

1 CALIFORNIA DEPARTMENT OF INSURANCE
2 CONSUMER SERVICES & MARKET CONDUCT DIVISION
3 Consumer Law Unit
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10 Attorneys for The California Department of Insurance

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BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA

In the Matter of the Licenses and Licensing
Rights of:

GEICO General Insurance Company,
GEICO Indemnity Company,
GEICO Casualty Company, and
Government Employees Insurance
Company,

Respondents.

File No. UPAC-2016-00001

STIPULATION

The California Department of Insurance (“Department”) and GEICO GENERAL INSURANCE COMPANY, GEICO INDEMNITY COMPANY, GEICO CASUALTY COMPANY, AND GOVERNMENT EMPLOYEES INSURANCE COMPANY (“Respondents”), stipulate as set forth herein.

1. The Department has jurisdiction over Respondents, who are and were at all relevant times, insurers licensed to transact the business of insurance in the State of California.

2. Respondents transact and, at all relevant times, transacted, the business of insurance in California on risks or lines subject to the provisions of the California Insurance Code and the California Code of Regulations.

3. Respondents acknowledge receipt of the Order to Show Cause, Statement of Charges/Accusations, and Notice of Noncompliance with Prior Orders in this matter (“OSC”),

1 which includes allegations of legal violations identified during the investigation undertaken by the
2 California Department of Insurance, taking place during the time periods of January 1, 2014
3 through June 1, 2015.

4 4. This stipulation is the full and final settlement of the violations alleged in the OSC.
5 This stipulation does not concern any other matters that are not included in the OSC.

6 5. In the OSC, the Department generally alleges that Respondents violated Unfair
7 Practices Act and the Unfair Claims Settlement Regulations.

8 6. Respondents have denied the allegations of the OSC, but acknowledge that those
9 allegations, if proven to be true, may constitute grounds for the Commissioner to impose a civil
10 penalty and issue an order to Respondents to cease and desist from engaging in those methods,
11 acts, or practices found to be unfair or deceptive pursuant to the provisions of the Insurance Code
12 of the State of California.

13 7. Regarding each alleged violation in the OSC, Respondents have met and conferred
14 with the Department and thereafter have either taken or have committed to take remedial measures
15 to cure the non-compliant acts. These remedial actions, in the opinion of the Department,
16 demonstrate good faith on the part of the Respondents to comply with California insurance laws.

17 8. Specifically, the Respondents have implemented or will be implementing the
18 following measures to remediate the violations alleged in the OSC:

- 19 a. Regarding reasonable adjustment of repair estimate violations, Respondents will
20 attempt to secure an auto repair shop's initialed or signed agreement with the repair
21 estimate and to add language to the end of the repair estimate that the auto repair shop
22 agrees to repair the vehicle for the amount specified in the repair estimate. The initialed
23 or signed estimate does not preclude the submission of supplements for hidden or
24 unknown damages that are not included in the original estimate and any supplement
25 will be subject to the same methodology for the original estimate. In the event of
26 disagreement, it will be escalated to Respondents' management for further review. If
27 the parties are unable to resolve the disagreement, Respondents will issue a timely
28 partial denial by sending an adjusted estimate identifying the specific adjustment made

1 to each item and the cost associated with each adjustment made to the claimant's shop
2 estimate pursuant to CCR section 2695.8(f).

