interest findings by stating that many errors were overstated due to duplicate claims that appeared in GEICO's electronic dataset. In response, GEICO provided corrected datasets. However, upon review of these resubmitted datasets, the examiners found that GEICO's corrected electronic PIP dataset included 65 claim events in which the actual claim amount paid to the provider was equal to the interest reported as paid. Such reported but improbable payments ranged from a low of \$0.03 to a high of \$11,316. The examiners excluded this value in the extrapolated interest errors listed below.

## B. ERROR RATIOS

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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 charts. The PIP review consisted of one randomly selected bill from each file. The chart below itemizes all randomly selected paid and denied claims reviewed, along with total files in error and error ratio by category.

### A. Paid Claims

Review Sample	Files Reviewed	Files in Error	Error Ratio
PIP	100	23	23%
Collision	50	8	16%
Comprehensive	20	2	10%
Property Damage	<u>30</u>	<u>0</u>	0
<b>Subtotal</b>	<b>200</b>	<b>33</b>	<b>17%</b>

### B. Denied Claims

Type of Claim	Files Reviewed	Files in Error	Error Ratio
PIP	95	41	43%
Collision	10	3	30%
Comprehensive	10	1	10%
Property Damage	15	0	0
Subtotal	<u>130</u>	<u>45</u>	35%
<b>Random Totals</b>	<b>330</b>	<b>78</b>	<b>24%</b>

### C. PIP Electronic Census Interest Review and Exceptions

Paid Delayed PIP Bills	Failure to Pay Interest*	Exception Ratio	Unpaid/Incorrect Interest Under Payments
8,142	5,146	63%	\$74,449

\*Errors include failure to pay interest and payment of interest at rate below mandated percentage as further explained below.

## C. PERSONAL INJURY PROTECTION CLAIMS

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### 1. Failure to Pay PIP Claims Timely and Failure to Issue 45-Day Delay Letter – 22 Random Errors – Improper General Business Practice

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. This is relative to the NAIC Market Regulation Handbook which states that a company should take adequate steps to resolve claims in a timely manner in accordance with applicable statutes, rules, and regulations, and contract language.

The examiners reviewed 100 paid PIP claims and found 46 that GEICO paid or denied beyond 60 days, contrary to N.J.S.A. 39:6A-5(g). Of these 46, GEICO failed to settle 22 claims within the maximum 60 calendar day time frame without securing the 45 day extension for additional time to investigate. This represents a delay notice failure rate of 48% (22 delay notice errors on 46 claims settled beyond 60 days).

In response to the examiners' inquiries and during conference calls during the post-field exam phase, GEICO disagreed that settlement, either in the form of payment or denial, must be effectuated within the maximum 105 day period. GEICO advised that it will pend a claim for an indefinite period of time after 60 or 105 days in order to allow the claimant to submit additional proofs of loss. However, the above-referenced statute and regulation clearly require settlement within 60 days, but up to a maximum of 105 days but only where an insurer issues a valid delay notice. Failure to comply with these settlement periods places undue burden on coordination of benefits efforts of other carriers that have PIP exposure secondary or tertiary to GEICO.

In response to the draft report, GEICO advised that it recognized claim processing difficulties prior to the examination and sought to address corrective action on a proactive basis.

**SEE APPENDIX C-1 FOR THE LIST OF RANDOM FILES IN ERROR**

**2. Failure to Pay Interest on Delayed PIP Payments – 14 Files in Error (8,142 Database Exceptions and \$74,449 Extrapolated Interest Underpayment Exceptions) and Improper Negotiation of Interest Waivers with Providers – Improper General Business Practice**

**Failure to Pay Interest on Delayed Settlements**

N.J.S.A. 39:6A-5(h) requires the payment of interest on all overdue benefits. N.J.S.A. 39:6A-5(g) and N.J.A.C. 11:2-17.7(b) define overdue benefits in the manner stated in the preceding paragraph. Contrary to N.J.S.A. 39:6A-5(h), GEICO failed to pay interest on 14 of the 22 randomly selected PIP bills (64%) cited as overdue in the previous section. The Company agreed with some of the findings and disagreed with others, stating claimant noncooperation as a valid reason for settlement beyond 105 days. However, as stated above, pending a claim beyond 105 days is inconsistent with N.J.S.A. 39:6A-5(g) and N.J.A.C. 11:2-17.7(b), unnecessarily complicates coordination of benefit efforts and creates the potential for unnecessary accrual of interest and overall increases in claim adjustment expenses.

In order to establish the extent of this error, the examiners conducted an electronic interest study on all 8,142 PIP bills that were settled beyond 60 days. Overall, the examiners found an interest payment deficit exception of \$155,104. However, since the random review revealed that GEICO did issue some delay notices at a rate of 52%, the examiners applied an offset factor of .48 (the rate of error) to the \$155,104 value and derived an extrapolated exception value of \$74,449 in unpaid and underpaid interest.

### **Improper Interest Waivers**

In response to the examiners' inquiries, GEICO disagreed with interest errors in part due to interest waivers with providers. GEICO's position is that its statutory obligation to pay interest on overdue benefits is excused whenever a provider agrees with GEICO's request for the provider to waive interest that is otherwise mandated by statute. The examiners disagree and note that this statute does not include any exceptions to the mandatory interest requirement stated in **N.J.S.A. 39:6A-5(g)**.

### **SEE APPENDIX C-2 FOR A LIST OF FILES IN ERROR**

### **3. Failure to Apply Correct Interest Rate for 2008 Overdue PIP Claims - 11 Random Errors (2,511 Census Population Errors and \$5,680 Interest Underpayment) - Improper General Business Practice**

**N.J.S.A. 39:6A-5(h)** states that all overdue PIP claim payments shall bear interest at the percentage of interest prescribed in the Rules Governing the Courts of the State of New Jersey for Judgments, Awards and Orders for the Payment of Money. The 2008 interest rate for late PIP claim payments is 5.5%. However, GEICO applied the 2007 interest rate of 4% to overdue 2008 PIP claims. In response to an inquiry from the examiners, the Company confirmed that it paid the 2007 rate of 4% on 2008 claims and not the required 5.5%. The examiners reviewed a Company-generated spreadsheet of interest payments for 2008 and developed an error population of 2,511 claims. The examiners applied an increase factor of 1.5 (the error in the interest rate) to the total reported interest payment at the 4% rate and derived a total amount payable of \$17,060. This value was reduced by the actual payment of \$11,380 to derive a net, extrapolated interest underpayment of \$5,680. See recommendations.

### **SEE APPENDIX C-3 FOR A LIST OF FILES IN ERROR**

### **4. Failure to Provide Specific Reason for Denial on Explanation of Benefits Form – 35 Files in Error- Improper General Business Practice**

**N.J.A.C. 11:2-17.8(b)** states that any denial or offers of compromise to the claimant shall be confirmed in writing and shall be kept in the appropriate claim



file. **N.J.A.C. 11:3-37.10(a)5** requires all explanation of benefits (EOB) forms to provide a concise explanation as to why any claim-related expense is considered ineligible. The examiners reviewed 95 denied PIP claims and found that, contrary to these regulations, GEICO failed to provide a specific reason for denial on 35 EOB's (or 37% of the denied review sample of 95 denied claims). The examiners' findings are as follows:

On 19 of the 35 EOB's GEICO stated, "This CPT code has been denied by a Physician Advisor review for medical necessity." This reason fails to state why this specific treatment is no longer medically necessary, such as maximum benefit reached, out of established and certified care plan, etc.

On seven EOB's the Company stated, "Benefits for this specialty have been terminated based on the results of an IME or failure to attend the IME." This reason fails to clarify which of the two conditions apply. In the event of the former, this reason is not specific to the extent required by **N.J.A.C. 11:2-17.8(b)**.

On four EOB's the Company stated, "Documentation submitted is either illegible or incomplete to support billing." The Company did not specifically state what documentation was illegible or incomplete. Moreover, GEICO could have utilized its 60 day or, where applicable and permissible, the full 105 day settlement period to resolve these difficulties.

On one EOB the Company stated, "The number of office visits billed along with physical therapy modality codes exceeds the amount allowed per **N.J.A.C. 11:3-29.1**." The examiners note that **N.J.A.C. 11:3-29.1** is merely the introductory section of a broader series of subparagraphs that address CPT (Current Procedural Technology) Code usage. The latter includes an appendix that lists fees per CPT code, but without reference to frequency of treatment. The company's stated denial reason is therefore an untrue statement within the context of **N.J.S.A. 17:29B-4(2)**. GEICO also failed to state the maximum allowable office visits and the actual visits incurred.

On two EOB's the Company stated, "This CPT code is invalid based upon the CPT or HCPCS 2007 codes." The reason fails to specifically explain why the CPT code is invalid in relation to the CPT or HCPCS 2007 codes, and further fails to state the exact CPT code that was the subject of the denial.

On two EOB's the Company stated, "After review of documentation by a like specialty provider, this treatment has been identified as not medically necessary per **N.J.A.C. 11:3-4.7(c)4**." The reason fails to explain why the treatment is not medically necessary.

**SEE APPENDIX C-4 FOR A LIST OF FILES IN ERROR**

**5. Failure to Deny PIP Claims Timely - Failure to Issue 45 Day Extension Letter - 18 Files in Error**

N.J.S.A. 39:6A-5(g) and N.J.A.C. 11:2-17.7(b) require that within 60 calendar days of receipt of notice of claim, an insurer must notify the claimant in writing of the denial of the claim or the need for additional time, not to exceed 45 days, to investigate the claim. The examiners reviewed 95 denied PIP claims and found that GEICO failed to issue denial letters or the need for additional time within the maximum 60 calendar day time frame on 18 claims.

**SEE APPENDIX C-5 FOR A LIST OF FILES IN ERROR**

**6. Failure to Provide PIP Application Claim Form Within 10 Working Days of Notice – 1 File in Error**

N.J.A.C. 11:2-17.6(c) states that every insurer, upon receiving notification of claim shall promptly provide first party claimants with the necessary claim forms, instructions, and reasonable assistance so that such claimants can comply with the policy conditions and the insurer’s reasonable requirements. Compliance shall be within 10 working days of notification of a claim. GEICO failed to provide the necessary claim forms within the required time frame contrary to the regulation on claim number 0278865060101012.

**THIS FILE IN ERROR IS ALSO LISTED IN APPENDIX C-6**

**D. PHYSICAL DAMAGE AND PROPERTY DAMAGE CLAIMS**

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**7. Exclusion of Salvage Retention Value from Sales Tax Calculation of Total Losses – 1 File in Error (2,216 Claim Underpayments Totaling Extrapolated Value of \$94,173) – Improper General Business Practice**

N.J.A.C. 11:3-10.4(a) states in part that, “...if the insurer elects to make a cash settlement, it must bear in mind that the insured’s position is that of a retail consumer, and that the settlement must be reasonable and fair for a person in that position...” Moreover, if the insurer elects to make a cash settlement, its offer is subject to additions and deductions plus applicable sales tax. Permissible additions and deductions include betterment and depreciation (N.J.A.C. 11:3-10.3(i)), prior damage and condition (N.J.A.C. 11:3-10.3(j)) and mileage depreciation where applicable (N.J.A.C. 11:3-10.4(f)), or otherwise specified in N.J.A.C. 11:3-10.4(a) and (b).