- 3 b. Regarding prevailing labor rate violations, Respondents will conduct retraining for all
4 adjusters, supervisors and managers on expectations that repair estimating software
5 they use is updated to reflect the adjuster's assigned territory. Each supervisor and
6 manager will be responsible for verifying that the territory profile is updated and
7 accurate.
- 8 c. Regarding aging labor rate survey violations, Respondents will conduct and submit a
9 new labor rate survey 12 months from the date this stipulation is executed by all
10 parties. The 12-month new survey date is subject to extension at the Department's
11 discretion. In the interim period and as a temporary measure, within 30 days from the
12 date this Stipulation is executed by all parties, Respondents will adjust the labor rates,
13 based on their 2013 labor rate survey, by a factor equal to the change in the California
14 Consumer Price Index for All Urban Consumers which is currently at 3.83%. Such
15 adjustment will remain in effect until a new labor rate survey is conducted, or within
16 twelve (12) months, whichever is sooner.
- 17 d. Regarding CCR section 2695.3(a) violations, Respondents will route emails from
18 customers received via "geico.com" to a central mailbox and disseminate them for
19 responses. Reviews will be conducted to ensure response to such email communication
20 are sent as quickly as possible, and in no event later than the 15 days required by CCR
21 section 2695.5(b). Such emails will be documented in the claim files.
- 22 e. Regarding CCR section 2695.7(b) violations, Respondents will implement new training
23 with California Auto Damage staff consistent with the Stipulation in (a) above,
24 including the requirements of CCR section 2695.7(c)(1) and will incorporate the
25 training into the training modules for new hires in the state of California. Respondent
26 will develop a file review process and randomly select files for Auto Damage
27 supervisors to confirm compliance.
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- 1 f. Regarding CCR section 2695.7(c)(1) violations, Respondents will implement a process
2 to ensure compliance with timely acceptance or denial of a claim, to train claims
3 examiner staff and to institute a system to verify that the process is followed.
- 4 g. Regarding section CCR section 2695.7(h) violations, Respondents contend they make
5 reasonable efforts to tender timely payments and otherwise perform claim obligations
6 and the violations derived from isolated cases. Nevertheless, Respondents will review a
7 sample of claims to ensure compliance with timely payment requirements.
- 8 h. Regarding basecoat reduction, Respondents will train and direct their adjusting staff to
9 make reasonable efforts to secure “agreed prices” on all repair estimates whenever
10 possible. A basecoat reduction will not be used as a basis for the Respondents to not
11 secure agreed prices.
- 12 i. Nothing in this Stipulation shall be construed to prohibit Respondents from negotiating
13 and/or contracting with an auto body repair shop for a specific labor rate.
- 14 j. Nothing in this Stipulation shall prohibit Respondents from compliance with the law by
15 using processes or procedures other than those outlined herein.
- 16 9. The Department and Respondents believe that it is in the public interest to resolve this
17 matter without the need for a hearing or any further administrative action. This compromise
18 settlement is not an admission of liability, wrongdoing, or violation of law and the parties agree no
19 factual findings or legal conclusions have been made.
- 20 10. Respondents have agreed to the terms herein to avoid unnecessary hearing and in the
21 interest of resolving the matter.
- 22 11. Respondents waive its right to a hearing and to any and all rights that Respondents
23 may be entitled to pursuant to CIC section 1858.2 as those rights pertain to the subject matter of
24 the OSC.
- 25 12. Respondent agrees to and shall pay, within ten (10) days after receiving an invoice
26 from the California Department of Insurance, Accounting Services Bureau, a penalty in the
27 amount of \$200,000.00 (Two Hundred Thousand U.S. dollars).
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1 13. The OSC, this Stipulation, and the Commissioner's order thereon are public records as
2 required by Government Code section 11517 (d) and that this Stipulation will be accessible to the
3 public pursuant to the Public Records Act, Government Code section 6250 et seq. and must be
4 posted on the Department's Internet website pursuant to Insurance Code section 12968,
5 subdivision (a).

6 14. Insurance Code section 12921, subdivision (a)(1), requires the Insurance
7 Commissioner to approve the final settlement of this matter. Both the settlement terms and
8 conditions contained herein and the acceptance of those terms and conditions are contingent upon
9 the Commissioner's approval. This Stipulation will become final and effective when it is
10 approved by the Commissioner as evidenced by the execution of the Order provided herein
11 expressly adopting this Stipulation.

12 15. Respondents freely and voluntarily executed this Stipulation with full realization of its
13 legal rights.

14 16. This Stipulation is effective on the date the Order adopting it is executed by the
15 Commissioner.

16 17. This Stipulation shall have no force or effect if it is not approved by the
17 Commissioner.

18 18. The Commissioner retains jurisdiction to ensure that Respondents comply with the
19 provisions and terms of the Stipulation.

20

21 Dated: June __, 2016

RESPONDENTS, GEICO

22 By: _____
23 Hank Nayden
24 Vice President

25 Dated: June __, 2016

CALIFORNIA DEPARTMENT OF INSURANCE

26 By: _____
27 Wen Chao
28 Senior Staff Counsel

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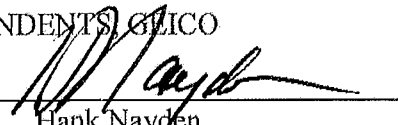
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20
21 Dated: June 30 2016

RESPONDENTS' COUNCIL

22 By: 
23 Hank Nayden
24 Vice President

25 Dated: June 30 2016

CALIFORNIA DEPARTMENT OF INSURANCE

26 By: 
27 Wen Chao
28 Senior Staff Counsel

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File No. UPAC-2016-00001

ORDER

WHEREAS, the Insurance Commissioner and the above-named Respondents have executed the Stipulation attached hereto, the provisions of which are hereby incorporated by reference; and

WHEREAS, Respondents have waived the right to a hearing and has stipulated to the entry of this Order; and

WHEREAS, Respondents have and continue to implement corrective measures, so as to ensure compliance with the California insurance laws.

GOOD CAUSE APPEARING,

IT IS ORDERED that Respondents shall execute all the terms contained in the Stipulation without delay and in good faith;

IT IS FURTHER ORDERED that Respondents shall pay a penalty of Two Hundred Thousand Dollars (\$200,000) to the State of California within (10) days of receipt of an invoice from the Department. Payment shall be mailed to California Department of Insurance, Accounting Division, 300 Capital Mall, 13th Floor, Sacramento, CA 95814.

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IN WITNESS WHEREOF, I have set my hand and affixed my official seal, this ____th day of _____2016.

DAVE JONES
Insurance Commissioner

By _____
Anthony Cignarale
Deputy Commissioner