GEICO utilizes Certified Collateral Corporation (CCC) to establish the actual cash value and cash settlement offer referenced above. N.J.A.C. 11:3-10.2 defines actual cash value as a value for which the damaged vehicle can be replaced with one that is substantially similar. N.J.A.C. 11:3-10.2 further defines a substantially similar vehicle as one that is the same make, model, year and condition of the damaged vehicle at the time of loss.

If the insurer elects to make a cash settlement in lieu of providing an actual replacement, its offer (actual cash value as defined under N.J.A.C. 11:3-10.2 and as further established by the company's use of CCC pursuant to N.J.A.C. 11:3-10.4(a)2 and 3), is subject to valuation additions and deductions plus applicable sales tax.

While reviewing total losses, the examiners noted on one claim in which the vehicle owner retained salvage that GEICO reduced the pre-tax actual cash value by the amount of a \$2,000 salvage retention deduction. As such, and contrary to N.J.A.C. 11:3-10.4(a), GEICO's cash offer failed to include the required sales tax on this value, ultimately resulting in a claim underpayment of \$140. This method of settlement is also inconsistent with the approved deduction and settlement calculation methodology outlined in N.J.A.C. 11:3-10.4(a) and N.J.A.C. 11:3-10.2. The following chart illustrates GEICO's incorrect settlement methodology (Column A) that resulted in an underpayment on claim number 02823026901026-01, as well as the correct settlement methodology (Column B).

<b>A. Incorrect GEICO Evaluation</b>		<b>B. Correct Evaluation</b>	
Local Market Value	\$11,500.00	Local Market Value	\$11,500.00
Condition	+ 355.00	Condition	+ 355.00
Salvage Retention	- 2,000.00	Sales Tax (7% - NJ)	+ 829.85
Subtotal	\$ 9,855.00	Subtotal	\$12,684.85
Sales Tax (7% - NJ)	+ <u>689.85</u>	Salvage Retention	- <u>2,000.00</u>
Settlement	\$10,544.85	Settlement	\$10,684.85
		<b>Total Underpayment</b>	<b>\$ 140.00</b>

The examiners tested the extent of this error by requesting and reviewing a list of all vehicle evaluations that included salvage retention. In response, GEICO provided a list of 2,216 such settlements with a net payout of \$6,726,641. The examiners approximated the salvage retention deduction on this payout by applying an average, industry deduction factor of 20% to the payout. This yielded a projected retention holdback of \$1,346,328 for which GEICO did not pay the

required seven percent sales tax. The total projected underpayment on these claims is therefore \$94,243. See recommendations.

GEICO disagreed with this error stating in part that the consumer is not entitled to sales tax on salvage retention values because such values constitute deductions that are otherwise permitted as offsets to the actual cash value settlement. The examiners disagree, as N.J.A.C. 11:3-10.3(i), (j) and N.J.A.C. 11:3-10.4(f) as outlined above permit prior damage, condition and mileage deductions to the actual cash value; notably, these regulations do not address applicability of salvage retention deductions to the actual cash value. Since a consumer's decision to either retain or not retain salvage is unrelated to the value of the vehicle at the time of loss, sales tax is applicable since that value existed at the time of loss, irrespective if the consumer's decision to retain salvage or not at a later date.

Finally, while GEICO's salvage retention settlement methodology is improper, the examiners have no indication of willful intent to violate the above-stated total loss settlement regulations.

**THIS FILE IN ERROR IS ALSO LISTED IN APPENDIX C-7**

**8. Failure to Advise Claimant of Right of Recourse - 10 Files in Error**

N.J.A.C. 11:3-10.4(c) requires insurers to provide claimants with a written notice of the right 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 50 paid collision and 20 paid comprehensive claims and found that contrary to this regulation, GEICO failed to provide the required written right of recourse on 10 total loss claims (eight collision and two comprehensive).

**SEE APPENDIX C-8 FOR A LIST OF FILES IN ERROR**

**9. Settlement Delays and Failure to Issue Delay Notices - 3 Files in Error**

N.J.A.C. 11:3-10.5(a) states that unless clear justification exists, the maximum payment period for physical damage claims shall be 30 calendar days. N.J.A.C. 11:3-10.5(b) states 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) also requires an insurer to send an updated, written notice of delay every 30 days thereafter, until all elements of the claim are paid or denied.

The examiners reviewed 20 paid and 10 denied comprehensive claims and found that GEICO failed to settle three of these claims within the correct time frame and without the required delay notices.

**SEE APPENDIX C-9 FOR A LIST OF FILES IN ERROR**

**10. Failure to Issue Denial in Writing - 3 Files in Error**

**N.J.A.C. 11:2-17.8(b)** states that any denial or offers of compromise to the claimant shall be confirmed in writing and shall be kept in the appropriate claim file. The examiners reviewed ten denied collision claims and found, contrary to this regulation, that GEICO failed to issue a written denial letter on three claims.

**SEE APPENDIX C-10 FOR A LIST OF FILES IN ERROR**

## VI. SALES AND ADVERTISING

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### A. LICENSING OF SALES STAFF

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According to N.J.S.A. 17:22A-26 et seq. and N.J.A.C. 11: 17-1 through N.J.A.C. 11:17E-1, a person shall not sell, solicit or negotiate insurance in this State unless the person is licensed for a specific line or lines of authority. GEICO provided the examiners with a list of all persons who respond to telephone and internet quote/application requests. The list contained 2,141 names of which the examiners randomly selected 35 agents. All 35 agents were licensed to sell property and casualty insurance in New Jersey.

### B. MARKETING AND SALES

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According to N.J.S.A. 17:29B-4(2), insurers are prohibited from “Making, publishing, disseminating, circulating, or placing before the public...in the form of a notice, circular, pamphlet, letter...or in any other way, an advertisement, announcement or statement containing any assertion...which is untrue, deceptive or misleading.” The examiners reviewed 362 pieces of advertising material and GEICO’s internet site for compliance with all statutory requirements. The examiners found 25 advertisements that contained errors. The examiners report the following examples that are representative of their findings:

**Assertion 1:** “Lower rates now available in New Jersey” and “In New Jersey, rates have been lowered.” Form 2007 GEICO JZ/NJ

**Assertion 1.a:** “I tell people, ‘GEICO has new lower rates in New Jersey. You could save hundreds.’ ” Form 3Q-4Q'07;1Q-2Q'08

**Examiner’s Findings:** The above advertising forms are homeowner solicitations issued in conjunction with private passenger automobile insurance advertisements stating that homeowner rates have been lowered in New Jersey. This statement is untrue; homeowner rates have not been lowered in New Jersey for the time periods in which these advertisements were issued. Accordingly, the examiners cited these advertisements as a violation of N.J.S.A. 17:29B-4(2) which, as outlined above, prohibits untrue statements.

The examiners also note that this language appears on GEICO letterhead and references a GEICO email and mailing address, thus implying that GEICO writes homeowners insurance in New Jersey when in fact it does not. Moreover, this advertisement’s reference to GEICO is in reality a reference to the GEICO

Property Agency, not a GEICO insurance entity that actually writes homeowners insurance. Although this advertisement does include a vague disclaimer on the bottom reverse side of the pamphlet, it merely states that “Coverage is obtained by Insurance Counselors, Inc and its affiliates through established, service-oriented companies.” This language implies that GEICO homeowners coverage can be obtained by Insurance Counselors “through established, service oriented companies” on the applicant’s behalf. Accordingly, the examiners cited this language as misleading, further contrary to N.J.S.A. 17:29B-4(2).

**Assertion 2:** “As a testament, most government employees have been with us for an average of 20 years.” Forms “Federal” and “Federal 2007 & 2008”

**Examiner’s Findings:** In response to the examiners’ inquiries regarding statistics that support the above assertion of a 20 year government employee retention period, GEICO could demonstrate a retention period of only 12 years and not the claimed average of 20 years. Moreover, GEICO’s response did not quantify the term “most” in terms of the percentage frequency that GEICO relied upon in making these assertions. Accordingly, these assertions are untrue and in violation of N.J.S.A. 17:29B-4(2).

**Assertion 3:** “Most claims settled within 48 hours.” Form Federal 2007 & 2008

**Assertion 3.1:** “Claims are often settled within 48 hours.” Form F01-C404602223.

**Examiner’s Findings:** In response to the examiners’ inquiries regarding statistics that support the assertion that most claims are settled within 48 hours, GEICO provided a data summary that included statistics for multiple claim types, including collision, comprehensive, emergency road service/towing and glass claims. The data summary revealed that, among all claim types, only 59.1% were actually settled within 48 hours. Contrary to N.J.S.A. 17:29B-4(2), the examiners found that GEICO’s use of the descriptive term “most”, which Merriam-Webster defines as “greatest in quantity, extent or degree”, with a quantified acceptance rate of only 59.1% for actual settlements that occur within 48 hours, is misleading. Clearly, this statistic is only slightly more than half and certainly not “greatest in quantity” of a finite value of 100%.

In addition, the examiners note that routine emergency road service/towing and glass claims account for 60% of all the claims included in this study. These claim settlements require significantly lower complexity and overall resolution time compared to collision and comprehensive claims that entail subrogation potential and liability assessment, salvage disposal and significantly more complex evaluation methodologies subject to negotiation, all of which increase overall settlement time frames. Given the temporal and complexity disparity between these claim types, the examiners found that the 59.1% settlement statistic is, contrary to N.J.S.A. 17:29B-4(2), misleading to the extent that the towing and

glass claim results skew the collision and comprehensive acceptance rate artificially higher.

**SEE APPENDIX D FOR A LIST OF FILES IN ERROR**



## VII. RECOMMENDATIONS

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GEICO should inform all responsible personnel and third party entities who handle the files and records cited as errors in this report of the examiners' recommendations and remedial measures that follow in the report sections indicated. 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, more errors may have occurred.

Various non-compliant practices were identified in this report, some of which may extend to other jurisdictions. The Company is directed to 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**

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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, Manager of the Market Conduct Examinations and Anti-fraud Compliance Unit, 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 to be reopened with premium credits or refunds, or additional claim payments, GEICO should provide the insured with a cover letter that contains the following first paragraph (variable language is included in parentheses):

Underpaid claims

"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

interest on your Personal Injury Protection claim) (underpaid your physical damage/property damage claim). Enclosed is our payment in the amount of (insert amount) to correct our error."

## **B. COMPLAINTS**

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1. In order to comply with **N.J.S.A. 17:29B-4(10)**, GEICO must issue written instructions to all appropriate personnel stating that the complaint register must include:
  - a. the disposition of the complaint. Merely indicating J (justified) or U (unjustified) does not indicate the action the Company took to correct the complaint;
  - b. the line of insurance of the complaint.
2. The Company must provide the Commissioner with revised complaint registers that comply with **N.J.S.A. 17:29B-4(10)**.

## **C. RATING AND UNDERWRITING**

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3. GEICO must issue a written reminder to appropriate personnel stating that pursuant to **N.J.A.C. 11:3-36.3(a)**, no insurer shall provide automobile physical damage insurance coverage prior to conducting an insurance inspection.

## **D. TERMINATIONS**

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4. The Company should issue written instructions to appropriate personnel stating that pursuant to **N.J.S.A. 17:29C-10**, the Company must retain a duplicate copy of the mailed notice which is certified to be a true copy. To the extent that GEICO ascribes to electronic record provisions outlined in **N.J.S.A. 12A:12-1 et. seq.**, the Company should develop and implement procedures that serve the overall intent of **N.J.S.A. 17:29C-10**.
5. GEICO should issue written instructions to appropriate personnel stating that notices of nonrenewal should include the correct regulatory provision under which action is being taken as required by **N.J.A.C. 11:3-8.3(e)1**.
6. GEICO should issue written instructions to all appropriate personnel stating that the Company must provide the specific and factual reasons to decline an applicant in accordance with **N.J.S.A. 17:33B-16**.
7. The Company should issue a written reminder to all appropriate personnel stating that:
  - a. **N.J.S.A. 17:29C-10** requires an insurer to send a termination notice by certified mail or at the time of mailing of said notice, by regular mail,

the insurer has obtained from the Post Office Department a date stamped proof of mailing showing the name and address of the insured;

- b. all two percent nonrenewal notices must be consecutively numbered and list the correct territory.

## **E. CLAIMS**

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- 8. GEICO must issue written instructions to all appropriate claims personnel stating that:
  - a. pursuant to **N.J.S.A. 39:6A-5** and **N.J.A.C. 11:2-17.7(b)** all PIP claims must 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 the notice of loss. These written instructions must also state that pending a claim due to claimant noncooperation does not absolve the Company from paying or denying a claim within the 60 day and, where applicable, 105 day maximum settlements periods;
  - b. pursuant to **N.J.S.A. 39:6A-5h**, the Company must pay interest on PIP claims settled beyond the required time frames. In addition, GEICO must cease its practice of negotiating interest waivers with medical providers. GEICO must issue written instructions to all applicable personnel stating that such waivers are in violation of **N.J.S.A. 39:6A-5h**;
  - c. the Company must apply the correct interest rate on overdue PIP claims. This information can be obtained from the New Jersey Department of Treasury;
  - d. **N.J.A.C. 11:3-37.10(a)5** requires all Explanation of Benefit (EOB) forms to provide a concise explanation as to why any item of expense is considered ineligible.
- 9. GEICO must issue written instructions to all appropriate claims personnel stating that:
  - a. pursuant to **N.J.A.C. 11:3-10.5(a)**, insurers are required to settle first party claims within 30 calendar days from receipt and that pursuant to **N.J.A.C. 11:3-10.5(b)**, if an insurer is unable to settle claims within the time periods specified, the insurer must send written notices of delay every 30 days as appropriate, until settlement is completed;
  - b. **N.J.A.C. 11:3-10.4(c)** requires insurers to provide claimants with a written notice of the right of recourse at the time of a total loss settlement and to retain a copy of the notice in the claim file;
  - c. **N.J.A.C. 11:2-17.8(b)** requires insurers to confirm all claim denials or offers of compromise in writing and keep a copy in the appropriate claim file.

10. GEICO must reopen and review the PIP claims listed in Appendix C-2 of this report. Including all claims settled between April 1, 2007 up to the present, the Company should calculate and pay the correct interest for the period of delay as required by statute. This includes all claims where interest was either underpaid or not paid at all. A computer listing of all files reopened, the amount of interest paid and a grand total should be generated and 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.
11. In addition to or in combination with number 10 above, GEICO must reopen and review all overdue PIP claims closed during the review period and apply the correct interest rate of 5.5% pursuant to **N.J.S.A. 39:6A-5h** where applicable. This review must also include all claims where interest was not paid at all. A computer listing of all files reopened, including grand totals, should be generated and provided to the Commissioner to verify compliance with this recommendation. No interest payments of less than \$1.00 need to be issued; however, all amounts, even if less than \$1.00, are to be included on the computer listing. The computer list should include: claim number, amount of bill paid, date payable, date paid, the amount of interest paid, the number of days payment was overdue and the grand total that was paid.
12. GEICO must issue written instructions to all appropriate personnel stating that pursuant to **N.J.A.C. 11:3-10.2**, **N.J.A.C. 11:3-10.4(a)** and **N.J.A.C. 11:3-10.4(a)2** and **3** where the first or third party claimant takes possession of a total loss vehicle, interest must be paid on the amount of the salvage retention deduction value.
13. The Company must reopen and review all first and third party total loss claims where the salvage retention holdback was applied, from April 1, 2007 to the present, to determine if the salvage retention was applied to the total loss evaluation prior to adding sales tax. GEICO should recalculate the total loss claims using the correct settlement methodology outlined in this report and issue to the claimant the applicable sale tax calculated on the salvage retention deduction value. A computer listing of all files reopened and the amount paid including a grand total should be generated and provided to the Commissioner to verify compliance with this recommendation. See general instructions for appropriate cover letter.
14. GEICO must issue written reminders to all appropriate claims personnel stating that, the Company must provide first party claimants with all PIP and other required forms necessary to make a claim within 10 working days of notice of claim including PIP applications pursuant to **N.J.A.C. 11:2-17.6(c)**.

## **F. SALES AND ADVERTISING**

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15. The Company must immediately cease its practice of distributing misleading product advertisements on private passenger automobile insurance and homeowner insurance. In order to comply with N.J.S.A. 17:29B-4(2), GEICO must cease circulation of misleading, untrue or deceptive advertisements that assert or imply that:
  - a. Most, many or often claims are settled within 48 hours;
  - b. Most government employees have been with us for an average of 20 years;
  - c. Homeowner rates in New Jersey are currently being reduced and that GEICO actually writes homeowners insurance in New Jersey;GEICO should review any and all other advertisements referenced in this report as well as all others that are currently in use and cease circulation where statistics cannot be supported and where content is untrue, misleading or deceptive. GEICO should provide the Commissioner with the results of this review.

# APPENDIX A – RATING AND UNDERWRITING ERRORS

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## 1. Failure to Conduct Physical Damage Inspection – 1 File in Error

Policy Number
4124165137

# APPENDIX B – POLICY TERMINATION ERRORS

## 1. Failure to Include Designated Provision in the Nonrenewal Notice – 45 Errors (Improper General Business Practice)

Policy Number	Policy Number	Policy Number	Policy Number
4022594560	4120662715	4052945666	4050443482
4028171736	4111359081	4033831092	4033371941
4030240065	4049316914	4051219063	4030759429
4058464555	4062647922	4033326275	4059995482
4068137597	4035832965	4065517338	4078068204
4036149625	4070551595	4086499433	4044556696
4081317341	4097770962	4055092383	4088745445
4112043007	4066150451	4100016148	4073164842
4076057985	4066607609	4023683438	4082800964
4081040877	4112169257	4083713919	4090448335
4084478041	4041550361	4032404024	4039422847
4027183161			

## 2. Failure to Provide the Applicant with the Specific Reason for Declination of Policy Application – 14 Files in Error

Retention Number	Nonspecific / Incorrect Reason on Termination Notice	Deficiency
85669432480000	Accidents	The Company provided the incorrect reason for declination. The correct reason is due to the applicant being under the age of 18. The reason provided is non-specific and contrary to <b><u>N.J.S.A. 17:33B-16</u></b> since it fails to identify the correct reason for declination.
73292868720000	No reason provided	The notice must include the specific reason for the

		declination. This notice does not comply with <b><u>N.J.S.A. 17:33B-16</u></b> since it does not list a reason.
070608G2213302	Accidents	The Company provided the incorrect reason for declination. The correct reason is due to the applicant being under the age of 18. The reason provided is non-specific and contrary to <b><u>N.J.S.A. 17:33B-16</u></b> since it fails to identify the correct reason for declination.
60987730280000	Accidents	The Company provided the incorrect reason for declination. The correct reason is due to the applicant being under the age of 18. The reason provided is non-specific and contrary to <b><u>N.J.S.A. 17:33B-16</u></b> since it fails to identify the correct reason for declination.
85634684810000	No reason provided	The notice must include the specific reason for the declination. This notice does not comply with <b><u>N.J.S.A. 17:33B-16</u></b> since it does not list a reason.
97357350380000	Accidents & Convictions	The Company provided the incorrect reason for declination. The correct reason is due to the applicant being under the age of 18. The reason provided is non-specific and contrary to <b><u>N.J.S.A. 17:33B-16</u></b> since it fails to identify the correct reason for declination.
97392706190000	No reason provided	The notice must include the specific reason for the declination. This notice does not comply with <b><u>N.J.S.A. 17:33B-16</u></b> since it does not list a reason.
080204P0300064	No reason provided	The notice must include the specific reason for the declination. This notice does not comply with <b><u>N.J.S.A. 17:33B-16</u></b>



		since it does not list a reason.
070515Q3607832	Accidents	The Company provided the incorrect reason for declination. The correct reason is due to the applicant being under the age of 18. The reason provided is non-specific and contrary to <b><u>N.J.S.A. 17:33B-16</u></b> since it fails to identify the correct reason for declination.
071203L0244983	Accidents & Convictions	The Company provided the incorrect reason for declination. The correct reason is due to the applicant being under the age of 18. The reason provided is non-specific and contrary to <b><u>N.J.S.A. 17:33B-16</u></b> since it fails to identify the correct reason for declination.
97334312280000	Convictions for driving violations	The reason is nonspecific and contrary to <b><u>N.J.S.A. 17:33B-16</u></b> since the notice does not list the convictions that made the applicant ineligible for coverage.
60920807520000	Accidents	The Company provided the incorrect reason for declination. The correct reason is due to the applicant being under the age of 18. The reason provided is non-specific and contrary to <b><u>N.J.S.A. 17:33B-16</u></b> since it fails to identify the correct reason for declination.
73252134960000	Accidents	The Company provided the incorrect reason for declination. The correct reason is due to the applicant being under the age of 18. The reason provided is non-specific and contrary to <b><u>N.J.S.A. 17:33B-16</u></b> since it fails to identify the correct reason for declination.
080220L4600464	Auto use undesirable	The reason is nonspecific and contrary to <b><u>N.J.S.A. 17:33B-16</u></b>

		since the notice does not cite the underwriting rules that state why the use is undesirable.
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**3. Failure to Provide Proof of Mailing of Termination Notice – 1 File in Error**

Policy Number
4118493776

**4. Failure to List Correct Territory on Two Percent Notice of Nonrenewal – 1 File in Error**

Policy Number
4044556696

# APPENDIX C – CLAIM ERRORS

## 1. Failure to Pay PIP Claims Timely – 22 Files in Error (Improper General Business Practice)

Claim Number	Date Bill Received	Date Paid	Days Paid Beyond 60
0262947210101031	10/29/07	03/10/08	73
0269818410101043	12/26/07	06/12/08	109
0265854300101037	10/26/07	06/24/08	182
0282975750101034	10/26/07	02/12/08	49
0310943410101014	10/17/07	02/11/08	57
0283332130101012	10/30/07	02/20/08	53
0271878720101022	10/19/07	03/06/08	79
0276532320101016	09/12/07	01/23/08	73
0309995440101011	12/07/07	02/18/08	13
0310103310101016	11/07/07	02/12/08	37
0315144970101016	10/16/07	02/18/08	65
0312038340101016	11/02/07	01/07/08	6
0281347140101077	11/27/07	02/13/08	18
0322559890101021	10/30/07	05/29/08	152
0285389990101019	09/15/07	01/02/08	49
0311947300101017	10/09/07	01/11/08	34
0307395890101037	10/06/07	02/19/08	76
0295159900101013	12/06/07	02/19/08	15
0298932700101012	01/04/08	03/20/08	16
0302913530101012	11/28/07	02/26/08	30
0310282130101016	12/10/07	03/27/08	48
0321627860101015	10/10/07	02/26/08	79

## 2. Failure to Pay Interest on Delayed PIP Payments – 14 Files in Error

Claim Number	Date Bill Received	Date Bill Paid	Days Paid Beyond 60
0262947210101031	10/29/07	03/10/08	73
0310943410101014	10/17/07	02/11/08	57
0271878720101022	10/19/07	03/06/08	79
0309995440101011	12/07/07	02/18/08	13
0310103310101016	11/07/07	02/12/08	37

0312038340101016	11/02/07	01/07/08	06
0281347140101077	11/27/07	02/13/08	18
0285389990101019	09/15/07	01/02/08	49
0307395890101037	10/06/07	02/19/08	76
0295159900101013	12/06/07	02/19/08	15
0302913530101012	11/28/07	02/26/08	30
0310282130101016	12/10/07	03/27/08	48
0265854300101037	10/26/07	6/24/08	182
0269818410101043	12/26/07	6/12/08	109

**3. Failure to Apply Correct Interest Rate for 2008 Overdue PIP Claims -11 Random Errors (Improper General Business Practice)**

Claim Number	Amount Paid	Days Beyond 60	Interest Company Paid	Correct Interest Payment
0269818410101043	\$ 74.71	109	\$ .91*	\$ 1.23
0282975750101034	\$ 72.40	49	\$ .40	\$ 0.53
0283332130101012	\$ 64.41	53	\$ .39	\$ 0.51
0315144970101016	\$ 357.56	65	\$ 2.49	\$ 3.50
0281347140101077	\$ 144.00	18	\$ .32*	\$ 0.39
0311947300101017	\$ 601.31	34	\$ 2.43	\$ 3.08
0307395890101037	\$ 144.00	76	\$ 1.23*	\$ 1.65
0295159900101013	\$ 270.00	15	\$ .27*	\$ 0.61
0298932700101012	\$ 320.38	16	\$ .39	\$ 0.77
0310282130101016	\$ 3281.80	48	\$ .43*	\$23.74
0322559890101021	\$ 2350.00	152	\$ 21.12	\$53.82

\* Company paid these amounts after receiving inquiry from examiners.

+ Company paid \$21.12 on 05/29/08. After receiving examiner’s inquiry regarding correct interest rate, Company paid \$7.92 (\$29.04-\$21.12).

**4. Failure to Provide Specific Reason for Denial on Explanation of Benefits Form – 35 Files in Error (Improper General Business Practice)**

This CPT code has been denied by a Physician Advisor review for Medical necessity.

Claim Number	Date of Service
0319229160101029	12/17/07
0309495980101018	10/09/07
0294773390101019	02/20/08

0292100470101010	01/18/08
0284248360101010	10/15/08
0280274070101037	10/08/07
0264406500101019	02/01/08
0224648680101025	10/22/07
0206250760101025	10/26/07
0172596390101029	11/05/07
0068321680101093	07/24/07
0169983500101096	11/03/07
0259453730101028	08/29/07
0262260810101041	12/11/07
0277561180101070	11/02/07
0285349220101015	01/16/08
0167553480101135	08/23/07
0259723180101011	10/18/07
0272902860101011	09/20/07

Benefits for this specialty have been terminated based on the result of an IME or failure to attend the IME.

Claim Number	Date of Service
0303335710101027	01/22/08
0295692900101021	02/26/08
0290182390101017	03/07/08
0268313970101071	02/06/08
0266609080101022	10/18/07
0318189210101018	01/21/08
0077299690101049	12/03/07

Documentation submitted is either illegible or incomplete to support billing.

Claim Number	Date of Service
0303221460101013	12/15/07
0285193530101012	02/06/08
0300171300101041	11/16/07
0262944540101013	12/17/07

The number of office visits billed along with physical therapy modality codes exceeds the amount allowed per N.J.A.C. 11:3-29.1.

Claim Number	Date of Service
0288071270101011	1/14/08

The CPT code is invalid based upon the CPT or HCPCS 2007 codes.

Claim Number	Date of Service
0275592250101031	10/24/07
0278865060101012	09/30/07

After review of documentation by a like specialty provider, this treatment has been identified as not medically necessary per **N.J.A.C. 11:3-4.7(c) 4.**

Claim Number	Date of Service
0168358830101010	07/20/07
0274020600101015	06/22/07

**5. Failure to Deny PIP Claims Timely – Failure to Issue 45 Day Extension Letter - 18 Files in Error**

Claim Number	Date Bill Received	Date Denied	Days Beyond 60
0309495980101018	10/19/07	02/19/08	63
0284248360101010	10/24/07	02/09/08	48
0280274070101037	12/01/07	02/16/08	17
0266609080101022	11/23/07	02/15/08	24
0261899610101015	01/28/08	04/01/08	04
0224648680101025	11/21/07	02/19/08	30
0206250760101025	12/12/07	02/27/08	17
0172596390101029	12/01/07	02/26/08	27
0089983130101034	10/04/07	12/14/07	11
0068321680101093	08/27/07	03/06/08	132
0314722350101010	10/27/07	02/09/08	45
0272902860101011	10/17/07	02/16/08	62
0259723180101011	10/27/07	02/17/08	53
0167553480101135	10/27/07	02/16/08	52
0182494530101034	12/11/07	02/14/08	05
0300171300101041	01/18/08	03/31/08	13
0286029220101020	01/11/08	03/28/08	17
0289294070101010	12/28/07	03/06/08	09

**6. Failure to Provide PIP Application Claim Form Within 10 Working Days of Notice – 1 File in Error**

Claim Number	Date PIP Claim Received	Date PIP Application Sent	Days Beyond 10 Business Days
0278865060101012	10/3/07	11/5/07	13

**7. Unfair Exclusion of Salvage Retention Value from Sales Tax Calculation of Total Losses– 1 File in Error (Improper General Business Practice)**

**Claim Number**

0282302690101026-01

**8. Failure to Advise Claimant of Right of Recourse – 10 Files in Error**

**Claim Number                      Claim Number**

0273561060101020	0086426190101059
0276322610101029	0271637340101022
0282302690101026	0323358440101014
0274837080101011	0275203700101023
0289657830101027	0272095750101033

**9. Settlement Delays and Failure to Issue Delay Notices – 3 Files in Error**

Claim Number	Date Claim Received	Date Claim Settled	Total Days Overdue
0272095750101033	04/18/07	08/16/07	90
0275203700101023	07/28/07	11/30/07	95
0260544220101036	01/09/08	02/19/08	11

**10. Failure to Issue Denial in Writing – 3 Files in Error**

**Claim Number**

0264472380101032  
0126407250101025  
0295361580101012

# APPENDIX D – ADVERTISING ERRORS

Target Market	Date or Date Range	Form or Document	Quote Language	Error
Federal Government Employees	2007 / 2008	Federal 2007 & 2008	Most claims settled within 48 hours	See section VI.B above, Assertion 3 .
Federal Government Employees	2007/2008	Federal 2007/2008	Average federal customers stay with GEICO for 20 years;	See section VI.B, above, Assertion 2.
New Customers	2008	Checkbook Bind-in	Claims are often settled within 48 hours.	See section VI.B above, Assertion 3.
Customer	August '07	Testimonial	Worry free claims- Claims are often settled within 48 hours.	See section VI.B above, Assertion 3.
Federal Employees	'07 & '08	Federal	As a testament, most government employees have been with us for an average of 20 years.	See section VI.B, above, Assertion 2.
Consumers	5/21/08	18857GEICO Citi D 3 1	Claims are often settled within 48 hours.	See section VI.B above, Assertion 3.
Consumers	2008	USPS Welcome Kit/Movers guide	Claims are often settled within 48 hours	See section VI.B above, Assertion 3.
Consumers	3Q-4Q'07; 1Q-2Q'08	Flat sheet insert	I tell people, "GEICO has new lower rates (homeowners) in New Jersey. You could save hundreds.	See section VI.B above, Assertion 1.
New Consumers	2008	TW/GOTQ-TC	Many claims are settled within 48 hours....	See section VI.B above, Assertion 3.
New Consumers	5/07	TW/ROMD	...GEICO settles many claims within 48 hours...	See section VI.B above, Assertion 34.
New Consumers	4/07	TW/IGECTD	...We settle many claims within 48 hours...	See section VI.B above, Assertion 3.
New Customers	2008	TW/NWADVIS	... Many claims are settled within 48 hours...	See section VI.B above, Assertion 3.
New Customers	2005	TW/ADVIS (5/07)	Many claims are settled within 48 hours	See section VI.B above, Assertion 3.



New Customers	2008	TW/GASPUM	... Many claims are settled within 48 hours	See section VI.B above, Assertion 3
New Consumers	2007	TW/WINH	... We settle many claims within 48 hours...	See section VI.B above, Assertion 4.
New Consumer	2005	TW/SSTC(1/08)	...in many cases we can settle your claim within 48 hours...	See section VI.B above, Assertion 3.
New Consumers	2007	TW/WINH (11/07)	We settle many claims within 48 hours	See section VI.B above, Assertion 3.
Customers-Billing Statement	4Q07 to 1Q08	F01-C404602223	Claims are often settled within 48 hours	See section VI.B above, Assertion 3
Existing Customers	2007-2008	2007 GEICO JZ/NJ	Lower (homeowner) rates now available in New Jersey. In New Jersey rates have been lowered. Presented on GEICO letterhead with GEICO's email and mailing address.	See section VI.B above, Assertion 1.
Customer	2008	Ticketmaster 2008	Claims are often settled within 48 hours	See section VI.B above, Assertion 3.

## VIII. VERIFICATION PAGE

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I, Marleen J. Sheridan, am the Examiner-in-Charge of the Market Conduct Examination of GEICO General Insurance Company, GEICO Indemnity Company and GEICO Casualty 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 General Insurance Company, GEICO Indemnity Company and GEICO Casualty Company as of October 24, 2008.

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.

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Date

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Marleen Sheridan  
Examiner-In-Charge  
New Jersey Department  
of Banking and Insurance